Deauville Partnership

Compact for Economic Governance

Stocktaking Report: Morocco

Progress with economic governance reforms

November 2017

With the support of : Federal Republic of Germany Foreign Office

Acknowledgements

This report falls within the framework of the country-level implementation of the Compact for Economic Governance adopted by the members of the Deauville Partnership.

This report has been prepared by the OECD with the support of the German Foreign Office, in close consultation with the Moroccan authorities and in co-operation with the Deauville Partnership's International Financial Institutions.

The preparation of this report has been co-ordinated by the G20/G7 Sherpa Office and Global Governance Unit within the Cabinet of the Secretary-General of the OECD, under the strategic direction of Gabriela Ramos, Special Counsellor and Sherpa and under the responsibility of Nicolas Pinaud, Head of the Sherpa Office.

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The input from the Moroccan authorities has been coordinated by the Ministry of General Affairs and Governace, under the direction of Minister Lahcen Daoudi and Secretary General Aziz Ajbilou. A number of Moroccan stakeholders have contributed information, data, documents and comments that have enriched the report. Those include the Prime Minister's Office; the National Committee for the Business Environment (CNEA); the Bank Al-Maghrib; the Economic, Social and Environmental Council; the Planning High Commission; the Ministry of Economy and Finance, the Ministry of Industry, Investment, Commerce and the Digital Economy; the Ministry of labour and Professional Integration; the Ministry of Education, Professional Training, Tertiary Education and Scientific Research; the Ministry for Administrative Reform and Public Service; the Ministry of Infrastructure, Transport and Logistics; the Ministry of Justice and Liberties; the Ministry of Parliament and Civil Society Relations; the Ministry of Interior; the Ministry of Foreign Affairs and International Cooperation.

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Acronyms

ADII	Customs and Indirect Tax Administration
ANAPEC	National Agency for the Promotion of Employment and Skills
AfDB	African Development Bank
AV	Added Value
CA	Court of Auditors (*Cour des Comptes*)
CHELEM	Harmonised accounts for trade and the global economy
CNEF	National Education and Training Charter
CNSS	National Social Security Fund
CSEFRS	Higher Council for Education, Training and Scientific Research
CST	Special Treasury Accounts
CT	Corporation Tax
DEPF	Directorate of Studies and Financial Forecasts
DEPP	Directorate of Public Enterprises and Privatisation
DFP	Vocational Training Department
DGI	General Directorate of Taxation (*Direction générale des impôts*)
ENCDM	National Household Consumption and Expenditure Survey
ESEC	Economic, Social and Environmental Council
ESSB	Basic Health Care Establishment
ETF	European Training Foundation
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HCP	High Commission for Planning
ICOR	Incremental Capital Output Ratio
IMF	International Monetary Fund
INDH	National Initiative for Human Development.
IT	Income Tax
LOF	Organic Law on the Finance Act
MAGG	Delegate-Ministry to the Head of Government for General Affairs and Governance
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goals
MEF	Ministry of Economy and Finance

MEIP	Ministry of Employment and Vocational Training
MFSEDS	Ministry of Family, Solidarity, Equality and Social Development
MMM	World Crafts of Morocco
MRAFP	Delegate-Ministry to the Head of Government for Civil Service and Modernisation of the Administration
NEET	Not in Employment, Education or Training
NES	National Employment Strategy
NICT	New Information and Communication Technology
NSDS	National Sustainable Development Strategy
OCP	Moroccan Phosphates Authority (*Office Chérifien des Phosphates*)
OECD	Organisation for Economic Co-operation and Development
OICA	International Organization of Motor Vehicle Manufacturers
UNIDO	United Nations Industrial Development Organization
PAGER	Grouped Rural Drinking Water Supply Programme.
PARAP	Public Administration Reform Support Programme
PEI	Public Enterprises and Institutions
PERG	Global Rural Electrification Project
PG	Presidency of the Government
PMV	Green Morocco Plan
PNEA	National Programme for Student Learning Assessment (common core students)
PNPE	National Employment Promotion Plan
PNRR II	National Rural Roads Programme II
SEGMA	Autonomously Managed Government Services
SGG	General Secretariat of the Moroccan government
TFP	Total Factor Productivity
UNCAC	United Nations Convention against Corruption
UNDP	United Nations Development Programme
VAT	Value Added Tax
VT	Vocational Training
VTT	Vocational Training Tax
WB	World Bank
WEF	World Economic Forum

Executive Summary

In a context of political reform, Morocco has the ambition of economic emergence and convergence with Southern European countries and emerging economies. Following years of political and macroeconomic stability and a trajectory of steady growth, Morocco is confronted to the need of increasing the pace of reform implementation with a view to triggering an irreversible process of economic convergence with emerging economies as well as its Northern Mediterranean neighbours. In order to tackle the convergence challenge, Morocco can build on its solid track record on macroeconomic management as well as its noteworthy progress in economic governance reforms. However, the objectives defined by the Moroccan authorities are very ambitious and require an acceleration of ongoing reforms as well as additional efforts in order to change the current development model towards a more competitive and socially inclusive economy.

The Moroccan economy has been resilient to the impact of the global economic crisis thanks to a stable macroeconomic framework. The evolution of the Moroccan economy since the global crisis and the political transformations that started in 2011 has been characterised by the following features: (a) growth levels below those of the pre-2011 period (about 3.5%, versus 5% on average between 2001-2010) although still robust and above the performance of other countries in the region; (b) investment levels among the highest in the world (over 33% of GDP since 2007); (c) rather robust macroeconomic fundamentals thanks to a prudent management of public finances (with a high level of debt although below that other regional peers) as well as a solid external position and financial sector; (d) weak employment growth and a negative trend in the women participation rate; and (e) inclusion shortcomings, despite the progress made in recent years, reflected in the form of regional disparities, a common problem across the region.

The Moroccan government has made notable progress in the area of economic governance since 2011 and a broad reform programme is ongoing. The adoption of a new Constitution in 2011, which affirms good governance principles, has been followed by the introduction of a new legal and institutional framework to implement the new constitutional provisions. Sector strategies have been implemented with encouraging results, and important reforms have been launched, including: the subsidy and pension reforms; the launch of the advanced regionalisation process; the continuation of the tax reform; the adoption of a new Organic Budget Law as a basic pillar of a more transparent and effective public financial management system; the creation and operationalisation of the National Committee for the Business Environment (CNEA) and other initiatives that have already have a significant impact on Morocco's ranking on the World Bank's *Doing Business* indicators.

Despite this notable progress, the Moroccan authorities acknowledge the need to make additional efforts. The pace of reform implementation is variable: some move ahead swiftly while others progress slowly and should be accelerated. In some cases, governmental strategies and public policies are not sufficiently synchronised in the absence of a single document outlining the country's strategic vision as well as specific mechanisms for co-ordination, monitoring and evaluation.

The Deauville Partnership Compact for Economic Governance and Morocco's Stocktaking Exercise

The **Compact on Economic Governance** is a roadmap for policy reform in the area of economic governance for Arab Countries in Transition (ACTs). The Compact was adopted under the German Deauville Partnership Presidency in May 2015 building on past action plans on topics such as open government, anti-corruption, asset recovery and SME development. The Compact provides a framework for reform efforts across ACTs aimed at promoting good governance and a sound business climate as preconditions to boost inclusive growth through four key pillars focusing on (I) economic policies for inclusive and sustainable growth, (II) public sector transparency and efficiency; (III) investment climate and private sector development; and (IV) inclusive decision-making.

The Compact is designed as an operational document to inform policy dialogue within the Deauville Partnership through a steady dialogue and consultation process. This takes the form of a peer review and peer learning mechanism supported by the OECD, the Deauville Partnership's international financial institutions (IFIs) as well as relevant coordination platforms. The Compact's priorities are to be operationalised through country-tailored implementation plans under which ACTs identify specific policy measures which could then be supported by G7 and partner countries through technical assistance other supporting measures and which can be subject to a process of progress reporting to measure and monitor policy effectiveness. A methodology for the country-level implementation of the Compact was developed by the OECD and endorsed by Deauville Partnership Senior Officials in November 2016 (see Annex II for more details).

The present report constitutes the first step of the process, aimed at taking stock of economic governance reforms since 2011 in ACTs and developing the skeleton of each ACT's implementation plan. This report has been prepared by the OECD with the support of the German Foreign Office, in consultation with the Moroccan authorities under the coordination of the Ministry for General Affairs and Governance, and in cooperation with Deauville Partnership International Financial Institutions.

In this context, the country's main challenge is to undertake a real structural transformation of its economy to increase growth in line with its convergence and emergence goals while improving the quality of such growth by making it more inclusive and sustainable. Morocco is in particular facing two interrelated structural challenges:

- **Strengthening growth dynamics and productivity gains in order to promote economic convergence and bring growth to its potential level.** A benchmarking analysis with emerging economies shows that Morocco needs to considerably increase growth levels in particular by emphasising productivity, employment and the effectiveness of investment. This would require in particular: pro-competitive policies; a more effective co-ordination of public policies and strategies; additional efforts to increase the education and lifelong learning systems with a view to strengthening human capital; policies aimed at modernising the country's industry (with a specific focus on SMEs); as well as a gradual and orderly transition towards a flexible exchange rate in order to reduce internal and external vulnerabilities.
- **Promoting more equitable and inclusive growth.** Economic performance over the last several years have had a positive impact on the living conditions of the Moroccan population as reflected in absolute and relative poverty rates. However, economic, gender and spatial inequalities remain high. Morocco is thus confronted to the need to create more quality jobs as well as opportunities for the segments of the population and the regions lagging behind. Priorities in this regard should include: gender mainstreaming into public policies, women economic empowerment, labour market reform and, more broadly, the implementation of the National Employment Strategy, as well as improving the effectiveness of social policies through a better targeting of populations and regions.

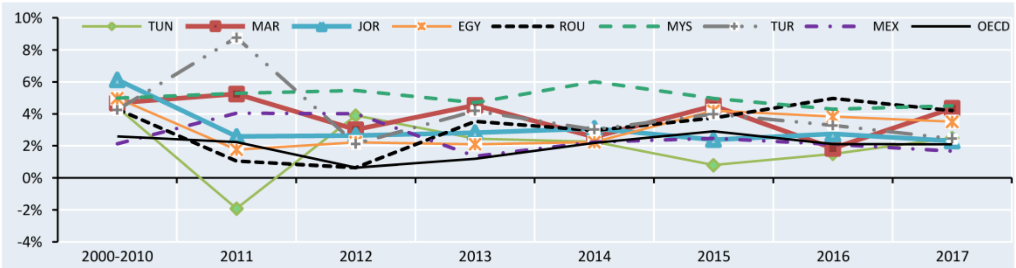
These structural priorities should be translated into concrete measures aimed at improving the effectiveness of the public sector, creating the conditions for private-sector-led growth, and promoting the inclusion of youth and women in public policy making. This report identifies two types of recommendations in this regard. On the one hand, the **acceleration of a number of ongoing reforms**, regarding he business climate, competition policy, tax reform, the fight against corruption or civil society participation, among others. On the other hand, **a series of longer term priorities** to be considered by the Moroccan authorities, including the reform of the labour market, or the upgrading of education systems, including vocational training and tertiary education. The key priorities under both themes are as follows:

- **Strengthening coherence across strategies and public policies**, in particular through the preparation of a long-term strategic vision “Morocco 2030” and a new inter-departmental body in charge of coordinating the preparation of sectoral policies and strategies, ensuring that they are consistent and subject to solid monitoring and impact evaluation systems.
- **Reforming public governance** by accelerating the operationalisation of the Interministerial Committee for administrative reform; implementing the Anticorruption Strategy; modernising state-owned enterprise governance as well as public investment management systems; reforming the civil service framework, including the performance-based pay system.
- **Continuing and accelerating fiscal reforms** by revisiting the approach to tax waivers, finalising the subsidy reform, accelerating the tax reform and modernising the tax administration.
- **Continue with the advanced regionalisation process** with the overall objective of reducing regional disparities, in particular through the establishment the necessary institutional structures and the revising of the allocation of financial resources and human resources and capacity in favour of subnational entities.
- **Deepening business environment reforms** led by the CNEA and other actors, with an emphasis on the operationalisation of the legal and institutional framework for competition policies, the insolvency legislation and the new legal instruments (“Chartes”) for investment and SMEs.
- **Modernising and diversifying the banking sector and promoting financial inclusion,** in particular through a new national strategy for financial inclusion (which is currently under preparation), greater attention to SME access to finance constraints, and accelerating progress regarding Islamic finance.
- **Promoting civil society and citizen participation in decision-making**, for instance accelerating the implementation of the recommendations made in the context of the national dialogue on civil society, generalising the CNEA model of public-private dialogue to other areas, and prioritising the implementation of the Youth Integrated Strategy taking into consideration the territorial dimension.

Compact for Economic Governance: Morocco Indicator Dashboard

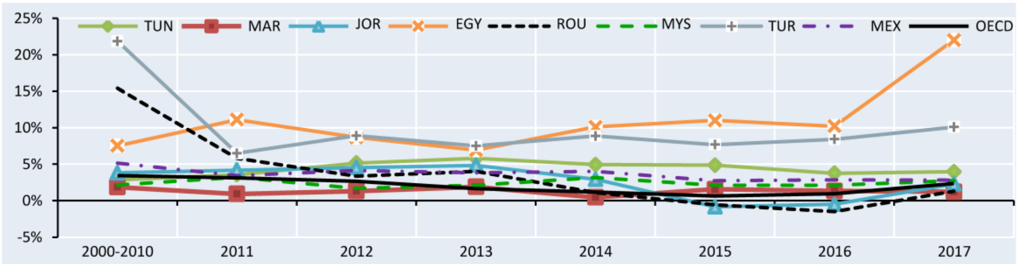
ECONOMIC POLICIES FOR INCLUSIVE AND SUSTAINABLE GROWTH

1- Real GDP growth (% change)



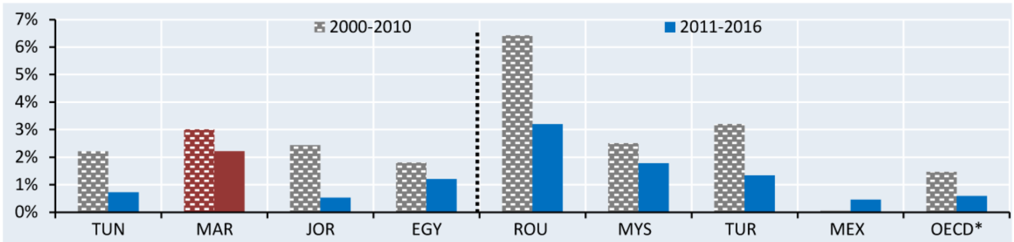
Source: IMF World Economic Outlook databases. Note: 2017 data for all countries are estimates

2- Inflation (average consumer prices)



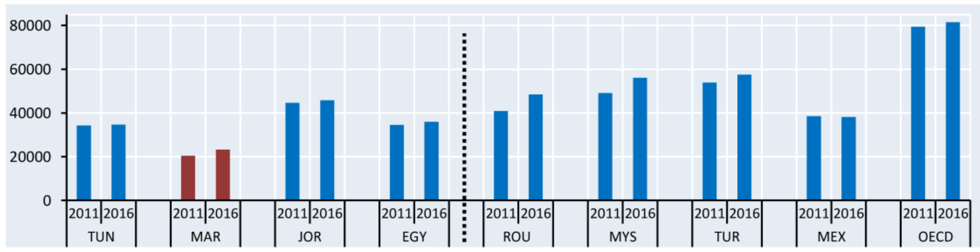
Source: IMF World Economic Outlook Databases. Note: 2017 data for all countries are estimates

3.a- Labour productivity (annual growth rate)



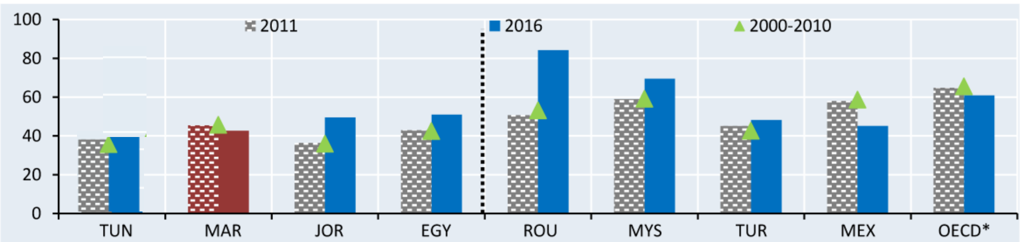
Source: Calculations based on ILO Key Indicators of the Labour Market database, OECD Labour Market Statistics. Note: Labour productivity for OECD countries is measured as GDP per hour worked. For non OECD countries GDP per worker is used instead

3.b- Labour productivity (output per worker)



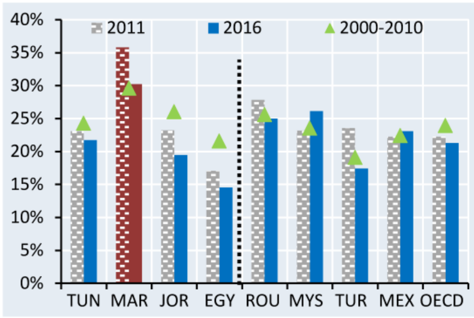
Source: Calculations based on ILO Key Indicators of the Labour Market database, OECD Labour Market Statistics
Note: Labour productivity for OECD countries is measured as GDP per hour worked. For non OECD countries GDP per worker is used instead

4- Employment-to-population ratio



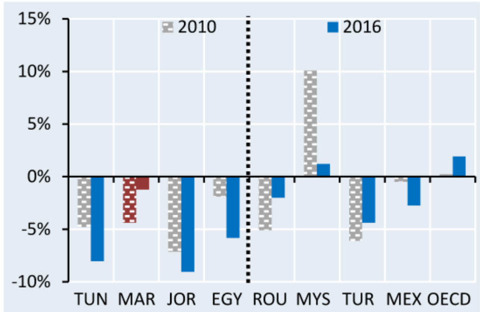
Source: ILO Key Indicators of the Labour Market database, OECD Labour Market Statistics. Note: OECD average is for 2005-2010

5- Total investment (% of GDP)



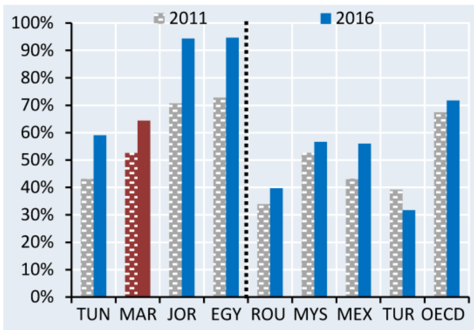
Source: IMF World Economic Outlook Databases

6- Current account balance (% of GDP)



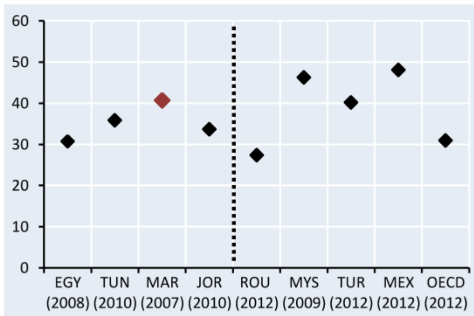
Source: IMF World Economic Outlook Databases

7- General government gross debt (% of GDP)



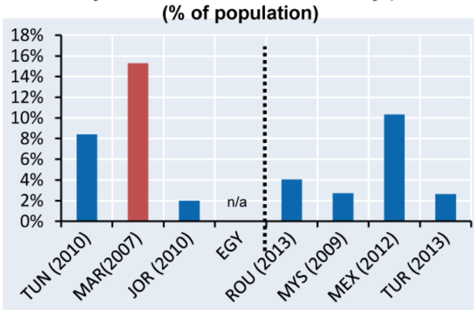
Source: IMF World Economic Outlook Databases

8.a- Gini Coefficient



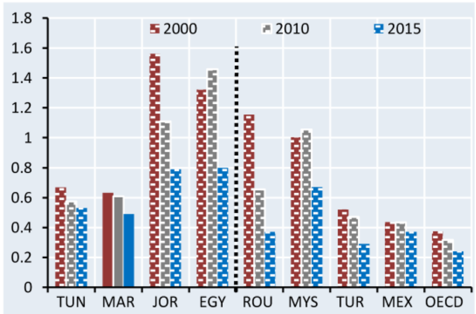
Source: World Bank World Development Indicators, OECD Social and Welfare Statistics

8.b- Poverty headcount ratio at $3.10 a day (2011 PPP) (% of population)



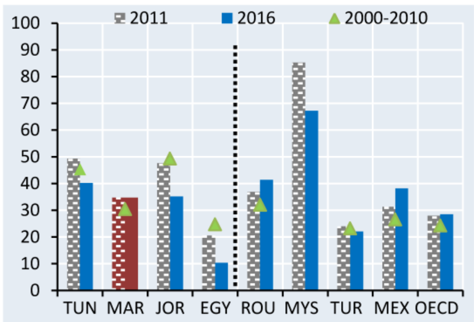
Source: World Bank World Development Indicators, OECD Social and Welfare Statistics; and the World Bank Worldwide Development

9- CO2 emissions (kg per USD 1,000 of GDP)



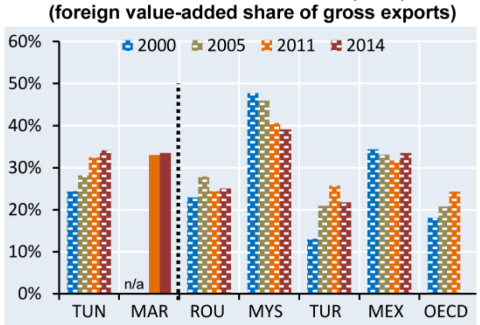
Source: International Energy Agency

10.a- Total exports of goods and services (% of GDP)



Source: World Bank World Development Indicators. For the OECD, data refer to 2016 instead of 2015

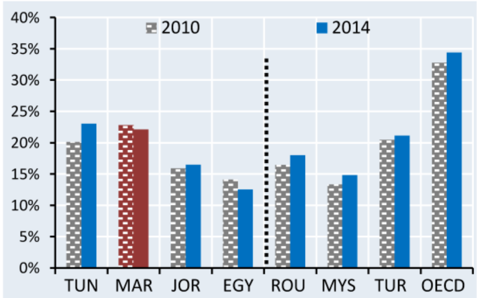
10.b- Trade in Value-Added (TiVA) (foreign value-added share of gross exports)



Source: OECD, Trade in Value Added (TiVA) database and TiVA Nowcast estimates database (2012-2014). Note: For Morocco, data refer to 2012 instead of 2011

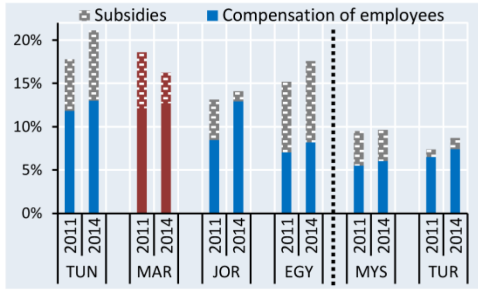
PUBLIC SECTOR TRANSPARENCY AND EFFICIENCY

11- Tax revenue (% of GDP)



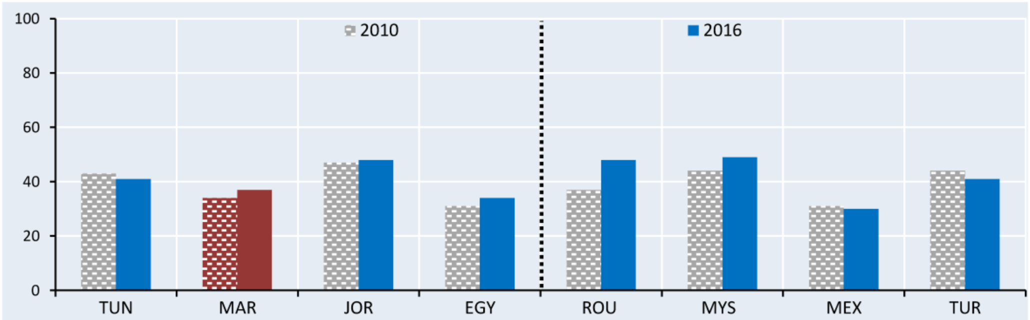
Source: Government Finance Statistics Yearbook, IMF Country Reports for Jordan, Malaysia, Morocco and Tunisia, OECD Revenue Statistics for OECD average. Note: 2014 data for Tunisia is preliminary

12- Government expenditure in (1) compensation of employees and (2) subsidies (% of GDP)



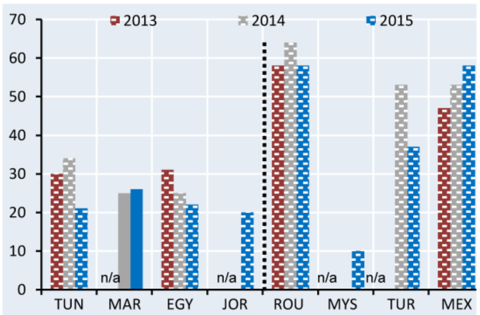
Source: IMF Government Finance Statistics database, Tunisia IMF Country Reports. Note: call figures concern budgetary central government.

13- Corruption Perception Index (0-100)



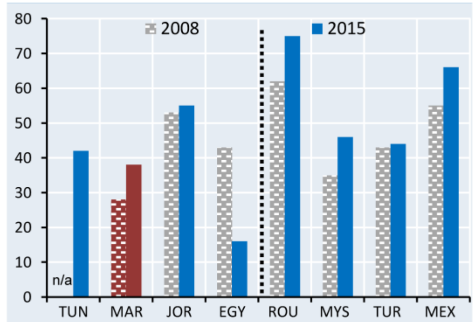
Source: Transparency International, Corruption Perceptions Index 2009-2016. Note: Score 100= very clean; 0= highly corrupt

14- Global Open Data Index score (%)



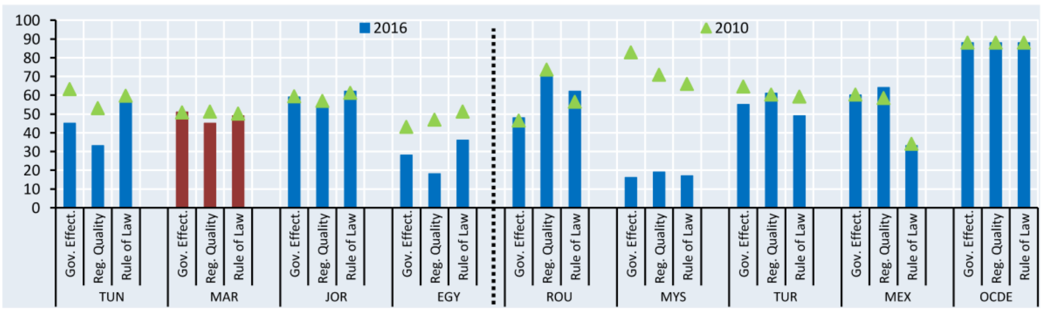
Source: Open Knowledge Global Open Data Index

15- Open Budget Index (0-100)



Source: International Budget Partnership, Open Budget Index

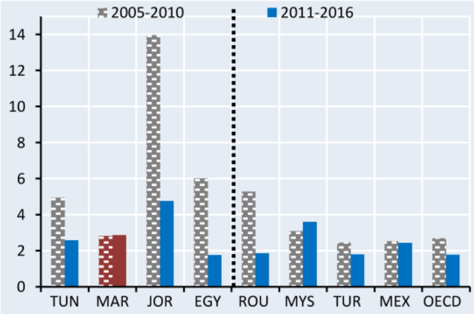
16- Worldwide Governance Indicators (percentile rank, 0-100)



Source: World Bank Worldwide Governance Indicators: (1) Government Effectiveness; (2) Regulatory Quality; and (3) Rule of Law

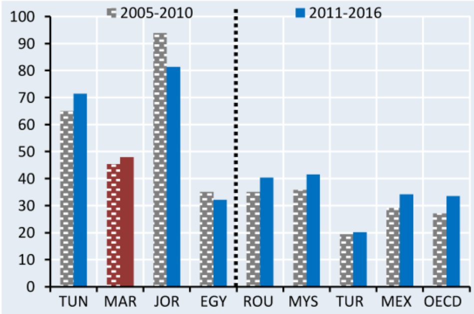
INVESTMENT CLIMATE AND PRIVATE SECTOR DEVELOPMENT

17.a- FDI flows (% of GDP)



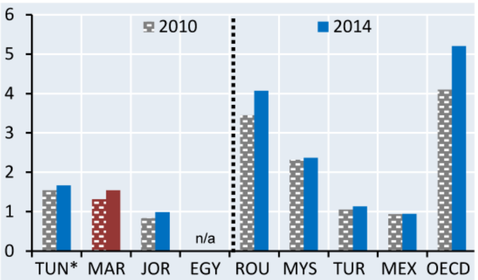
Source: UNCTAD Statistics Database

17.b- FDI stocks (% of GDP)



Source: UNCTAD Statistics Database

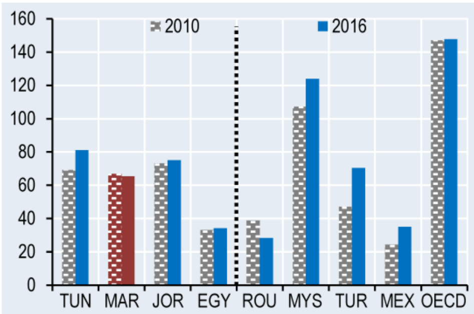
18- New business density (new limited liability firms per 1,000 working-age people)



Source: World Bank Entrepreneurship Database.

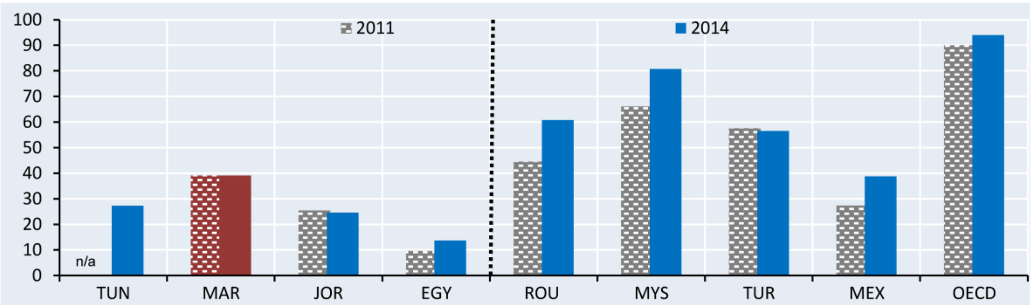
Note: Data for Tunisia are for 2013 rather than 2014.

