

KINGDOM OF MOROCCO

GOVERNING TOWARDS EFFICIENCY, EQUITY, EDUCATION AND ENDURANCE

A Systematic Country Diagnostic

June 2018



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Abstract

Over the last 15 years, thanks to pro-poor growth performance, investment in education, health and other social services, and the deployment of social safety nets, Morocco has succeeded in eliminating extreme poverty, reducing poverty and to a lesser degree sharing prosperity. Yet, to make further poverty reduction progress, grow the middle class and meet the economic, social and societal aspirations of Moroccan youth, women and other vulnerable segments of society, Morocco needs to pursue a higher and more sustainable and inclusive pattern of economic growth that promotes job creation.

The current growth model, however, shows signs of weaknesses as it is confronted with a series of sustainability issues (from economic to financial, territorial, environmental or social) that risk, with varying degrees of intensity, impeding progress toward emergence. Growth in the past two decades has been mainly based on public capital accumulation that will be difficult to maintain without higher total factor productivity gains in the future.

The Systematic Country Diagnostic (SCD) identifies the multifaceted lack of inclusion as the central factor preventing the emergence of a more dynamic private sector and the realization of higher productivity gains. This entails the lack of inclusive market institutions, lack of inclusive public institutions, lack of inclusive human capital formation, and lack of inclusive social capital and opportunities for the youth, women and citizens in general.

The SCD then proposes four pathways to govern toward greater efficiency, equity, education and endurance. These pathways aim at getting Morocco closer to its efficiency frontier (through competition and innovation, a more business-friendly environment, improved public policy formulation and coordination, and better access to quality public services); leveraging the efficiency frontier for all (through labor market reforms, better targeted social protection and increased gender equity); pushing the efficiency frontier (through successful human capital formation and better management of urbanization), and greening the efficiency frontier (through integrated water management and climate change adaptation). In the spirit of the 2011 Constitution, the SCD then considers that a change in Morocco's system of governance (through access to information and accountability, voice and participation, and rule of law and justice) is required as the overarching cross-cutting pathway to make all the others possible.

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The SCD reflects data available up to June 2017.

Abbreviations

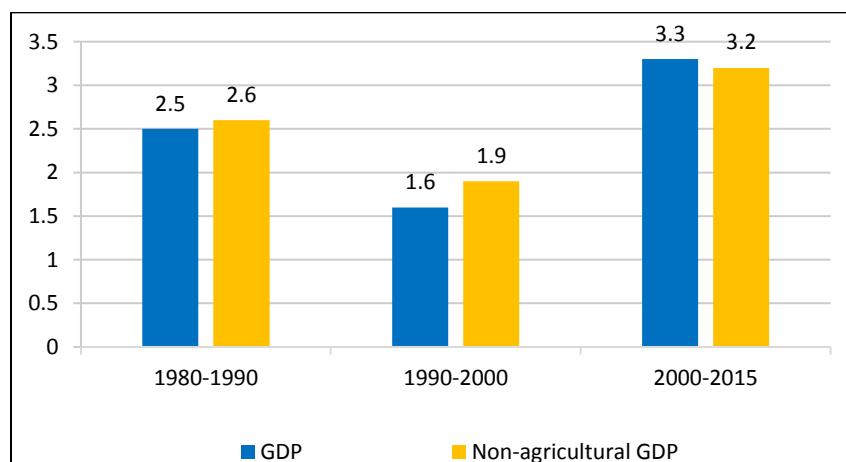
ASERs	Age-specific enrollment rates
BAM	<i>Bank Al-Maghrib</i> (Central Bank)
CGEM	<i>Confédération Générale des Entreprises du Maroc</i> (General Federation of Moroccan Businesses)
CNEA	<i>Comité National de l'Environnement des Affaires</i>
CSEFRS	<i>Conseil Supérieur de l'Éducation, de la Formation et de la Recherche Scientifique</i>
FSAP	Financial Sector Assessment Program
GDP	gross domestic product
HCP	High-Commission for Planning
ICT	Information and Communication Technology
MAD	Moroccan Dirham
MASEN	(Moroccan Agency for Solar Energy)
MDGs	Millennium Development Goals
MENA	Middle East and North Africa
MSME	Micro, Small and Medium-sized Enterprises
NDC	Nationally Determined Contribution
NEET	Not in Employment, Education or Training
OECD	Organisation for Economic Co-operation and Development
OMPIC	<i>Office Marocain de la propriété industrielle et commerciale</i>
ONCF	<i>Office national des chemins de fer</i>
ONEE	<i>Office national de l'électricité et de l'eau potable</i>
PPP	Public-Private Partnerships
RAMED	<i>Régime d'Assistance Médicale</i>
SCD	Systematic Country Diagnostic
SMEs	Small and Medium Enterprises
SOEs	state owned enterprises
SSN	Social Safety Net
TFP	Total Factor Productivity
IMF	International Monetary Fund
TIMSS	Trends in International Mathematics and Science Study)
PIRLS	Progress in International Reading Literacy Study