19- Domestic credit to private sector (GDP)



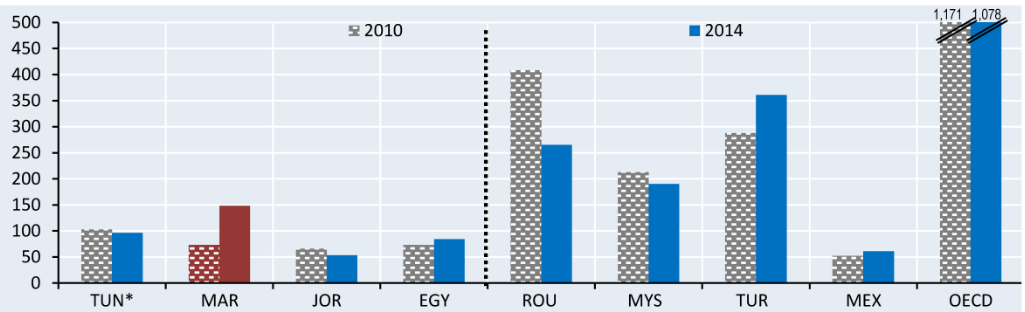
Source: IMF International Financial Statistics

20- Financial inclusion (% of adults with an account at a financial institution)



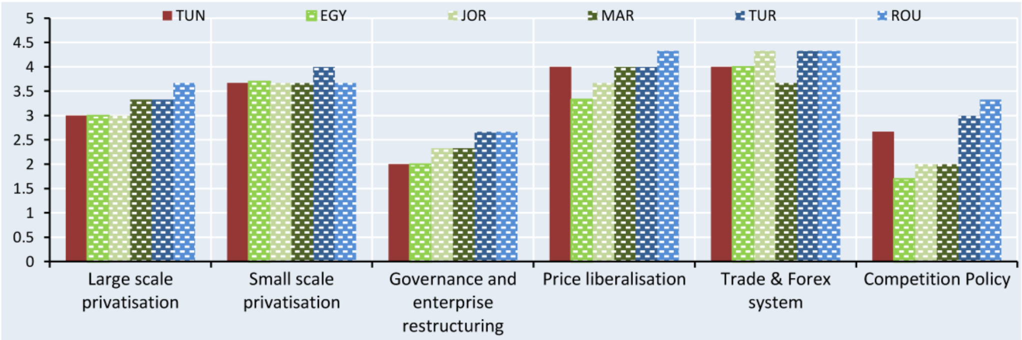
Source: World Bank Global Financial Inclusion Database. Note: Data for 2011 for Tunisia is not available

21- Resident patent applications per 100 billion USD GDP (2011 PPP)



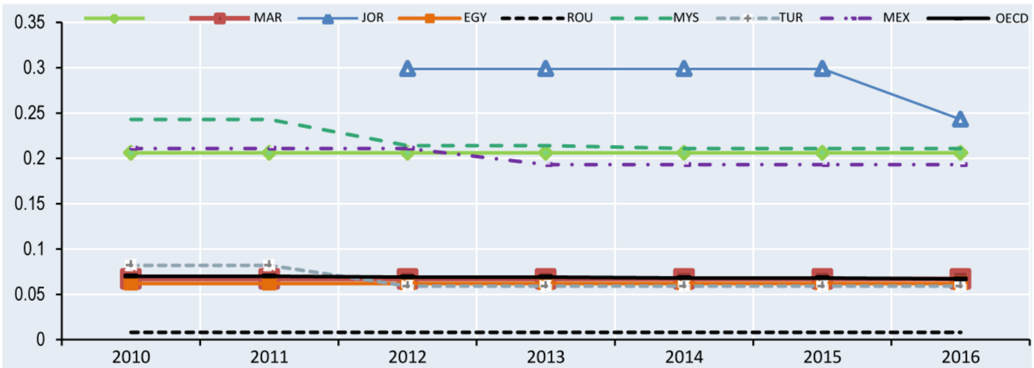
Source: World Intellectual Property Organization Statistics Database. Note: Data for Tunisia are for 2013 rather than 2014

22 - EBRD Transition Indicators (scale from 1 to 4+)



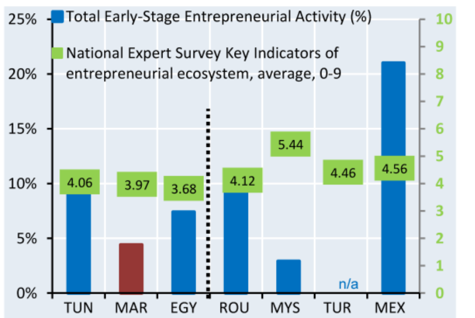
Source: EBRD Transition Indicators, 2014 Database

23- FDI Regulatory Restrictiveness Index (total FDI Index, all types of restrictions, 0-1) TUN



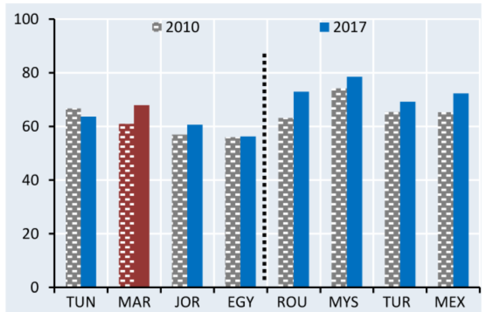
Source: OECD FDI Regulatory Restrictiveness Index. Data for 2010 and 2011 for Jordan is not available. Note: 0 = open; 1 = closed

24- Global Entrepreneurship Monitor (2015)



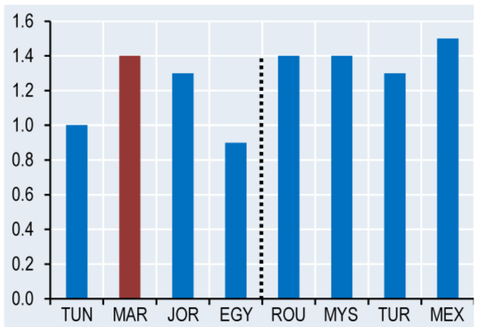
Source: Global Entrepreneurship Monitor. Note: GEM Data for Jordan is not available; TEA data is only available for the other ACTs starting in 2015

25- World Bank Doing Business, Distance to Frontier (0-100)



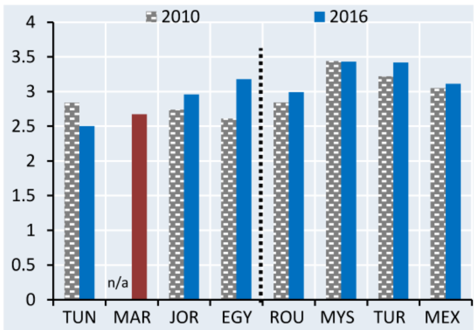
Source: World Bank, Doing Business
Note: Distance to frontier covering all Doing Business dimensions

26- Average trade facilitation performance, 2016 (0-2)



Source: OECD Trade Facilitation Indicators

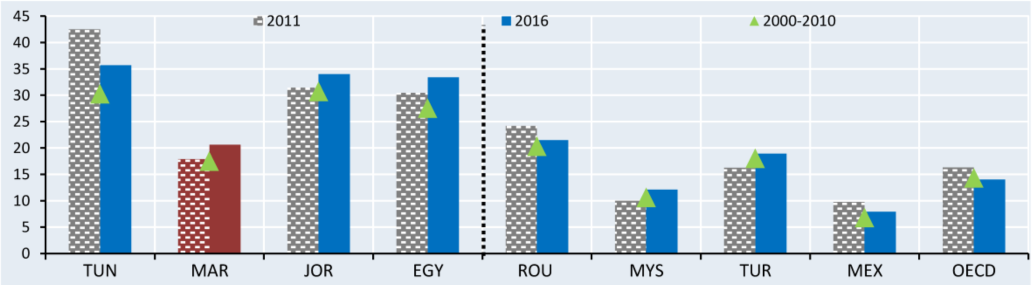
27- Logistics Performance Index (overall score 1-5)



Source: World Bank Logistics Performance Index

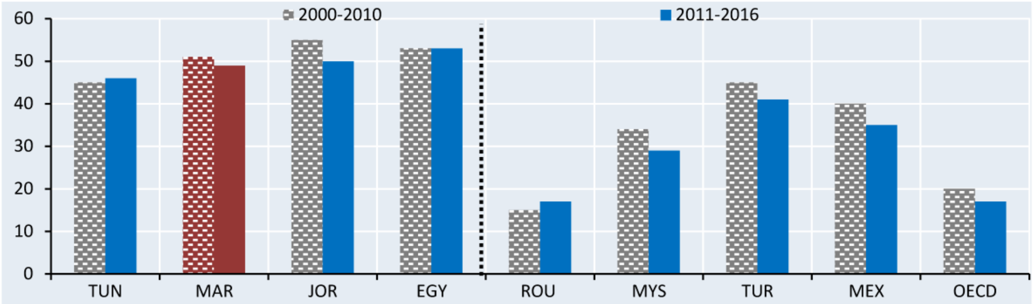
INCLUSIVE DECISION-MAKING

28- Youth unemployment rate (% of total labour force, ages 15-24)



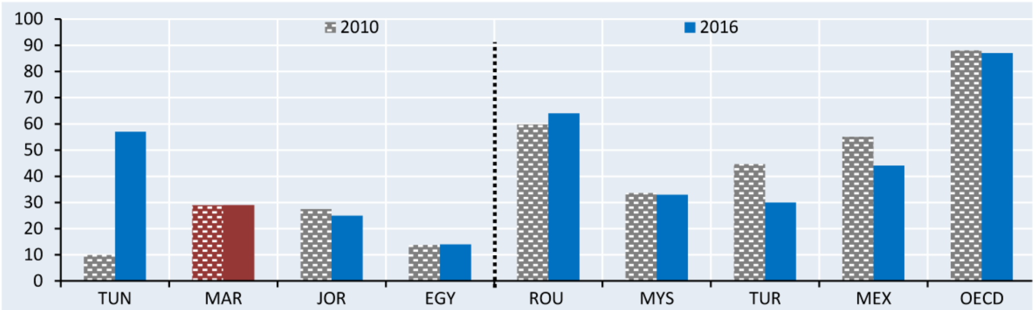
Source: ILO Key Indicators of the Labour Market database; OECD Labour Market Statistics

29- Gender labour participation gap (%)



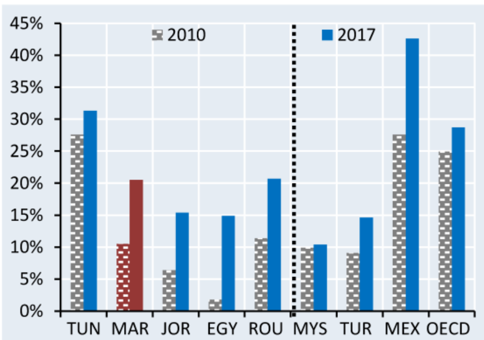
Source: ILO Key Indicators of the Labour Market database; OECD Labour Market Statistics

30- Worldwide Governance Indicator for Voice and Accountability (percentile rank, 0-100)



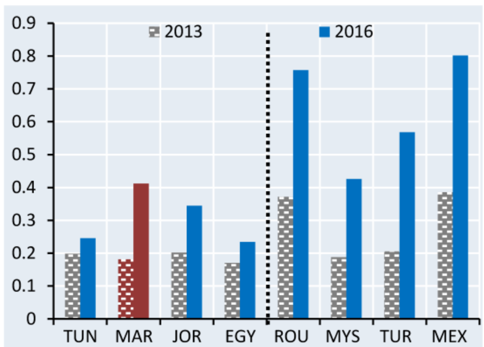
Source: World Bank's Worldwide Governance Indicators

31- Proportion of seats held by women in national parliaments (%)



Source: Inter-Parliamentary Union (figures as of January of each year for lower or single house); OECD Gender Data Portal

32- Political participation score in Commonwealth Youth (0-1)



Source: Commonwealth Youth Development Index

Overview of the Moroccan Economy

The prospects for setting the Moroccan economy on the path to emergence and convergence are looking better than before. After a period marked by the fallout from the world crisis and by the social and political upheavals that shook North Africa, Morocco has succeeded in putting that era behind it. In 2011 it adopted a new constitution that enshrines the principles of good governance, based on a government that is open to its environment and to the active participation of all components of society, including civil society, in the country's economic and social life.

The years 2012 to 2016 saw the adoption of a legal and institutional framework that complements and puts into effect to the provisions of the 2011 Constitution, particularly as they relate to sound economic governance. At the same time, Morocco has not only implemented economic policies designed to prevent crises and to preserve macroeconomic and social stability, but has also consolidated the process for achieving public strategies and policies, both sectoral and cross-cutting, and has initiated others of no less importance, thereby laying the bases for a more appropriate and inclusive model of development.

Morocco's macroeconomic and social indicators for 2016 are overall comparable to those that prevailed during the period preceding the crisis. The basic indicators have been re-established and restored to levels close to those recorded before the impacts wrought by the crisis: the current account stood at -4.4% in 2016, versus -4.4% in 2010; currency reserves at 6.8 months of imports at the end of 2016, versus 6.9 in 2010); public savings at 1.8% of GDP, versus 1.5% of GDP in 2010); and the unemployment rate was 9.4% in 2016, versus 9.1% in 2010 (see below).

Table 1: Principal indicators for Morocco

Principal economic indicators			
Population	34.938 million (9/2017)	**GDP** (2016)	USD 100.593 billions
Unemployment rate	9.4% (2016)	**GDP per capita** (PPP)	$7,365 (constant dollars of 2011)
Employment/population ratio	42% (2016)	**GDP growth** (real)	1.2 % (2016)
Human Development Index	0.647 (2015)	**Fiscal balance** (% of GDP, 2016)	-4.0%
Population below the poverty line	1,605,000 (4.8% of population)	**Current account** (% of GDP, 2016)	-4.4%
Life expectancy	75.52 years	**Inflation rate**	1.6
Gini index	39.5 (2014)	**Public debt** (% of GDP, 2016)	64.6%

Source: HCP, IMF, WB.

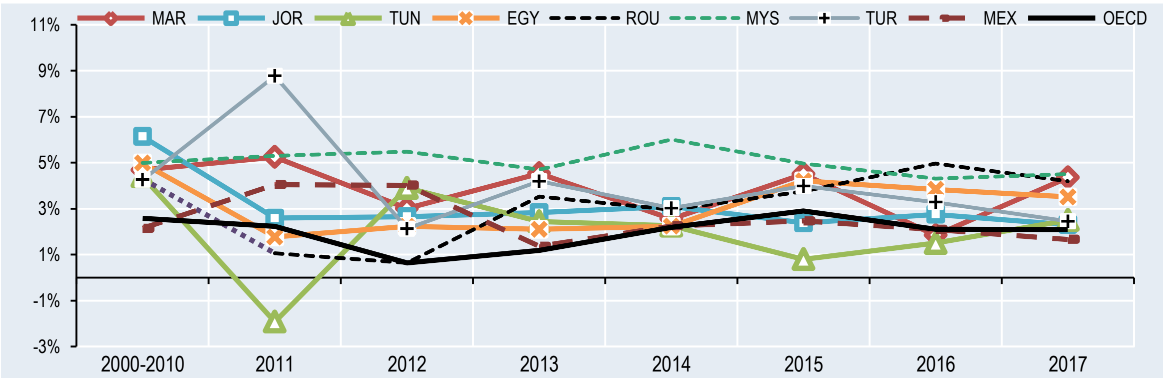
On the other hand, growth is still sluggish and has not been enough to reverse the trend and to trigger an irreversible process of convergence. During the period 1997-2009, Morocco initiated sector development strategies and policies and accelerated its policies for liberalising and opening the economy internationally: those measures sparked an acceleration of growth and fuelled Morocco's ambition to become one of the group of emerging economies. However, despite the resilience of the Moroccan economy, the impact of the international economic crisis sapped this sound performance and highlighted the weaknesses and limitations of the development model, which relied primarily on domestic demand, both public and private.

Growth has slowed and is dependent on exogenous factors

The Moroccan economy slowed to an average growth rate of 3.5% over the period 2011-2016, a rate below that of the preceding period, but still remained among the highest in the Middle East and North Africa (MENA) region. The average growth rate of the Moroccan economy, at 4%, remains below the average pace of 5% recorded during the period 2001-2010. Yet this level has remained one of the highest in the MENA region. The slowing of Morocco's economy is due primarily to weaker growth in Europe, soaring international commodity prices (particularly for energy products), and random climatic events. Given the weight of the agriculture sector in value added (VA) and especially in employment, overall activity in the Moroccan economy remains dependent on the behaviour of value added in the agricultural sector, which was negative in three of the six years 2011-2016.[1]

The Moroccan economy's performance falls short of that of emerging countries (although it is better than that for countries of the MENA region), and it does not reflect the investment efforts that have been made. Despite the reforms and strategies adopted, the growth rates recorded have been lower than those for emerging countries.

Figure 1: Real GDP (percentage change) 2000-2017



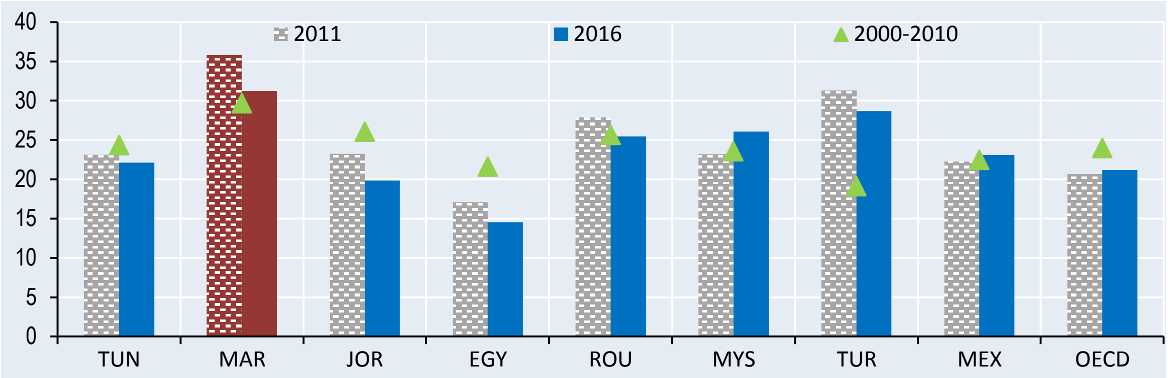
Source: IMF.
Note: Data for 2017 are estimates.

Performance is inadequate in light of investment levels

The average growth recorded must be considered especially weak in light of the fact that investment rates are among the highest in the world, and have exceeded 33% of GDP since 2007.[2] With much lower investment rates, emerging countries and countries at a comparable level of development have nevertheless achieved growth rates close to those of Morocco. This paradox has to do with the effectiveness of public-sector investments and the still-inadequate role of private sector investment as the driver of growth and development in the country.

[1] 2012: -7.8%; 2014: -2.3%; 2016: -11.3%.
[2] With the exception of 2014 and 2015, when the investment rate still stood at 32.5% and 30.8%, respectively.

Figure 2: Investment rates, 2011 and 2016 (% GDP)



Source: IMF.

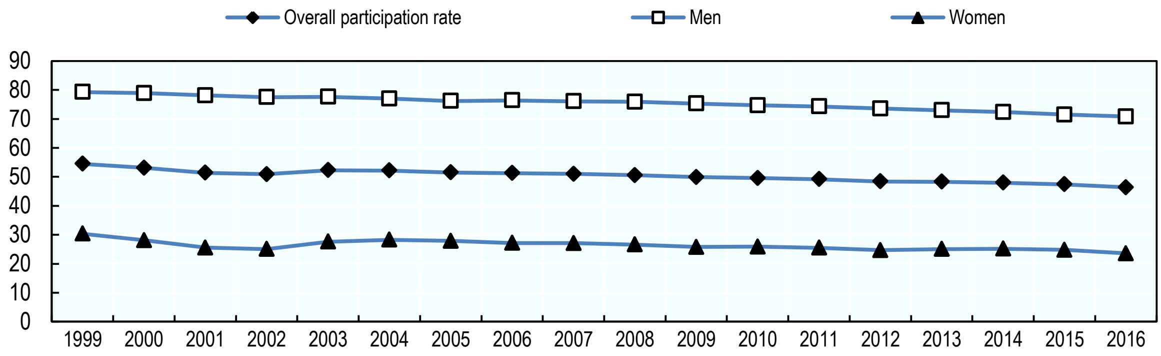
The elasticity of employment vis-à-vis growth is weak, and the relationship between the two variables is not linear. This elasticity, estimated at 0.3-0.5 between 2011 and 2016, has declined in relation to the period 2000-2010, and has not been able to absorb the flow of young labour market entrants: as a result, the overall unemployment rate in 2016 was higher than in 2011. On top of labour market rigidities and the lack of qualifications on the part of school leavers, this fact constitutes a major obstacle to the productive employment of a large portion of the non-employed population of working age, in particular young graduates and women. The slowdown in growth and the sharp contraction in its employment content have in this way highlighted the non-inclusive nature of that growth, notwithstanding a considerable drop in the poverty rate.

Employment growth is weak and is not enough to bring young cohorts into productive life

The creation of high-quality jobs remains a major challenge. The problem of growth, of its capacity to create jobs, and of its contribution to lowering unemployment, has been a persistent issue in recent years, which have seen net job creation drop off sharply. A characteristic of Morocco's productive structures is their weak capacity to create quality jobs in sufficient number to reduce the ranks of job seekers and integrate an increasingly skilled and educated younger generation into the workforce.

Consequently, Morocco has one of the lowest employment rates in the MENA region and around the world: more than half of the working-age population (15-64 years) is not engaged in economic activity (WB, 2017c). Under the combined impact of the demographic transition and the growing weight of capital in the productive process, the activity rate in Morocco has followed a downward trend that has accelerated since the crisis, dropping from 49.9% in 2009 to 46.4% in 2016, for a loss of 3.5 percentage points over the space of seven years. This situation is particularly unfavourable for women, whose participation rate was only 23.6% in 2016, compared to 70.8% for men.

Figure 3: Rate of participation in economic activity in Morocco



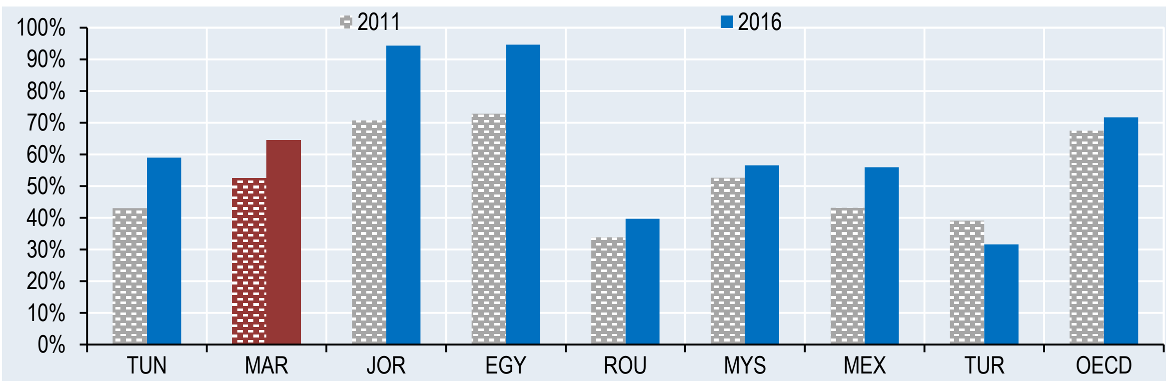
Source: WB

The adverse fiscal impacts of countercyclical policies have been offset by prudent management of the public finances

The effects of countercyclical policies (2009-2012) were offset by prudent finance policies. To support the efforts of the private productive sector in the face of the crisis and to respond to social demands, Morocco had to adopt an expansionary economic policy to sustain the exporting firms that had been seriously affected by the drop-off in external demand and in people's purchasing power (subsidies, wage increases). These policies had the effect of widening the fiscal deficit and sparking higher indebtedness. In fact, the overall fiscal balance, which had been in surplus in 2008-2009 (0.5% and 0.4% of GDP), fell to -6.8% in 2012.

To reduce the fiscal imbalances and restore the sustainability of the government's finances, reform measures have been implemented. With respect to fiscal management, price subsidies for oil products have been gradually eliminated, with the result that as of 2015 they were fully indexed to international prices. Moreover, measures to strengthen fiscal discipline have been stepped up. On the revenue side, the recommendations of the 2013 National Tax Conference (*Assises fiscales*) have been implemented with a view to encouraging investment, enhancing business competitiveness, combating fraud and tax evasion, and modernising the tax administration. Prudent management of the public finances since 2012 has yielded public saving since 2014, amounting to 1.8% in 2016, and bringing the fiscal deficit down to 4% in 2016. The induced effects of the deepening deficit have returned indebtedness to a rising trajectory: in 2016 it stood at 64.8% of GDP, versus 49.0% in 2010.

Figure 4: Indebtedness ratio, 2011 and 2016 (% GDP)

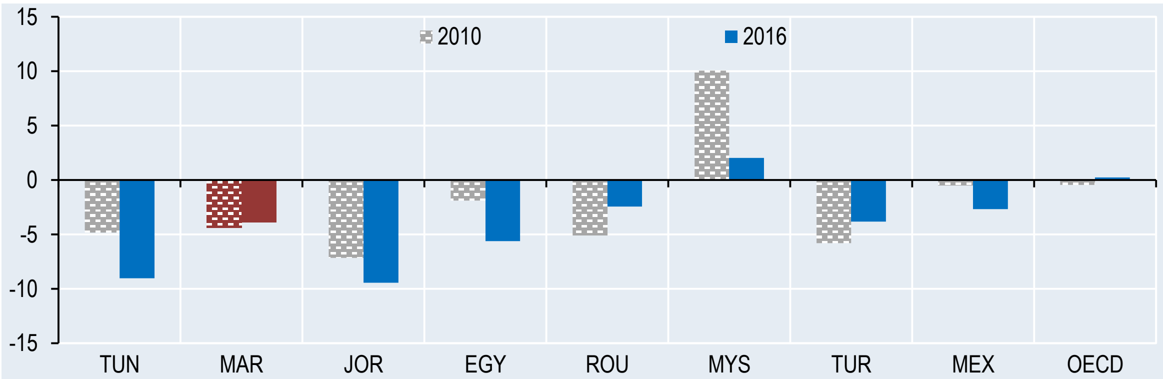


Source: IMF.

The recovery of the external sector has benefited from favourable economic conditions and the impacts of the industrial strategy

The current account deficit deteriorated sharply before recording a notable turnaround in 2015-2016. Under the impact of an adverse international economic setting, marked by social and political upheavals in the countries of North Africa, the slowing of the EU economy, and higher commodity prices, the effect on Morocco was significant, given its close links to the EU (foreign trade, tourism revenues, remittances from Moroccans residing abroad, foreign direct investment). Tourism revenues represented 6.3% of GDP, down from 7.2% in 2010, and remittance transfers shrank over the same years from 6.9% of GDP to 6.1%.

Figure 5: Current account of the balance of payments, 2011 and 2016 (% GDP)



Source: IMF.

When it comes to merchandise trade, the coverage rate of imports by exports dropped from 50.2% in 2010 and 47.8% in 2012, before rising to 54.8% in 2016, thanks to the notable and continuous decline in import prices, particularly for oil products, and the growth in exports of manufactured goods, which averaged 8.8% annually in 2014-2016, compared to 1.9% for other exports. As a consequence, the current account of the balance of payments showed a net deterioration from - 4.4% in 2010 to -9.3% in 2012, before returning to -4.4% in 2016 (MEF website, 2017). The policy of opening up the Moroccan economy following signature of a series of association and free trade agreements has not produced much in the way of results, for it entailed a widening of the trade deficit. Optimising it will require Morocco to give swift effect to its intention to gradually establish a flexible exchange rate regime.

In short, Morocco has made some real progress and, despite the crisis, the country has pursued a reform process that is not fully reflected in the recorded results. There are still some weaknesses that affect nearly all sectors and activities. This report will discuss them in three stages:

1. Assessment of the current situation;
2. Review of the principal actions and reforms undertaken, especially since 2011, and their impacts on the Moroccan economy;
3. Identification of constraints and challenges to be addressed and recommendations for overcoming them and unleashing the energies and the potential for growth and development.

PILLAR I: DESIGNING SOUND ECONOMIC POLICIES FOR AN INCLUSIVE AND SUSTAINABLE MARKET ECONOMY

This first section, “Designing market-oriented, inclusive and sustainable economic policies”, reviews Morocco’s economic performance in terms of growth and convergence in a context marked by the fallout from the world economic crisis and the social upheavals that led to the adoption of structural reforms to economic and institutional governance that were enshrined in the Constitution of 2011.

The main challenge facing Morocco is to undertake a genuine structural transformation of its economy in order to increase growth rates in line with emergence and convergence objectives, and to improve the quality of this growth in terms of inclusion and sustainability. This first section analyses and identifies recommendations concerning two closely linked structural challenges:

- **Strengthening dynamics of growth and productivity gains in order to speed up the process of economic catch-up and bring growth up to its potential level (Sections I-A and I-B).**
- **Promoting more equitable and inclusive growth (Section I-C).**

These structural priorities will then be broken down into concrete measures in Sections II, III and IV.

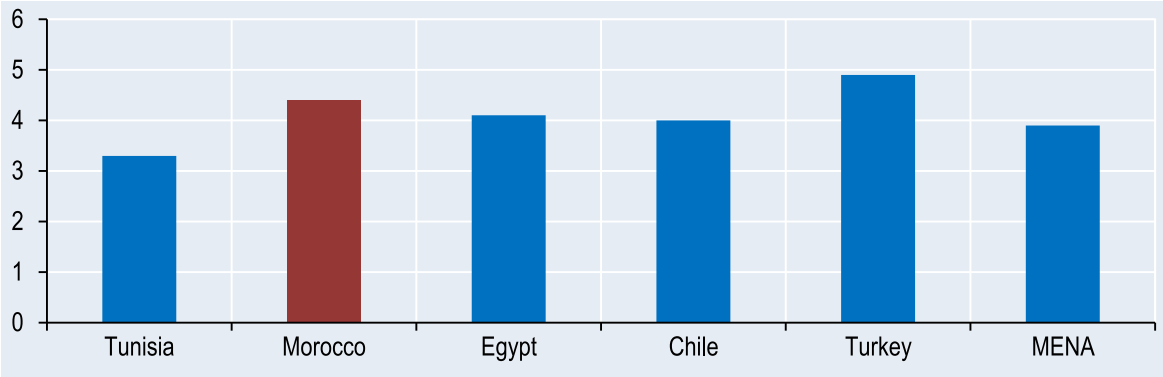
A. Strengthening growth dynamics and productivity gains in order to speed up the process of economic catch-up

Since the beginning of this century, Morocco has shown a firm determination to make in-depth changes to its development model and to join the ranks of emerging economies. The reforms and the sectoral strategies initiated have served to achieve real economic and social progress, but they have not been enough for the country to converge toward the upper middle-income economies in terms of living standards (OECD, 2017b; WB, 2017c; AfDB, 2015). Emergence is within reach for Morocco, provided the country succeeds in overcoming a number of constraints and challenges.

Current situation

Despite a difficult international and regional context, Morocco has turned in remarkable economic performances that have allowed it to narrow the gap that separated it from the European average. Thanks to its pursuit of structurally key projects and its implementation of various reforms, Morocco has succeeded in speeding its pace of growth after two decades of relative sluggishness (4.4% annually during the years 2000, versus 3.2% annually in the 1990s), boosting the resilience of its economy, and consolidating the reestablishment of macroeconomic balances.

Figure 6: Real GDP growth (average) between 2000 and 2016

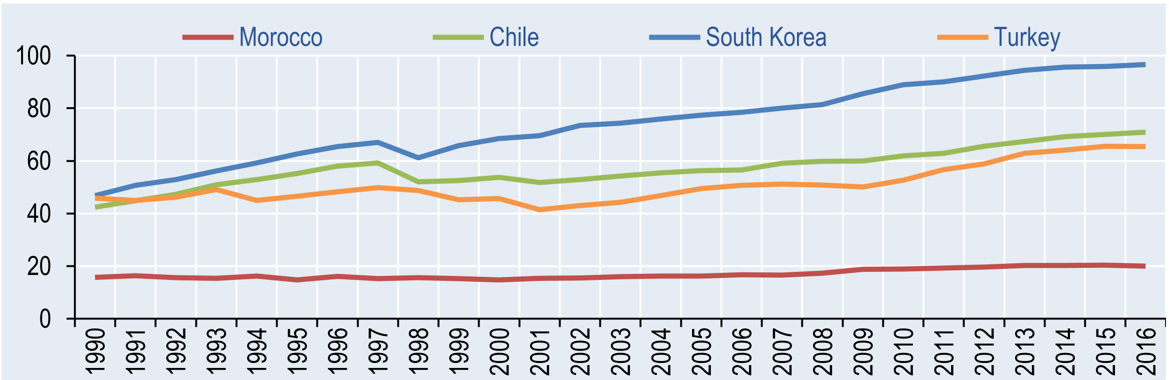


Source: WDI, author's calculations.

These performances have paved the way for significant progress on the social front, as can be seen in the eradication of extreme poverty and the sharp drop in the poverty rate (4.8% in 2014 versus 15.3% in 2001), together with better access for the population to basic public services, the improved level of medical coverage with implementation of the RAMED (medical assistance regime), and the continuing fall in the unemployment rate (9.4% in 2016 versus 13.9% in 1999) (HCP 2017; MEF, 2016a).

GDP per capita has pursued the upward path on which it first embarked in the 1980s, and which has accelerated since 2000, with an average annual increase of 3.2% between 2000 and 2016. In this way, Morocco has reduced by 5.3 percentage points the gap that separated it from the European average, increasing its GDP per capita as a proportion of that of the European Union from 14.8% in 2000 to 20.1% in 2016.

Figure 7: Morocco's GDP per capita as a proportion of EU GDP per capita (constant 2011 international $)

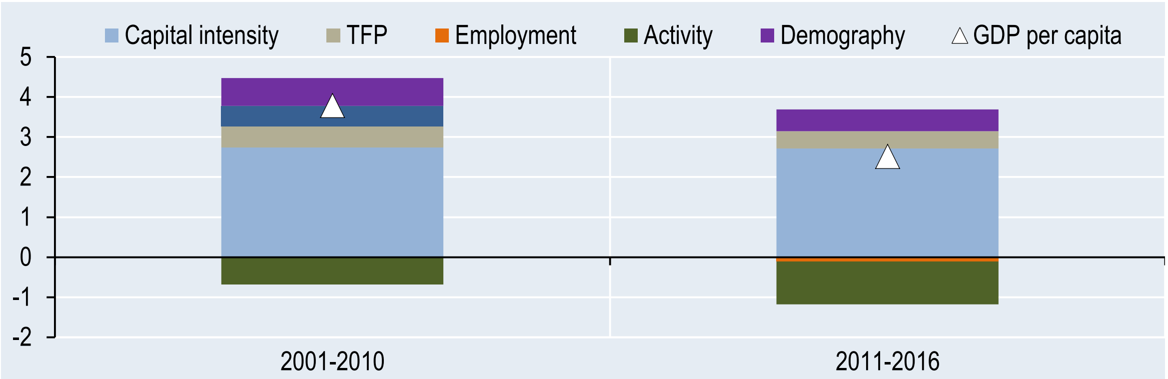


Source: WDI, WB.

Yet this performance is still very modest in comparison to the residual gap and to certain benchmark countries (South Korea, Turkey or Chile), and major efforts at reform will be necessary, especially as the improvement in GDP per capita slowed to 2.5% annually between 2011 and 2016.

The factors underlying this loss of steam can be identified through an accounting breakdown of GDP per capita.

Figure 8: GDP per capita in Morocco, 2001-2010 and 2011-2016



Source: HCP, 2017.

Morocco's growth model is deemed extensive because it derives its dynamism primarily from the accumulation of capital, with limited productivity gains and an ever-weaker employment content.[3] The productivity trend, reflecting the efficiency with which factors of production are used in the production process, is considered very modest in light of the intense pace of capital accumulation (OECD 2017a; WB 2017c; HCP 2016b; ABBAD 2017). In fact, despite the investment effort, which was considered one of the highest in the world during the past decade, the contribution of total factor productivity to the trend of GDP per capita remains very weak, and has even declined slightly: 0.4 percentage points in 2011-2016, down from 0.5 percentage points in 2001-2010 (OECD 2017a; WB 2017b).

The slowing of GDP per capita growth can be explained by the decreasing use of labour[4], due in particular to:

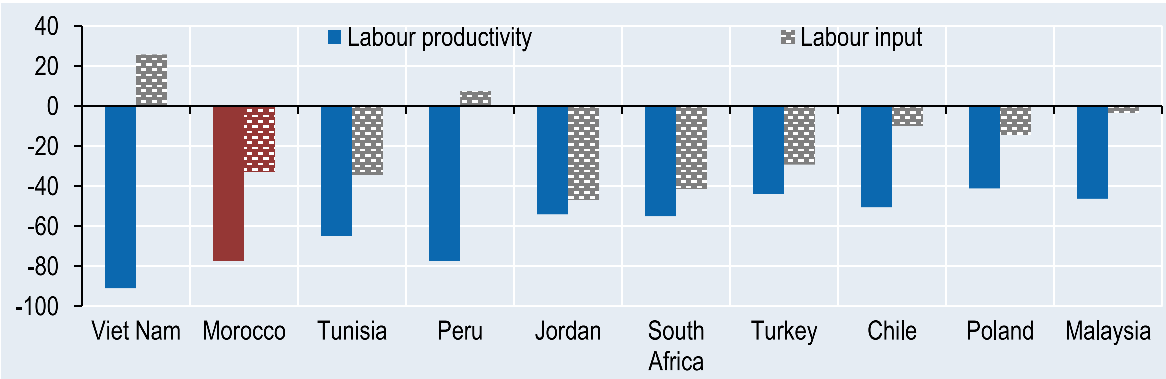
- The decline in the contribution of the activity rate (-1.1 percentage points in 2011-2016, following -0.7 percentage points in 2001-2010). This retreat is explained in part by the lower workforce participation rate of women and by the efforts pursued by the authorities to achieve universal school enrolment for children, meaning that they are later in entering the labour market.
- The falling contribution of employment (-0.1 percentage point in 2011-2016, following +0.5 percentage point in 2001-2010), attributable in particular to the shrinking of the employment content of economic growth, which dropped from 0.34 between 2001 and 2010 to only 0.05 in 2011-2016. Consequently, the unemployment rate recorded a jump, from 8.9% in 2011 to 9.4% in 2016.
- The positive contribution of the demographic effect (although it is slowing slightly: +0.5 percentage point in 2011-2016 compared to +0.7 percentage point in 2001-2010), driven in particular by the population aged 45 to 59 years and, to a lesser extent, that aged 25 to 44

[3] A model is considered extensive when GDP growth is generated by an increase in the quantities of the factors of production (capital/labour), as opposed to an intensive regime where growth results from a better combination of these factors, and hence more important productivity gains.
[4] This aggregate represents the sum of three components: employment, activity and demographics, and measures the intensity of use of the labour factor in the process.

years. The 15-24 years cohort, by contrast, saw its contribution decline between those two periods.

Labour productivity and the use of labour explain the wide gap between Morocco GDP per capita and the OECD average. The multi-dimensional review of Morocco (OECD, 2017b) showed that this gap is primarily attributable to the difference in productivity and, to a lesser extent, to the rate of labour input (Figure 9). According to this assessment, the low productivity of labour in Morocco can be explained by several factors, in particular the low proportion of upper-school graduates in the total workforce (6.1% in 2014: HCP, 2015b), the inadequate level of qualifications of the workforce (36.9% with no instruction and 32.7% with only a primary education or less: HCP, 2015b), and informal employment, which accounted for 36.3% of non-farm employment in 2013 (HCP, 2015b).

Figure 9: Gaps in labour productivity and labour input 2016



Source: OECD, 2017b, National Accounts Database; WB, 2016, World Development Indicators (WDI).
Note: Labor productivity is measured as GDP per person employed. Labour force utilisation is measured through total employment expressed as a percentage of the (working age) population.

The inadequate contribution of the factors of production to improving GDP per capita reflects, on one hand, the scant efficiency of investment in Morocco, where the incremental capital output ratio, ICOR, is very high (it stood at nearly 7 in 2014 (HCP 2016a)), and on the other hand, the weak capacity of the Moroccan economy to integrate the active population into the workforce (HCP 2016c, WB 2017c). Despite the crisis, average growth was more sustained in 2001-2010 (4.9%) than in 2011-2016 (3.5%). Moreover, earlier growth had an employment content that was much higher than in 2011-2016. In fact, at 0.05 in 2011-2016 versus 0.34 in 2001-2010, the employment content of growth has deteriorated sharply. Consequently, the unemployment rate has increased (9.4% in 2016 versus 9.1% in 2010), and half of the population of working age (15-64 years) plays no part in the country's economic activity.

These factors, and others that will be addressed in the course of this report, constitute an obstacle to achieving strong, sustainable and inclusive growth, and they are preventing Morocco from joining the ranks of emerging countries. This finding is clear in recent reports on Morocco: for example, the World Bank Country Economic Memorandum ("Morocco 2040: Emerging by Investing in Intangible Capital", WB, 2017c) finds that the Moroccan growth model has not yet found the right mix of fixed capital and intangible capital for achieving economic convergence towards its southern European neighbours or emerging countries such as Turkey or Mexico. The World Bank estimates that an accelerated catch-up that would bring Morocco's GDP per capita up to 42% of that of southern European countries by 2014 would require productivity gains to be improved by 2% per year[5] and the participation rate of the economically active population (particularly for women and young school graduates) to be raised to 55% as compared to 45% in 2015. (WB, 2017c).

Reform efforts

In its drive for emergence, Morocco has been pursuing the structural reforms launched since the beginning of the century. The objective is to place the Moroccan economy on a new growth path that will speed the process of economic catch-up and diversify its productive fabric, as well as its links to international development.

Political and economic reforms, in particular through a raft of sectoral and cross-cutting strategies, were pursued in tandem. The flagship reform of recent years was the adoption of the new Constitution in 2011, which enshrined a set of rights and laid the basis for a more open and democratic society, and thus serves as a benchmark for other reforms, as well as requiring a review of the framework for economic governance. At the economic and social level, Morocco has launched ambitious targeted strategies for development: (i) modernising the productive base and adapting it to shifting world value chains (Pillar III, point B); (ii) major investment programmes and infrastructure (transportation, energy, public services, the port of Tangiers, new cities, etc.) (Pillar III, point A); and (iii) reinforcing social cohesion and improving human development indicators (INDH, Social Cohesion Support Fund etc.) (Pillar I, point C).

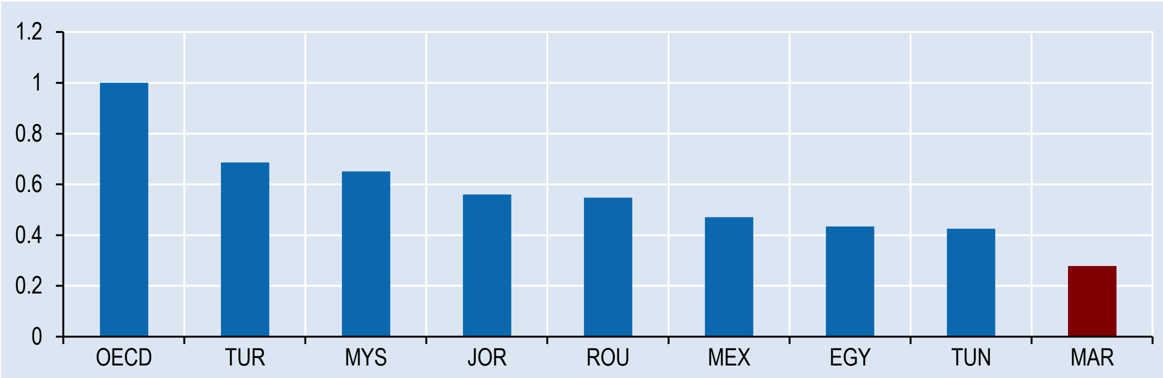
With a view to amplifying the positive externalities of sectoral strategies, and at the same time pursuing the reforms now under way (tax reform, PARAP, etc.) (Pillar II, point B), cross-cutting strategies have been grafted onto those sector strategies: these include the energy strategy, the logistics competitiveness strategy (2015), the “Digital Morocco” strategy (2015), the anti-corruption strategy (2015), the education strategy, the vocational training strategy (2016), and the national employment strategy (2015).

Outstanding challenges

Although endowed with a strong potential in terms of productive diversification and structural transformation of its economic activities, Morocco has not yet succeeded, due to various constraints, in harnessing that potential to maximise use of the factors of production. The OECD has highlighted three of these constraints, which are interdependent: (i) skills formation; (ii) difficulties in developing dynamic and competitive sectors; and (iii) inadequate coherence between public strategies and policies (OECD, 2017b). The World Bank has also stressed the lack of linkages between the investment effort and productivity gains, and has noted that speeding the process of convergence will require a real push to enhance productivity and bring about structural change (WB, 2017c).

[5] Enhancing productivity gains will require an in-depth structural transformation of the economy, and the achievement of substantial efficiency gains.

Figure 10 : Labour productivity in comparison with OECD members (2015)



Source: OECD, author's calcullations.

Catching up in terms of growth and productivity calls for actions aimed at achieving a genuine structural transformation. To ensure that the Moroccan economy is squarely on the path to economic catch-up, the country will have to commit itself to a series of actions, the most important of which have to do with accelerating the transformation of the productive structures through (i) implementation of mechanisms for reallocating the factors of production toward more productive activities, and responding more effectively to the demands of international competition; (ii) support for industrial ecosystems with a high technology content; (iii) eliminating distortions in the legal framework and public support policies; and (iv) promoting the knowledge economy, innovation, and the transfer of modern and clean technologies. The challenge here is to work toward:

- **Economic policies that will reduce the distortions associated with rent economies, and apply fair competition rules systematically within the economy**, by making the domestic market more open and continuing to liberalise sectors that are now protected by dissuasive entry barriers such as administrative authorisations, licenses and approvals (OECD, 2017a; WB, 2017c). It will also be important to reduce the obstacles to formal employment by adopting simpler and more flexible labour legislation that does not discriminate as a function of the firm's size (Pillar III).

- **Developing synergies between sector strategies and stronger co-ordination among both public and private stakeholders.** This should be possible given (i) a focused long-term vision ("Morocco 2030") prepared on the basis of consultations expanded to include all parties concerned, and serving as a benchmark for any intervention, and (ii) implementation of a high-level institutional framework in charge of coordinating public strategies and monitoring and evaluating their performance (Pillar II, point A).

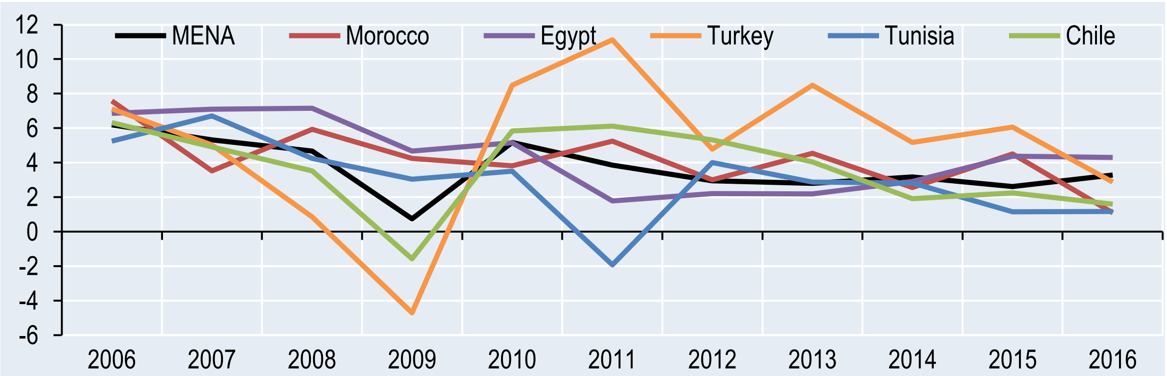
- **Enhancing the efficiency of human and physical capital**, by putting in place mechanisms to reallocate factors toward activities that are more productive and have a high technology content (Pillar III, in particular point D). Morocco could seize the enormous potential for growth if it is able to exploit the opportunities for opening its economy, in particular by (i) improving the quality of the education and training system and adapting it continuously to market needs; (ii) creating capacities for innovation and absorption for the transfer of knowledge, and (iii) implementing effective arrangements for labour force entry and for lifelong learning.

B. Accelerating work on key projects and reallocating the factors of production toward sectors with greater value added, in order to bring growth up to its potential level

Current situation

The Moroccan economy has great potential for progress and the resilience needed to adapt to changes in its environment. Notwithstanding the disruptions of the international economic environment, the Moroccan economy has demonstrated resilience in progressing at a pace that is admittedly slower than it was previously (3.5% per year in 2011) but higher than the average for countries of the MENA region (3.1%) (OECD, 2017b; WB, 2017c; IMF, 2017).

Figure 11: GDP growth rate by volume for Morocco and comparable countries between 2006 and 2016

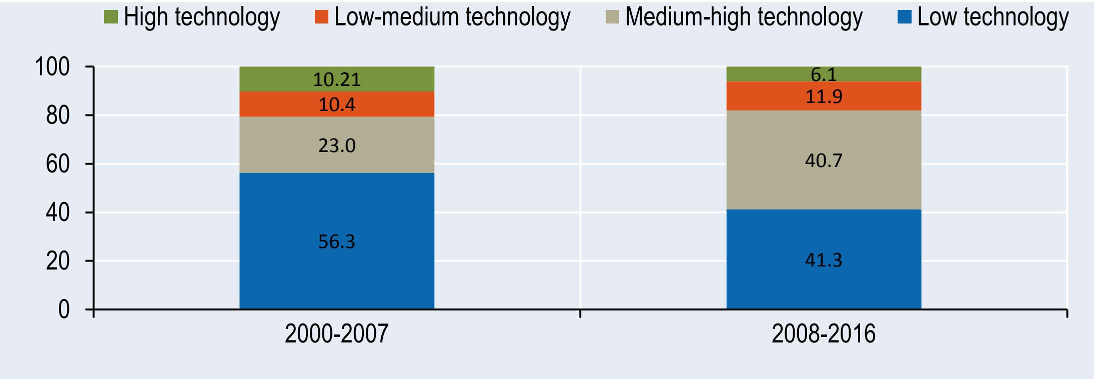


Source: WDI data.

The sustainability of Morocco's economic growth is the result of the transformations that are being made in the productive base. The relatively sustained pace of economic growth has been accompanied by a diversification of its sources, with a growing share of tertiary activities. The reconfiguration of the agricultural sector, driven by the Green Morocco Plan, has helped to change the profile of Moroccan growth, which is now less volatile than before due to the importance of more agricultural branches that are resilient to random climatic events (MEF, 2016b). The transformations in the industrial fabric involve differentiated bases of growth, and are marked by a retreat on the part of the traditional sectors (textiles, food industry, etc.) in favour of new high-potential activities such as car making, aeronautics, electronics, offshoring, etc. (MEF, 2016b).

This new configuration has opened great opportunities for integration into global value chains. It has also made it possible to consolidate exports beyond phosphates and derivatives, raising the level of the technological content (reinforcing the share of medium- and high-tech manufactures from an average of 23% in 2000-2007 to 40.7% in 2008-2015) and enhancing the competitiveness and attractiveness of the country for industrial FDI (MEF, 2016b; WB, 2017c).

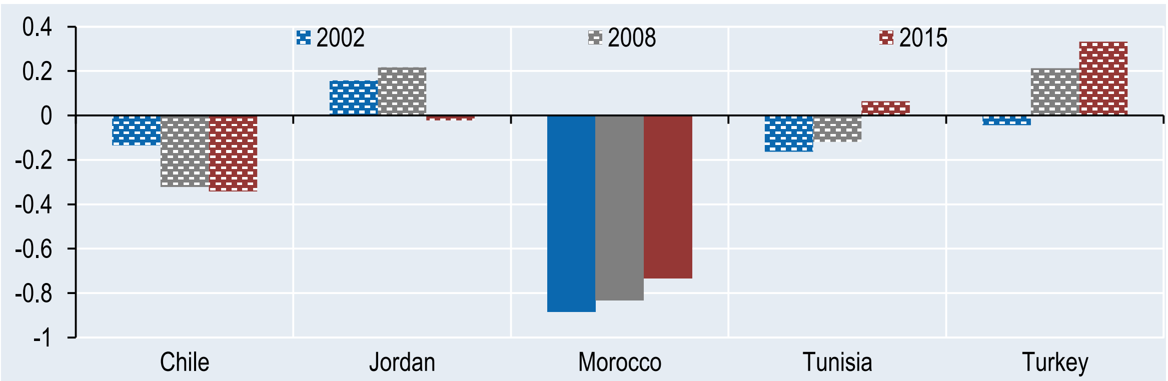
Figure 12: Structure of Moroccan manufactured exports by technological content



Source: CHELEM database.

This has also had positive repercussions on overall economic complexity, as can be seen in the improvement (still modest) in the economic complexity index[6] between 2008 and 2015. This index, however, remains negative and below other economies in the benchmark set, meaning that Morocco's exports are little diversified and involve goods that are produced by a large number of countries.

Figure 13 : Structure of Moroccan manufactured exports by technological content



Source: Observatory of Economic Complexity, MIT.

Reform efforts and opportunities

Morocco has undertaken a series of strategies intended to put in place conditions favourable to sustained and inclusive growth. The efforts made in recent years have been targeted in particular at macroeconomic stabilisation, accelerated structural transformation of the productive fabric, the upgrading of human capital (employability, intermediation, entrepreneurship etc.), the promotion of innovation and of the knowledge economy (Morocco Innovation, specialised institutes, technology clusters, generalised access to NICTs, etc.). Other actions aimed at various fields are intended in

[6] The Economic Complexity Index (ECI) is calculated by the Observatory of Economic Complexity for 128 countries. It synthesises information on the ubiquity of products (measured by the number of countries producing the same product) and diversification (capacity to produce several different products).

particular to improve the business climate, to strengthen competitiveness, to develop the financial sector, and to reform the labour market (Pillar III).

The strategies and actions launched in the last two years relate primarily to four axes of development: (i) speeding up economic transformation and diversification through industrialisation and the promotion of private investment; (ii) boosting competitiveness and developing exports; (iii) enhancing the quality of human resources and reducing inequalities; and (iv) improving the institutional and governance framework (MEF, 2016b).

In addition, Morocco adopted in 2016 a national sustainable development strategy (NSDS) that will be implemented as of 2017. This strategy calls for the transition toward a green and inclusive economy by the year 2020, and for the sustainable reinforcement of the country's competitiveness. With this strategy, Morocco is expected to gain six points of GDP and to create 250,000 jobs by 2030. The opportunities for growth and green job creation have also been highlighted by several recent studies, including that by the Economic, Social and Environmental Council (ESEC, 2012). The transition to a green economy requires a strong commitment on the part of the government and the private sector. In this sense, the NSDS calls for overcoming the obstacles that previous sector strategies have had to face (poor planning, lack of convergence and coordination, conflicting responsibilities, inadequate financing etc.) and for reconsidering questions relating to taxation and under-charging for services (price subsidies).

Reforms are also under way to reduce domestic and external vulnerabilities. Morocco has drawn up a plan for gradual transition toward a flexible exchange rate regime and for instituting a monetary policy framework that will preserve the competitiveness of the productive fabric and strengthen the role of the Bank Al-Maghrib (BAM, the central bank of Morocco) in promoting financial stability and inclusion (IMF, 2017). This project to reform the foreign exchange regime calls for new instruments to guard against fluctuations in the exchange rate, and an effective information system (forecasting model, surveillance and macroeconomic warning system, etc.), as well as support measures involving all economic stakeholders (banks, CGEM (the Moroccan Employers' Association), public institutions, businesses etc.). This action plan, which was supposed to come into effect as of the first of July 2017, has been postponed indefinitely. It seems likely that the communication campaign, and in particular the date for entry into force of the new regime, has sparked some major speculative movements that have disrupted the application of the programme established by the Moroccan government.

Morocco could benefit from many opportunities to bring growth up to its potential level:

- When it comes to **strengthening competitiveness and developing exports**, Morocco's presence on the markets of major emerging countries and its positioning in the high-potential markets of Africa, as well as optimisation of the impacts of free-trade agreements on the economy, constitute opportunities both for meeting the needs of foreign markets and for producing and exporting products with high AV.

- **Improving the quality of human resources** will entail boosting the quality of education and training. This should be geared deliberately to preparing young people for the knowledge economy and the trades of the future.

- **Expanding the scope of the digital economy**, in the context of the strategy adopted in this area, and generalising NICTs to all activities and public services should open enormous possibilities for employment, for enhancing productivity and competitiveness, and for improving the quality of services provided and the transparency of public administration, thus making it possible to seize the potential of the new economy and thereby boost growth.

- **When it comes to governance and the institutional framework**, the quest for complementarities and the development of synergies between public strategies and policies, as well as expanded collaboration with the private sector and civil society in the context of open government, constitute unsuspected resources for additional growth.

Outstanding challenges

Morocco has great potential for economic growth and development, but it still faces a number of challenges in boosting its economy. **The essential issues that guarantee the conditions for using the potential for growth have to do with instituting good governance, developing human capital, capitalising on new sources of growth (e.g. the green economy), and eliminating barriers to private initiative or to Morocco's insertion into the global economy.** Overcoming these two major challenges would open the way to introducing conditions conducive to strong growth that would ensure social cohesion, territorial solidarity, the efficient use of resources, and improved competitiveness (OECD, 2017a; WB, 2017c; AfDB, 2015; MEF, 2016).

Accordingly, Morocco should encourage and support the development and modernisation of the productive fabric, essentially the MSMEs (micro-businesses and small and medium-sized enterprises), it should adopt a new investment charter, and it should institute a tax system that provides incentives to new industrial companies and to large-scale industrial exporters (Government Declaration, 2017). Supplementary efforts should be made to **implement market principles and rules that will promote fair competition and discourage rent seeking** (WB, 2017c). Morocco should address the obstacles to economic efficiency and private sector development, and should clean up the public finances by increasing the effectiveness of public investments, targeting social expenditures, rationalising operating expenses, and instituting a tax system that is neutral, effective and fair (IMF, 2017).

To reduce domestic and external vulnerabilities, Morocco **needs to move gradually and in an orderly fashion toward a flexible exchange rate regime and institute a monetary policy framework that will preserve the competitiveness of the productive fabric**, while strengthening the role of the BAM in promoting financial stability and inclusion.

C. Promoting more equitable and inclusive growth

Current situation

Morocco has made strides with its economic growth. However, the sharing of the wealth created reveals the predominance of income from capital in that the gross operating surplus and mixed revenues represent 63.3% of total AV, while income from wages accounts on average for 35.8% (MEF, 2014). Only a third of the wealth created by the Moroccan economy is reaped by workers, versus two-thirds in France, Spain or Portugal. This pattern of shares, which penalises the labour factor, reflects the scope of the structural problems in the Moroccan economy (low labour productivity, the weight of agriculture, the extent of the informal economy, etc.) and contributes to persistent inequalities (OECD, 2017b).

The economic performances recorded in recent years have had positive impacts in terms of improving people's living conditions. This improvement has been consolidated by the implementation of various programmes to overcome poverty and exclusion, and by the share of the government budget allotted to the social sectors (around 55.7% in 2015). Moreover, Morocco's commitment to achieving the Millennium Development Goals (MDG) (HCP, 2015a) and the consolidation of the achievements of the INDH[7] have contributed to the considerable progress made in the area of human development. Consequently, people's living standards have improved, as evidenced by the increase in gross national income per capita from MAD (dirhams) 26,720 in 2011 to MAD 31,229 in 2016. These improved living standards have translated into a decline in absolute poverty and in vulnerability, which dropped between 2011 and 2014 from 6.2% to 4.8%, and from 13.3% to 12.5%, respectively (HCP, 2015a).

Figure 14a: Absolute poverty rates

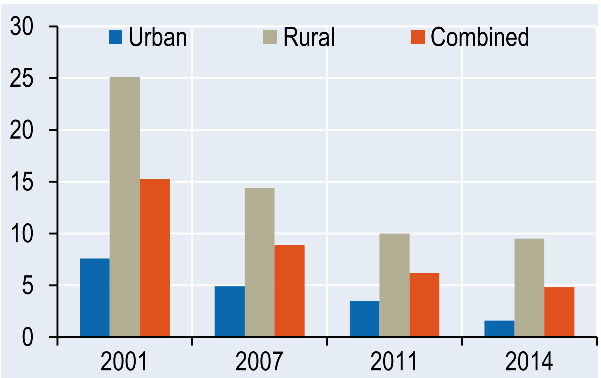
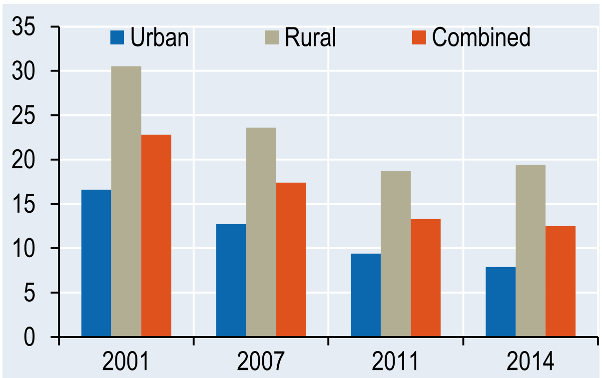


Figure 14b: Vulnerability rates



Source: HCP, 2016.

The improvement in the standard of living has also led to a sharp decrease in the size of the population living in multidimensional poverty[8] (MP) in Morocco, which fell from 7.5 million to 2.8 million individuals between 2004 and 2014, thereby enshrining a remarkable decrease in the MP rate from 25.0% to 8.2% (HCP, 2017c).

Efforts on behalf of social development have contributed to a slight decline in inequalities. The Gini index[9] did not however change significantly between 2010 (0.408) and 2014 (0.395) and it is still high in relation to comparable countries.

[7] According to the 2014 ENCDM (National Household Consumption and Expenditure Survey) results, the INDH helped to reduce poverty. The poverty rate in the rural communes targeted by the INDH dropped by 16.1 percentage points, from 28.4% in 2004 to 12.3% in 2014.

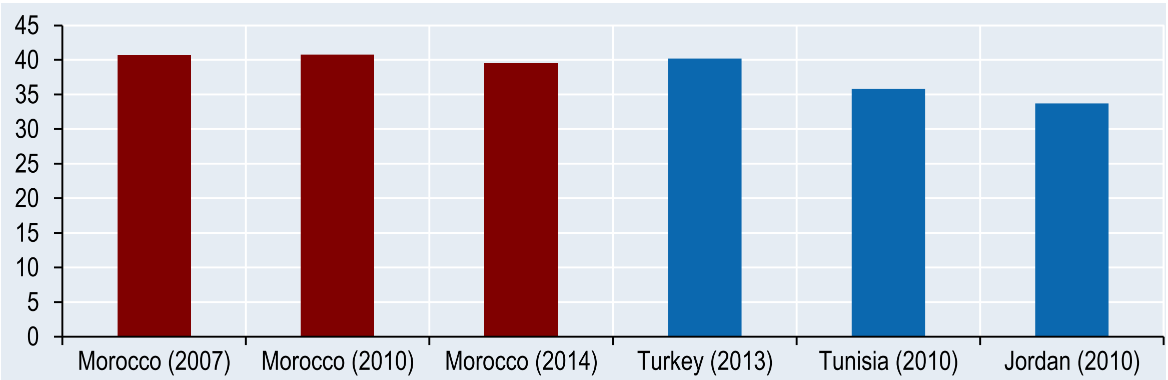
[8] Multidimensional poverty is measured on the basis of a wide range of needs which if not met constitute factors of the prevalence or manifestation or poverty, or factors of its social reproduction. These needs related to access to basic social services (water, electricity, sewage), living conditions, education and health.

[9] In Morocco, the Gini index is calculated on the basis of consumption expenditure rather than incomes.

However, these performances conceal social, geographic and gender disparities that constitute a major challenge to consolidating achievements to date and placing them on a permanent footing. First of all, poverty in all its forms (monetary or multidimensional) is concentrated in the countryside, which is home to 79.4% of poor people (1,275,000 persons, 2014) and where the poverty rate (9.5%) is six times that in the cities (1.6%). Recognising that monetary poverty is only one dimension among many (education, health, drinking water, sanitation, electricity etc.) of the measurement of living standards, the OECD's multidimensional analysis (OECD, 2017b) has also underscored the scale of disparities between urban and rural populations. According to the HCP’s findings based on multidimensional analysis, privations in terms of education (adult education and lack of schooling for children) alone account for slightly over half of MP at the national level (5.3%), almost 60% in urban areas and 55% in rural areas. Privations in terms of access to basic social infrastructure, health and housing conditions account for 19.7%, 10.9% and 14.1% respectively of MP at the national level.

The fruits of economic growth are unevenly distributed at the social and geographic levels. This finding is shared at the highest levels of government, as demonstrated by the His Majesty the King himself: *“If Morocco has made tangible progress, reality confirms that this wealth does not benefit all the citizens”* (Throne Speech, 2014), and *“it is inconceivable that this progress does not extend across all regions of our country without exception”* (Throne Speech, 2017).

Figure 15 : Gini coefficient for Morocco and selected countries



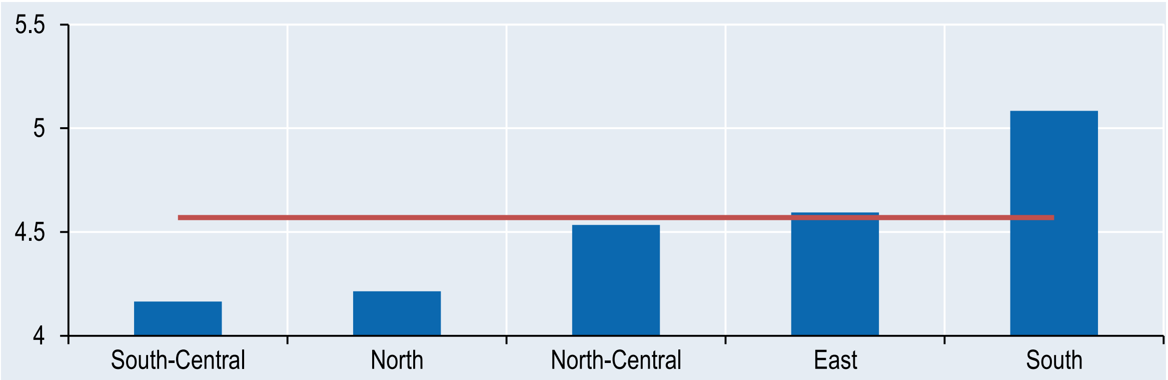
Source: WB, World Development Indicators.

There is a large gap between the rich and the poor. The overall consumption expenditure of the richest decile is around 12 times that of the poorest decile (HCP, 2016b), and the better-off half of the population accounts for more than three-quarters of total spending.

The reduction in inequalities has not benefited all the regions of Morocco. The regions taken as a whole have seen a sharp retreat in monetary poverty,[10] but socioeconomic dynamics reveal a significant gap in regional development (MEF, 2012). Beyond incomes, regional disparities in basic infrastructure are also important (PG, 2016). In 2013, less than half of the regions had access to fundamental rights (education, health, employment, roads, electricity, water etc.) (MEF, 2015).

[10] The standard deviation of poverty among the regions dropped from 9.5 in 2001 to 3.8 in 2014.

Figure 16: How Morocco's regions score on access to fundamental rights (2013)



Source: MEF, 2015. Author's calculations.
Note: red line = national average.

Economic growth, which helps to reduce poverty (WB, 2017a), **has not been inclusive**. This is confirmed by the findings of Datt-Ravallion, who decomposed changes in poverty into growth (primary distribution) and redistribution effects between 2007 and 2014. As to the impact of the level of inequalities on poverty reduction, it is very weak. To show the importance of reducing inequalities, HCP studies argue that if inequalities had been reduced by one additional percentage point in the years 2000, 2007 and 2014, the decline in poverty would have been twice the additional one percentage point of economic growth (HCP, 2016a).

Women and young people are the social categories that suffer most from inequalities and exclusion, especially on the labour market. Despite the clear improvements recorded in the areas of education and health,[11] the participation of Moroccan women in economic life remains limited, as evidenced by their activity rate, which was only 23.6% in 2016, compared to 70.8% for men (HCP, 2016a). Notwithstanding the significant progress over the last decade in boosting enrolment rates, 1.6 million young people are still illiterate: 70% of them live in rural areas, and the majority are women. Moreover, the unemployment rate for urban women graduates of higher education (22.8% in 2016) is nearly double that for men (11.7%), and 79% of the unemployed population is between the ages of 15 and 34 years. The situation of young women is often described as a dual challenge that affects all dimensions of their participation in political, economic and social life, both as young people and as women (OECD, 2017b).

Reform efforts

The Moroccan authorities have made major efforts to improve social inclusion. Aware of the scope of inequality in all its forms, and in order to reduce that scope, Morocco has made enormous efforts to speed reforms and has undertaken the development of new public policies in such areas as education, health, regional development, gender, youth, exclusion and marginalisation. These involve, in particular:

– Moves to implement the provisions of the 2011 Constitution, especially the **territorial reform of**

[11] Improved indicators for girls' enrolment and for maternal and child health.

2015 which was given effect by the publication of organic laws concerning local governments (2016) and their application provisions. This reform, which contains many novel features, has expanded the powers of the local authorities in the area of local development, and has strengthened their financial resources.

- **Reinforced targeting for better inclusion of disadvantaged populations** by consolidating programmes to combat poverty, insecurity and social exclusion, such as the National Human Development Initiative (INDH) and the programme to combat territorial and social disparities. Targeting has also been a central feature of programmes financed by the family assistance fund (*Fonds d'entraide familiale*) and the social cohesion fund (*Fonds d'appui à la cohésion sociale*), created in 2012: RAMED, TAYSSIR, the "million schoolbags" programme, the programme of assistance to persons with specific needs, the programme to assist widows in situations of insecurity, etc.
- Accelerated implementation of **infrastructure and basic social services** designed to reduce the deficits identified in the countryside and in the mountain zones, such as the global rural electrification programme (PERG), the national rural roads programme (PNRR II), and the rural drinking water programme (PAGER) and the territorial improvement programme. The integrated programme to combat territorial and social disparities in rural, mountainous and isolated areas, created in 2016, is intended to reduce deficits in infrastructure and basic social services by undertaking 20,800 integrated projects in target zones, covering 24,000 villages (*douars*) and benefiting 12 million people.
- **Promoting employment by reinforcing active employment programmes and developing a national employment strategy 2015-2025**, the central objective of which is to create jobs for young people in sufficient number and quality, and to overcome gender and territorial inequalities (MEIP, 2015). To this end, its perimeter has been expanded to cover young graduates at risk of long-term unemployment, young school dropouts, women of working age, and workers in micro-businesses and the informal sector.
- The **Government Plan for Equality 2012-2016** (MSFFDS, 2016) promotes gender equality and women's empowerment through the mainstreaming, on a local and regional basis, of the gender dimension in official development policies and programmes.
- The **National Integrated Youth Strategy 2015-2030** places young people at the centre of public policy concerns with a view to reinforcing their participation in the country's economic, political, social and cultural development. Specifically, two of its five objectives are (i) to enhance the economic prospects for young people and promote their employability, and (ii) to improve the accessibility and quality of basic services and reduce geographic disparities.

Outstanding challenges

Additional efforts must be made to create the conditions for equitable and inclusive growth. The low capacity of economic growth to create wealth and employment, the remuneration of the capital factor to the detriment of labour, and the unequal geographic distribution of development projects all exert heavy pressure to institute a model of growth and economic governance that will:

- **Speed up structural reforms and the reorientation of redistribution policies in order to improve living conditions and reduce social inequalities.** This will require in particular the targeting, on the basis of fresh data regarding geographical disparities, of the priority areas for public intervention and the most disadvantaged segments of the population.

- **Increase economic opportunities for women and mainstream the gender dimension in policies and programmes, while encouraging reconciliation between private and working life and offering incentives for parents to work**. Integrating women into the labour market would have a very positive impact on economic growth, estimated at between 0.2 and 1.95 percentage points of GDP (OCP Policy Center, 2017).
- **Accelerate implementation of the national youth strategy for integrating young people into the country's economic and social development process.** This strategy will have no significant impact on human capital development and its quality unless young people are properly served[12] through effective and inclusive policies for education and training, health and employment.
- **Take a participatory and regional approach to promoting active participation of local stakeholders, public and private, in the design and implementation of local development policies and programmes.** This means taking into account the territorial and gender dimensions when defining needs and preparing programmes and projects, following a consistent and concerted approach that involves the various stakeholders.

[12] The studies conducted by the HCP on poverty, vulnerability, inequalities and social mobility lead to the idea that inequality of access to education and training is at the heart of inequality of opportunities.

PILLAR II: ENHANCING THE TRANSPARENCY AND EFFICIENCY OF PUBLIC INSTITUTIONS AND PROCESSES

To take advantage of Morocco's potential and its intangible capital and place them at the service of strong, sustainable and inclusive growth will require a guarantee of open, transparent and participatory governance on the part of the public sector. This pillar focuses on assessing the consistency and effectiveness of economic strategies and policies and their impact on the economy and on society. This assessment is followed by a review of public governance and reform measures for bringing greater transparency to the public service and enhancing its quality. The government finances are addressed in terms of macroeconomic stability and margins for manoeuvre in support of economic activity.

A. Making public strategies and policies consistent and co-ordinating their implementation for greater convergence and effectiveness

Current situation

The series of sector strategies and cross-cutting reform policies has produced only modest results in terms of creating wealth and promoting inclusion. Morocco's economic and social development is based on a great number of strategies and policies that do not use the same benchmark and that are confronted with real difficulties with respect to implementation and achieving the established goals, particularly the objective of placing Morocco on a path to sustainable and high growth (WB, 2017c; OECD, 2017b). A recurrent question has to do with the opportunity cost of not having a global and integrated vision that can guarantee convergence and synergy among the different strategies and remedy the shortcomings in coordination and governance.

Having been designed independently in "silos", the strategies and policies have generally failed from the outset to accord the necessary importance to coordination among stakeholders in order to take advantage of sectoral interdependencies, or to consultation with the players concerned and the beneficiary populations (OECD, 2017b).