Executive Summary

Morocco is a lower-middle-income country in North Africa with a population of about 34 million that in the past sixteen years benefited from political stability, which allows to carry out major economic and institutional reforms. Following the accession to the throne of His Majesty King Mohammed VI in 1999, the government (a constitutional monarchy with an elected parliament) adopted a series of reforms and new laws to gradually liberalize and open the economy, privatize several public enterprises, restructure the financial system, strengthen public governance and the rule of law and guarantee a growing number of fundamental human rights (World Bank 2006 and 2018). Women's rights were significantly strengthened with the widely-hailed revision of the Family Code (Moudawana) in 2004 and the implementation of the government plan for equality (ICRAM) in 2012. Morocco engaged in a new set of wide-ranging political and institutional reforms with the adoption of a new Constitution in 2011, which set the basis for a more open and democratic society, a more modern state of law and institutions, greater separation of powers, and increased decentralization (aka advanced regionalization).

These reforms have resulted in significant improvement in economic performance, poverty reduction and deep social changes. The Moroccan economy improved in the early 2000s. With annual per capita GDP growth averaging 3.3 percent from 2000 to 2015 (Figure ES.1), Morocco significantly reduced its poverty level and started to share the benefits of growth. The percentage of the population living below the national poverty line (US\$2.15 per day) fell significantly, from 15.3 percent in 2001 to 4.8 percent in 2014, and extreme poverty was eradicated (HCP 2016). Over the same period, the well-being of the bottom 40 percent grew both in absolute and relative terms (the well-being of the poor improved relative to that of the non-poor), pointing to an increase in shared prosperity. Morocco also managed to turn this growth upturn into improved net wealth by accumulating human, institutional and social capital, which is the main source of the populations' income and well-being (World Bank 2006b, 2011, 2017). There have been notable improvements in several indicators of well-being (e.g. a steep decline of the fertility rate; an increase in average life expectancy; expansion in access to education, with the universal primary education MDG reached by the end of 2015 and similar improvements at the secondary education level), as well as greater access by the poor to basic public services, increased access by the poor to decent housing, gradual urbanization and significant public infrastructure and water, electricity and transport).

Figure ES.1 GDP per capita growth rate, 1980-2015



Source : Haut-Commissariat au Plan.

Morocco is on a fast-track modernization process driven by major sectoral strategies and infrastructure projects. The strategies implemented over the last decade have maintained momentum into strategic sectors such as agriculture, mining, energy and industry (Ministry of Economy and Finance 2015). For example, the implementation of the Green Morocco Plan has already started to bear fruits in terms of the restructuring and modernization of the Moroccan agricultural sector. Investments in renewables, focusing on hydro, solar and wind power are driving the sector toward reaching the target of raising the share of renewable energies to 52 percent of total energy capacity by 2030. Equally, investment has focused on industrial specializations such as automobiles, aeronautics and offshoring that are linked to global value chains. For example, the establishment of Renault in Tangier has made Morocco the number two car maker on the continent behind South Africa. Closely linked, the establishment of high-performance ecosystems to integrate the value chains and consolidate local relations between large corporations and small and medium enterprises (SME) is part of the Industrial Acceleration Plan launched in 2014 that is set to increase the share of industry in total GDP to 23 percent and create half a million industrial jobs by 2020.

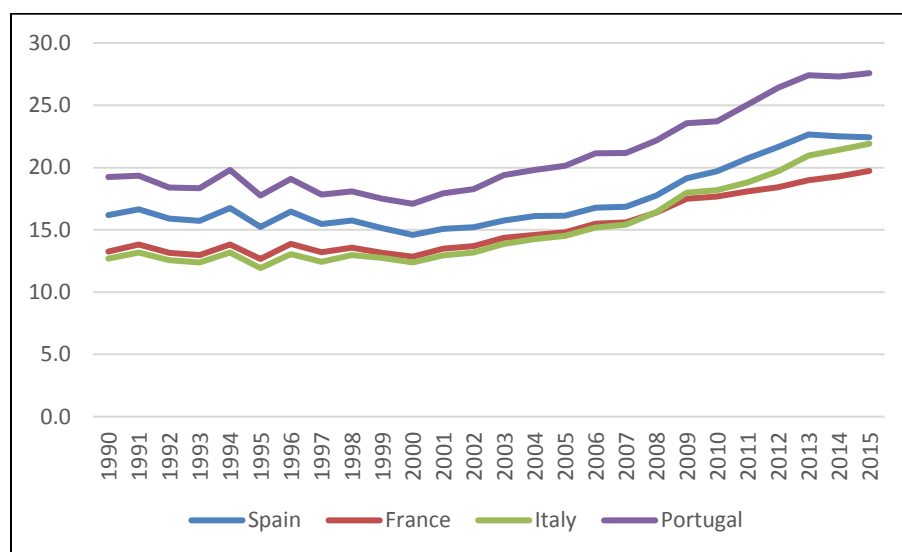
This modernization has been supported by a significant increase of public investment and a stable level of private sector activity, mostly in non-tradable sectors. On average, Morocco has invested almost 34 percent of GDP annually since the mid-2000s. Morocco also remains a major destination of FDI in the region, with around 4 percent of GDP per year since 2011. Besides traditional investors such as France and GCC countries, figures show increasing FDIs from other countries such as the US and Spain, tapping into Morocco's proximity to major markets and improved infrastructures. Indeed, investments such as the Renault project did not come to Morocco to seek natural resources or promising markets, but instead for new competitiveness gains necessary for the development of its entry level cars.