Table 2: Principal strategies and sector plans adopted by Morocco

STRATEGY	START DATE	END DATE	SECTORS/ACTIVITIES CONCERNED
Green Morocco Plan (PMV)	2008	2015	Agriculture
Energy Strategy	2008	2030	Energy
Maroc Export Plus	2009	2018	External trade in goods and services
National Pact for Industrial Emergence (now the Industrial Acceleration Plan)	2009	2015	Automotive, textiles, offshoring, crafts, aeronautics, electronics, etc.
Halieutis	2009	2020	Fisheries
Vision 2020	2010	2020	Tourism
National Water Strategy	2009	2030	Water
Plan Solaire	2009	2030	Solar energy
Logistics Strategy	2008	2030	Transport, logistics
Plan Rawaj	2007	2020	Distribution, commerce
Port Sector Strategy	2012	2030	Ports
National Education Strategy	2015	2030	National education
Maroc numéric	2015	2020	Information technologies, offshoring
National Employment Strategy	2015	2025	Employment
Vision 2025	2016	2025	Craft industries
National Health Strategy	2017	2021	Health
National Strategy for Sustainable Development	2017	2030	Environment & sustainable development

Preparation of these strategies outside a single benchmark has produced different time horizons and, at times, has ignored cross-cutting strategies and national priorities, thus running the risk of wasting scarce resources (ESEC, 2014). Consequently, they are not necessarily appropriate for all stakeholders, some of whom are being asked to sign partnership agreements.

These strategies are not systematically based on in-depth feasibility studies, nor do they have appropriate mechanisms for evaluation. The failure to distil them systematically into action plans makes it difficult to render them operational, in particular by aggregating all the needs and reconciling them with the available financial resources over the short, medium and long terms (OECD, 2017b). These shortcomings are made worse by the lack of an overall governance framework to keep them consistent and to maximise their impacts, and also by the ineffectiveness of their management and evaluation functions (OECD, 2017b).

Moreover, these strategies are not subjected to any systematic interim evaluation to capitalise on the strong points and correct the weaknesses detected. The few evaluation exercises undertaken have rarely been initiated by the pilot ministries, and have often been done at the initiative of external bodies (Court of Auditors, General Inspectorate of Finance, donors, ESEC, etc.). These evaluations – done externally, and often late – have no impact on the conditions for implementing programmes and projects, as required for taking timely and necessary corrective measures.

Reform efforts

The convergence of public programmes and policies has come to the attention of the authorities. With a view to redressing this situation, gathering opinions from stakeholders and finding routes for improvement, the ministry assigned to the Head of Government, responsible for general affairs and governance (MAGG), hosted in February 2013 the first national conference on governance, under the topic "Convergence of sector strategies and programmes", in partnership with the United Nations Development Programme (UNDP). The conference focused on three themes: (i) problems of integration, consistency and convergence of sector strategies and programmes, (ii) mechanisms for financing and integrating sector strategies and programmes, and (iii) monitoring and evaluation. This work yielded a series of recommendations, of which the most important ones relate to:

- Developing a long-term vision – "Morocco 2030" – setting forth the objectives of the national strategy and the broad guidelines of government policy. This vision should be considered as a frame of reference for preparing strategies, policies and programmes;
- Creating institutional mechanisms to ensure coordination and convergence of sector programmes (from the preparation phase through to the evaluation phase);
- Preparation of a policy charter and adoption of the participatory approach and prior coordination;
- Signing performance contracts based on concrete missions with a view to consolidating the values of transparency and accountability in the management of public affairs;
- Paying particular attention to the territorial approach and involving local stakeholders in preparing strategies and programmes for territorial development, in order to guarantee the proximity of public action;
- The introduction of a single identification system and a single social register which will make it possible to improve the coherence and convergence of social protection programmes and the targeting of vulnerable populations.

For its part, the Economic, Social and Environment Council (ESEC) has taken up the issue of governance and the consistency of public policies and has formulated suggestions for improvement (ESEC, 2013b; ESEC, 2014).

The recommendations from the conference on governance and those of the ESEC have not yet been implemented in a meaningful way. However, the current government programme has accepted some of these recommendations, and plans to reinforce the convergence and efficiency of public strategies and policies by adopting a strategic, global and integrated planning approach and establishing a committee for monitoring implementation of the government programme and evaluating it. This committee was recently created within the office of the Presidency of the Government and is working on the programming and quantification of the government programme.

Outstanding challenges

The recommendations concerning governance should be put into effect, in particular:

- **Speed up work on defining a "Morocco 2030" vision that would serve as a frame of reference for defining the priorities of overall government policy, and preparing strategies and policies, both sector-specific and cross-cutting**

- **Accelerate the implementation of an intergovernmental body, reporting directly to the Head of Government, that would be responsible for coordinating the work of preparing strategies, making them consistent, tracking their implementation, and assessing their impact on the**

Moroccan economy and on people's living conditions, using predefined, precise and measurable indicators (SMART).[13]

- **Organise an annual government conference to present the state of progress with the strategies and policies under way and to update them in light of changes in the national and international environment.** This conference should be followed by preparation of the budget for the following year, consistent with the spirit of the organic budget law (LOF), based on projects that will give effect to the priorities of the strategies and policies adopted.

B. Reforming public sector governance for greater transparency, effectiveness, quality public services make the public sector more effective

The modernisation of the Moroccan administration aimed at ensuring transparency and efficiency calls for concerted actions that are sustained over time. To this end, the Authorities should prioritise key actions aimed at simplifying administrative procedures (in particular through the use of new technologies), pursuing further the process of advanced regionalisation, and the launching of new initiatives to combat corruption.

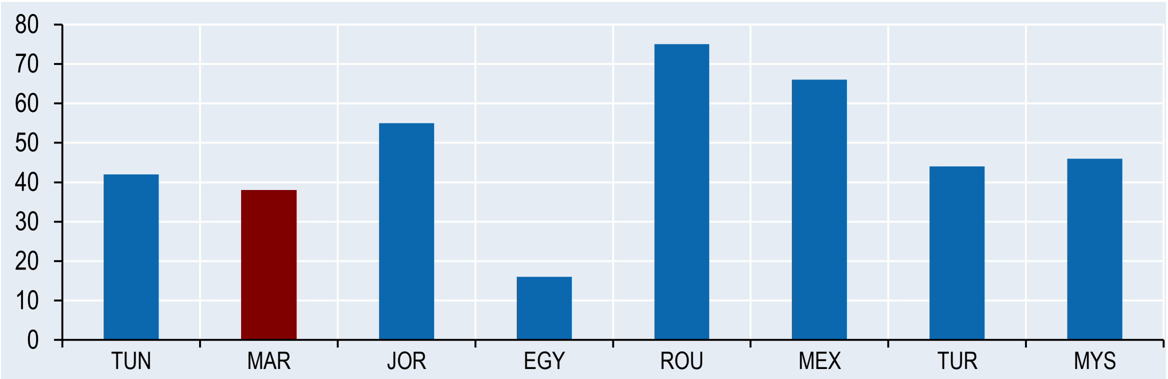
a. Simplify administrative procedures and develop e-government

Current situation

The Moroccan administration is characterised by the complexity of its procedures, long response times, inadequate accountability and the multiple wheels of bureaucracy, all of which encourages nepotism and corruption. The dominant culture, despite the legal measures taken, holds that the Moroccan public administration is not required to justify itself or to be responsive to the demands of citizens, users and taxpayers. Morocco scores rather low when it comes to open budgeting, and when compared to some other countries it also ranks poorly. There have been some changes in this situation, however, in the direction of improving the quality of public services and the image of the public administration, but they remain unsatisfactory.

[13] SMART: S = specific, M = measurable, A = acceptable or agreed, R = realistic, and T = time-bound

Figure 17: Open Budget Indicators, 2015



Source: International Budget Partnership.

Reform efforts

Several reform efforts aimed at improving the quality of public services and the efficiency of administrative procedures are currently in progress. The Ministry for the Modernisation of the Administration and the Civil Service (MRAFP), in collaboration with other ministries, has undertaken the task of improving public services, defining implementation procedures by means of a general framework (benchmark, guiding principles, tools, implementation kit, etc.) and a suitable system of governance (bodies, role and responsibilities of stakeholders, planning, steering, coordination mechanisms, monitoring and evaluation). To this end, projects are now being pursued, in particular: (i) the draft decree on the improvement of public services, (ii) setting up a national complaints portal, (iii) creating a national centre for the approval of administrative forms, and (iv) establishing the national portal for services to business (business-procedures.ma) in Casablanca, Rabat, Marrakesh and (soon) Tangiers and Oujda. This process has in recent years involved a vast network of players and various channels, such as the "Your ideas" (*Vos idées*) forum at the website www.fikra.ma, designed to gather proposals from citizens. In order to deepen the process of simplifying procedures and make mandatory their posting in local administrative offices, and to give them a legally enforceable status, a draft decree has been prepared (MRAFP, 2017b). Achievements to the end of 2016 in terms of administrative simplification include the following:

- During the period 2012-2016, 104 procedures were simplified: 60 have to do with citizens and 44 with businesses. Thus, the cumulative number of simplified procedures concerning the citizenry and business exceeds 630, and these are posted online at the portal www.service-public.ma;
- A database on the most widely used administrative procedures and forms has been developed: 860 procedures and 84 printed forms, many of which have been standardised (MRAFP, 2017);
- A guidance and information service has been established to help users in their administrative dealings, and a programme aimed at drawing up a welcome charter, reference manual and guide, carried out in collaboration with the UNDP, is currently in progress;

- Instructor training ("training of trainers") is being provided to relevant personnel of ministerial departments and public institutions, dealing with techniques of simplification and preparation of procedural manuals;
- A Decree on procedures for receiving, processing and following up on complaints by public administrations, local and regional authorities and public establishments has been adopted and published in the Official Journal (July 2017).

An institutional mechanism has been created to steer the administrative reform. Besides the initiatives listed above, the MRAFP has drawn up a draft Decree on the creation of an Inter-ministerial committee for administrative reform whose main missions would be to set out strategic orientations for administrative reform, validate programmes and their sectoral application, and to co-ordinate actions in this area.

As well, in July 2016 Morocco launched its new vision of digital government, through the "*Maroc Digital 2020*" initiative. The new digital strategy calls for the establishment of a new agency responsible for the delivery and adoption of digital services, as well as for optimising and modernising digital platforms: the *Agence pour le développement du numérique* (Digital development agency). Numerous measures and initiatives have been launched in the area of digital government:

- Mandatory publication of draft laws on the Internet site of the General Secretariat of Government[14] (SGG) (www.sgg.gov.ma) for public consultation before they enter the approval circuit.
- A new portal, www.Emploi-public.ma, for online publication of all recruitment announcements and calls for candidates in public administrations, local governments and the public enterprises and institutions (PEI). At the end of 2016, nearly 41,000 recruitment postings were published at the "Emploi-public.ma" portal, which received over 10 million hits.
- A call centre has now been brought into service to respond to requests for administrative guidance, by telephone or e-mail, through the "IDARATI" ("my administration") page (a portal for the geographic location of public services, intended to facilitate people's access to more than 14,000 points of administrative interest), as well as the www.service-public.ma portal designed to disseminate practical information on administrative procedures and e-government services (MRAFP, 2017d). These facilities have dealt with over 10 000 enquiries and have put online over 170 electronic public services, along with over 900 question-and-answer forms, and more than 800 administrative procedures distributed across 14 themes (MRAFP, 2017d).[15]
- A national prize for e-government, "IMTIAZ", is awarded annually.

Outstanding challenges

Despite the efforts made and the undeniable results recorded, there are still instances of

[14] Decree No. 2.08.229 of May 2009.

[15] Other administrative services used the web such as www.watiga.ma and www.ancfcc.gov.ma to allow citizens to obtain administrative papers or information on how the administrative procedures they have initiated are progressing.

dysfunction embedded at different levels of the public administration, and these were roundly criticised in the Throne Speech of 30 July 2017. These problems have to do in particular with (i) the lack of a truly participatory approach on the part of various players, (ii) the mapping and prioritisation of key projects, and (iii) the processes of governance and management which have failed to end insularity and promote the convergence of projects.

Certain actions must be prioritised. The recent initiative to replace the legal certification of administrative documents by a sworn statement is welcome. To achieve greater transparency and accountability, Morocco could:

- **Speed up the creation of the Inter-ministerial committee for administrative reform whose mission will be to define strategic orientations, validate sectoral programmes and co-ordinate the follow-up to their implementation;**
- **Carry out an exhaustive mapping of public services and their prioritisation in order to address the procedures that would serve to win the adherence of citizens and businesses and gain their confidence;**
- **On the basis of the proposed mapping, determine how far to go with simplification of procedures and speed the adoption of regulatory texts on the simplification process, especially the one that makes procedures legally enforceable (OECD, 2013).**

With regard to digital government, the OECD Recommendation on Digital Government Strategies, which Morocco has adopted, should be a benchmark tool for the powers of the new Digital Development Agency. It stresses the importance of giving the agency responsible for digital government the necessary tools, powers, resources and political support and to develop a consistent policy for using the new technologies.

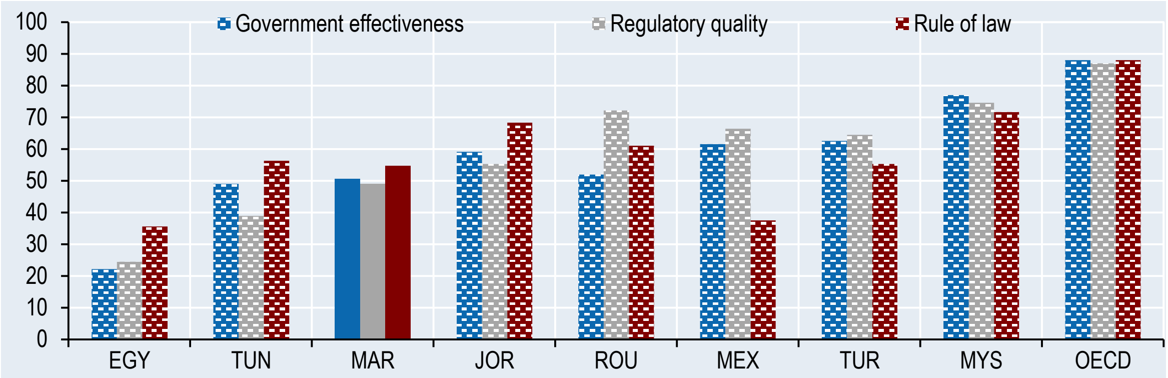
b. Strengthen territorial governance in order to free up regional potentials and raise the quality of local public services

Current situation

Economic governance is one of the greatest constraints on growth in Morocco, and has been highlighted in a number of analyses of the country (WB, 2017c; OECD, 2017b; OECD, 2015; AfDB-GoM-MCC, 2015, ESEC, 2013b).

Internationally, Morocco ranks poorly and remains far below the OECD average, whether in terms of indicators of regulatory quality or of government effectiveness:

Figure 18: Indicators of the rule of law, government effectiveness and regulatory quality, 2015



Source: Worldwide Governance Indicators (WGI).

Although there is a legal framework for decentralisation, decision-making and financial powers are still in the hands of the central government. The elected local authorities are unable to exercise their full powers, primarily because they lack the needed financial resources and human skills (OECD, 2017c). It should be noted, however, that three organic laws have been published: the first concerns the regions, the second the prefectures and provinces, and the third the communes. There remains the task of complementing the laws with the necessary decrees to make them operational.

With respect to deconcentrated services, there is no specific legal framework governing the sharing of powers between the central structures and the external services. The minister, who has the final say, has full latitude to decide the extent to which he will devolve a portion of the powers reserved to him by regulation.

Reform efforts

Administrative deconcentration has become a priority for the government. Work on the proposed Charter of Administrative Deconcentration was launched in 2014 with the creation of a tripartite steering committee (MMSP-MI-MEF), which was subsequently expanded to include the departments concerned by the deconcentration (Equipment, Agriculture, Housing, Energy and Mines, and Health).

Consultations were held with local government representatives to ascertain their vision and priorities. The main conclusions relate to:(i) the redefinition of the roles of central and local players; (ii) the need to establish a local administration; and (iii) the preparation of policies that would provide relevant solutions to the problems and satisfactory responses to the needs of local populations, on the basis of active participation by the local authorities and coordination with civil society.

With respect to rationalising government activities, the Government of Morocco has adopted a new vision based on preparing consistent and complementary policies (government-government relationship), assistance and advice to the local authorities (government-elected officials relationship) and better satisfaction of local people’s needs (government-citizen relationship). The key aspects of this vision are:

- Clarification of the role of central governments, which should refocus on design, programming, orientation and monitoring and evaluation, as well as on the preparation of legislation and regulations (principle of subsidiarity);

- Designation of the regional level as the relevant setting for the design and programming of inter-ministerial projects, and the provincial level as the entity for executing policies and programmes, and technical support to the local authorities;
- Transfer/delegation of decision-making powers to the deconcentrated services and clarification of the field of intervention and articulations among the various players at the territorial level (central government, deconcentrated services, local authorities, etc.).

With respect to civil service reform, a national conference was organised on this topic. It led to the preparation of a white paper containing recommendations relating to: (i) giving operational status to the provisions of the Constitution as they relate to the civil service, and (ii) instituting modern tools of human resource management. Next, in 2014, the Ministry for Modernisation of the Public Sectors (MMSP) prepared a platform for reform of the general statute of the civil service, together with a draft law, which were submitted to the Senior Council of the Civil Service in June 2014. In practical terms, enshrining the principles of equity and transparency of access to the civil service has led to the abandonment of direct recruitment and the compulsory holding of competitions. As well, a draft decree (no. 2-15-770) was drawn up, allowing recruitment on the basis of a fixed-term contract in order to enlist outside expertise in highly specialised areas and to fill short-term vacancies. Another draft decree (no. 2-13-436) was prepared to allow mobility between ministries for inter-ministerial staff with a view to supporting further regionalisation by (i) strengthening human resources in the regions and in the external services of the responsible ministries, and (ii) introducing new instruments for the redeployment of inter-ministerial staff.

A new Charter of the Public Services (*Charte des services publics*) is currently being finalised. To give effect to the provisions of the Constitution of 2011 (article 157), the government of Morocco has prepared a Charter which sets out the principles and rules of management for public administrations, local authorities, and public institutions. The draft charter is now in the process of finalisation, and is designed to consolidate the rule of law, to strengthen probity, transparency and impartiality in public services, and to improve the quality of public services. To prepare this draft charter, a white paper on public services was developed in collaboration with OECD experts, and laid the basis for the design of a platform, with input from ministries and governance bodies. Following the working sessions with the SGG, a revised version was submitted to the SGG (4 August 2017) (MRAFP, 2017a).

Outstanding challenges

Advanced regionalisation is in progress at the political level but additional efforts are required. The local elections of 4 September 2016 led to the formation of regional councils, which are still struggling to cope with the many challenges facing the regions: the legal and institutional arrangements are not yet complete, sufficient funds are lacking to support the development dynamics sought, the human resources needed in terms of numbers, expertise and skills are insufficient, etc.

Against this background, Morocco must pursue advanced regionalisation with the aim of reducing regional disparities. The work on further decentralisation and regionalisation will demand greater creativity and flexibility to meet legitimate aspirations for an administration that is effective and open to its environment. In this respect, the following actions are recommended:

- **Speed up the publication of laws and regulations necessary to define the provisions of the organic laws and re-examine the regulatory provision now in force in order to make it consistent with the new legal framework;**
- **Establish the organisational structures needed for the effective functioning of the local authorities, as well as the prerequisites for preparing and implementing regional development plans (databases, tools, studies, professional management bodies, monitoring, evaluation etc.);**
- **Reconsider the distribution of financial resources between the central and regional levels, and make operational the "Fonds de la qualification sociale" and the "Fonds de solidarité interrégionale";**
- **Transfer expertise and human skills to the regions.**

c. Combat corruption to ensure that the values of ethics and integrity prevail

Current situation

Notwithstanding the actions and programmes for combating corruption and the government declaration of January 2012 making it a priority to reduce social inequalities and to combat corruption, Morocco has seen its global ranking downgraded by five places in the Corruption Perceptions Index of Transparency International (2016), having dropped from 85th position in 2010 to 90th in 2015.

Table 3: Corruption Perceptions Index

Country\Score	2012	2013	2014	2015	
				Score	Rank
Malaysia	50	52	50	49	50
Jordan	45	49	53	48	57
Tunisia	41	40	38	41	75
Turkey	50	45	42	41	75
Morocco	**37**	**39**	**36**	**37**	**90**
Egypt	32	37	36	34	108

Source: Transparency International, Corruption Perceptions index, 2016

According to the national survey on corruption in Morocco, this phenomenon affects the majority of public services and is widespread wherever there is direct and frequent contact with citizens. Nevertheless, with a score of 22.4%, corruption ranks but fifth among the major concerns of the citizens surveyed, after employment and unemployment (51.9%), health (48.5%), the quality of education and training (27.8%) and housing conditions (25.2%) (ICPC, 2014).

Reform efforts

Well before the Arab Spring, Morocco had taken a number of initiatives to promote transparency and integrity. Those initiatives were reinforced in the framework of the anti-corruption programme 2005-2009, in particular through the ratification of the United Nations Convention against Corruption

(UNCAC) and the creation of the Central Office for the Prevention of Corruption (ICPC). Moreover, the law now requires a declaration of assets, and publication of the law prohibiting money laundering has been followed by establishment of the Financial Intelligence Unit (UTRF). The second programme of 2010-2012 gave rise to a series of measures, the most important of which concerned: (i) creation of the National Probity, Prevention and Anti-Corruption Office (INPPLC), which replaced the ICPC while becoming a constitutional body endowed with decision-making powers; (ii) promulgation of the law on the protection of witnesses, victims and whistle-blowers; (iii) reform of the judicial system; (iv) establishment of divisions specialised in financial crime; and (v) revision of the 2007 decree on government procurement.

Building on the lessons learned from these experiments and on successful international experience, a new strategy was adopted for 2015-2025, involving all concerned stakeholders and the public sector, the private sector and civil society. That strategy is organised as follows:

Figure 19: Content of the national anti-corruption strategy 2015-2025

1 Vision	Strengthen integrity and significantly reduce corruption by 2025				
2 Objectives	Reverse the current trend irreversibly and strengthen the confidence of citizens		Improve the integrity of business and the position of Morocco internationally		
3 Values	A society founded on integrity and ethics with the participation of all the elements of the fight against corruption	An efficient, integrated, inclusive and cooruption-free public administration, guaranteeing equity and social justice	The confidence of citizens in public administration		
4 frames of reference	Royal Directives	Provisions of the constitution	International references	Government programme	
5 principles	Adherence and participation	System and behaviour	Operational	Sustainability	International commitment
5 pillars	Governance Prevention	Repression	Communication and awareness raising	Education and training	
16 Axes	A1. Transparency and access to information	A6. Administrative procedures	A10. Regulatory and legislative framework	A14. Creation of a communication plan to support the implementation of the strategy and progress on the objectives	A15. Training of stakeholders and capacity building A16. Promotion of a culture of anti-corruption
	A2. Responsibility and accountability	A7. Tighter controls	A11. Detection / prosecution		
	A3. Institutions of governance A4. Territorial governance A5. Management of public funds	A8. Ethics and conduct A9. Civic engagement	A12. Judgement and enforcement A13. Recovery of illicitly acquired assets and		

Source: National Anti-corruption Strategy, 2015.

Table 4: Quantified objectives of the National Anti-corruption Strategy:

	2015	2025
Corruption rate	75%	45%
CPI score	36/100	60/100
% of citizens who think the situation has deteriorated	89%	20%
% of citizens dissatisfied with government efforts to combat corruption	72%	30%

Source: National Anti-corruption Strategy.

Efforts to implement this strategy are currently under way. Driven by a strong ambition and planned objectives, and backed by a new approach to governance, the deployment of this strategy will be subjected to interim evaluations, at the end of 2016 and 2020, and an overall evaluation at the end of 2025. At the same time, a website, www.stopcorruption.ma, and a freephone number have been created to give citizens the chance to contribute to the Strategy's success.

In 2017, the government created the National Anti-corruption Commission, on which civil society is not represented.[16] This commission is supposed to support the various stakeholders concerned by the general policy for combating corruption.

Outstanding challenges

The effectiveness of the 2005-2009 and 2010-2012 programmes has been limited, essentially due to the absence of a global and integrated vision, the weak assertion of ownership by stakeholders, and the absence of a participatory approach involving the public sector, the private sector, and civil society. On the operational front, these programmes have been hampered by the lack of visibility concerning the roles of participants and the steering and evaluation tools, as well as by the insufficient availability of skills and financial resources. In the absence of a strong and institutionalised commitment on the part of the system's main stakeholders, the new strategy risks failure in light of the sensitivity of the problem and the issues at hand.

As to the 2015-2025 Strategy, it was expected during the initial phase (2015-2016) that three-quarters of all the measures planned for the next 10 years would be implemented within two years, thus reflecting its ambitious nature:

[16] Decree no. 2.17.264 of 28 Ramadan 1438 (23 July 2017).

Table 5: Planned implementation of the National Anti-corruption Strategy

Programme	2015-2016	2017-2020	2021-2025	TOTAL
P1 Improve service to citizens	55	11	1	67
P2 E-government	32	11	..	43
P3 Transparency and access to information	8	..	..	8
P4 Ethics and conduct	12	7	1	20
P5 Control and accountability	24	14	1	39
P6 Reinforcing prosecution and punishment	20	5	1	26
P7 Government procurement	7	1	2	10
P8 Business integrity	1	3	..	4
P9 Communication and awareness raising	12	5	..	17
P10 Education and training	3	2	..	5
TOTAL	**174**	**59**	**6**	**239**

Source: National Anti-corruption Strategy

Implementing the projects planned for 2015-2016 encountered some start-up problems, due in part to the implementation of governance bodies, in particular the National Anti-corruption Commission (CNAC) and appointment of the President of the INPPLC, and in part to the political context in Morocco during the second half of the year 2016, (preparations for local and parliamentary elections), and at the beginning of 2017 (problems in forming a government). The first progress report has been prepared and submitted to the National Commission for adoption and will then be presented to the Head of Government.

Against this background, to the authorities should **speed up the implementation of the anti-corruption strategy, including through the appointment of the President of the body and to appoint the members of the National Commission in order to make it operational, on one hand, and the reprogramming over the next two stages the measures that were planned for the first stage, while sticking to the same time horizon.**

C. Reforming the public financial management to free up fiscal space in favour of economic effectiveness and social inclusion

The situation with Morocco's public finances is characterised by very narrow manoeuvring room, compared to the period that preceded the world financial and economic crisis. In a crisis context and a difficult international economic environment, the adoption of countercyclical fiscal policies in support of economic activity and household purchasing power had placed unprecedented pressure on expenditure, while the pace of revenue growth slowed. The result was a sharp deterioration of the government's financial situation.

In these circumstances, Morocco has had to undertake reform measures involving, on the expenditure side, the removal of subsidies on oil products, control over the public payroll, and an overhaul of the budget architecture and the instruments for its preparation and execution. On the revenue side, the measures taken have dealt essentially with reforming the tax system and modernising its administration.

a. Reform the public sector for greater effectiveness and better governance

Current situation

The field of intervention by the public sector is highly varied: productive sectors, finance, basic infrastructure, social action etc. Notwithstanding the irreversible commitment to economic liberalism and encouragement of private initiative, the weight of the public sector is still significant: 209 institutions, 44 enterprises and 462 affiliates and equity holdings. PEI investments represented 28.3% of gross fixed capital formation in 2015, and payroll costs and value added amount to 3.3% and 8% of GDP respectively.

The financial situation of most PEIs is out of balance and their return on investment is very low. Alongside a few large, modern and efficient enterprises there is a host of entities that continuously run deficits, and a long list (79) of entities that are in the process of liquidation or dissolution. Aggregate data available on the PEIs mask a highly varied reality, where 12 entities/groups alone account for 62% of investment, 69% of value added, and 72% of net earnings.

Nearly all of the PEIs are subject to ex ante oversight and their governance is marked by obvious weaknesses. Since entry into force of Law no. 69-00 on State financial control over the PEIs (2004), most of the PEIs have not succeeded in graduating to ex post supporting or specific supervision or in making all the governance bodies operational.

Reform efforts

As part of its continuing effort to reform the public sector, the first government instituted under the new Constitution made it a priority to improve governance of the sector (Government Declaration for 2012-2016).

A series of reform measures has been put into effect, primarily in the area of governance. The code of good practice in governance of the PEIs has been prepared and implemented. A circular from the Head of Government asked PEI managers to sign programme contracts with the government on the basis of multiyear work plans, and invited the oversight ministers to move toward general application of contractualisation. In operational terms, meetings of the governance bodies have been held with some regularity, especially the boards of directors. Several audit committees have also been established, and certification of the accounts has become more frequent. Around 40 PEIs have produced reports evaluating the functioning of their governance systems and the governance improvement plans adopted or in the course of adoption by their governing bodies. In another effort to improve the performance of the PEIs, a new classification of PEIs has been introduced, defining the type of control applicable to each category on the basis of specific criteria.[17]

[17] Share of capital held, level of subsidies through the budget, financial risk, management quality etc.

A draft law reforming governance and financial supervision mechanisms, now in the process of finalising, seeks to clarify the different roles of the State as strategist, shareholder, or overseer.

With regard to the management and profitability of the Government portfolio, a study was undertaken (2014) to identify the actions and tools needed to develop and put in place an active management of this portfolio. The recommendations and conclusions of this study focused on the strategy towards public shareholding, the legal framework, an initial list of PEIs to be covered by this new management and the organisational model to put in place. The various strands of the active management strategy towards the Government portfolio were set out in a draft Shareholding Charter and in a draft law on the management and profitability of the Government portfolio. At the same time, since 2016 the draft active management of the Government portfolio has been entrusted to a dedicated structure (Division) within the DEPP.

A new legal and institutional framework for Public-Private Partnerships (PPPs) has been put in place. Considering the advantages of PPPs, particularly as an alternative source of financing for large-scale projects and a means of harnessing private sector expertise and innovation capabilities, in 2015 Morocco implemented the legal framework[18] governing such partnerships (PPP), which are not new to Morocco , and a dedicated unit was created within the MEF (DEPP). A mode of governance for the monitoring and steering of PPP contracts, designed on the basis of a clear and credible institutional model, has been put in place as part of the new legal regime for the governance of PPP projects. These are the Steering Committee and the Inter-ministerial PPP Committee, which began working in December 2016. Since then, this Committee has issued opinions on evaluation reports in respect of two PPP projects.

Morocco is counting on the support of its financial partners and investors who have expressed their desire to support the country in the area of PPPs through: *i)* technical assistance with capacity-building for stakeholders; *ii)* financing of preliminary project feasibility or evaluation studies; *iii)* financial participation in PPP projects.

Initiatives have been launched to prepare the ground for PPP implementation. As the legal framework for PPPs has only recently entered into force, PPP agreements are still at a very early stage. However, the discussions and work carried out to date have identified a large number of potential projects in a variety of sectors (health, irrigation, motorways, airport logistics, etc.), for some of which preliminary studies or in-depth reviews have already been completed. Two of these studies are already at an advanced stage: the first consists in designing a strategy to introduce PPPs into the airport sector; and the second aims to identify projects that could be carried out in the form of PPPs as part of the National Water Plan. Furthermore, in the context of the industrial strategy (PNEI, then PAI), there were nearly 1,500 private centres (most of them supported by professional federations) offering training in new trades (automotive, aeronautics, renewable energy, etc.) (OECD, 2017b).

[18] Law n° 86-12 (22/1/2015) on public-private partnership contracts and Decree n° 2-15-45 (1/6/2015) regulating its application.

Outstanding challenges

Despite the undeniable efforts made and the reform measures taken in recent years, the overall effectiveness of the PEIs has clearly deteriorated since 2011:

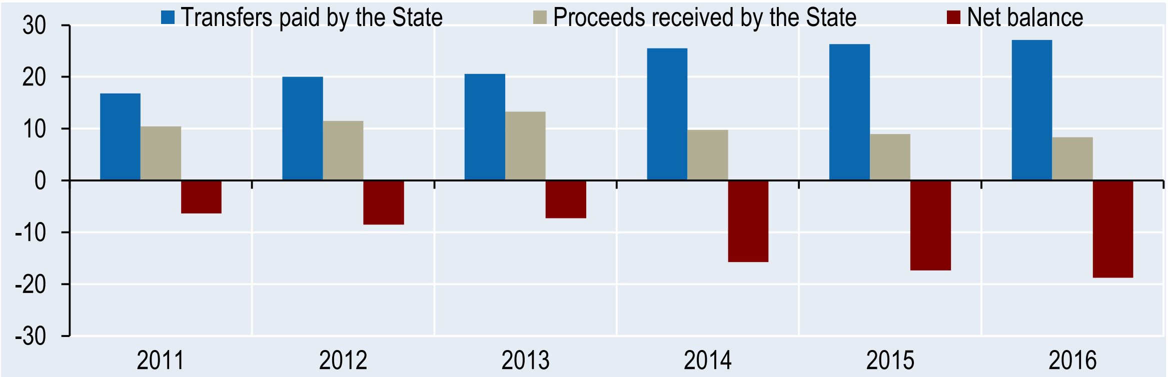
Table 6: Selected PEI financial indicators, 2011-2015

	2011	2012	2013	2014	2015
Profitability (Net return on equity) (%)	6.7	4.7	3.4	2.7	3.5
Self-financing capacity (MAD billions)	49.7	42.2	37.0	35.3	39.9
Debt (MAD billions)	158.5	174.6	185.8	214.7	242.6

Source: MEF, Annual reports on PEI.

These poor performances have led to a deterioration in the balance of "transfers paid – proceeds received" by the government, the deficit of which tripled between 2011 and 2016.

Figure 20: Net financial flows from government to PEI (MAD billions)



Source: MEF, DEPP.

It is difficult to evaluate the performance and profitability of PEI. The data available on PEI did not allow an analysis to be made by category of PEI, and the analyses by sector tend to be descriptive and do not allow enough scope for discussion of performance, the profitability of investment and the quality of services on the basis of relevant indicators. On the other hand, the data did make it possible to break down investment and net transfers by category (commercial and administrative entities, social bodies) as follows:

Table 7: Structure of PEI investments by category, 2011-2016

Net transfers from the State	2011	2012	2 013	2014	2015	2016
Commercial entities	-432 460	1 697 530	1 172 703	-1 962 404	-3 015 644	-319 903
Non-commercial entities	-9 611 486	-13 748 590	-11 536 250	-15 989 858	-18 524 990	-19 978 790
Social bodies	-359 140	-10 640	0	0	0	0
TOTAL	-10 403 086	-12 061 700	-10 363 547	-17 952 262	-21 540 634	-20 298 693

Source: MEF, DEPP.

Table 8: Net financial flows from the government to PEI by category, 2011-2016

	2011	2012	2 013	2014	2 015	2016
Commercial entities	68.6%	71.8%	78.7%	77.2%	73.3%	70.3%
Non-commercial entities	31.2%	27.9%	21.2%	22.6%	26.6%	29.6%
Social bodies	0.1%	0.3%	0.1%	0.1%	0.1%	0.1%
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: MEF, DEPP.

With respect to the profitability of the government portfolio, the legal framework makes no distinction between the functions of the State as shareholder, strategist or overseer, and the financial oversight representatives on the boards of directors do not all present the same view (CA, 2016). Moreover, the instruments that can be used, in accordance with OECD principles, to improve the profitability of the PEIs (annual strategy meetings, performance contracts for managers, performance-based pay etc.) are not sufficiently exploited, and there is little attempt to distinguish between the costs associated with their own activity and those related to their public service missions on behalf of government.

Concerning the governance of the PEIs, around 200 entities are still subject to the same type of control that prevailed years ago, with the predominance of ex ante control.

Ex ante control	Conventional control	Ongoing control	Specific control
71%	13%	9%	7%

Source: MEF, 2016f.

Against this background, the law on financial supervision now needs to be reformed as a matter of urgency in order to clarify the roles of government, to push the PEIs, to use modern management tools systematically, and to require that, in their ongoing performance, they respect the requirements of the market and the standards of good governance. In addition, it is important to:

- ***Review the policy governing State transfers to the PEIs according to the categories of PEI and objectives targeted, and by establishing specifications;***
- **Clean up the portfolio and disengage the State from loss-making shareholdings and activities that can be provided by the private sector;**
- **Consolidate the process of reform already launched in the area of PEI governance, and consider the creation of an agency responsible for managing the government portfolio.**
- **Encourage the use of PPPs for large-scale projects and the management of networked public services in order to foster the development of PPPs and accelerate the pace of project initiation as well as their implementation while optimising value for money.**

b. Reform the fiscal framework and adopt results-based budgeting

Establish a fiscal framework based on a project-based approach, transparency and performance

Current situation

The initial legal framework of the organic budget law dating back to 1967, which has been subsequently amended and completed, has been overtaken by circumstances. The amendments made previously did not deal with the substance, and on-the-ground realities have for years argued in favour of adopting international standards and good practices.

On the expenditure side, payroll and compensation costs absorb the bulk of operating expenses. The overall reform of civil service management is running behind schedule, and compensation is still “wide open” and paid indiscriminately. Payroll costs in fact constitute the leading item of expenditure, accounting for more than half (56% in 2016) of tax revenues, and 10.5% of GDP (MEF, 2017b). Increases in civil servants’ salaries and regularisation of their administrative situation (in the context of the social dialogue accord concluded in 2011 between the government and the social partners) have boosted the weight of this category of expenditure within the government budget.

Reform efforts

The efforts made in 2013-2014 to restore fiscal balance involved preparation of the new budget management framework, and the adoption in 2015 of the new organic budget law (LOF),[19] which is to be implemented over five years starting in January 2016. A decree[20] was then published, specifying procedures for budget management and the submission of projects and performance reports. The new rules issued by the LOF, which seek to improve the effectiveness of public spending, relate primarily to: (i) a prohibition on including personnel and material expenses in the investment chapter; (ii) creation of a chapter on “reimbursement, tax relief and tax refunds” in order to respect the gross nature of tax revenues; (iii) the ceilings on loans to personnel (in force as of 2017);[21] (iv) the possibility of reallocating personnel between ministries in order to meet needs without new recruitment; (v) covering other budgetary elements, namely the Special Treasury Accounts (CST) and the Autonomously Managed Government Services (SEGMA); and (vi) introduction of a monitoring and evaluation system.

The LOF was prepared according to a pragmatic approach that involved design, development and experimentation, prior to adoption of the law, of the new benchmarks and rules. Thus, during the “pre-figuration” operations, the ministries concerned were to test, within their programmes, the structuring of the budget, the performance approach, and the sliding three-year programming initiative. At the same time, a mechanism for sharing experience and good practices was introduced through awareness sessions and training led by a dedicated unit of the Budget Directorate of the MEF. To ensure broad communication on the various aspects of this reform, a website was created (lof.finances.gov.ma).

[19] Law n° 130-13 on the budget law, promulgated by Dahir n° 1-15-62 (2 June 2015).
[20] Decree n° 2-15-426 (15 July 2015) on preparation and execution of the budget law.
[21] An interministerial committee for payroll forecasting was created by circular from the Head of Government (12 October 2015).

Thanks to the efforts made during the processes of preparation, awareness raising and appropriation, the LOF was launched[22] smoothly, with provisions for support measures and risk management (OECD, 2016a).

Actions are under way to improve the effectiveness of investment spending. Within the framework of the LOF, the priority was given to (i) prohibiting payroll costs from being programmed in the SEGMA budgets, (ii) clearing postponed appropriations for projects under way or covered by financing agreements, and (iii) prohibiting operating expenses from being charged to the investment budget. To this end, a structure (a branch of the Budget Directorate, MEF) has been created to i) implement a normative framework and common project assessment criteria, ii) assess projects and the relevance of the envisaged method of contractualisation (procurement contract, PPP, etc.), iii) propose trade-offs between projects, iv) manage a project database and monitor the selected projects.. All of these actions will result in the creation of a new public investment project management (PIMA) system.

As to payroll expenses, the government has tried to limit their impact on the State budget. Indeed, it has made the ceilings laid down in budget appropriations binding for departments, limited the creation of positions to the most essential needs of the administration, not filled positions vacated by retirement (with the exception of special categories), eliminated unused positions, and strengthened the intra- and inter-ministerial mobility of civil servants.

Outstanding challenges

Payroll expenses still constitute a sizable constraint and, despite the measures taken, they rose between 2011 and 2016 by 3.7% annually on average, whereas other expenses rose by only 1.6%, and revenues by 1.5%. ***The eform of the general civil service framework, including and the pay system should be finalised***. Extension to all ministries of rigorous personnel expenditure management, based on capped appropriations, would serve to keep the government payroll within tolerable proportions. This year's authorisation (2017) of hiring on fixed-term contracts is an important step in the direction of rationalising these expenses. It should be supplemented by the introduction of performance-based pay, with a fixed portion and a variable portion.

As to investment expenditures, the government should ***continue to work on the implementation of a new project management system based on international best practices.***

Pursue subsidy reform, based on better targeting for social inclusion

Current situation

As they are not specifically targeted at disadvantaged groups, subsidies represent a heavy fiscal burden for the government, and tend to benefit the rich rather than the poor. According to the HCP, the wealthiest 20% of households have enjoyed 30% of price subsidies for foodstuffs and butane, compared to 13% for the poorest household quintile (HCP, 2017a).

[22] Circular No. 06/2016 (23 May 2016) from the Head of Government

On the economic front, subsidies tend to distort true prices and to remove the subsidised sectors from the scope of free initiative and competition.

Reform efforts

The government has since 2012 been pursuing progressive reforms of subsidies for oil products, in the following sequence:

- In June 2012, higher oil prices were partially reflected in the price of sales to the public for certain energy products (gasoline, diesel and heating oil);
- In mid-September 2013, a system of partial indexing for oil products was instituted, placing a budgetary ceiling on price subsidies for gasoline, diesel and heating oil and bringing final prices closer to those on the international market;
- In January 2014, premium gasoline and fuel oil for industrial use were fully indexed;
- Budgetary support was provided to the ONEE (National Electricity and Water Office) under the 2014-2017 programme contract, as a counterpart to indexation of fuel oil used for electricity production;
- The diesel subsidy was progressively eliminated, and it was fully indexed in December 2015 (MEF, 2017d).

Together with implementation of the indexing system, an agreement setting fuel prices was signed in December 2014 between the government and sector operators, for the transitional period running from 1 January to 30 November 2015. The objectives of this agreement are (i) during the transitional period, to help operators determine the prices of liquid fuels; (ii) to promote healthy competition; (iii) to guarantee security of supply; (iv) to respect regulations governing quality and buffer stocks; and (v) to support their investment programmes.

The reforms adopted have expanded fiscal room for financing the social policies launched in recent years, the goals of which are to preserve social cohesion and promote the social sectors with a view to improving people's living conditions. These goals have been consolidated by the sustained increase in appropriations for the social sectors, which rose from 50.3% in 2011 to 55.7% in 2015. Several social development programmes and activities have thus been introduced:

- Stronger social support to education through the "*Tayssir*" conditional cash transfer programme, the "million schoolbags" Royal Initiative, school transportation and the creation of dormitories and canteens;
- Expanded social protection through basic medical coverage (AMO, RAMED, students, social coverage plan for independent workers), and retirement pension reform;
- Social assistance targeting vulnerable areas and needy groups to combat poverty and social exclusion (INDH, social cohesion fund, family assistance fund, etc.);
- Rehabilitation of basic local infrastructure to combat territorial and social disparities (rural and mountainous zones development fund).

Implementation of the system for indexing oil product prices, which has been favoured by falling oil prices on the international market, has allowed:

– Substantial expenditure savings: the subsidy cost has been brought down from MAD 54.9 billion in 2012 to MAD 14.1 billion in 2016;

– Gradual clearance of accumulated payment arrears;

– The closure, in February 2015, of the liquid oil product price adjustment account (MEF, 2017d).

The cumulative fiscal impact of these measures was to lower pressures on the government budget. Thus, the subsidy cost, which peaked at 6.4% of GDP in 2012, was brought down to 1.4% of GDP in 2016. On the economic front, the end of subsidisation has resulted in liberalising the sector and opening it to competition.

Outstanding challenges

Subsidies, which still cover to butane gas, sugar and domestic soft wheat flour, are provided to all comers and are only partially fulfilling the objectives for which they were created, namely to support the purchasing power of disadvantaged groups. In the particular case of butane, in addition to its fiscal burden (1% of GDP), the subsidy tends to undermine the renewable energy strategy preconditions of which are to verify the prices of competing energy products and to grant subsidies for clean energy equipment. Nor is it consistent with other targeted social policies such as RAMED, INDH and Tayssir (see Pillar I, point B).

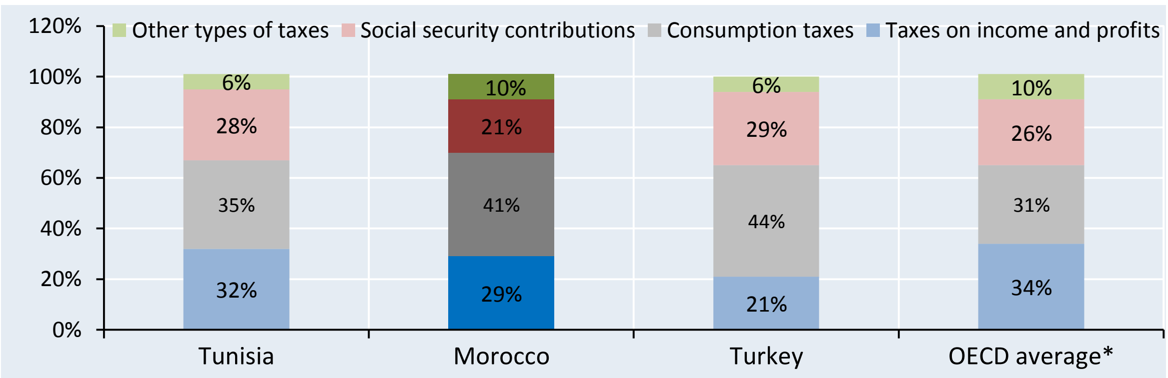
Taking these elements into consideration, **Morocco needs to complete its reform of the subsidy system, using an integrated approach based on clearly defined eligibility criteria, and to accompany it with liberalisation of the production and marketing of the products in question.**

c. Pursue tax system and tax administration reform for greater effectiveness and fairness

Current situation

The structure of Morocco's tax system differs somewhat from the norm in OECD countries, in that the relative share of taxes on factor income is low, while that of consumption taxes is higher.

Figure 21: Comparative structure of tax revenues (2014)



Source: OECD/ATAF/AUC, 2016.
Note: 2013 data for the OECD.

Following an in-depth reform in the second half of the 1980s, the Moroccan tax system reveals a balanced distribution between direct taxes and indirect taxes.

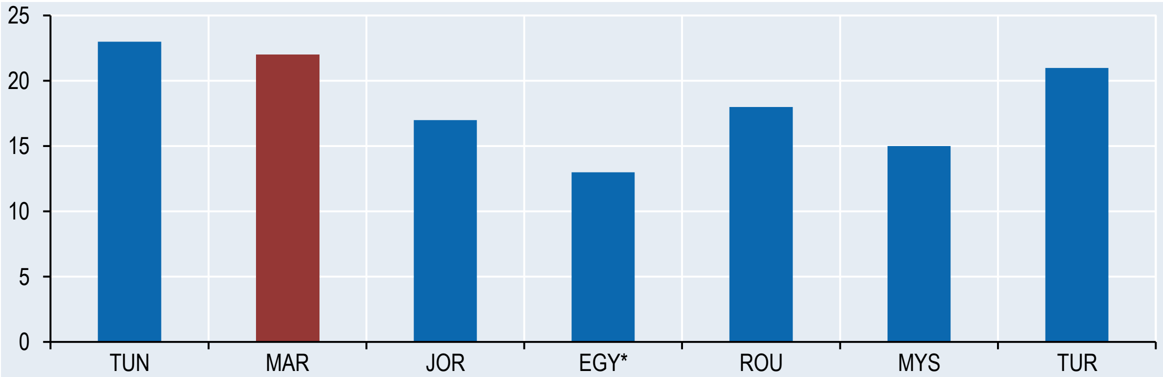
Table 9: Structure of tax revenues in Morocco (2016, % of GDP)

Direct taxes		**Indirect taxes**		**Registration and stamp taxes**	**Customs duties**	**TOTAL**
44.7 of which		**41.8**		**8.7**	**4.8**	**100.0**
CT	IT	VAT	DCT(*)			
22.8	20.4	28.0	13.8			

Source: MEF, 2017b.
(*) DCT: excise taxes (domestic consumption taxes)

Although it is slightly higher than in comparable countries, tax pressure remains within tolerable proportions (21% in 2016), but the fact that it is calculated on a narrow base poses the problem of tax fairness and consideration of taxpayers' ability to pay.

Figure 22: Tax revenues in Morocco and in comparable countries (% of GDP, 2014)



Note: Tax revenues, excluding fines, penalties and most social contributions; 2012 data for Egypt, Government Finance Statistics Yearbook and IMF reports for Jordan, Malaysia, Morocco and Tunisia.

Source: OECD/ATAF/AUC, 2016.

Reform efforts

There is an ongoing programme to reform the tax system. As for previous years, the budget laws for 2011-2016 have been used to introduce fiscal measures in support of public policies. At the same time, the second session of the National Tax Conference was held in April 2013, with a view to adapting existing arrangements to changes in the national and international environment. This second session focused on five themes: (a) taxation and fairness, (b) competitiveness, (c) partnership and taxpayer relations, (d) fraud and informality, and (e) regionalisation and local development. It again gave rise to a series of recommendations, most of which have been put into effect.

The most notable reform measures, by type of tax, are the following:

- For the corporation tax (CT), a rate of 15% was instituted by the 2012 budget law for companies with sales of MAD 3 million or less). That rate was cut in the next year to 10% for sales of < MAD 0.2 million. In 2016, a progressive scale was adopted to take into account the tax paying capacity of nonfinancial corporations;[23]

Table 10: Corporation tax rates

Profit range	Rate
NP (net profit) < MAD 300,000	10%
300,000 > NP < MAD 1,000,000	20%
1,000,001 > NP < MAD 5,000,000	30%
NP > MAD 5,000,000	31%

- When it comes to taxation of the agricultural sector, this has been introduced in stages: the first stage applies taxation to large companies (turnover of MAD 500 million or more) as of 2017. For the income tax (IT), the monthly gross salary capped at MAD 10,000 paid by a company for any job created between 1 January 2015 and 31 December 2019 is exempt for 24 months, under the Idmaj and Tahfis programmes.

- For value-added tax (VAT), the tax base has been amended several times, bringing it in the end to two rates, 10% and 20%, thus keeping it within acceptable bounds and gradually making it neutral in terms of investment, while generalising reimbursement of the VAT on capital goods acquired by businesses. In addition, the status of exporter has been expanded to suppliers of exporting firms, and agricultural products for industrial transformation have been included within the scope of the VAT, thereby compensating for the problem that VAT paid upstream is not deductible.

- Registration and stamp taxes have been greatly simplified, and the employer share of social contributions owed by businesses to the National Social Security Fund (CNSS) for contracts concluded under the Idmaj and Tarfis programmes are covered by the State for 24 months, in the same way as the vocational training tax (see Pillar III, point C).

Measures to harmonise domestic tax law have been taken in order to converge toward OECD rules and standards. In this sense, Morocco received support from the World Bank (two components) and from the OECD (one component) in the context of the Improving Connectivity in the Maghreb project, financed by the Deauville Partnership MENA Transition Fund. The actions led by the OECD[24], relate to three themes: (i) assistance in implementing international standards on tax transparency and information exchange, (ii) combating BEPS,[25] and (iii) government revenue statistics, and they have produced some significant results.

[23] Credit institutions and similar organisations, Bank Al Maghrib, the Deposit and Management Fund (*Caisse de dépôt et de gestion*), insurance and reinsurance companies remain taxable at the rate of 37%.

[24] The first two components are implemented by the World Bank and have to do with improving information sharing and promoting cross-border cooperation with respect to trade, and facilitating trade by improving the institutional and regulatory climate for businesses.

[25] Base Erosion and Profit Shifting.

The Moroccan legal framework governing transparency and the exchange of information for tax purposes was judged "essentially compliant" in the peer review of November 2016. Since that time, Morocco has participated in the joint OECD/ ATA/AUC publication on Revenue Statistics in Africa, which allows international comparisons, and provides guidance for deciding and evaluating reform programmes. This project has been extended to August 2019 in order to allow time to complete all the planned activities.

To ensure a proper implementation of the tax system and win the confidence of taxpayers, reforms have also sought to improve the functioning of the tax administration and its relationships with its partners. In functional terms, an information system has been developed for rational programming of audits, uniform interpretation of tax laws (tax jurisprudence), faster settlement of disputes and reimbursement of VAT credit arrears. In addition, a protocol for sharing data on the tax base between the General Directorate of Taxation (DGI), the Customs and Indirect Tax Administration (ADII) and the CNSS has been signed.

In terms of taxpayer relations, the main measures taken have concerned expanded and recurrent communication on taxpayer rights and obligations, the improvement of conditions for the conduct of tax audits, and the categorisation of businesses. More recently, the DGI has accelerated the process of dematerialising procedures so as to cover all taxpayers by the end of 2017, and in 2016 it required electronic filing by companies with a turnover of more than MAD 10 million. At the beginning of this year, electronic filing and payment were generalised to all taxpayers subject to the real net earnings and simplified net earnings regimes.

Outstanding challenges

Morocco's tax system still suffers from a number of inadequacies and distortions that reduce its effectiveness and its fairness (ESEC, 2012). With respect to the goal of the initial reform, which was to put in place a modern, consistent and efficient system, the current system is indeed modern, but its consistency and its effectiveness are not yet fully proven, despite measures to reduce rates and harmonise tax bases, and notwithstanding implementation of the majority of the recommendations made during the first tax conference organised in 1999, and a portion of the recommendations from the 2013 conference. This is due in particular to the plethora of rates applied under the corporate tax, and the concentration of corporate and income taxed revenues on a reduced set of taxpayers[26]. It is important to **further pursue the reform of the tax system in order to improve its effectiveness and its fairness.** Moreover, in the context of improving taxpayers, it will be important to **define the assessment powers and limit the discretion of the tax administration, particularly with respect to audits, and to publish the operating procedures and modalities of the Local Tax Commissions and the National Tax Appeals Commission.**

Tax exemptions make the tax system more complicated. In fact, exemption provisions change the transparency of taxation and can produce high management costs both for users and for the tax administration. 305 of the 407 exemption measures assessed represent foregone revenue of MAD 32.4 billion (MEF, 2017d) or four fifths of the overall deficit for 2016. And while the budgetary impact

[26] 2% of companies account for 80% of corporate tax revenues, and 10 public enterprises contribute 87% of revenues paid by the PEIs. With the income tax, the portion withheld from salaries at source represents 70% of the total, that for occupational incomes (on declaration) 11%, the tax on real estate profits 5.4%, and the tax on securities 7.5% (ESEC, 2012; Moroccan Association of Economic Sciences (ASME), Meryem CHIADMI, working paper 2013-114.

of these exemption measures has been estimated, their economic impact has not yet been established. To offset their fiscal impact and to maximise their economic impact, especially in terms of creating value-added and jobs, **these measures should be made conditional upon the achievement of defined objectives, the formalisation of commitments made, and their limitation over time or, as the case may be, their replacement by direct budgetary transfers.**

The government should continue to make progress on international co-operation on tax matters. To this end, it could **carry out the preparatory work needed for signature of the Multilateral Convention** to implement tax-treaty related measures to prevent BEPS (examination of tax conventions is ongoing) and it should **design and implement an effective framework for handling transfer pricing and other risks associated with BEPS.**

PILLAR III. BUILDING AN ATTRACTIVE ENVIRONMENT FOR INVESTMENT AND PRIVATE SECTOR DEVELOPMENT

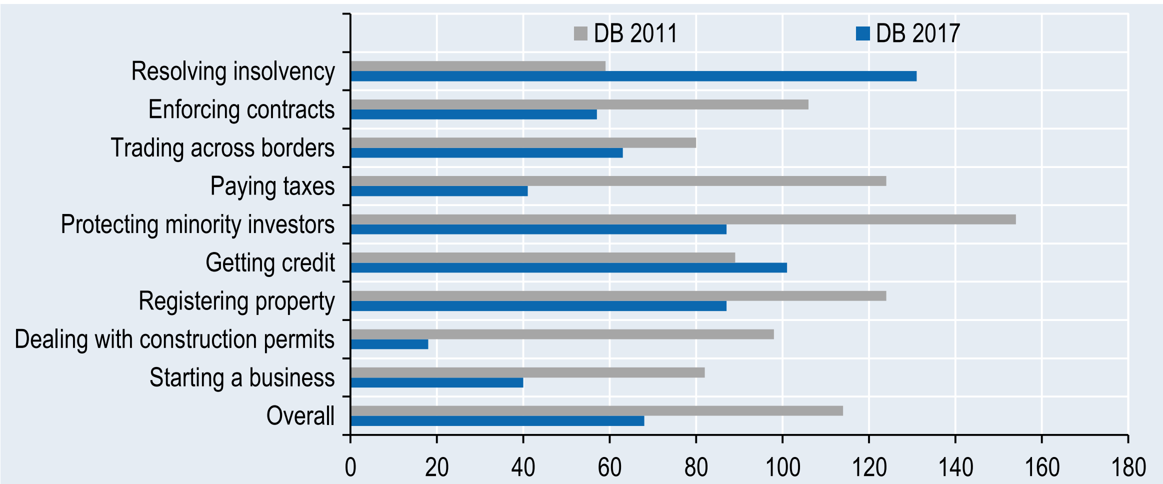
This pillar is devoted to analysing the main constraints on private sector development, primarily in the area of governance, so that the sector can play its full role as the engine of strong, sustainable and inclusive growth. This review will focus on the legal, institutional and operational environment in which the Moroccan private sector must thrive. Special attention is paid to the policies and reforms undertaken by Morocco to improve the business climate, especially for the development of SMEs and industrial activities. To place Morocco on the road to emergence, the problems relating to financing and human capital are examined with a view to suggesting ways of improvement.

A. Address constraints to private sector development to expand business opportunities and exploit the potential for growth

Current situation

Improving the business climate constitutes a major government priorities. In recent years, Morocco has launched an ambitious programme of modernisation and reforms, in partnership with the private sector, with a view to instituting a framework favourable to private initiative and free enterprise. Under the impulse of reforms and wide-ranging strategies, Morocco has enhanced its attractiveness and boosted its international competitiveness ranking (WB, 2017a; WEF, 2016). According to the regulatory indicator of the World Bank's "Doing Business" publication, Morocco has gained 46 places in the worldwide ranking between 2011 and 2017, moving from 114th to 68th place among 190 countries: it ranks first in North Africa, third on the African continent, and fourth in the MENA region (WB, 2017a). The Global Competitiveness Report of the World Economic Forum (WEF) 2016-2017 ranks Morocco 70th among 130 countries, for an improvement of two positions over the previous edition. Morocco is the leader in the Maghreb region, and ranks fourth in Africa, behind Mauritius, South Africa and Botswana (WEF, 2017).

Figure 23: Morocco's ranking among 190 countries, by area, in 2016 and 2011



Source: WB, 2011, 2017a

Different reports attest to the significant efforts made by Morocco in the areas of political stability, the macroeconomic framework, the openness of the economy, and external trade. However, this progress does not conceal the areas identified in these reports as constituting weaknesses for Morocco. The most important and most recurrent ones have to do with justice, the labour market, corruption, research and development, and the quality of the education and vocational training system (OECD, 2017b; WB, 2017c). This progress, together with the quality of infrastructure and the modernisation of the financial market, has significantly strengthened the attractiveness of the Moroccan economy, as demonstrated by the flows of foreign direct investment (FDI) into Morocco, which went from MAD 26 billion in 2009 to around 40 billion in 2015, before falling back to 33 billion in 2016 (OC, 2017).

The private investment effort is being consolidated. In May 2017, the Investment Commission validated 51 proposed investment agreements and codicils to investment contracts signed for an overall amount of MAD 67 billion. These undertakings should allow the creation of 6,477 direct jobs (Head of Government, Press Conference, 2017).[27]

Yet efforts are still needed to improve Morocco's position in key areas. This is particularly the case in the areas of the Doing Business report concerning getting credit (where Morocco ranks 101st in 2017 versus 89th in 2011), protecting minority investors (87th) and resolving insolvency (131st) (WB, 2017a). The WEF report indicates, moreover, that Morocco falls far short of best practices and is penalised by weaknesses in the labour market (ranking 124th) and higher education and training (104th). Other aspects also reveal weak indices such as trade freedom, monetary freedom, transparency, business freedom, innovation, and the public debt (WEF, 2016). The WEF has highlighted some areas where Morocco could improve, namely higher education, access to financing, red tape, inadequate innovation, and corruption.

Reform efforts

Morocco has made considerable efforts to establish an enabling legal and institutional framework and adequate incentives to encourage investment, namely through:

- Strengthening business law, with the issuance of several texts: the law on competition and price freedom, the law on "economic interest groups", the law on industrial and intellectual property, adoption of the law on public-private partnership, the reform of book V of the Code of Civil Procedure, etc.;
- Simplifying administrative procedures for businesses: adoption of a new law on corporations (SAs), reform of the limited liability company (SARL) law, introduction of the Common Business Identifier, etc.;
- Stronger protection for minority investors through an amendment to the Corporations law: implementation of several value-added services by the Moroccan credit bureau, "Creditinfo"; reduced processing times for property transfers; facilitation of external trade and complete

[27] http://www.mapexpress.ma/actualite/activite-gouvernementale/la-commission-des-investissements-approuve-51-projets-dinvestissements-pour-un-montant-global-de-67-mmdh/
http://www.mapexpress.ma/actualite/activite-gouvernementale/la-commission-des-investissements-approuve-51-projets-dinvestissements-pour-un-montant-global-de-67-mmdh/

dematerialisation of the process of submitting information for obtaining a building license (CNEA, 2017);

- Creation of the National Committee on the Business Climate (CNEA) (Pillar IV, point B), the National Office on Probity, Prevention and Combating Corruption (IPPLC), and strengthening of several offices: the Moroccan Office of Intellectual and Commercial Property (OMPIC), the Regional Investment Centres (CRI), etc.

The investment framework in Morocco has recently been strengthened with the introduction of a new reform plan designed to replace the old 1995 investment charter with a new Charter based on a more dynamic and responsive approach to the investment environment. Among the new elements that this new charter would introduce are: a zero tax rate for manufacturing start-ups during their first five years; the development of at least one free zone for each region: the granting of free zone status to large-scale exporting industries that meet certain conditions and are not now operating within such zones; the granting of indirect exporter status to subcontractors; the introduction of various forms of support for the more disadvantaged regions in order to encourage industrial investment and promote balanced territorial development.

An institutional transformation is also under way. In a move to consolidate the coordination of operations and rationalise human and financial resources in terms of attracting foreign direct investment and promoting exports, the activities of three promotion agencies were merged in August 2017: the Moroccan Agency for Investment Development (AMDI), "Maroc Export", and the Casablanca Office of Fairs and Expositions (OFEC) have now been rolled into a single agency under the name Moroccan Agency for Investment and Export Development (AMDIE).[28]

Recognising the role and the fundamental contribution of digitisation, the government has adopted a law creating the Agency for Development of the Digital Economy (ADEN),[29] which was published in the Official Gazette in September 2017. That agency is tasked with implementing the digital strategy, encouraging the use of digital tools, and offering dematerialised administrative services to businesses and citizens, as well as consolidating Morocco's position as the primary digital hub in Africa. With respect to the "e-Gov" project, 71 online services are now operational (16 in the course of generalisation) and eight other services are under preparation (MRAFP, 2017c; OECD, 2016b).

Outstanding challenges

Although the business climate has improved significantly in recent years, there are still some deficiencies that weigh upon Moroccan entrepreneurs. The conclusions of international organisations (OECD, WB, IMF, AfDB) stress that the business climate in Morocco is still subject to constraints that disadvantage SMEs. Reforms are therefore essential, especially to lighten the burden of red tape, to enhance transparency, and to make the judicial system more effective (OECD, 2017b; WB, 2017c). For this purpose, it would be important to **develop a global strategy for the business environment by strengthening public-private dialogue and deepening the regional approach**, as well as by **further strengthening e-government tools** (automated commercial courts, regulations online portal, etc.).

[28] Draft law no. 60-15.
[29] Law no. 61-16.

The authorities should make the operationalisation of the institutional competition framework a priority and enhance the investigative bodies in this area. Law no. 20-13 has been adopted, giving the Competition Council real decision-making powers in combating anticompetitive practices and controlling operations of economic concentration. That law is not yet operational, however, as the president and the members of the Council have not been appointed**.** It is therefore essential to **operationalise the legal framework governing competition and to address problems relating to the competitive functioning of markets,** in particular by appointing the President and members of the Council.

It is also important to **introduce rules of the game that creating a competitive environment for forms by addressing various cross-cutting problems**: combating rent seeking, enhancing transparency in the award of subsidies and other government incentives, facilitating access for all operators to the economic information held by the authorities, and encouraging private sector participation in the preparation and evaluation of public policies (WB, 2017c).

At the same time, the government should complete the ongoing reforms to modernise the legal framework of businesses, in particular with regard to insolvency and guaranteed operations. In order to support business activity in difficult times and to avoid restructurings and liquidations as far as possible, measures should be introduced to lighten the pressure on businesses in difficulty, and a prevention system should be instituted in line with good international practices. ***The legal framework should make prevention a priority and should migrate from a focus on penalties to a focus on support***, by establishing a business continuity plan that will favour compromise solutions with the various stakeholders, in particular suppliers, lenders and employees.

With regard to the legal and institutional framework for investment, it is important to step up the pace of reform. The Investment Charter is outdated and has been overtaken by the changes that have marked the business world. ***Steps should therefore be taken to speed the adoption of a new investment charter that will address the new demands of development.*** At the institutional level, and in order to harmonise Morocco's promotion strategy and optimise use of resources, ***a single agency should be established for promoting the "Morocco" label around the world,*** in conjunction with implementation of the "Vision Maroc 2030", thereby ***merging the existing promotion bodies*** (ONMT, Maison de l'Artisan, EACCE) ***with the AMDIE.***

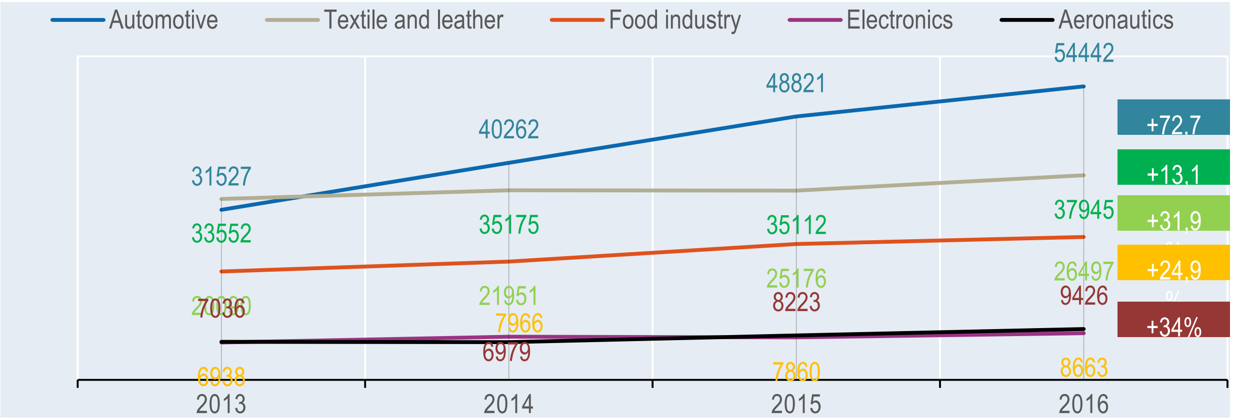
B. Developing a modern and competitive industrial base for economic emergence

Current situation

The Moroccan industrial sector is experiencing a real boom. Morocco's commitment to new global business lines (*nouveaux métiers mondiaux du Maroc*, MMM) in recent years has led to significant development of new industrial specialisations, modernisation of the productive base, and gradual integration into global value chains. Morocco improved its ranking under the Competitive Industrial Performance (CIP) Index by seven places between 2009 and 2015, jumping from 71st to 64th position among 144 countries[30] (UNIDO, 2016).

[30] The Competitive Industrial Performance Index of UNIDO covers four components: degree of industrialisation, capacity to

Figure 24: Value added in exports of new global business lines (Variation 2013-2016)



Source: Office des changes, Moroccan Ministry of Industry.

The upsurge of these activities has reshaped the map of Moroccan exports. Since 2014, the automotive industry has become the leading export sector, ahead of phosphates and derivatives. With an annual growth rate of 20%, the automotive sector has seen its share in the structure of industrial exports rise to 28% in 2016, from 9% in 2005.

According to the International Organisation of Motor Vehicle Manufacturers (OICA), Morocco is now the second-biggest automobile producer in Africa, after South Africa (OICA, 2017). The year 2016 also set a new record for the country's aeronautics exports, which were up by 12% from 2015.

The medium- and high-tech content of Morocco's industrial exports has been enriched: the share of technology-intensive exports in total exports has risen steadily, from 29% in 2006 to 51% in 2015, and is converging towards the global average of 56% (OECD, 2017a).

These changes have had significant and positive impacts on the profile of industrial employment. The skilled and highly-skilled job categories rose over the period 2008-2016 by 11% in the automotive industry and by 10% in aeronautics, to 92,500 and 12,000 jobs respectively (MCIEN).

The industrial strategy has attracted some powerful foreign investors, such as the French groups Renault and PSA Peugeot Citroen. The former, installed in Tangiers since 2012, has achieved a production capacity of 600,000 units per year. The latter, located in Kenitra, has an annual production capacity of 200,000 units, which it expects to raise to 1 million by 2020. The textiles and clothing industry has been recovering over the years. Its performance in 2016 exceeded that of a normal year, and it ranked second in exports to the European market: the sector exported MAD 34 billion, taking advantage of a favourable euro/dollar exchange rate and the beginnings of a decline in orders from Egypt, Tunisia and Turkey (AMITH, 2016). Overall, FDI in manufacturing has totalled more than MAD 52 billion, following average annual growth of 20% over the period 2010-2016, and it now ranks second (23%) after real estate (28%).

export manufactured goods, intensity of industrialisation, and quality of exports.

Despite the progress achieved since the launch of the Industrial Acceleration Plan, transformation of the industrial production base remains modest OECD, 2017b) and has not yet succeeded in positioning Morocco's industrial production fabric as an indispensable vector of a more inclusive, sustainable and equitable growth model (MEF, 2016b). Industrial dynamics are running at two speeds: on one hand, a major surge in new business lines and, on the other hand, a loss of impetus in the traditional sectors (WB, 2017c; MEF, 2016b).