Thanks to its geographic situation and strengthened infrastructure, Morocco has positioned itself as an economic and financial hub between Europe and the African continent. Morocco has set in motion a new strategic South-South partnership built on co-development and closer South-South solidarity to make the most of its select geographical location and its historical relations with its European, American, Gulf and Mediterranean trading partners (Ministry of Economy and Finance 2015c). Key sectors have been encouraged to expand in other emerging and developing countries, especially in Sub-Saharan Africa. Large banking and insurance groups, the national phosphate company OCP, and many other businesses, including construction firms have expanded into Sub-Saharan Africa to diversify their income streams and extend their businesses. This was supported by an intense diplomatic activity, highlighted by the numerous of His Majesty the King's visits throughout Sub-Saharan Africa. These initiatives have been consecrated by Morocco's re-admission in the Africa Union and its recent bid to join the Economic Community of West African States (ECOWAS). In parallel to its outbound investments, Morocco is promoting wider economic partnerships, covering other key aspects of development such as agriculture, education, health care, banking, and climate change adaptation/mitigation. Consequently, "National champions" have set up operations in many Central and West African countries in the banking sector (Attijariwafa Bank, BMCE, and Banque Populaire), telecommunications (Morocco Telecom), insurance, energy (Platinum Power), the food industry and real estate (Douja Promotion Groupe), as well as in East Africa (Rwanda, Tanzania, Ethiopia and Madagascar) with recently agreed megaprojects.

Sustained reform has initiated a process of economic convergence with Southern Europe (France, Italy, Portugal, and Spain). While the average purchasing power of a Moroccan citizen (measured by per capita purchasing power parity GDP) had tended to stagnate or regress relative to the rate in Southern European countries during the 1990s, a convergence process took place throughout the 2000s (Figure ES.2). As a result, Morocco narrowed its per capita income gap with Spain by close to 10 percent over a

period of 15 years. Similarly, the gap with the other Southern European countries was also reduced, suggesting that this performance was due to Morocco's efforts and not to a poor relative performance of the comparator countries. Yet, this convergence process has again slowed down since 2013 (IMF 2016).¹

Figure ES.2 Economic convergence between Morocco and Southern European countries (in percentage of Moroccan GDP per capita, PPP in constant US dollar)



Source: World Development Indicators, authors calculation.

However, convergence could have been faster. The 2000s has been a decade of economic convergence for most developing countries. Advanced countries and high-income emerging countries (for example, Chile, Malaysia, South Korea, and Turkey) have on average tended to grow more quickly and have thus converged more rapidly than Morocco. The average Moroccan's purchasing power stood at only 22.5 percent of his or her immediate European neighbor in 2014. To assess the limitations of the Moroccan convergence process, one needs to bear in mind that the countries with successful economic takeoffs have all managed to not only maintain a per capita GDP growth rate of more than 4 percent for decades but to also share the growth dividends, including by way of rapid job creation.

Although the business environment has improved and there has been a steady increase in enterprise creation since 2011, more still needs to be done to increase the contribution of SMEs to growth.² These firms are hampered by various obstacles including the large role of the State in economic activities, limited use of technology that facilitates market linkages, low education achievements, and limited innovative capacity. Furthermore, economic activity seems to have been driven mostly by established firms rather than new firms and is mostly in a limited number of non-tradable sectors (construction, real estate, and small business) with low potential in terms of creation of quality jobs and value addition. While Morocco has improved its attractiveness for foreign investment (Renault, Zara, Bombardier, etc.),

¹ Under the IMF baseline growth scenario, Morocco's convergence half-life is around 50 years to OECD. Under a scenario with 1 percent higher growth than in the baseline, Morocco's half-life is reduced to around 33 years (IMF 2016).

² The importance of private sector promotion was underscored in the new strategy from the International Finance Corporation (IFC 3.0) as one of its pillars.

this dynamic is yet to deliver proven results in terms of job opportunities and shared prosperity. Market contestability/competitiveness as a complement to sector strategies must be promoted.