Reform efforts

A far-reaching industrial development plan has been in place since 2009. As an extension of the National Pact for Industrial Emergence 2009-2015 (PNEI), Morocco has introduced the Industrial Acceleration Plan 2014-2020 (PAI) in order to give a boost to modernisation of the industrial production fabric, to consolidate relations among large businesses and local SMEs, and to ensure better integration into the global industrial value chain. The industrial strategy has to date achieved 89% of the objectives of the Industrial Acceleration Plan, with exports worth MAD 144 billion. Since its launch, the PAI has been expanded to cover most branches of industry. Thus, 47 ecosystems have been established in 13 sectors, securing 173,000 jobs, existing or in the course of creation, in the framework of contractualised investment projects

To overcome the constraints of access to land, measures have been taken to establish integrated industrial platforms. These real estate initiatives have been accompanied by provisions for targeted training, tax incentives, subsidies and advantageous financing, and when it comes to financial support an Industrial Development Fund has been established, with a capitalisation of MAD 20 billion. Of this amount, at the end of 2016, the State financial commitment vis-à-vis that of the profession in terms of performance contracts stood at MAD 13.7 billion.

Moreover, in the context of Compact II, financed by the Millennium Challenge Corporation (MCC), a project concerning industrial land has been developed and will be implemented over a period of five years, starting in July 2017. This project consists of building industrial parks according to a new model, based on PPP, on land leasing, and on a geographic information system (GIS). The project, which will be put through an initial pilot experiment before being generalised, is intended to rehabilitate existing industrial spaces by upgrading facilities and instituting participatory management involving all local industrialists and the pooling of dedicated equipment so as to allow the industrialists to devote themselves full-time to their activities.

The government is working to increase gradually the degree of industrial integration of local players in different sectors. With Renault, Morocco hopes to bring the domestic content ratio ("integration rate") for every vehicle assembled in Morocco to 65% by 2020, versus 40% at present. Under the PSA project, the integration rate will be 60% as of the date of start-up (planned for 2019) and will reach 85% in 2023, according to the agreement concluded in June 2015. Similarly, the aeronautics sector is aiming for a domestic content ratio of 35%, which will have a positive impact on the structure of Morocco's trade balance. Along with the automotive sector, the aeronautics sector has witness the arrival of a large number of groups, such as Bombardier, EADS, Safran and, more recently, Boeing. Aeronautics represents a leading-edge ecosystem underpinning Morocco's new industrial strategy. Nine contracts have been signed for several investment projects entailing the creation of 1,310 stable jobs, and a protocol of agreement was signed in September 2016 to create an ecosystem for Boeing, which should generate additional export sales of MAD 1 billion, the establishment of 120 Boeing suppliers, and the creation of 8,700 new specialised jobs.[31] In the textiles and clothing industry, 6 ecosystems and 124 agreements have been negotiated to reinforce Morocco's position in global value chains and to conquer additional market share. In the food industry, Morocco has signed a programme-contract 2017-2021 to add value to agricultural products by speeding integration between the upstream (agricultural production) and downstream (industrial processing) aspects. Finally, three performance contracts have been negotiated for the launch of two new ecosystems, in green chemistry and organic chemistry, and these should result in the creation of 12,430 direct stable jobs and 20,570 indirect jobs, and additional export sales of MAD 9.8 billion.

Outstanding challenges

Notwithstanding recent dynamics and the remarkable changes that have taken place these last years, additional efforts are required. Indeed, the process of industrialising the Moroccan economy has not yet reached critical scale and the degree of sophistication that would allow it to play its role as the true engine of growth and employment, with spill-over effects to the rest of the economy (WB, 2017c; ESEC, 2017).

There are still constraints, especially in terms of product and market diversification, the upgrading of human capital, integration and quality enhancement (MEF, 2016b). Efforts should therefore be redoubled, and focused on:

- **Integrating the local productive fabric, in particular the SMEs, into the industrial process.**
- **Promoting competition and the orientation of human capital formation to respond to market demands.**
- **Making industrial policy consistent and convergent with other key public policies (housing, transportation, innovation, infrastructure, R&D, etc.).**
- **Regular monitoring of implementation plans in order to make timely and necessary readjustments, and to evaluate outcomes with a view to the efficient allocation of resources.**
- **Overcoming the obstacles to modernisation of the industrial sector, and enhancing the competitiveness of traditional sectors such as textiles and clothing.**
- **Highlighting the territorial dimension in order to exploit the potential of the regions and satisfy their needs, particularly in terms of basic infrastructure and human capital.**
- **Speeding adoption of the new Investment Charter, especially with respect to actions and measures to support investment in the disadvantaged regions.**

[31] https://lnt.ma/le-maroc-frappe-fort-en-accueillant-lecosysteme-boeing/

C. Promoting SME development to move them up the value chains

Current situation

SMEs carry an important weight in the Moroccan economy: they account for 93% of active businesses, more than 38% of GDP, and 46% of total employment (BAM, 2017), 50% of investments, 30% of exports (AfDB-GoM-MCC, 2015) and 37% of bank lending (OECD, 2017b, OMPIC, 2017). The Moroccan authorities have always paid particular attention to this category of businesses, and have put in place mechanisms and programmes of technical and financial support in order to remedy the weaknesses of this broad productive fabric. Yet while they have achieved a survival rate of 62% five years after their creation, SMEs have not been able to grow in size (OECD, 2017b).

Moroccan SMEs are fragile in several respects, in particular the weakness of their human and financial resources and their access to markets and to bank financing. Analyses of SMEs in Morocco reveal a mosaic of SME categories that differ greatly from one to another in terms of their capital, their (predominantly family-based) structure, their level of organisation, their production processes, their innovation capacities, and their development perspective.

Reform efforts

SMEs have benefited from improvements in the business climate. In order to remove the obstacles to SME development, Morocco has undertaken a range of actions and measures. In the context of the Deauville Partnership, an action plan has been drawn up to improve policies in favour of SMEs in particular – Morocco has in fact made the most efforts of any Arab country in transition.

A strategy to promote micro-enterprises (*très petites entreprises*, "very small enterprises", TPE) was adopted in 2013 (OECD, 2014). An ecosystem has been put in place, based on the deployment of programmes targeted at three groups – high-potential MSMEs (micro enterprises and SMEs), start-ups, and self-employed entrepreneurs – which at the beginning of March 2017 had registered more than 38,000 (85%) auto-entrepreneurs out of approximately 46,000 applicants

Administrative procedures have been significantly simplified. During their creation phase, SMEs are assisted by the Regional Investment Centres, which fulfil the "single window" role assigned to them. The government has simplified the process of creating a business by eliminating minimum capital requirements, reducing registration costs, and simplifying documentation requirements, while offering an online platform to reserve the name of the enterprise. Moreover, the operations involved in paying taxes and transferring property have been dematerialised, and the DGI has since 2013 been piloting the project for online business creation (CREOL).

Morocco has simplified the rules and procedures for the declaration and registration of assets, credit information, external trade facilitation, minority investor protection, etc but access to financing remains one of the greatest constraints on SMEs upon establishment. SME financing is generally provided by banks, in particular the Banque Centrale Populaire, which has been from the outset a specialised bank with the mission of providing financial support to SMEs. To encourage the banks to lend to SMEs, successive governments have budgeted significant allocations and external concessional financing lines and have created guarantee funds managed by the Central Guarantee Agency (CCG).

In the area of monetary policy (see Pillar III, point E), the BAM introduced in 2014 a refinancing mechanism that offered advantages to the banks on the basis of their lending to SMEs.[32] In 2016, it launched a new programme to encourage bank financing for MSMEs spread over two years,[33] while reviving the financing mechanism implemented in 2014 (see Pillar III, point D) (BAM, 2017). The commercial banks are better at cooperating with SMEs in terms of financing and technical support, as evidenced by the share of SMEs in total bank lending, which is the highest in the MENA region. To encourage the banks to grant more loans to SMEs, successive governments have budgeted significant allocations and external concessional financing lines and have created guarantee funds managed by the Central Guarantee Agency (CCG).

Morocco has a specific body dedicated to supporting SMEs. Along with bank support, the ANPME, now known as "Maroc PME" ("Morocco SME"), offers SMEs various programmes devoted to their development, modernisation and restructuring, and gives them significant financial aid (see box 1).

Box 1: MSME support programmes of Maroc TPME

The following support programmes for MSMEs are managed by Maroc TPME and are subject to certain conditions:

Imtiaz/Istmrar *(*)*	Supports enterprises with development projects likely to have a notable impact on the entire sector.
Prestation de services (formerly Moussanada)	Support, product development, sustainable development productivity, transmission
Intilak	Supports start-ups with high development potential and promising projects for capitalising on research results, and innovative, market-oriented projects.
Tatwir	Finances R&D projects sponsored by enterprises in the development phase.
PTR	(*Prestation Technologique Réseau*). Supports enterprises that undertake an innovation programme.
Inmaa	(*Initiative marocaine d'amélioration*). Implements "lean management" techniques in a simulated setting within a model factory.
Infitah	Offers free initiation for micro enterprises to information technologies for developing their activities and improving their competitiveness.
Rawaj	Supports high potential SMEs seeking to develop a network of shops across the country or internationally, and to modernise point-of-sale at the local level.

(*) Imtiaz for MSEs and Istimrar for micro enterprises. A new formula has been introduced for these two programmes in order to support the development and expansion of enterprises.

Regarding access to public procurement, and apart from the introduction of a dedicated guarantee fund, the new Procurement Regulation, adopted in 2013 and put into effect in January 2014, (i)

[32] The banks can receive twelve-month advances equal to the amount they plan to lend to MSMEs, and they can also obtain additional refinancing equal to the volume of loans granted to such enterprises operating in the manufacturing sector, or producing for export (minimum 40% of sales exported).

[33] This programme provides loan guarantees awarded by tender. To this end, it has published a circular letter defining the modalities of refinancing for banks participating in the program that grant medium and long-term credits of less than MAD 50,000 to MSMEs (excluding real estate promotion and the liberal professions).

reserves 20% of government procurement to SMEs; (ii) offers advances to eligible to SMEs; (iii) eliminates the requirement for bidders to prove their technical capacities; (iv) gives firms the possibility for online bidding at the procurement portal, without having to be registered in advance with the Registry of Suppliers. The Moroccan Employers' Association (CGEM) has sponsored awareness and training sessions to familiarise business managers with use of the electronic tool for receiving dematerialised support.

When it comes to exports and market prospecting, SMEs receive assistance, advice and support from different institutions: "Maroc Export" (for non-agricultural products), from the Independent Institution for Control and Coordination of Exports (EACCE, for agricultural and fishery products), from the Moroccan Export Insurance Corporation (SMEX), from the Moroccan Investment Development Agency (AMDI)[34] and from the Moroccan Innovation Centre (CMI, created in 2011). The government and the CGEM have adopted a programme to support SME export efforts and have set the objective of turning 200 SMEs into major exporting businesses.

Private-private dialogue also supports the development of SMEs. For example, the CGEM encourages large firms to develop partnerships with SMEs for producing the inputs that they import or for outsourcing some of their ancillary activities. To generalise this partnership model (which is already in use by some large Moroccan firms), the CGEM has defined a typology of partnerships[35] that will allow SMEs to benefit from the expertise of large firms and to capitalise on their know-how. In 2014, the CGEM played a pioneering role, along with the BAM, in creating the Moroccan Observatory of MSMEs (OMTPME), the essential purpose of which is to centralise data and information on MSMEs, at the national and regional levels, and to produce reliable data on MSMEs' conditions of access to bank finance and to support mechanisms. The first meeting of the Board of Directors, held in June 2016, drew up the strategic plan for the OMTPME for the period 2016-2019 and the operational and governance structures of this Observatory, so that it could launch its activities at the beginning of 2017.

Outstanding challenges

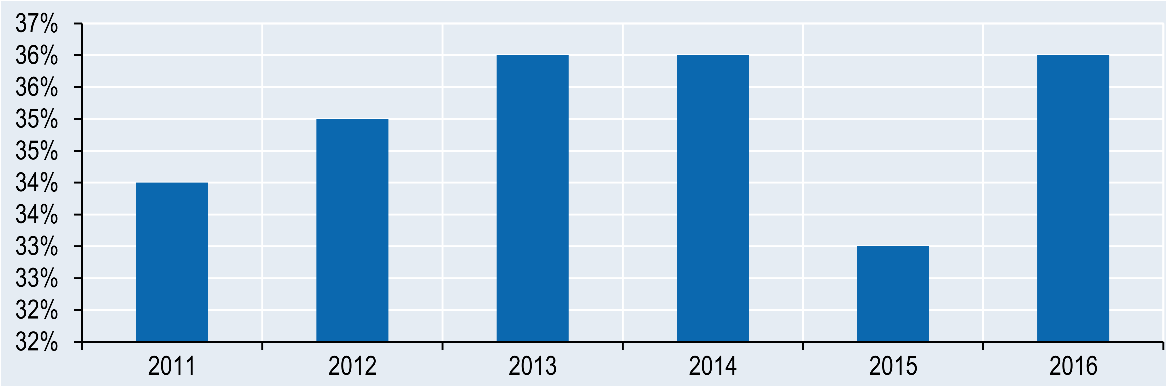
Morocco has put in place the basic pillars of a comprehensive and co-ordinated policy in favour of SMEs (delegation, strategy, coordination, implementation agency). However, there is still a need for an integrated policy that is properly coordinated and directed. In fact, the results in terms of collecting, analysing and disseminating relevant information on SMEs are still weak (OECD, 2014).

Despite the support programmes for SMEs and the measures taken by the BAM and the CCG, there has been little change in the volume of lending to SMEs, except for the slight increase recorded in 2016, which in fact represented a return to the situation of 2013-2014, recognising that in absolute value these loans have been modest and had not exceeded MAD 250 billion to the end of 2016.

[34] AMDI, Maroc Export, and the Office of Fairs & Exhibitions in Casablanca were merged in 2017 into a single entity, the Moroccan Investment and Export Development Agency (AMDIE).

[35] Framework agreements, subcontracting, spinoffs, co-development, and readying for export.

Figure 25: Indicators of the SMEs share in bank lending (SME loans / NFC loans)



Source: BAM data, author's calculations.

Morocco's business fabric remains fragmented: a small proportion of large firms, at one extreme, and the near-totality of MSMEs at the other. In between, medium-sized enterprises are few and far between. Although they have long been at the centre of concerns on the part of governments, which have sought to improve their competitiveness and innovation capacities, SMEs do not yet have a very high profile. They still suffer from problems that disrupt their normal functioning. They have difficulty in making their voices heard with large firms and purchasing agents even if, following the introduction of ecosystems in the context of the PAI, their situation has improved slightly. A broad action plan will be needed to encourage their integration into the national and international economic environment and to make them the driver of economic and social activity.

The following suggestions should help to improve the situation of SMEs:

- **Speed implementation of the action plan adopted for SMEs and prepare a new action plan on the basis of the analysis of data now being collected by the OMTPME;**
- **Develop ecosystems in favour of SMEs, based on networking with large companies and actions to strengthen medium-sized enterprises;**
- **Strengthen rights to credit so as to reduce collateral requirements and diversify sources of financing for SMEs in general, and those with strong growth potential in particular, while encouraging SMEs to become more transparent;**
- **Consolidate training activities for SMEs and make them aware of the need to develop the human resources function and to make efficient use of qualified personnel to boost their productivity.**
- **Remove the preconditions for SME-University linkages in order to promote R&D and innovation;**
- **Assess the impact of the 20% share of procurement reserved for SMEs, as called for in the 2013 decree on procurement.**

D. Upgrading human capital to make it the cornerstone of competitiveness and inclusion

a. *Reform education and training policies to boost the level and quality of knowledge and know-how*

Current situation

Morocco is spends a great deal in the education and training sector but and there is still much ground to be made up, particularly in terms of quality. In 2016, the education budget represented 4.7% of GDP and 23.6% of the general government budget, thus exceeding the performance of many countries at a comparable economic level.[36]. These budgetary efforts have certainly helped to improve levels of generalised education, but weaknesses persist at both the internal level (school dropout rate, grade-repeating) and the external level (unemployment for graduates, illiteracy).

The school enrolment rate has improved significantly, thanks to universal access, especially at the primary level, which saw a notable jump in the specific enrolment rate between 2011-2012 and 2016-2017, rising from 97.6% to 99.1% nationally, from 96.5% to 98.5% for girls, and from 97% to 98.3% in rural areas (CSEFRS, 2014b). At the intermediate and secondary levels, these rates were 90.4% and 70.1% in 2014-2015, versus 83.7% and 53.1% in 2011-2012. Social support programmes such as school canteens, school transportation, conditional cash grants (Tayssir), dormitories, and the “million schoolbags” initiative, among others have done much to produce these results (CSEFRS, 2014b).

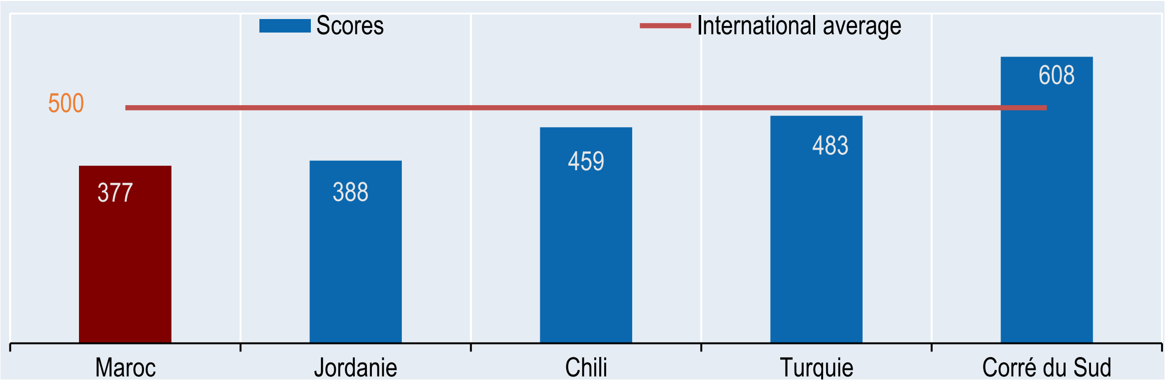
The results of the national learning assessment programme (PNEA) reveal a general weakness in student performance under the secondary school core curriculum in terms of basic knowledge, especially in languages and mathematics. For example, 9% of science students can be considered proficient in Arabic, versus 4% of liberal arts students, and the majority of students in the core curriculum are incapable of forming a substantiated judgment or expressing a point of view on what they read (PNEA, 2016).

The standardised student evaluations in which Morocco has participated testify to this weakness: the results of the TIMSS and PIRLS tests[37] show that Moroccan students' performances in mathematics, science and reading fall short of the expected level. For example, Morocco ranks among the last three countries in mathematics and science.

[36] Tunisia 21.5%, Malaysia 21.3%, Chile 17.8%, Indonesia 15.2%, Romania 10.3%.

[37] “Trends in Mathematics and Science Study” and “Progress in Reading and Literacy Study”, organised by the International Association for the Evaluation of Education Achievement.

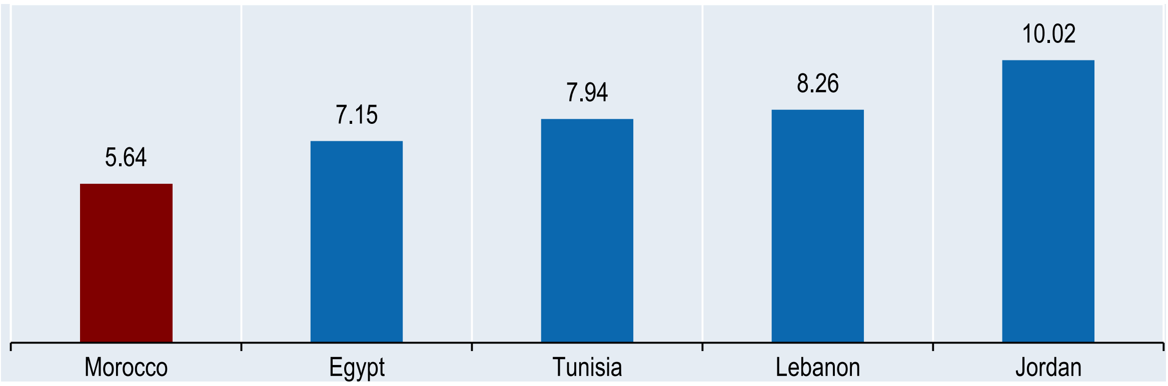
Figure 26: Mathematics performance of students in the fourth year of primary



Source: TIMSS, 2015.

Although there has been an improvement in the average years of schooling among the population aged 15 and over (5.64 years in 2014 versus 4.72 years in 2010), **this indicator is still much lower than in certain Arab countries**. There are two main factors behind this lag: the literacy rate, which weighs heavily on the average level of human capital, and the insufficient expansion of upper secondary and higher education (CSEFRS, 2017).

Figure 27: Average years of schooling in Arab countries (2014)



Source: OECD, 2017b.

The vocational training system (VT), which helps to develop technical and practical knowledge, has performed well. However, the internal and external yields of this system still fall short of expectations, as illustrated by the graduation rate which was 63% in 2014/2015 (DFP, 2016a) and the post-training employment rate, which stands at 56% four years after training (OECD, 2017b).

When it comes to higher education, the enrolment rate remains low although it doubled between 2013 (16%) and 2016 (31.3%). **Graduates from higher education are the most likely to be unemployed:** 21.1% overall (2014) and 24.1% for university graduates, reflecting the mismatch between university education and labour market needs.

The poor performances in terms of the quality of the education and training system in Morocco are having a negative impact on its development, and are penalising the country, especially in terms of the Human Development Index[38] (UNDP, 2016).

Actions and reforms

Reform of the education system remains one of Morocco's major concerns. Substantial progress, especially in quantitative terms, has been made with implementation of the National Education and Training Charter (CNEF) 2000-2010 and the "Emergency Plan" 2009-2012. In this context, several programmes have been developed to expand the offer of schooling, to improve learning conditions for children, and to combat socioeconomic factors that lead to under-enrolment and high dropout rates. Of particular note are the programme of assistance for students with learning difficulties, and the programmes of social support. In terms of the teaching body, the Moroccan government recruited 43,540 new teachers between 2011 and 2016 to cover the shortfall recorded in recent years (with the departure of 45,985 teachers of retirement age and 16,830 teachers taking early retirement during the period 2011-2016) and to reduce class sizes (CA, 2017a).

On 29 July 2015, the Council of Government adopted a national strategy for vocational training to 2021. It seeks to improve the quality of such training everywhere, for all, and throughout life, in order to upgrade human capital and make businesses more competitive. The Department of Vocational Training (now the Secretariat of State) has taken steps to integrate gender equality and equity into the training system (DFP, 2016b).

The strategy for the development of higher education adopted by the government for the period 2013-2016 represents a continuation of efforts under the Emergency Plan 2009-2012. It has produced a positive trend in the various indicators for the higher education system, particularly the increase in the student body from 505,587 in 2011 to 820,459 in 2016, and the increase in the number of bursary recipients from 151,179 students to 321,000 over the same period, as well as the introduction of medical coverage for students in public and private higher education.

To consolidate achievements to date and to address the remaining challenges, Morocco has launched a new reform of its education system the "Strategic vision of the 2015-2030 Reform: for a school with equity, quality and promotion". This vision is intended to base schooling on three pillars: equity and equality of opportunity, quality for all, and promotion of the individual and society. It embraces 23 strategic levers developed under four themes (CSEFRS, 2015).

Outstanding challenges

Although there has been substantial progress, especially in quantitative terms, the Moroccan education system still lags well behind in terms of the quality of instruction and the school dropout rate. The latter constitutes a real obstacle to generalising compulsory education to the age of 15 years. Grade-repetition rates are of great concern, too, especially at the junior high school level where they are higher than 16%, and school dropout rates are around 25% at the junior and senior high school levels. These rates are even higher in rural areas and among disadvantaged groups (OECD, 2017b). These challenges have been identified as the main obstacle to Morocco's economic growth, and the weak link in its development (PG, 2015). Government action should focus on:

[38] Morocco ranks 123rd on the HDI scale and 153rd solely in the average length of schooling component.

- **Ensuring that the education reforms called for in the strategic vision are realistic, selective, operational and effective.** These reforms should give priority to tackling the major constraints to the emergence of the education and training sector (modernising the educational ecosystem, improving recruitment and providing ongoing training for teachers to enhance quality, adopting a new form of school governance, etc.);

- **Reinforcing the educational and social support mechanisms and making them more effective in helping to make education universal and combating the school dropout phenomenon.** Social support requires the implementation of a joint action plan based on more efficient mechanisms for targeting children from vulnerable households;

- **Developing the general and professional skills of teachers** by upgrading their initial training to include modern teaching methods;

- **Addressing the teacher shortage** through efficient management and planning of human resource needs. **Introduction of a multiyear plan for recruiting and training teachers should take into account anticipated departures and future needs,** and respect teaching time regulations;

- **Reviewing the curricula in higher education,** which should be improved to achieve a better match with the needs of the economy so as to enhance young peoples' chances of integrating themselves into the economic fabric;

- **Speeding implementation of the integrated vocational training strategy and involving the various partners more closely.** Priority actions should target pedagogical, governance and financing aspects. Moreover, the development of effective tools for identifying qualitative and quantitative training needs will improve the match between supply and demand: those tools should include a national inventory of jobs and trades, institutionalisation of forward planning, and introduction of a comprehensive information system for monitoring vocational training arrangements (CC, 2017b), with greater input from the private sector.

b. Modernising the labour market for a smoother education-to-employment transition and greater productivity

Current situation

Morocco's labour market reveals major structural constraints on its functioning (OECD, 2017b).

Job creation remains inadequate to absorb the ranks of the unemployed and of new arrivals on the labour market. Economic growth created at most 237,000 net new jobs during the period 2011-2016, or an average of about 40,000 jobs per year, which was well below the performance of the first decade of this century (162,000 jobs per year). The services sector is still the main source of employment in Morocco, having created 438,000 jobs between 2011 and 2016. The downward trend in terms of job creation can be laid to the weak employment content of economic growth. Consequently, the unemployment rate worsened between 2011 and 2016, rising from 8.9% to 9.4%, affecting young graduates most severely:

Table 11: Net job creation by sector between 2011 and 2016

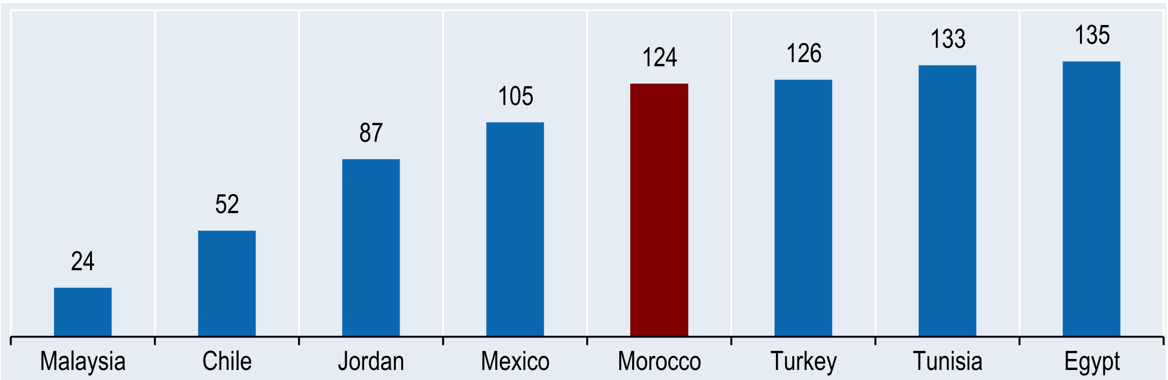
	Agriculture, forestry and fishing	Building & civil engineering	Manufacturing (including crafts	Services	Ill-designated activities	Total
Net job creation	-167 000	13 000	-46 000	438 000	-1 000	**237 000**

Source: HCP, author's calculations.

Some education disciplines are structurally mismatched with labour market demands (the human sciences faring the worst). Graduates face higher unemployment rates (16.9% in 2016) than do those without diplomas (3.8%). This situation illustrates the lack of mechanisms and tools for predicting skills that are in demand and adjusting training accordingly, and it has a serious impact on the labour market (European Training Foundation (ETF), 2012). It also contributes to the rise in long-term unemployment[39], an essential element for assessing employability, which has become a major problem: in 2014, 61.8% of the unemployed had been jobless for more than 12 months nationwide, and the equivalent rate for those with higher education degrees was 76.4% (HCP, 2014)..

Labour market regulation is relatively rigid, and labour market intermediation is still ineffective. Lay-off and dismissal costs are among the highest, and Morocco is one of the lowest-ranking countries in terms of labour market efficiency (WEF, 2016). While employment protection objectives are important, the Moroccan labour code seems to have an adverse impact on job creation (PG, 2016a). With respect to intermediation, nearly 74.2% of the unemployed use two traditional means to look for work, namely “direct contact with employers” and “relatives and acquaintances” (HCP, 2013b), reflecting the low efficiency of the ANAPEC, which was created to foster access to employment, particularly for young people (OECD, 2017b).

Figure 28: Labour market efficiency: relative ranking of Morocco



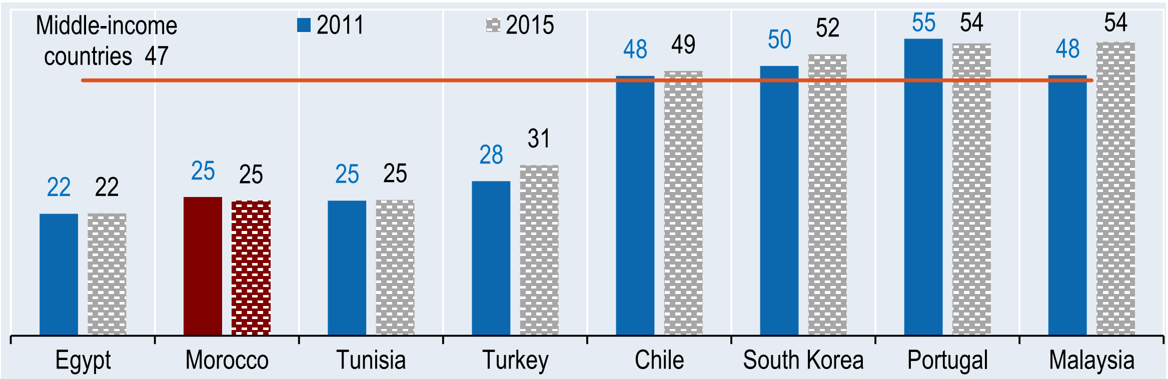
Source: World Economic Forum, Global Competitiveness Report, 2016-2017.

The potential workforce is unskilled (60% of persons 15 years and older have no education credentials) and it is underutilised, especially in the case of women. Less than half of the population of working age in Morocco (46.4%) pursued an economic activity in 2016, versus 49.2% in 2011, and the participation rate for men (70.8%) is three times higher than that for women (23.6%) (HCP, 2016c).

[39] Long-term unemployed (12 months and more) as a percentage of the unemployed population.

Moroccan businesses consider that the lack of adequately skilled workers constitutes a major obstacle to their continued growth (PG, 2016a).

Figure 29: Participation rates for women between 2011 and 2015



Source: International Labor Organization, Key Indicators of the Labor Market database.

The jobs that are created are of low quality: 20.5% of persons employed in 2016 worked without pay, and nearly 78% had no medical coverage. On the other hand, 98.2% of employees received no employer-sponsored training over the previous 12 months (HCP, 2016a). This situation can be laid to the size of the informal sector, where employment relationships are precarious (OECD, 2017b).

Nationwide, nearly one in four young persons between the ages of 15 and 24 years (1,685,000) is not in employment, education or training (NEET).[40] This proportion rises to 44% among young women (1,319,000: HCP, 2016c).

The active employment promotion programmes (Idmaj[41], Taehil[42], Moukawalti[43], Tahfiz) are still inadequate (OECD, 2017b). The Idmaj programme helped 75,613 persons to find jobs in 2016, the TAEHIL programme improved employability for 16,542 beneficiaries, and the self-employment support programme helped in the creation of 848 projects (ANAPEC, 2016). Although these programmes serve to absorb a portion of the unemployed, the results are still inadequate given the scope of youth unemployment, and they benefit only a small proportion of young people.

Reform efforts

The employment issue is a priority for the Moroccan government. Several actions haven been undertaken to promote the labour market, improve employability, and combat unemployment, especially among young graduates and women. Morocco has adopted an ambitious modernisation policy, which seeks both to strengthen the economic fabric and to boost social development. The measures and actions taken include the following:

[40] The European Commission introduced this indicator in 2010 to identify young people who are not employed, in education or in training.

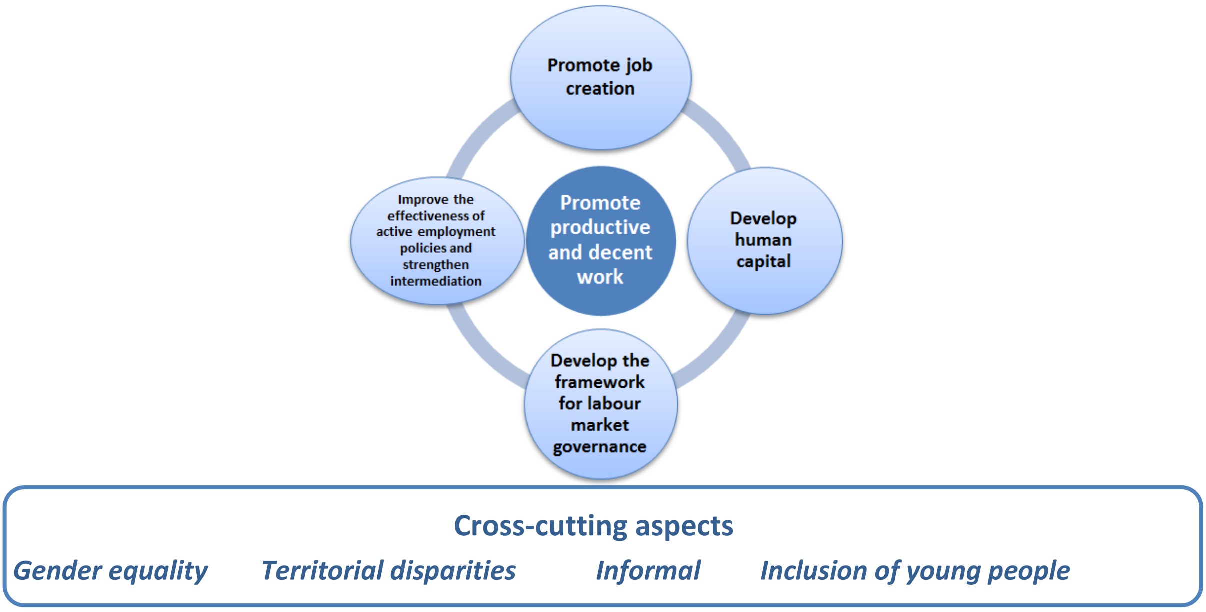
[41] This programme helps young graduates to develop their skills by acquiring work experience in host companies, through the granting of tax incentives (Law 16-93 which provides exemptions from income tax, social security contributions and the vocational training tax).

[42] This programme enhances the employability of job seekers facing difficulties due to a mismatch between their skills profile and labour market needs.

[43] This programme encourages self-employment by granting project assistance to people ages 20 to 45.

An interministerial committee responsible for preparing the National Employment Strategy 2015-2025 (NES)[44] **has been established**. In 2016, this committee was institutionalised. Chaired by the Head of Government, it is supposed to set strategic guidelines for employment policies and to adopt the National Employment Promotion Plan (PNPE). Following the adoption of the Government programme in April 2017, the ministerial committee met in August 2017 and adopted five strategic objectives to promote employment and approved the 2017-2021 National Employment Strategy which was adopted by the Government Council in September 217.

Figure 30: Strategic themes of the NES 2025



The NAS has ambitious objectives, namely to expand the employed workforce to 13.7 million in 2025 (versus 11.7 million in 2013), to raise the employment rate to 46.2% (versus 43.8% in 2013), and to boost productivity gains by 3.6%.

Initiatives undertaken to promote employment include:

- The national vocational training strategy, which seeks to train some 10 million young people by 2021, which is part of the strategic vision of education reform 2015-2030. That strategy seeks to enhance vocational training and extend its scope to meet the demands of economic competitiveness in general, and the expectations of businesses and the labour market in particular (MEF, 2016a).

- Adoption of a deliberate policy to combat unemployment, based on specific employment programmes for different categories of job seekers (Idmaj, Taehil, Moukawalati, Tahfis, etc.), and of other programmes to improve employability. The year 2015 saw the signature of two agreements, the first on ways to have the government cover mandatory sickness insurance for participants in training and work programmes, and the second to have the government cover

[44] The NES relies on four strategic themes: promotion of job creation, upgrading of human capital, improved efficiency of active employment programmes, and stronger intermediation on the labour market and development of its governance framework.

social contributions for persons hired from such programmes.

- Creation of the national employment observatory to enhance the governance, effectiveness and efficiency of labour market policies (WB, 2017c). The observatory is tasked with monitoring and analysing labour market trends, conducting studies and producing data for use in guiding employment policies.[45]

- Introduction in 2014 of compensation for loss of employment and redundancy allowances (notice allowance, leave etc.) payable to eligible employees for an average term of 4 to 6 months.

- Launch of the MCC project on "education and training for employability", which was developed in 2014-2015 and will be implemented over five years. This project seeks to enhance the employability of young people by improving the quality, relevance and equity of secondary education and vocational training (AfDB-GoM-MCC, 2015).

- Development and implementation of the National Qualifications Programme for 25,000 laid-off jobseekers. In 2016, the number of beneficiaries stood at 783 students registered in university and 4,733 in the facilities of the OFPPT (Office of Vocational Training and Employment Promotion).

Outstanding challenges

Despite the progress made in the area of employment and employability promotion, a number of challenges remain, and steps should be taken to consolidate achievements to date as well as to address the persistent shortcomings, in particular:

- **Speed up preparation of an operational action plan to implement the NES**, making up for the delays identified since its adoption;

- **Ensure a sound governance of the NES, following the example of the National Committee on the Business Environment, CNEA, and improve the performance of the intermediation agencies** (Department of Employment, ANAPEC. etc.);

- **Take into account horizontal aspects** (gender, youth, territories etc.) **in employment policies**, particularly when they are designed to reduce inequalities;

- **Give careful thought to the factors for integrating NEETs into economic activity with a view to promoting social cohesion and stability;**

- **Encourage the development of productive activities that create skilled jobs and contribute to the country's competitiveness**. In this sense, job creation should be given more support through diversification policies that promote modern activities integrated into the national or international value chain;

- **Assess incentives for job creation** (active employment programmes, fiscal spending, improved business climate etc.), **and redeploy them, on the basis of these evaluations, to target those sectors/activities/enterprises that have the strongest potential to create wealth and jobs.**

[45] Article 6 of Decree 2-14-280 of 18 June 2014 on the powers and organisation of the Ministry of Employment and Social Affairs.

- **Analyse the training-employment mismatch**, by industry and by trade, in order to identify the causes underlying the low employment rates among young graduates;
- **Revise the labour code through a participatory and integrated approach** to make labour regulation more flexible, while guaranteeing the protection of workers' legitimate rights, and to improve the effectiveness of active labour market policies.

E. Modernising the financial sector so strengthen its intermediation role and promote financial inclusion

There is a fundamental role to be played in the economy by the financial sector, and especially the banks, through the provision of the financing needed by businesses and individuals. Morocco's financial landscape has been broadened to include micro-finance institutions and, since 2017, Islamic ("participatory") banking. Thus, persons excluded from the banking system can now access alternative local financing sources. This section describes the situation with the Moroccan banking system, its involvement in financing the economy and in micro-finance, and its role in promoting financial inclusion, as well as the creation of Islamic banks and the potential they offer.

a. Modernise and diversify the banking sector for a greater contribution to financing the real economy

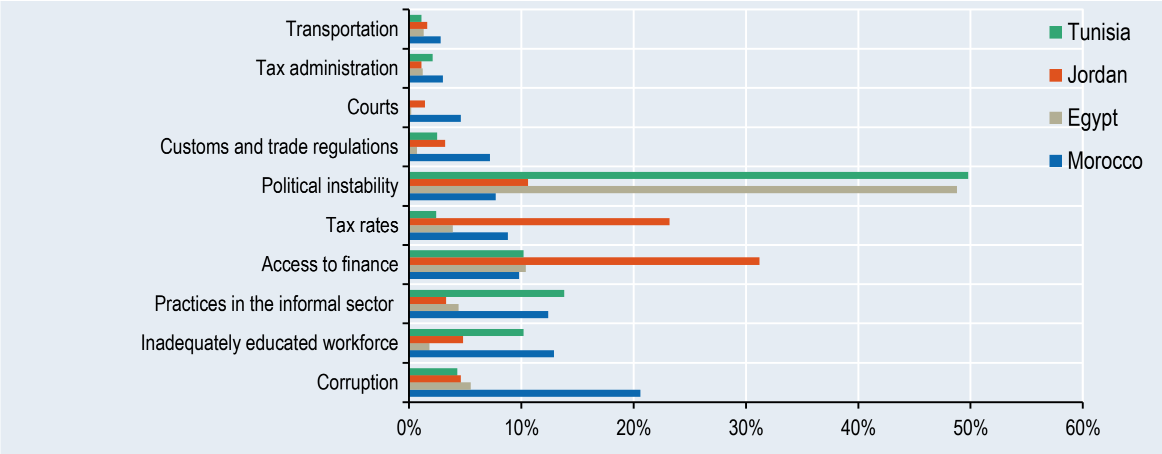
Current situation

Morocco's financial system is modern, solid and relatively diversified. It embraces 19 commercial banks, with 44 subsidiaries and 18 branches abroad, 6 offshore banks, 3 participatory windows, 18 insurance and reinsurance companies, 4 pension funds, 33 finance companies, 13 microcredit institutions, 10 payment institutions specialised in remittance intermediation and 2 other institutions, and 425 investment companies and mutual funds (OPCVM). Its current configuration is the product of changes that have encouraged greater banking penetration, quality services and innovation.

The banking sector represents two-thirds of the Moroccan financial system's activity. Financing to the economy from banks represents 80.5% of GDP (2016), 85% of which is in the form of loans to non-financial agents: lending to SMEs accounts for 33% of loans to companies, and 38% goes to lending for equipment (BAM, 2016).

According to the 2013 business survey, Morocco ranks fourth in terms of problems of access to finance, and its level is comparable to that of the MENA region as a whole:

Figure 31: Main constraints reported by businesses (2013)



Source: WB, 2017c

Actions and reforms undertaken

Against a backdrop of tighter liquidity conditions since 2007, the Central Bank has pursued an accommodative monetary policy based on injecting the liquidity required via a range of monetary policy instruments, with several cuts affecting the required reserve ratios, which fell from 8% in 2010 to 2% in 2014, as well as the key rate, which fell from 3.25% in 2009 to 2.25% in March 2016. On the operational side, measures have been taken to broaden the range of collateral eligible for monetary policy operations.

Targeted measures have been adopted to better support bank financing for MSMEs. In 2012, the BAM decided to extend collateral eligible for monetary policy operations to securities representing credit claims on MSMEs through a new, longer term refinancing instrument in the form of "guaranteed loans". This instrument was replaced at the end of 2013 by a new support programme enabling banks to receive annual advances from Bank Al-Maghrib of an amount equal to the volume of credits (excluding property development and liberal professions) that they plan to grant to MSMEs. In addition, the BAM has continued to promote access to credit for MSMe by extending its financial support programme for an extra two years (2016 and 2017). Bank lending is supported by interventions of the Central Guarantee Fund (CCG). At the end of 2016, loans guaranteed by the CCG on behalf of MSMEs amounted to more than MAD 10 billion.

Table 12: Monetary policy decisions, 2011-2016

DATE	Decisions taken	Policy rate	Cash reserve ratio
March 2010			Down from 8% to 6%
April 2011	- Collateral eligible for monetary policy operations extended to certificates of deposit and State-guaranteed bonds. - Observation periods for constituting the mandatory reserve brought into line with the periods of the weekly call for tenders. - Amendment of the rule for allocation of auction amounts awarded with regards to large transaction. - Passbook accounts eliminated from the basis for calculating cash reserves.		
Sept 2011	Introduction of longer-term reverse repo operations.		
Mar 2012		Down from 3.25% to 3.0%	
April 2012	Eligible collateral extended to items representing private claims on guaranteed loan operations.		
Sept 2012			Down from 6% to 4
Dec 2012	- Introduction of lending to MSMEs guaranteed by private effects. - Relaxing of eligibility criteria for certificates of deposit.		
Dec 2013	- New programme to encourage further bank lending to MSMEs. - Elimination of remuneration on cash reserves.		
Mar 2014			Down from 4% to 2%
Sept 2014		Down from 3.0% to 2.75%	
Dec 2014		Down from 2.75% to 2.5%	
July 2015	New rules for distribution of seven-day advances to reflect banks' efforts at lending to the real economy, and the impact of BAM measures to lower interest rates.		
May 2016		Down from 2.5% to 2.25%	
July 2016	Introduction of remuneration of reserves for banks making greater lending efforts.		Up from2% to 4%

Source: BAM, Annual Reports, 2011-2016

In pursuit of the process of modernising the Moroccan financial system, a new banking law was promulgated in January 2015. That law authorised the creation of Islamic banks (*banques participatives*, "participatory banks") and it instituted a committee for coordination and surveillance of systemic risks and new oversight and governance procedures.

The system for regulating the Moroccan financial sector has been consolidated through creation of the Moroccan Capital Market Authority (AMMC)[46] and the Insurance and Social Welfare Supervisory Authority (ACAPS).[47]

In 2015, the World Bank and the IMF conducted a joint mission to Morocco under the Financial Sector Assessment Programme (FSAP) to update the initial assessment performed in 2007 The mission reached the following main conclusions: (i) Moroccan banks are sufficiently capitalised and profitable, with stable sources of financing; (ii) the banking system is resilient to shocks; (iii) banking supervision has become more effective; and (iv) there has been significant progress with financial inclusion.

Morocco's capital markets are relatively developed. With respect to direct financing, stockmarket capitalisation represents 53.6% of GDP and exceeds the level of some comparable countries (11.2% in Romania, 20.8% in Tunisia, 26% in Turkey). The venture capital sector has grown significantly in recent years, and 37 funds have been created since the end of 2015.

Outstanding challenges

Notwithstanding the wide-reaching reforms involving the development and modernisation of the banking sector, there are still some issues to be overcome, particularly in the areas of financing to the economy and financial inclusion. The penetration rate of bank loans is relatively high (81% in 2016) and loans to SMEs represent 33% of all loans to NFCs. ***These levels of SME lending need to be improved***. ***Special attention should be paid to finding solutions to problems of access to bank financing*** for SMEs, in particular by reviving existing provisions and introducing new tools based on a better understanding of the problems facing these enterprises.

The banking penetration rate is only 69% (2016). To this end, ***expansion of the Al Barid Bank's activities and the activation of the Islamic ("participatory") banks*** would do much to create wealth and employment***.***

b. Broaden financial inclusion to guarantee equality of opportunities and reduce inequalities

Financial inclusion means giving individuals and legal persons low-cost access to financial products and services that are suited to their needs and are offered by reliable and responsible lenders. Financial inclusion is thus considered a factor of progress for 7 of the 17 sustainable development goals (SDGs), and is now one of the priorities of policymakers, international organisations, and development agencies, as well as of most countries around the world. The G20 reaffirmed its commitment in this respect by updating its 2015 Financial Inclusion Action Plan and adopting the High-Level Principles for Digital Financial Inclusion. Since 2010, more than 55 countries have committed themselves to financial inclusion, and more than 30 have already launched a national strategy to this effect or, like Morocco, are in the process of designing one.

[46] Law n° 43-12 (13 March 2013).
[47] Law n° 64-12 (6 March 2014).

Current situation

Financial inclusion has become a factor for economic efficiency and social equity, and has seen rapid progress in recent years. However, the majority of households and of MSMEs, formal and informal, still have no access to suitable financial services that will allow them to prosper. In Morocco, although the banking penetration rate for the general population is nearly 70%, 61% of account-holding customers are men and 39% are women.

Reform efforts

For several years now, Morocco has made financial inclusion, through the development of microcredit and microfinance a central concern. Several actions and reforms have been initiated by public and private bodies to implement a solid, modern financial system that is sufficiently diversified to meet the needs of different categories of the population and of businesses. The BAM, which in 2010 became a member of the Alliance for Financial Inclusion (AFI), has anchored financial inclusion within its banking strategies, it has reinforced the use of electronic payment means, and it has made financial education a pillar of this policy.

In 2015, the banking law was amended to include a new category of non-banking institutions called "payment establishments" (*établissements de paiement*). Three decrees of the MEF, published in March 2017, approved three BAM circulars, setting out: (i) the conditions and procedures for applying article 22 of Law 103-32 on credit institutions and similar agencies, (ii) procedures for the exercise of payment services, and (iii) the minimum capital or endowment of credit institutions, and the procedures for applying article 30 of Law 34-03 on credit institutions and similar agencies. It will be recalled that, in the context of Islamic finance, the BAM has licensed three "participatory windows" (within the parent banks) which, as of 2017, may open payment accounts and offer payment services (savings, transfer, payment etc.).

Initiatives have been launched to popularise financial culture. For example, the Moroccan Foundation for Financial Education (FMEF)[48] has included training programmes in its 2017-2019 strategic plan, with a view to reducing gender gaps in access to financial services and encouraging the providers of financial services to introduce products and services targeted at women's needs.

At the technical level, a widely disseminated and low-cost mobile payment solution has been introduced to facilitate people's access to financial services. Following a pilot experiment, this solution is expected to be launched by the end of this year (2017).

The authorities have plans to prepare and adopt a national strategy for financial inclusion. Within the frame of the aforementioned WB-IMF mission to update the assessment carried out in 2007 (FSAP), the World Bank welcomed the actions and reforms undertaken and the progress made, and recalled the preconditions and challenges that remain to be met, in particular the preparation of a National Financial Inclusion Strategy (SNIF). The first steps in preparing this strategy involve the FINDEX survey, which provides a reliable assessment of "demand" for defining strategic orientations, and the

[48] Created in 2013, the FMEF comprises 13 members, 4 ministries and 5 regulators.

implementation of an appropriate governance structure for the SNIF. The first three-year strategic plan is supposed to be defined for the period 2017-2019.

Outstanding challenges

Significant progress has been made in implementing the necessary ingredients, but there are still some serious constraints and persistent challenges. Additional efforts will have to be made to ensure the kind of financial inclusion that will improve the economic and financial situation of MSMEs and boost household living conditions. The following priorities are suggested to this end:

- **Carry out the FINDEX survey so as to finalise the SNIF on the basis of an accurate assessment of needs and the adoption of priorities;**
- **Put in place tools and instruments for making available the greatest possible number of financial services.**
- **Finalise and implement the SNIF in close coordination with the initiatives of the various stakeholders in order to develop synergies, reduce geographic, social and gender inequalities, and thereby speed financial inclusion for those left behind by the banking system, offering them a broad range of financial services and products suited to their needs;**
- **Reinforce knowledge of the financial sector on the part of citizens so that they can make informed choices.**

c. Introduce Islamic banking in order to trigger the potential of savings and investment

Current situation

The financial sector in Morocco has been considerably modernised and diversified, and has recently been exporting its expertise to countries of sub-Saharan Africa. However, as with economic growth, the sector is not sufficiently inclusive, and there is still considerable growth potential to be seized. This situation is due primarily to the weak contribution of the banks to financing small and medium-sized enterprises and disadvantaged social groups, the limited number of bankable projects, the inadequacy of collateral, and religious tenets.[49]

Reform efforts

Since the last financial crisis, there has been a gradual orientation towards more responsible finance. "Islamic finance" is part of this movement, as it places the real economy at the heart of the system, bans speculation, and encourages participatory financing methods. In Morocco, the BAM disseminated in September 2007 a recommendation setting general conditions for the banks to observe in offering Islamic products to the public.[50] Subsequently, the GPBM (the Moroccan Banking Association) and the BAM prepared a manual for the banks, setting the conditions for publicity in the

[49] According to a study by the Islamic Finance Advisory and Assurance Services (IFAAS) office, 94% of the population surveyed is in favour of Islamic finance, nearly 70% say they are attracted to Islamic savings products, and 88% are interested in Sharia-compatible financial products.

[50] The products were Murabaha, Ijara and Musharaka. Two years later (in 2009), BAM and GPBM worked on integrating two more products: Salam and Istisna. The regulatory framework of the last two products was finalised at the end of 2011.

marketing of Islamic products. From 2007 to 2011, alternative projects were not allowed to siphon off more than MAD 800 million, or barely 0.1% of the total of outstanding loans to the economy in 2011 (BAM, 2012).

Given these constraints, the first government appointed under the new Constitution made Islamic finance one of the central themes of its economic policy. A year later (in September 2012), a draft amendment to the banking law, enshrining the status of Islamic Bank, was submitted by the central bank for consultation with the banking profession. Two years later (January 2015), the participatory (Islamic) banking law was published in the Official Gazette. Following that publication, the BAM published three circulars that are now awaiting approval by the High Council of the *oulémas* (Islamic scholars). These circulars deal with the technical features of Islamic finance products, investment deposits, and the exercise of Islamic banking by conventional banks through special windows.

Efforts are currently under way to develop this sector. During a press conference at the end of December 2016, the Governor of the BAM announced the licensing of five stand-alone banks and three "Islamic windows". Six months later, in July 2017, the Islamic (participatory) banks had received the backing of the High Council of the *oulémas.* On this basis, the banks concerned launched their activities. In collaboration with its partners, the BAM has amended the chart of accounts, which was adopted by the National Accountancy Council (CNC) in July 2017, and it has finalised the other prerequisites for Islamic finance: prudential framework, taxation, issuance of Sukuks (Islamic or Sharia-compliant bonds), guarantee funds etc.

With the launch of Islamic finance products, the Moroccan banking sector's offerings have been rounded out and reinforced, and new financing capacities have been opened.Given the enlistment of clients who were wary of placing their savings in conventional banks, together with inflows of foreign direct investment (FDI) from the Gulf States, in particular, and development of the Casablanca Finance City as a financial hub, the sector has considerable growth potential and should be in a position to give a further impetus to financial inclusion.

Constraints and challenges

In order to get Islamic financing off to a good start in Morocco, there is a need to address the elements that are still holding back Islamic finance and its longer-term development, in particular:

- **Adopt a communications strategy suited to the target contexts and populations;**
- **Develop guarantees for Islamic financing, and speed approval of specific prudential rules, particularly as they relate to equity, solvency and liquidity ratios, etc.;**
- **Reconcile the requirements for the marketing of Islamic products and services with the existing body of law;**
- **Develop the money market by placing Islamic financing instruments, in particular the Sukuks, on the market.**

PILLAR IV. INVOLVING THE PUBLIC AND CIVIL SOCIETY AND THE BUSINESS COMMUNITY IN DECISION-MAKING

This last pillar represents a dimension specific to Morocco, for it addresses one of the great weaknesses of public action, one that figured prominently in the social demands of 2011. The following observations take stock of the progress with the reforms adopted to give effect to the 2011 constitutional provisions and to meet the needs of businesses and citizens, especially as they relate to public-private dialogue and citizen participation in preparing and monitoring public interventions at both the national and regional levels, as well as reinforcing the rights of women and young people.

A. Promoting the involvement of civil society and citizens in decision-making

Current situation

The reinforcement of citizen participation is one of the essential provisions of the 2011 Constitution. The right to present legislative motions[51] and petitions[52] together with public consultation,[53] now constitute important levers for opening up government.

The 2011 Constitution insisted that civil society organisations (CSOs) should be represented in constitutional institutions. Organic laws and implementation decrees have been adopted to require participation by CSOs in the design, implementation and monitoring of public policies and programmes (ESEC, CSEFRS, ANLCA, CSAT, *Conseils des Régions*, local governments, etc.) (MCRPSC [Ministry Responsible for Relations with Parliament and Civil Society], 2015).

Civil society has been vigorously active in Morocco in recent years. The number of associations now stands at more than 130,000 (MCRPSC, 2015). Nearly 70% of these organisations operate thanks to the contributions of their members (HCP, 2011). They cover several sectors and activities. In 2015, some 1,431 associations received financial support from various departments and public agencies, and 219 associations (96 in 2011) succeeded in mobilising foreign financing (MCRPSC, 2017).

As in countries of the South, Moroccan CSOs are mainly involved in two priority areas: public freedoms and people's well-being. The first area is marked by the experience of the Fairness and Reconciliation Body, and the second by the strong participation of CSOs in the national human development initiative (INDH) (CNDSC, 2014) – in fact, 4 CSOs out of 10 were created following the launch of the INDH in 2005 (HCP, 2011).

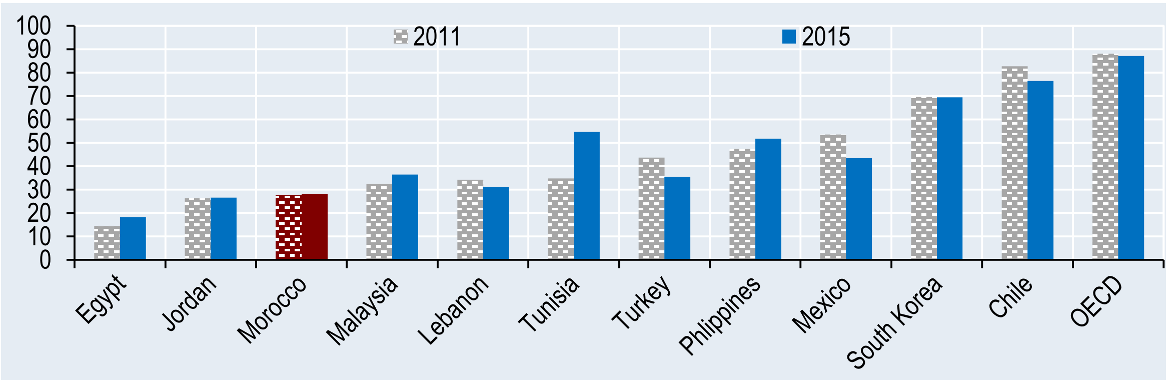
[51] Article 14 of the Constitution reads, “The citizens have the right, within the conditions and following the modalities established by an organic law, to present motions in legislative matters.” One or more groups in the relevant parliamentary chamber may back these motions and convert them into draft laws, or call on the government within the framework of the prerogatives bestowed upon Parliament.”

[52] Article 15 of the Constitution: “The citizens have the right to present petitions to the public powers. An organic law shall determine the conditions and the modalities for exercising this right.”

[53] Article 13 of the Constitution: “The public powers shall work to create instances of dialogue with a view to associating the different stakeholders in the enactment, implementation, and evaluation of public policies.”

The opportunities for citizens to make their voices heard, which were very limited in the past, have been slightly improved. Several reforms have attracted input from CSOs, which have made themselves a force to be reckoned with. These organisations were involved, for example, in the national dialogue on civil society and in the preparation of drafts of the bill on the right of access to information (which is still criticised by civil society and is awaiting adoption). They were also involved in the Advisory Council on the Family and Childhood, the Authority for Parity and for Combating All Forms of Discrimination, and the Advisory Council on youth and associations.

Figure 32: Voice and accountability[54]



Source: The Worldwide Governance Indicators (WGI).

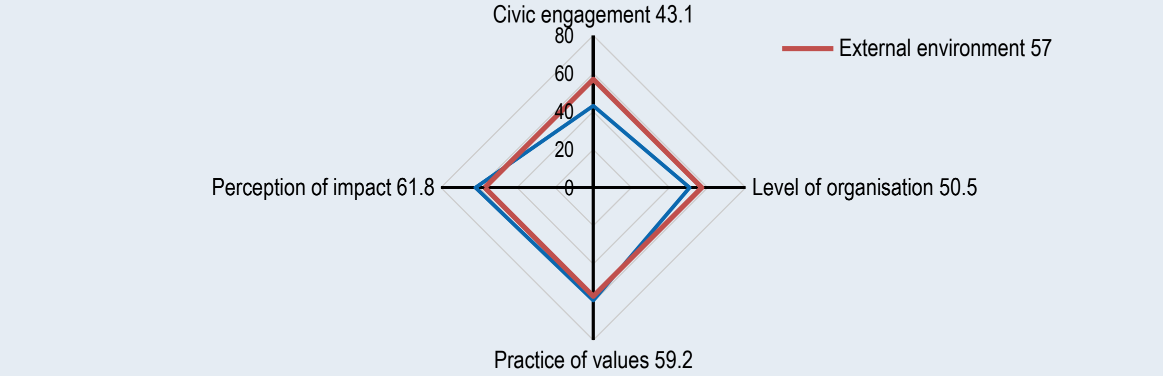
Indicators have been developed to measure the extent of the involvement of civil society. The Civil Society Index (CSI), created by the international NGO CIVICUS[55] and guided in Morocco by *Espace Associatif,*[56] is used to highlight the main indicators of the state of health of Moroccan civil society. The CSI comprises five indicators: civic engagement, quality of organisation, practice of values, perception of impact, and the enabling environment.

[54] The "Voice and Accountability" indicator is one of the six dimensions for measuring governance adopted by the World Bank. It reflects the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of association, and a free media.
(http://info.worldbank.org/governance/wgi/index.aspx#homehttp://info.worldbank.org/governance/wgi/index.aspx#home)

[55] CIVICUS is an international NGO founded in 1991 when civil society leaders from around the world met to pool their skills and establish links across national situations, and to implement common analytical frameworks and tools for strengthening civil society.

[56] *Espace Associatif* is a Moroccan association founded in 1996 to strengthen and promote the cooperative movement for democratic development.

Figure 33: CSI Dimensions in Morocco in 2011



Source: Civil society index for Morocco, Analytical Country Report, 2011.

The results remain modest and underscore the importance of building the capacities of CSOs. Against the theoretical maximum score (100%), Morocco's performance remains modest: its score on citizen engagement is only 43.1%, for the organisational dimension it is 50.5%, for practice of values it rises to 59.2%, and for perception of impact it is somewhat higher, at 61.8%. As to the external environment in which civil society operates, the country scores more poorly, at 57%, but it does better than the average. The CSI results also show that the dominant culture within the Moroccan administration does not make sufficient room for responding to citizen demands. On the other hand, CSOs do not have proper tools for ensuring active and effective participation in public interventions.

Reform efforts

A wide-reaching national debate on civil society has been organised. In implementing the provisions of the new Constitution, Morocco has amended the mandate of the ministry responsible for relations with Parliament to include relations with civil society, and has opted for a participatory approach through the organisation of a national dialogue, the first in Morocco's history, on civil society and its new constitutional prerogatives. This dialogue, which lasted more than a year and saw the participation of more than 7,000 associations, was headed by an independent national commission consisting of 36 associations, 14 ministries, 7 constitutional institutions and 6 parliamentarians. It produced 240 recommendations, distributed as follows: promotion of the voluntary sector 140, public consultation 40, right to present petitions 30, and right to present motions 30.

On the basis of these recommendations, the legal framework for citizen participation has been prepared. At the national level, it involves the adoption and publication in the Official Gazette of two organic laws. The first law enshrines the right to present petitions to the public authorities, and the second the right to present legislative motions. At the subnational level, participatory mechanisms and dialogue with civil society stakeholders and the right of citizens and associations to present petitions to various local councils have been institutionalised. These aspects are included in (i) Organic Law 111-14 on the regions, (ii) Organic Law 112-14 on the provinces and prefectures, and (iii) Organic Law 113-14 on local government arrangements.

To give effect to this new legal framework for citizen participation, the Moroccan government has taken several steps, focused on:

- launch (in November 2015) of a centre providing civil society organisations with information, advice and support on the legal aspects of associative life,

- publication in the Official Gazette of the decree setting the composition, powers and operating procedures of the committee on petitions (which reports to the Head of Government) and appointing its members,
- adoption (March 2016) of a decree putting in place an annual civil society award for civil society actors,
- launch of a training programme on citizen participation for 1,200 association leaders,
- creation of a portal to consolidate good governance, transparency and CSO access to information, particularly on public financing. (www.charaka-association.mawww.charaka-association.ma).

As well, Morocco is engaged in developing and implementing an action plan to join the Open Government Partnership (OGP), on the basis of five principles: budgetary transparency, citizen consultation and participation, integrity, access to information (the adoption of the relevant legislation constitutes a condition for Morocco to join this partnership: OECD, 2050). The government programme also proposes the following actions:

- Enhance the financial resources available to CSOs and develop a portal dedicated to public-private partnership in order to ensure equity and transparency in access to public financing, on the basis of clearly defined criteria;
- Bring into conformity with constitutional provisions the regulations governing the creation of associations and their appeals to public generosity;
- Introduce incentives for development projects sponsored by CSOs;
- Prepare draft legislation on foundations and civilian philanthropists.

To meet the eligibility criteria for the Open Government Partnership, Morocco has taken a number of actions. Most importantly it:

- Hosted an international conference in Rabat (8 November 2012), in cooperation with the OECD and with participation of the World Bank, Jordan, Great Britain, the United States, the General Confederation of Enterprises of Morocco, and civil society, on the theme “implementing open governance policies”. This led to the creation of a steering committee to lead open government activities in Morocco;
- Took part in an OECD peer review (involving experts from Brazil, Spain and Belgium) of the OECD report on “Open Government in Morocco”, which issued a series of recommendations in the areas of coordinating citizen participation, budget transparency, integrity, and use of new technologies;
- Organised consultation meetings with representatives of ministries, institutions responsible for governance and civil society, including a seminar (29 September 2015) on the topic “Involving Moroccan society in open government: expanding civil society participation in OGP in Morocco” and a discussion workshop (17 February 2016) on the topic “The role of civil society in open government”, in order to expand the Steering Committee to include members of civil society and the private sector, as well as independent institutions;
- Presented letters of intent to the OGP steering committee (17 November 2016) on the occasion of the OGP Summit in Paris.

Outstanding challenges

To overcome the obstacles to constructive participation by civil society in public affairs, the authorities need to:

- **Accelerate the implementation of the recommendations and guidelines issuing from the national dialogue on civil society and the new constitutional prerogatives;**
- **Ensure that implementation of the legal framework for citizen participation gives it the place it deserves, and monitor and evaluate citizen participation with a view to its continuous improvement;**
- **Reinforce the independence of CSOs by endowing them with sufficient financial resources and upgrading their management and advocacy techniques, and their ability to help in preparing and monitoring public policies and programmes;**
- **Develop and generalise the use of project tendering mechanisms for the benefit of CSOs, based on explicit specifications and subject to systematic audit and evaluation;**
- **Develop a reliable system of information on CSOs for better monitoring and supervision** (active associations, recipients of subsidies from the State and from abroad, territorial distribution, etc.);
- **Adopt and implement the law on access to information so as to create suitable conditions for greater citizen participation in public life;**
- **Adopt and implement the action plan for open government and see that civil society participates actively in this process.**

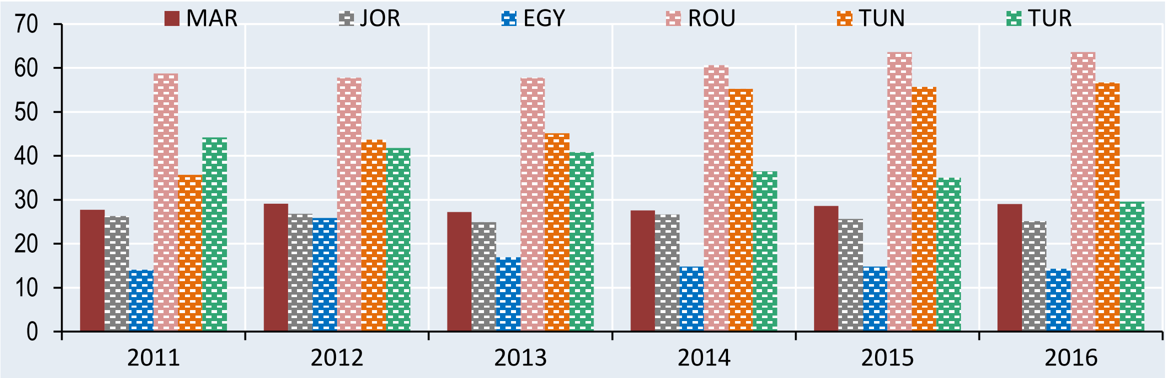
B. Deepening and systematising public-private dialogue to give effect to participatory democracy and promote inclusion

Current situation

Public-private dialogue is a characteristic of modern and transparent economies. It is an appropriate framework for cooperation between the government and its economic and social partners and for promoting economic, political, social and cultural development. However, lack of coordination and consultation among the various stakeholders constitutes a major constraint on strong and inclusive growth.

With respect to the "Governance and Accountability" indicator developed and measured by the World Bank, Morocco is not well positioned. As regards the status of freedom of expression and the level of influence of the private sector and civil society, Morocco's performance has marked time since 2010, primarily due to delays in implementing the provisions of the 2011 Constitution as they relate to participatory democracy.

Figure 34: Worldwide Governance Indicators, voice and accountability (0 = not efficient, 100 highly efficient)



Source: Worldwide Governance Indicators (WGI).
Note: The Indicator "Voice and Accountability" measures the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of association, and a free media.

Reform efforts

The 2011 Constitution contains provisions for fostering public-private dialogue. The 2011 Constitution enshrined the right of association and of nongovernmental organisations to contribute, within the framework of participatory democracy, to the enactment, implementation and evaluation of decisions and initiatives of elected institutions and the public authorities (Constitution, 2011, article 12). It also provides that the public authorities must create coordination bodies in order to associate the various social stakeholders in the enactment, implementation and evaluation of public policies (Constitution, 2011, article 13).

Consultation mechanisms exist in various fields, but remain limited. On the economic front, a host of professional chambers, primarily the chambers of commerce, industry and services and the national and regional sectoral federations, are tasked with representing sector interests and helping to consider and find solutions to the questions and problems facing their respective sector. At the central level, interministerial commissions have been established, by regulation or administrative decision, to find concerted responses to questions that involve more than one ministry. However, the makeup of these commissions is generally limited to representatives of the ministerial departments.

The relationships of coordination and consultation with private stakeholders (professionals and civil society) have been expanded in line with the demands of donors concerning the identification and development of the projects financed. The most instructive case is that of the Millennium Challenge Corporation (MCC), which financed and implemented Compact 1 in 2008-2013 and participated, with the government of Morocco, in the development of Compact II, in 2014-2016, implementation of which began in July 2017. The governance model adopted for implementing the compacts must respect the MCC directives and guidelines covering various aspects, primarily the adoption of a participatory approach and the holding of expanded consultations with all stakeholders concerned, and at all phases of the project.