A large swath of youth and of women has remained inactive or unemployed, and some groups and regions still have limited access to services and economic opportunities. The Moroccan labor market is characterized by a high share of informality and unpaid family work especially in the agricultural sector and amongst women. Female labor force participation is low (26.6 percent in 2016), and in relative decline, resulting in a large unexploited productive resource. Moroccan youth between the ages of 25 and 34 (13.5 percent in 2016) have a job, which is often informal and insecure with low pay, lack of basic benefits and, in some instances, involves dangerous or exploitive work conditions. Even where living conditions have improved, many young people experience feelings of deprivation and injustice whenever they compare themselves with other reference groups or whenever public policies, particularly with respect to employment and opportunities to contribute to their communities, are not in line with their expectations (Serajuddin and Verme 2012). Although Morocco's political situation has evolved since 2011, the gap between the aspirations of Morocco's youth and their actual opportunities persists (WB youth study and the 2015 "Mind the Gap" paper). Indeed, access to employment is routinely cited in surveys as one of the population's primary needs and the top priority of one in five heads of households (HEM 2016).

Morocco's development model is confronted with six key vulnerabilities:

- **The economic model based on domestic demand, especially public investment, risks petering out without a significant increase in investment yield and productivity.** This calls for greater support of a gradual shift toward a more export-led model, where the private sector is playing a greater role as an engine of growth and employment.
- **The financing model needs to rely less on debt accumulation and more on private capital participation (equity and quasi-equity capital).** Morocco has restored macroeconomic equilibria and boosted the resilience of the financial sector. Despite increased indebtedness among all economic actors in recent years (the government, SOEs, private enterprises, consumers), Morocco has nonetheless managed to maintain a sustainable debt position. Trade and current account deficits remain structural, despite improvements since 2012.
- **Public investment management, including the management of SOEs, needs to become more efficient and inclusive on the delivery of infrastructure services.** This calls for stronger public-private partnerships (PPPs) and the use of innovative instruments to mobilize private financing to deliver on the needed infrastructure.³
- **In terms of territorial sustainability, urbanization is not generating the expected growth and structural transformation benefits, especially regarding industrialization.** Spatial inequalities and lack of inclusion are particularly pronounced in the areas of transport and ICT connectivity. By enabling more agglomeration economies instead of the fragmented urban expansion, Morocco would strengthen both its growth and inclusion potential.
- **To manage risks related to climate change, Morocco needs to invest in adaptation.** As a high water-stress country, Morocco has no choice but to preserve its ecosystems to achieve sustainable and inclusive growth across economic sectors and territories, including in agriculture, water, forestry, and fishery and aquaculture management. While Morocco is a

³ The authorities listed the port operator (Marsa Maroc) on the stock exchange in 2016.

regional leader in the sector of renewable energies,⁴ more private sector participation in the sector will be welcomed.

- **Strengthening the inclusiveness, transparency and efficiency of institutions would help maintain social peace.**

International experience shows that sustaining strong economic performance in the long term is considerably more difficult than achieving it. Like many developing countries, Morocco has successfully made the transition from low-income to lower middle-income status, but it is struggling to move to upper-middle-income status.⁵ To avoid the middle-income trap (Eichengreen, Donhyun, and Kwando 2013), Morocco would need to achieve and, more importantly, sustain for two generations higher productivity gains than in the past.⁶ The countries that have pulled off such economic “miracles” have generally adopted a structural change process with similar characteristics (Box ES.1). They have taken advantage of specific historical circumstances to alter their economic conditions. They have then made suitable decisions to facilitate structural change, technological upgrading and economic diversification. Finally, they have made it through the “glass ceiling” (so named because it is largely invisible) by accumulating largely intangible multifaceted assets that are human, institutional and social in nature.

Box ES.1 Key findings of the Commission on Growth and Development

Launched by several countries with World Bank support in 2006, the Commission on Growth and Development analyzed the characteristics of 13 economies that had achieved 7 percent growth or more for a period of over 25 years since 1950 (World Bank 2008). The Commission identified five conditions that a country must meet to attain and maintain a high level of growth: sound leadership and good governance; participation in the global economy; high investment and savings levels; flexible resources, especially in terms of jobs; and a policy of inclusion designed to share the benefits of globalization, provide the poor with access to services and reduce gender inequalities.

Many of the stylized facts brought to light by the Commission—whether in terms of rule of law and good governance, trade openness, trust, open competition, open labor markets, or female and youth participation—concern the characteristics of an open society.

Source: World Bank 2008.

Countries that have sustainably overcome the vulnerabilities of a low productivity supply and debt-driven demand are those that have embarked upon an extensive, rapid process of export-led structural change (McMillan and Rodrik 2011). These countries have generated large productivity gains by regularly relocating labor and capital to the most productive sectors and activities. This structurally transforms the economy as some sectors contract while others expand. In upper-middle-income countries, for example, the share of agriculture in total value added has shrunk on average 20 percentage points of GDP over the past 50 years, dropping to less than 10 percent of GDP in 2014. The share of industry, however, initially rose to approximately 30 percent of GDP in the early 1980s before falling sharply in subsequent decades. Yet, this structural mutation process is less active in Morocco. Unlike upper-middle-income countries, the share of agriculture in Morocco’s GDP has fallen more slowly over the past 35 years and remained high at 10.7 percent of GDP and 39.4 percent of employment in 2014.