On the social front, public-private dialogue has been strengthened and institutionalised in the area of work, where tripartite social dialogue on social questions is frequently organised between the

government, the Employers' Association (CGEM) and the labour unions. As a rule, however, the private sector and civil society are not represented as full members of these commissions.

Morocco's most successful experiment in the area of public-private dialogue has been with the National Committee on the Business Environment (CNEA, see box). The record of achievements with a series of reforms, often complex and usually involving several stakeholders, testifies to the effectiveness of an innovative mechanism for strategic guidance and coordination among several public and private stakeholders. The CNEA is cited as a model for emulation in other areas of public policy in Morocco, and enjoys credibility with international donors.

Box 2: The experience of the CNEA in public-private dialogue

The task of improving the business climate in Morocco was conferred upon the National Committee on the Business Environment (CNEA), which today constitutes an institutional platform[57] for public-private dialogue.

Chaired by the Head of Government, it comprises representatives of the private sector, the ministries and establishments concerned, and the private sector (CGEM, GPBM and the CCIS Federation). Other private sector players are associated, according to their area of competence.

The CNEA is tasked with (i) determining the institutional nature of the public-private dialogue, (ii) listening to the business world in order to identify constraints on entrepreneurship; (iii) coordinating basic reforms and assessing their impact; and (iv) proposing reforms to improve the legal framework for business and procedures concerning the business lifecycle.

The CNEA's operating mode is the "project mode", backed by the participatory approach, for identifying and carrying out reforms in ways that involve all stakeholders in a constructive manner.

In organisational terms, the national committee is supported by a steering committee and a permanent secretariat. In operational terms, an interministerial team with a designated leader is tasked with implementing each project in close collaboration with the secretariat and stakeholders, drawing upon external technical assistance as needed. The project team also submits reports on the project for which it is responsible.

The CNEA meets at least once a year, chaired by the Head of Government, to take stock of progress and approve the programme for the following year.

The CNEA is a member of the "Public-Private Dialogue" international network. Set up by the World Bank, this network facilitates the sharing of good practices in public-private dialogue, bringing together each year some 350 representatives of government, the private sector, civil society, and professional organisations from more than 40 countries.

The main achievement of the CNEA has been to implement various measures and to enhance Morocco's image internationally, to the point where it now ranks 68th among 190 countries (latest edition of Doing Business 2017) for its business climate, instead of its 128th position in 2010.

[57] The CNEA was instituted by Decree no. 2-10-259 (Official Gazette 2 December 2010).

Constraints and challenges

The sector strategies and policies implemented in Morocco have performed poorly (see Pillar 1, point A), **due primarily to inadequate coordination of three dimensions – public-public** among ministries and agencies, etc.), **public-private** (promotion, investment, innovation etc.), and **private-private** (among private operators, within value chains) (AfDB-GoM-MCC, 2015)

Moreover, experience with public-private dialogue and consultation has for the most part been dominated by confrontation and demands, and less by the spirit of cooperation and conciliation. Despite its long history of collective bargaining, the culture of constructive bipartite employer-employee dialogue, based on mutual trust, is not yet well rooted in Morocco. Consequently, collective labour agreements are not sufficiently used. To overcome this situation, the government has included in its programme the institutionalisation of social dialogue at the central and sector levels, and within firms.

At the tripartite level, dialogue continues to encounter difficulties. The labour union centrals will frequently boycott the social dialogue meetings to which they are invited, with one of the parties casting the blame on the other. Thus, since 2011, only one tripartite agreement has been concluded between the government, labour union centrals and the CGEM.

In this context, the necessary efforts should be deployed in order to:

- **Introduce laws and regulations, consistent with the Constitution, to organise the contribution of associations and nongovernmental organisations to the enactment, implementation and evaluation of public decisions on policies, programmes and projects.**
- **Institutionalise public-private dialogue and ensure systematic participation by representatives of the private sector in national and local dialogue on all public policies and projects,** from conception to evaluation: this would facilitate a better definition of needs, the development of synergies, the distribution of roles among all stakeholders, and the definition of their responsibilities.
- **Upgrade the capacities of the private stakeholders, including professional organisations and associations, and share information** so as to improve the quality of the private sector contribution to seeking agreed solutions to development constraints, at the national and local levels.
- **Generalise and institutionalise the public-private dialogue model of the CNEA to other areas, in particular those concerning social policies and human capital.**

C. Promoting women's empowerment and the participation of women and youth

Current situation

Morocco has undertaken several reforms to protect and promote human rights, in particular those of women and youth. Following adoption of the 2011 Constitution, which underlines the obligation to expand and generalise the participation of women and young people in the country's economic, social, political and cultural development, the "national list" was inserted into the organic Law 27-11 concerning the Chamber of Representatives, and the number of seats was increased from 30 to 90, 30 of which are reserved to young people (men and women) under 40 years of age. As well, the government installed in 2017 has nine female members, as opposed to six under the previous government.

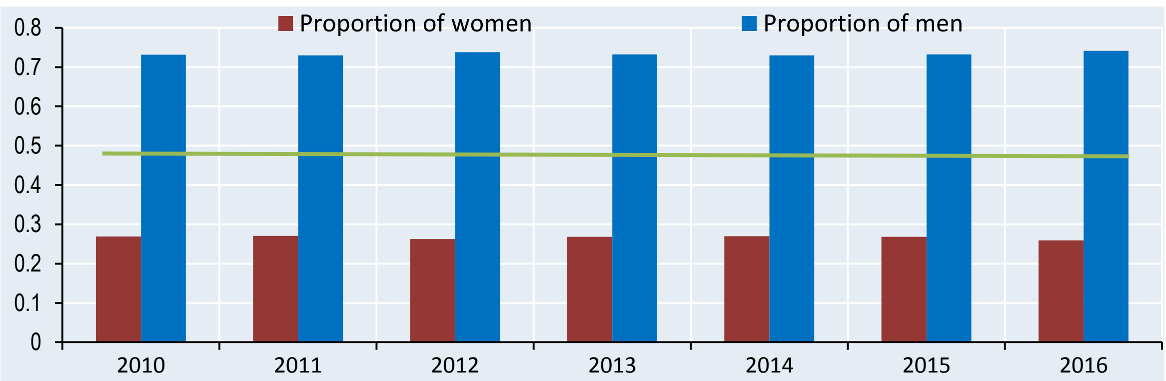
Despite recent progress, the number of women members of the Moroccan parliament remains comparatively low. In the legislative elections of 7 October 2016, 81 women were elected as deputies (71 by the quota system) in the Chamber of Representatives, accounting for 20.5% of the total seats, versus 16.7% in 2011 and 10.7% in 2007. This places Morocco in 90th position among a total of 193 countries worldwide (Inter-Parliamentary Union, ITU, 2017). As to the Chamber of Councillors, it had 14 women members (11.7%) in 2015, versus 6 women (2.2%) in 2009.

Table 13: Morocco's ranking in terms of female representation in Parliament (First chamber)

Date	No. of women elected	Share (%)	International ranking
September 2007	34	10.46%	95
November 2011	67	16.7%	85
October 2017	81	20.5%	90

Source: Inter-Parliamentary Union Report (August 2017)

Figure 35: Gender shares in employment in Morocco



Source: HCP, 2017.
Note: The line at 0.5 indicates perfect parity.

Reform efforts

Several efforts have been made to combat exclusion, particularly of women and youth. Of particular note are public programmes in the areas of education/training and employment (see Pillar III, point D).

Female entrepreneurship is a priority. Female entrepreneurship[58] has been encouraged in order to exceed the current level (0.6% of active women employed between 1999 and 2013, according to HCP, 2013). The number of enterprises belonging to women is estimated at 10% of the total[59], and they are essentially SMEs in the sectors of services (56%), commerce (21%) and industry (23%) (Moroccan Association of Female Entrepreneurs, AFEM, 2015). Female heads of enterprise generally have a high level of education. Nearly 60% of them have a higher education degree. According to the *Association des Femmes Chefs d'Entreprises du Maroc* (AFEM), 82% of the problems experienced by women entrepreneurs have to do with administrative and managerial aspects (recruitment, market access, access to financing etc.) (AFEM, 2015). Access to financing is regarded as one of the main obstacles to female entrepreneurship, as nearly half of enterprises belonging to women are self-financed, and external resources account for only a third of their total financing (OCP Policy Center, 2017).

In this direction, the 2011 Constitution and its application have resulted in several reforms for empowering women and involving young people, the most important of which are:

- The establishment of a quota for women and young people in the decision-making bodies of political parties, and in candidate lists for elections, through a reform to the Elections Code which constitutes an undeniable achievement in terms of improving the representation of women and the inclusion of young people in political life[60];
- Promulgation in 2012 of Organic Law no. 02-12 on appointments to senior functions, which among other things calls for observance of the principles of merit, equality of opportunities, transparency, non-discrimination, and parity;
- Implementation of the Government Plan for Equality (ICRAM, 2012-2016) and the move toward parity. Following the adoption of this plan, several structures were established to oversee adoption of the principles of gender equality in the public service.[61] In August 2017, the government adopted ICRAM II for the period 2017-2021 to consolidate these gains;
- Adoption of Decree no. 2-13-533 on the Support Fund to encourage women's representation;
- Revision of the municipal charter (*Charte communale*) which now favours participatory, locally-based management of development taking into account the needs and concerns of men and

[58] According to the HCP, an employer is any active person working for his or her own account, operating his or her own business, or exercising a trade and employing at least one permanent employee.

[59] In the MENA region, comparatively few enterprises are owned by women. Tunisia and Morocco are the only countries where women have a relatively important stake in the capital of enterprises.

[60] Organic Law 27-11 on access to the Chamber of Representatives sets a quota of 60 seats for women and 30 for young people. At the local level, organic law 59-11 on the election of members of local councils has increased quotas for women at the municipal level from 12 to 27%. Similarly, a 33% quota for women was introduced for the regional councils. In 2015, Organic Law 113-14 on the communes, targeting mainstreaming of the gender dimension, was adopted by Parliament. The Law on Political Parties, reformed in 2011, requires parties to institute parity commissions and to have at least 30% female membership in their decision-making bodies.

[61] Authority for Parity and Combating All Forms of Discrimination, Gender Observatory for the Civil Service, Centre of Excellence for Gender-Sensitive Budgeting.

women. Each municipal council is to have an advisory commission known as the "Commission on Equity and Equality of Opportunities". Under Organic Law 111-14 on the regions, creation of an advisory body, in partnership with civil society members, responsible for examining regional issues relating to the principles of equity, equality of opportunities and gender, as well as an advisory body to study questions concerning centres of interest to youth;

- Adoption in 2015 of Organic Law 28-11 on the Chamber of Councillors, which calls for alternation between the two sexes on candidate lists for election;

- Adoption in 2017 of law 14-79 on the Authority for Parity and Combating All Forms of Discrimination, which enshrines gender equality and parity in all areas. Morocco was the only Arab country to have written into its constitution a provision calling for the creation of such an institution (OECD, 2017b);

- Adoption by the Chamber of Representatives in 2017 of the law on the Advisory Council on Youth and Associative Action. This Council will reinforce the role of youth in giving effect to participatory democracy and to active and engaged citizenship;

- Adoption of a literacy roadmap for the period 2015-2024, designed to achieve a 5% reduction in the illiteracy rate by 2024, to eradicate illiteracy among young people aged 15 to 24 years, and to improve the skills of the illiterate or semiliterate working population;

- Preparation of the national integrated strategy on youth 2015-2030 and the national employment strategy 2015-2025, based on guiding principles including "equity and inclusion", which seeks to support all categories, in particular women and youth, in gaining access to, or remaining in, employment;

- Reinforced measures in favour of the empowerment of women in need, through establishment of the Family Assistance Fund and the Social Cohesion Fund.

The reform of the Electoral Code helped improve women's participation in the local elections (21.94%) and regional elections (38.64%) of 4 September 2015. Thus, the number of women elected was nearly double that in 2009, and the female representation rate rose from 12.4% to 22%. A third of the women elected are members of the management bodies, and 71% of them hold the position of Vice President (Interministerial Delegation for Human Rights, DIDH, 2016).

Progress has also been made at the level of the administration, even if the promotion of women to positions of responsibility remains limited. The proportion of women holding staff positions in the public administration rose from 37% in 2009 to 39.4% in May 2015. However, access for women to positions of responsibility is much lower, at 19.1% in 2014 (MEF, 2017b). With respect to the labour market (all sectors), men are three times as likely as women to hold jobs, a situation that does not seem to be moving toward a greater presence for female workers (see Pillar 1, point C).

A certain number of programmes exist to help promote female entrepreneurship. The AFEM, regarded as a model association for supporting female entrepreneurs in the region, provides development (coaching, training etc.), incubation and pre-incubation services to women with projects (OECD, 2014). According to that Association, access to finance is one of the main obstacles to female entrepreneurship, as nearly half of enterprises are self-financed, and external resources cover only a third of their total financing (OCPPC, 2017). A support programme for women entrepreneurs, “MinAjliki”, financed through the Belgian development cooperation agency, was established in 2013. Its successful first phase (2013-2016) has been followed by launch of the second phase at the beginning of April 2017, using a digital platform. Finally, the CCG, under the “Ilayki” programme, provides preferential guarantees for bank loans to support the creation of enterprises promoted exclusively by women.

Constraints and challenges

Despite the reforms and support efforts undertaken by the State, the activity rate of women is on the decline (23.6% in 2016 versus 25.5% in 2011), and the unemployment rate for young people between the ages of 15 and 24 (both sexes) is rising (22.5% in 2016 versus 17.9% in 2011).

Persistent obstacles are impeding real equality and parity between men and women in terms of political participation. Women are frustrated in their efforts to stand as political candidates by factors such as traditional power structures that perpetuate stereotypes with regard to women, or the lack of resources, inadequate support and coaching by peers, etc.

To give effect to the economic, social, political, civil and cultural rights of women and young people will require accelerated reforms in various areas. The following actions are recommended:

- **Step up the enforcement of constitutional and legal provisions (Law on Political Parties, Elections Law etc.) for reducing gender inequalities;**
- **Expand and reinforce support for women's empowerment and the inclusion of young people;**
- **Encourage female entrepreneurship by facilitating access to bank financing;**
- **Promote measures for reconciling work and family life in order to encourage greater and lasting integration of women into professional life and positions of responsibility.**

Annex I: Morocco Compact Implementation Plan

Pillar	Short Term (≤ 1 year)	Medium to Long Term (> 1 year)
I. Designing sound economic policies for an inclusive and sustainable market economy	1. **Reduce the rent-related market distortions** (licenses, permits, complex procedures, etc.) and generalising the **implementation of competition provision** 2. Initiate a **gradual and orderly transition towards a flexible exchange rate system** 3. Identify **target regions and vulnerable populations for social policies based on new data on regional disparities**, a	1. Create the conditions and mechanisms for the **reallocation of factors (capital and labour) towards most productive and technology-intense activities** (through, e.g. financial and tax incentives) 2. Strengthen the **conditions needed to bring growth in line with its potential level**: synergies, green economy, removing obstacles to private sector growth, regional development, etc. 3. Encourage **labour participation adapting human capital to market demand** as well as **active labour market policies and life-long learning** 4. Refocus redistributive policies towards improving living conditions with a view to **reducing inequalities**: policies focusing on regions falling behind, region-specific public transfers, regional solidarity, etc.
II. Enhancing the transparency and efficiency of public institutions and processes	4. Accelerate the operationalisation of the **Interministerial Committee for administrative reform** 5. Undertake the **mapping of public services** and prioritise them based on their impact on firms and citizens. 6. Accelerate the **implementation of the Anticorruption Strategy**, in particular through the operationalisation of the *Instance* and the National Commission and the reprogramming of activities, as well as **open government measures** 7. **Finalise the subsidy reform** based on an integrated approach and well-defined eligibility criteria 8. Change the approach to **tax waivers,** to make them limited in time and based on a clear ex-ante analysis, or replace them by direct fiscal transfers 9. **Limit the discretion of the tax authorities** and improve communication regarding the procedures and functioning of local tax commissions and the National Commission for Tax Appeals 10. Introduce a **new public investment management system** (PIMA) to improve prioritisation, monitoring and impact evaluation	5. **Prepare a long-term strategic vision "Morocco 2030"** as a global framework for government strategies and policies 6. Set up an **interministerial body, reporting to the Prime Minister's Office, in charge of coordinating the preparation, harmonisation, monitoring and evaluation of sectoral strategies and policies** 7. **Continue the "advanced regionalisation" process** with the objective of reducing regional disparities through the operationalisation of institutional structures and the revisiting of the allocation of human and financial resources in favour of subnational entities 8. **Modernise the governance of SOEs**, in particular by reforming the Law on financial control (clarifying the role of the State, using modern portfolio management tools, create a new authority in charge of managing public shareholdings, etc.) and improve the effectiveness and financial performance of SOEs 9. **Reform the civil service framework**, including the performance-based pay system (fixed and variable portions) 10. **Continue tax system reforms and tax administration modernisation** for more efficiency and fairness.

III. Building an attractive environment for investment and private sector development	11. Develop a **business environment strategy** reinforcing public-private dialogue and deepening the regional dimension 12. Complete the ongoing reforms to **modernise the legal framework for enterprises**, especially regarding insolvency and secured transactions 13. **Operationalise the institutional framework for competition** and galvanise the investigation bodies 14. **Promote the use of PPPs** for large-scale projects and public service provision 15. **Accelerate the preparation of the action plan under the National Employment Strategy**, keeping into consideration cross-cutting issues (gender, youth, territories, etc.) and ensure a good governance along the lines of CNEA 16. **Incorporate SMEs into the activities of the National Plan for Industrial Acceleration** and develop ecosystems and linkages with large enterprises 17. Adopt the **new Investment Charter** and prepare a new action plan for SMEs based on the data gathered by OMTPME 18. **Promote the use of e-government tools** (automation of commerce courts, regulations web portal, etc.) 19. Undertake an **in-depth assessment on the factors determining the integration of NEET in economic activities**	11. Fast-track the completion and adoption of the **new SME Charter** 12. **Continue the reform of the institutional framework for investment promotion through the creation of a single investment promotion entity** integrating under AMDIE the other remaining bodies (e.g. EACCE, *Maison de l'Artisan* and ONMT) 13. Identify, based on the data produced by OMTPME, **policy solutions aimed at addressing SMEs' access to finance constraints**, while promoting more transparency amongst SMEs 14. Ensure the **coherence and alignment of the Industrial Acceleration Strategy with other structural public policies** (e.g. transport infrastructure, training, innovation, urban planning) 15. **Improve the quality of education, professional training and tertiary education systems**, in particular by revising the curricula, developing teaching capacities and strengthening educational and social support systems 16. **Review the Labour Code** under a participatory and integrated approach in order to flexibilise labour market regulations while protecting legitimate workers' rights 17. Finalise and implement the **national strategy for financial inclusion** based on a needs assessment and an identification of priorities and in co-ordination with initiatives by stakeholders
IV. Involving the public and civil society and the business community in decision-making	20. Accelerate the **implementation of the recommendations from the National Dialogue on Civil Society** 21. **Generalise and institutionalise the CNEA's public-private dialogue model to other domains**, including social policies and human capital 22. Strengthen and generalise the use of **calls for proposals for civil-society-led projects** based on clear criteria as well as systematic audits and evaluations of selected projects	18. Develop a **reliable CSO information system** for better monitoring 19. Continue and accelerate the implementation of the Constitutional provisions regarding the **laws and regulations on civil society participation in the preparation, implementation and evaluation of public policies** 20. Step up the promotion of **women entrepreneurship** and putting in place adequate policies to **reconcile work and family life** 21. Accelerate the **implementation of the Integrated Youth Strategy** keeping into consideration the territorial dimension.

Annex II: The Compact for Economic Governance: Technical Aspects and Methodology

The Compact for Economic Governance

On 6 May 2015, Senior Officials of the Deauville Partnership unanimously adopted the **Compact on Economic Governance**. Following past action plans on topics such as open government, anti-corruption, asset recovery and SME development, the Compact provides a framework for reform efforts across Arab Countries in Transition (ACTs) aimed at promoting good governance and a sound business climate as preconditions to boost inclusive growth. G7 Leaders' welcomed the agreement on the Compact in the 2015 Schloss Elmau summit declaration as well as "the shared commitment to implement [it]" in the 2016 Ise Shima summit declaration.

The Compact was prepared by the German G7 Presidency with support from the OECD with the overall objective of identifying key policy objectives and reform priorities across four main pillars (see Figure 1).

Figure 1: Compact for Economic Governance: Overall Objectives, Pillars and Policy Areas

The Compact is designed not as a mere declaration but rather as an operational document to inform policy dialogue within the Deauville Partnership. Indeed, the Compact refers explicitly to "follow up" in the form of a "steady dialogue and consultation process", in particular through **a peer review and peer learning** mechanism supported by the OECD, the Deauville Partnership's international financial institutions (IFIs) as well as relevant coordination platforms. The Compact's priorities are to be operationalised through **country-tailored implementation plans** under which ACTs identify specific policy measures which could then be supported by G7 and partner countries through technical assistance (including under the umbrella of the MENA Transition Fund) and other supporting measures. Finally, the Compact underscores the need to measure and monitor policy effectiveness as part of these plans. To this end, both qualitative measures and internationally established indices are used to benchmark progress towards reaching policy objectives.

Overall Approach to the Country-Level Implementation of the Compact

The OECD is supporting ACTs in the preparation and monitoring of country-tailored Implementation Plans. This support is structured as a two-step exercise:

- ***Phase 1 – Stock-taking***: The OECD supports ACTs in identifying priority areas for intervention by assessing and benchmarking the current state of play across the Compact's four pillars. This demand-driven assessment takes the form of a comprehensive **Stocktaking Report** for each ACT to be presented and discussed at a Deauville Partnership Senior Officials' Meeting. Under each of the pillars, these reports contain: (1) a *qualitative assessment of reform implementation* since 2011 (including both achievements and outstanding challenges); (2) an *indicator scoreboard* listing output and outcome indicators (with both baseline values and historic trends to allow comparison across ACTs but also improvement over time for each individual ACT); and (3) *policy recommendations* to serve as a basis for the Compact Implementation Plans through the identification and prioritisation of reforms.
- ***Phase 2 – Progress reporting:*** Building on each Stocktaking Report as a baseline assessment, the OECD will report annually on progress made by ACTs in the different dimensions of the Compact. This will be done through a brief Monitoring Report providing for each ACT: (a) a *description of achieved or ongoing reforms as well as emerging challenges*; (b) an *update on output and outcome indicators*; and, potentially, (c) a *thematic focus in one policy area covered by the Comp*act. Monitoring Reports will also be presented and discussed at Senior Officials' Meetings.

In parallel to both exercises above, ACTs will benefit from **capacity building** through the above peer-review exchanges, the involvement of government officials in the gathering and interpretation of relevant data and indexes, as well as specific capacity-building and knowledge-sharing meetings.

This Deauville Partnership tool will be complementary to, and aligned with, other instruments to support policy dialogue and reform implementation at the national level, including IMF programmes and budget support from IFIs and bilateral donors.

Stocktaking Reports: Overall Approach and Methodology

Stocktaking Reports are prepared by the OECD in consultation with each relevant ACT and in cooperation with Deauville Partnership IFIs. Drafts are circulated to each ACT for fact checking and to IFIs for comments. Draft Reports will be submitted by the OECD to the G7 Presidency for inclusion in the agenda of a Senior Officials' Meeting. A peer review discussion will then take place with the participation of other ACTs, G7 countries, as well as partner countries.

Stocktaking Reports are concise and relatively high-level. They comprise qualitative and quantitative elements.

On the *qualitative* front, the Reports identify key developments, challenges and recommendations across the four pillars. While following the structure of the Compact, each report is adapted to the specific circumstances of each ACT, as the relative importance of policy priorities and pillars varies from country to country. Given the extensive analytical work undertaken by various partners in most ACTs, Stocktaking Reports build on existing research and analysis, including reports and other materials produced by the OECD, the Deauville Partnership IFIs and bilateral development agencies from G7 and partner countries. Each report contains a list of references used in the analysis.

On the *quantitative* front, each Report contains an indicator scorecard comprising 32 indicators (see **Annex III**). The scoreboard combines macroeconomic variables, composite indices, and other indicators. Indicators have been carefully selected based on three criteria: relevance, availability, and comparability. As a result, the scoreboard includes well-established indices typically used in the evaluation of structural reforms and public policies, and which are available for all four reference ACTs

(Egypt, Jordan, Morocco, and Tunisia) and updated periodically (on a yearly basis in most cases). In order to avoid comparability concerns, national statistics and other quantitative data are used in the qualitative assessment but are not part of the indicator scoreboard. Indicators cover both policy output and outcomes. In addition to values for ACTs, the scoreboard provides OECD averages and data from a set of comparator emerging economies from different regions (Malaysia, Mexico, Turkey and Romania) for benchmarking purposes. Depending on the indicator, baseline values will be 2010 or multi-year averages (e.g. 2000-2010).

The use of qualitative indicators is subject to important caveats. First, the indicator scoreboard is just part of the analysis and its results need to be analysed in combination with the qualitative assessment. Second, the Reports refrain from establishing a causal link between the implementation of specific reforms and the evolution of individual indicators. The indicator dashboard is thus used to provide an overall picture of the situation in each ACT and the evolution over time, not to measure the impact of a given reform. When available, data on the actual results of a given policy or reform are presented as part of the qualitative analysis.

Preparation of the Pilot Stocktaking Report for Morocco

The preparation of the Pilot Stocktaking Report for Morocco took place in three stages.

First, the OECD conducted a dialogue mission in Rabat (June 2017) to present the proposed methodology and consult the authorities on the overall approach and scope of the Stocktaking Report.

Second, the fact-finding and data collection exercises were completed through thorough desk research as well as field missions to Rabat (July 2017). Table 1, below, provides a list of stakeholders who participated in this exercise.

Table 1: List of Co-ordinating institutions and stakeholders who participated in fact-finding missions

MOROCCO
Co-ordinating institution: Ministry Delegate to the Head of Government in charge of General Affairs and Governance
• Office of the Head of Government • National Conseil for the Business Environment • Bank Al Maghrib • Ministry of Economy and Finance • Ministry of Industry, Investment, Trade and Digital Economy • Ministry of Labor and Professional Integration • Ministry of National Education, Vocational Training, Higher Education and Scientific Research • Ministry of Administration Reform and Public Service • Ministry of Transport Equipment and Logistics • Ministry of Justice and Freedoms • Ministry of Relations with Parliament and Civil Society • Ministry of the Interior • Ministry of Foreign Affairs and International Cooperation • High Commission for Planning (HCP)
Other stakeholders met: • World Bank • Meeting with representatives of Embassies of G7 countries

Third, consultations with ACTs and other stakeholders on the basis of the interim draft report took place in October and November 2017. The report was then presented, reviewed and discussed at the Senior Officials' Meetings of the Deauville Partnership held in Rome on 21 November 2017.

Annex III: Compact for Economic Governance Indicator Scoreboard

Number	Pillar	Indicator	Type (Outcome / Policy)	Rationale	Source	Frequency and period of reference
1	Economic Policies for Inclusive, Sustainable Growth	**Real GDP growth (percent change)**	O	Basic macroeconomic framework (growth)	IMF World Economic Outlook databases	Annually (2000-2017)
2	Economic Policies for Inclusive, Sustainable Growth	**Inflation (percent change)**	O	Basic macroeconomic framework (price stability)	IMF World Economic Outlook databases	Annually (2000-2017)
3	Economic Policies for Inclusive, Sustainable Growth	**Labour productivity (GDP at PPP exchange rates per employed person; annual growth rate)**	O	Measuring efficiency with which inputs are used to produce goods and services; including absolute levels as well as y-o-y growth	Calculations based on ILO Key Indicators of the Labour Market database; OECD (for OECD average)	Annually (2000-2016)
4	Economic Policies for Inclusive, Sustainable Growth	**Employment-to-population ratio**	O	Basic macroeconomic framework (employment); Measuring share of employment for working age population	ILO Key Indicators of the Labour Market database; OECD (for OECD average)	Annually (2000-2016)
5	Economic Policies for Inclusive, Sustainable Growth	**Total investment/GDP**	O	Measuring gross fixed capital formation (public and private)	IMF World Economic Outlook databases	Annually (2000-2016)
6	Economic Policies for Inclusive, Sustainable Growth	**Current account balance/GDP**	O	Basic macroeconomic framework (current account)	IMF World Economic Outlook databases	Annually (2000-2016)
7	Economic Policies for Inclusive, Sustainable Growth	**General government gross debt/GDP**	O	Basic macroeconomic framework (fiscal); Measuring sustainability of government finances	IMF World Economic Outlook databases	Annually (2000-2016)
8	Economic Policies for Inclusive, Sustainable Growth	**(1) Gini coefficient and (2) poverty headcount ratio at $3.10 a day (2011 PPP) (% of population) (not available for Egypt)**	O	Measuring level of inequality in income distribution and poverty levels	World Bank World Development Indicators	Varying frequency; most recent data ranges between 2007-2012; poverty headcount data not available for Egypt
9	Economic Policies for Inclusive, Sustainable Growth	**CO2 emissions (kg per USD 1,000 of GDP)**	O	Measuring efficiency in terms of energy consumption/environmental sustainability of growth	International Energy Agency	Annually (2000-2015)
10	Economic Policies for Inclusive, Sustainable Growth	**Exports of goods and services/GDP (for all ACTs); TiVA (for Tunisia)**	O	Measuring openness to trade; TiVA can be used in countries where it is available (at present only Tunisia) to measure value addition, participation in GVCs	OECD Trade in Value Added; World Bank World Development Indicators	Annually (2000-2014); Latest TiVA data is from 2014

11	Public Sector Transparency and Efficiency	**Tax revenue/GDP**	O	Measuring resource mobilisation efforts	World Bank World Development Indicators, OECD (for OECD average)	Annually (2000-2014)
12	Public Sector Transparency and Efficiency	**Government expenditure in (1) compensation of employees; and (2) subsidies**	O	Showing relative importance of government expenditures in key dimensions (civil service, subsidies)	IMF Governance Finance Statistics	Annually (2000-2014)
13	Public Sector Transparency and Efficiency	**Transparency International Corruption Perception Index**	O	Widely used composite index measuring corruption perceptions as a proxy for governance standards	Transparency International	Annually (2009-2016)
14	Public Sector Transparency and Efficiency	**Global Open Data Index score**	P	Composite index measuring legal and technical openness of government data	Open Knowledge Open Data Index	Annually (2013-2016)
15	Public Sector Transparency and Efficiency	**Open Budget Index**	P	Composite index measuring transparency in central government budget formulation and execution	International Budget Partnership Open Budget Index	Biennially (2006-2015)
16	Public Sector Transparency and Efficiency	**Worldwide Governance Indicators for (1) Government Effectiveness; (2) Regulatory Quality; and (3) Rule of Law**	P	Composite index measuring key aspects of governance based on various data sources (surveys, international organisations, NGOs)	World Bank's Worldwide Governance Indicators	Annually (2010-2016)
17	Investment Climate and Private Sector Development	**(1) FDI inflows; (2) FDI stocks (% of GDP)**	O	Measuring trends and relative positions regarding foreign direct investment attraction	UNCTAD database	Annually (2000-2016)
18	Investment Climate and Private Sector Development	**New business density (new limited liability firms per 1,000 working-age people)**	O	Measuring LLC incorporations based on business registry data as a proxy for overall entrepreneurial activity/business creation	World Bank's Entrepreneurship Survey database	Annually (2010-2014); not available for Egypt
19	Investment Climate and Private Sector Development	**Domestic credit to private sector/GDP**	O	Measuring depth of credit market for private sector as a proxy for financial sector development	IMF International Financial Statistics	Annually (2010-2016)
20	Investment Climate and Private Sector Development	**Financial inclusion (% of adults with an account at a financial institution)**	O	Measuring financial inclusion amongst the adult population as a proxy for overall access (no comparable data exists for SMEs)	Global Financial Inclusion (Findex) Database	Every three years (2011, 2014)

21	Investment Climate and Private Sector Development	**Resident patent applications per 100 billion USD GDP (2011 PPP)**	O	Measuring patent production relative to the size of the economy as a proxy for innovative activity	WIPO Statistics Database	Annually (2010-2014)
22	Investment Climate and Private Sector Development	**Evaluation of key transition policies: (1) large and small-scale privatisation; (2) Governance and enterprise restructuring; (3) Price liberalisation; (4) Trade & Forex exchange system; and (5) Competition Policy**	P	Measuring progress in areas for a successful transition to a market economy, as evaluated by the EBRD's Chief Economist Office	European bank for Reconstruction and Development (ERBD) Transition Indicator Database	Annually (2012-2014)
23	Investment Climate and Private Sector Development	**FDI Regulatory Restrictiveness Index**	P	Measuring statutory restrictions to FDI across sectors as a proxy for the openness of the FDI policy framework	OECD FDI Regulatory Restrictiveness Index	Annually (2010-2016)
24	Investment Climate and Private Sector Development	**Global Entrepreneurship Monitor (Average National Expert Survey scores of entrepreneurial ecosystem and total early-stage entrepreneurial activity) (only for Tunisia, Egypt, Morocco)**	P/O	Measuring (a) the strength of the overall environment for entrepreneurship (including several key variables); and (b) actual entrepreneurial activity based on survey data	Global Entrepreneurship Monitor	Every 2/3 years for National Expert Survey (2010, 2012, 2015); only 2015 for adult population survey on entrepreneurial activity; GEM data not available for Jordan
25	Investment Climate and Private Sector Development	**World Bank Doing Business Distance to Frontier**	P	Measuring performance in World Bank Doing Business dimension as a proxy for the overall business regulatory environment; distance to frontier measures absolute performance over time	World Bank DB, distance to frontier	Annually (2010-2017)
26	Investment Climate and Private Sector Development	**Average trade facilitation performance**	P	Measuring the policy framework for trade facilitation	OECD Trade Facilitation Indicators	Every 2/3 years (2015)
27	Investment Climate and Private Sector Development	**Logistics Performance Index (overall score)**	P	Measuring performance in trade logistics	World Bank Logistics Performance Index	Biennially (2007-2016)

28	Inclusive Decision-Making	**Youth unemployment rate**	O	Measuring youth labour market outcomes	ILO Key Indicators of the Labour Market database; OECD (for OECD average)	Annually (2000-2016)
29	Inclusive Decision-Making	**Gender labour participation gap**	O	Measuring gender labour market outcomes	ILO Key Indicators of the Labour Market database; OECD (for OECD average)	Annually (2000-2016)
30	Inclusive Decision-Making	**Worldwide Governance Indicator for Voice and Accountability**	P	Composite index measuring strength of voice & accountability mechanisms based on various data sources (surveys, international organisations, NGOs); used to evaluate mechanisms for public participation in policy-making	World Bank's Worldwide Governance Indicators	Annually (2010-2016)
31	Inclusive Decision-Making	**Proportion of parliamentary seats held by women**	P	Proxy for women participation in policy-making	Inter-Parliamentary Union, OECD Gender Data Portal	Annually (2010-2017)
32	Inclusive Decision-Making	**Commonwealth Youth Development Index indicator for political participation**	P/O	Composite index measuring different aspects of youth political engagement, including policy inputs (policy framework) and outcomes (voter education and youth voice)	Commonwealth Youth Development Index	Every 2-3 years (2013, 2016)

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