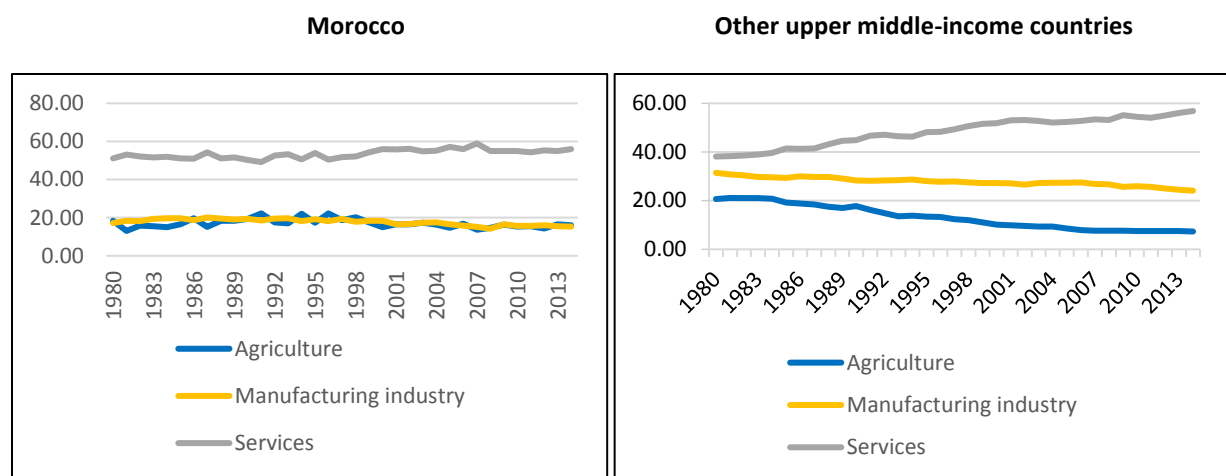
⁴ Wind (Tarfaya and Taza) and solar (Ouarzazate) parks were built under PPP arrangements.

⁵ An upper-middle-income country has a per capita GDP of between US\$4,126 and US\$12,735.

⁶ Productivity” means total factor productivity (TFP), unless otherwise indicated. Morocco’s labor productivity is in line with peers thanks to high investment, but its TFP has been sluggish.

The shares of industry and services have also remained relatively stable compared with the more dynamic trends posted by other comparable countries (Figure ES.3). Morocco's economic structural transformation process, over a long period, can be described as slow (El Mokri 2016).

Figure ES.3 Structural transformation in Morocco and in other upper middle-income countries



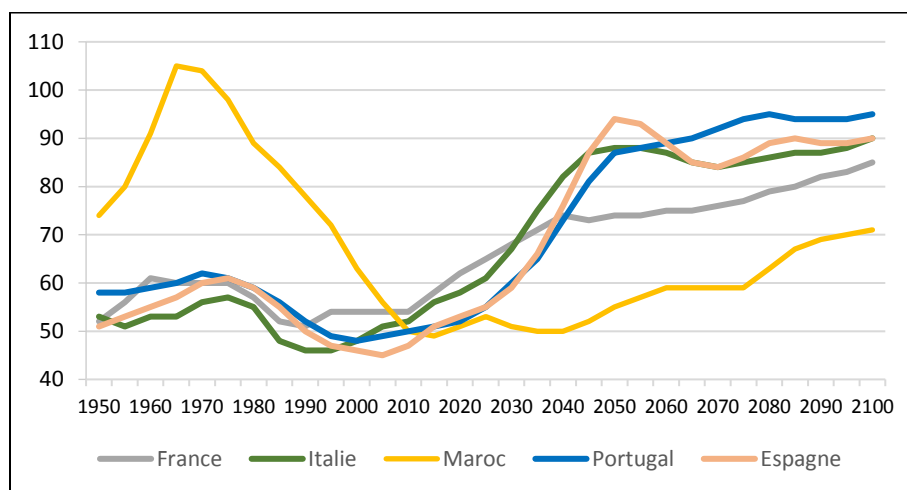
Source : Indicateurs de développement dans le monde.

The recent Country Economic Memorandum (CEM) for Morocco and other economic diagnostics conducted by international and national institutions all conclude that Morocco could seize the opportunities of its demographic transition, urbanization and improved learning levels to deepen its structural reforms and rebalance its growth model by scaling up its productivity gains and improving the population's rate of employment and well-being (World Bank 2018, OECD 2017, ADB 2015, IMF article VI, OCP Policy Center 2015, Bouabid Foundation 2010, IMF 2017). In particular, the CEM discusses the conditions for accelerating Morocco's pace of economic emergence by investing in institutional, human and social capital—what is also known as intangible capital. Indeed, the challenges Morocco needs to take up to increase its productivity and develop its intangible capital are essentially two sides of the same coin: improving the environment for more rapid factor input accumulation. The innovation, adoption of new technologies and reallocation of production factors needed to stimulate productivity are directly influenced by policies designed to build its intangible capital. In both cases, productivity and intangible capital are “intangible” variables that reflect the quality of the institutional, human and social environment in which production factor accumulation takes place.

Several positive structural trends are already at work in Moroccan society, especially the demographic transition, urbanization of society and improved learning levels, which could possibly bode well for the future. These three trends open a unique window of opportunity in Morocco's history. Indeed, a combination of the demographic dividend, urbanization and universal education has been observed in all the countries that have achieved a successful economic takeoff in the past half century, both in Southern Europe (Italy, Portugal and Spain) and in Asia (South Korea, Taiwan, among others). Morocco today appears to satisfy all the conditions required to accelerate its pace of inclusive and sustainable development. However, these favorable initial conditions also bear risks: (i) first, the risk of not being able to create a conducive environment for a dynamic and broad-based private sector that can create enough jobs (leading to mass, long-term unemployment for young people in particular); (ii) second, the risk of not being able to cover long-term financing needs in Morocco through public investment alone,

particularly for infrastructure and long-term assets; (iii) third, the risk of not being able to generate positive agglomeration effects (potentially with negative urban congestion effects); (iv) fourth, the risk of not being able to capitalize on increased enrolment and completion rates, better learning outcomes and relevance to the Moroccan and globalized job market; and (v) lastly, the risk of governance not being meaningfully inclusive and responsive to youth voice, needs, interests and influence (Box ES.2). If these risks are not mitigated by suitable public policies, Morocco could miss out on a unique opportunity in its history. The demographic transition underway in effect halved the dependency ratio between 1970 and 2010 and it will stay historically low through to 2040 before rising in subsequent decades (Figure ES.4). To prepare the future for the next generation, it is now that Morocco needs to gather its vital strengths and scale up its reforms, before this exceptional window of opportunity closes. Otherwise, the gap between Morocco and its Middle-Income peers will widen, making it harder for Moroccan citizens to attain the levels of living standards the country has the potential to deliver.

Figure ES.4 Share of those younger than 15 years of age relative to those older than 65 years of age in the working-age population, 1950-2100



Source: United Nations

Box ES.2 Promoting youth opportunities and participation in Morocco

The transition to work: Youth (aged 15 to 24) make up 17.5 percent of Morocco's total population and 26.4 percent of the working-age population (15 to 64 years), but have largely been excluded from the sustained economic growth the country has experienced in the last decade. Though youth unemployment is high, averaging 22 percent among males and 28 percent among females, it only provides a partial picture of young people's exclusion from economic life.

Employment quality: Young men and women who do have work widely report holding poor-quality jobs, often working without job security or benefits (about 88 percent of employed youth work without a contract, meaning that most have informal sector jobs), experiencing underemployment (especially in the informal sector, where many jobs are temporary or part-time), and poor working conditions.

This situation is due to limited formal job intermediation mechanisms. One in three youth desires or plans to leave Morocco because of poor prospects.

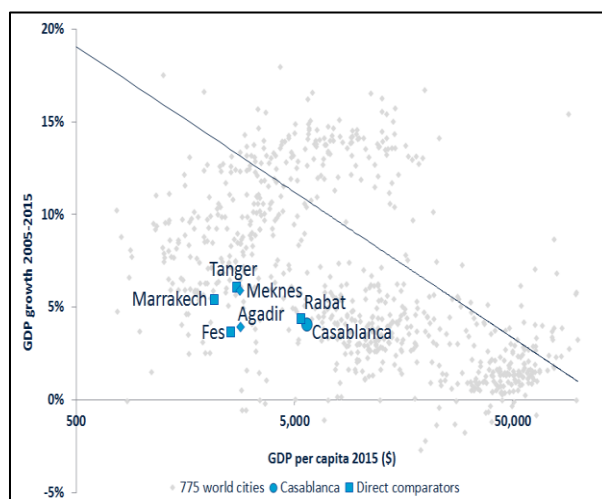
Youth participation in social and civic life: Moroccan youth participation in social and civic life is very low. Most of their time is spent on unstructured personal activities.

Youth are concerned about the consequences of their exclusion from economic and civic life. Dropping out of formal education, unemployment, underemployment and the lack of support structures to facilitate social participation are all factors contributing to idleness, isolation and frustration, making youth susceptible to high-risk behaviors such as drug use and crime.

Together, these constraints highlight the challenges and point to the need for a more systematic, strategic, and integrated approach to youth development. Also needed is a clearer focus on targeting the disadvantaged youth.

Morocco's urbanization has not generated the same benefits and advantages as in many emerging countries in terms of growth and job creation. Moroccan cities are producing locally consumed or non-tradable goods and services. This is particularly challenging for expanding the urban economy, which does not benefit from returns to scale and agglomeration economies. Accordingly, urbanization in Morocco has not been accompanied by structural transformation, notably toward industrialization, and has thus proceeded without adequate job creation. Major Moroccan cities are growing more slowly than their peers (Figure ES.5). The drivers of the preponderant share of non-tradable goods and services in Moroccan cities' economies likely reflect the macro and micro dynamics that affect Morocco's competitiveness.

Figure ES.5 Economic growth of Moroccan cities sluggish compared with global comparators



Source: Source: Analysis using Oxford Economics Data, 2015

The relative intersectoral structural stability of Morocco's economy partly obscures a more dynamic transformation in terms of intrasectoral spatialization and diversification. In the agriculture sector, the Green Morocco Plan has generated real sector buoyancy owing mainly to steady growth in agricultural investment (70 percent higher in 2014 than in 2008). The first signs of the sector's structural transformation can be seen from the appreciable upturn in its value added. Similarly, Moroccan industry, highly concentrated in traditional specializations through to the late 1990s, set out on a modernization process in 2005 that revealed a duality between flagging traditional sectors, like the textile-clothing sector seeking to reposition itself, the metallurgy sector, and new emerging specializations such as automotives, aeronautics, agri-business, and pharmaceuticals. In the automobile sector, the Renault project raised national production to nearly 340,000 vehicles in 2016 and created 10,000 direct jobs and some 30,000 indirect jobs, and triggered the installation of several equipment manufacturers, increasing the local integration rate to 50 percent. Aeronautics have also been growing double digits. After being

severely hit by the end of multi fiber agreements in 2005, the textile sector has reconciled with growth through a positioning on “fast fashion,” tapping into its proximity with Europe (50 percent of production for Spanish Inditex, the world’s largest fashion group, is from Morocco). There are also signs of higher integration within sectors—which is indicative of sustainability and know-how transfer.

But these positive intersectoral dynamics have not been strong or widespread enough to have a macroeconomic impact on the economic structure and growth. The positive sectoral dynamics have been underpinned by proactive public policies (tax incentives, subsidies, investments and other incentives) and by specific ad-hoc arrangement to attract structuring “locomotives” such as Renault. The next challenge is to build on early successes and lessons learned to expand the sub-sectoral dynamic in terms of intensity (number and size of firms), depth (level of integration), and territorial coverage. Besides, Morocco’s low private sector dynamism compounded by widespread public sector’s interferences are contributing to this structural stability as factor (re)allocation might not necessarily follow sectoral competitiveness patterns. Overall, Morocco’s governance shortcomings are hindering productivity growth through limited competition and insufficient access to inputs, finance, and exports.

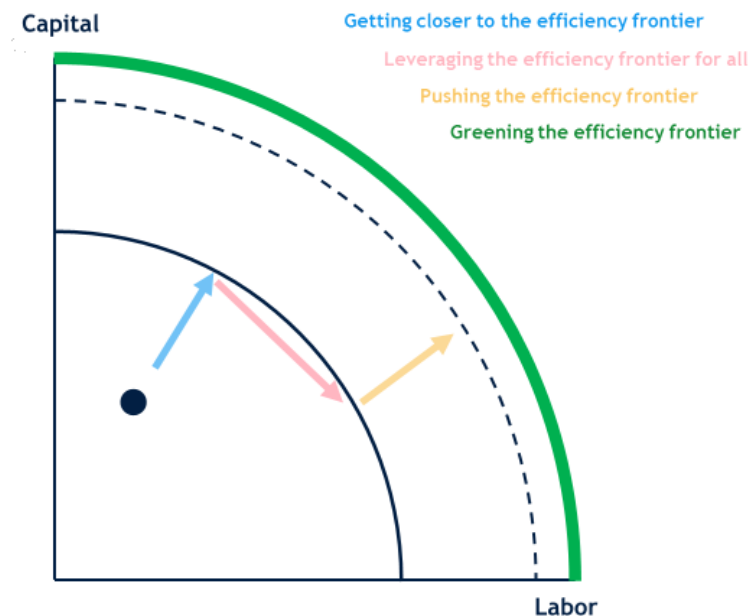
The lack of inclusion, in its various forms, is the common denominator of factors that seem to currently constrain Morocco’s development.

- **First, market institutions.** Effective and inclusive market support institutions are gauged based on at least three objectives: a level playing field for competitive capital allocation, high rates of economic participation and low structural unemployment, and strong international economic and financial integration. They essentially aim at supporting a business-friendly environment, supporting entrepreneurship and SME development, supporting labor market inclusion, and supporting competitiveness and diversification.
- **Second, public governance.** In addition to market institutions, inclusive public institutions and services are essential in accelerating private sector growth by creating an enabling environment for investments. More inclusive public governance means more inclusion in the elaboration and implementation of the rule of law, more inclusion in the administration of the State, and more inclusion in the access and delivery of public services.
- **Third, human capital formation.** The theory of human capital posits that, providing they have access to quality education, health and early childhood development (ECD), all individuals can improve their productivity or the future productivity of their children by making voluntary investment choices.
- **Fourth, social capital.** Social capital—or the set of norms and networks that facilitate collective action—exerts positive, concrete effects on economic life. It is a key element in enhancing the effectiveness of a country’s political and economic institutions. Social capital is important for economic life in that it prevents various types of destructive conflicts among sectors of the population, such as riots, political instability, or disruptions to public order that may seriously stymie investment and growth. Two of the many aspects of social capital, which have a direct bearing on possibilities for improving productivity in Morocco and which can be addressed by public authorities with significant concomitant benefits, are gender equality and interpersonal trust.

Given the vulnerabilities of Morocco’s economic and social achievements and the numerous factors constraining further rapid progress, a new reform momentum is needed to overcome the challenges faced by the Moroccan society. As His Majesty the King of Morocco recently noted about the development model, “We should like to see an integrated vision of this model that gives it fresh momentum, that helps overcome the hurdles impeding its adjustment and that addresses the weaknesses and shortcomings revealed by past practices.” Indeed, although the government has a clear roadmap, including the implementation of a series of sectoral plans - like those related to agriculture, industry and renewable energy - Morocco lacks a national and strategic vision and cross-sectoral approach to development. As a result, the country is not as efficient, equitable, educated, and endurable as it could be.

Scaling up Morocco’s inclusive economic growth in a sustainable manner would require the concurrent implementation of reforms, even if the full effects of some reforms will only be felt in the long run. To make Morocco more efficient, inclusive, innovative and sustainable, the reform pathways proposed in the SCD will aim at (1) getting Morocco closer to its efficiency frontier; (2) leveraging the efficiency frontier for all Moroccans; (3) pushing the efficiency frontier over time; and (4) greening the efficiency frontier. Morocco’s system of governance must be improved to make these pathways possible (Figure ES.6).

Figure ES.6 Reform pathways



From the long list of potential factors constraining Morocco’s fastest inclusive and sustainable development, a sub-list of key binding constraints has been identified using a set of “prioritization filters”. To be sure, quantifying the marginal impact on the twin goals of reducing any given constraint is a highly challenging exercise. World Bank experts from different sectors with experiences working in different countries participated in this exercise. This process benefited from consultations with government authorities from different ministries, think tanks (e.g. the OCP Policy Center), civil society, the private sector and other international organizations throughout the entire one-year process,

including the consultations conducted with six thematic groups covering all areas discussed in the SCD. The prioritization filters (which include an understanding of the pre-requirements for any reform to succeed, the status of the initial conditions in the area considered, the direction of causality between growth and growth determinants, the extent of spillover effects, and the extent of the overall expected impact on twin goals) led to the following set of key binding constraints (Table ES.1):

- **To reach the efficiency frontier, Morocco could act in two priority areas: improving its market allocation of resources across firms and sectors and improving the efficiency of public policies, including with a view to crowding in the private sector.** The former will entail unlocking Morocco's competitive and innovative drive (BC#1) and improving further the business environment and access to finance (BC#2). The latter would involve better public policy formulation and coordination, including in the context of "advanced regionalization" (BC#3) and better access to quality public services (BC#4).
- **Morocco does not only need to improve the efficiency of its private and public sectors, but it needs to enable all citizens to participate and benefit directly or indirectly from the resulting growth dividends.** To leverage the frontier for all, Morocco could act in three priority areas: promoting a more inclusive formal labor market (BC#5), targeting better its social protection programs (BC#6), and ensuring greater gender parity (BC#7).
- **Over the medium term, Morocco not only needs to make better use of its current endowment (land, labor, capital, etc.) in an inclusive manner but to push its efficiency frontier, join the club of emerging economies, and converge toward the most advanced countries.** Raising human capital and unleashing urban agglomeration potential are the only two mechanisms universally known to achieve such catching up. Accordingly, the priorities to create the productivity gains and related better-paid jobs are to invest in early childhood development (BC#8), to significantly raise the quality of primary, secondary, and tertiary education (BC#9), and to facilitate Morocco's urban and territorial development (BC#10).
- **Morocco also needs to consider the effects of climate change on its development strategy and make its long-term development consistent with the preservation of its environment and natural resources.** Given the progress already made in mitigation, including Morocco's large renewable energy investments and ambitious further investments under the NDC, the priority is more in climate adaption, especially with regards to water management (BC#11). This is recognized in Morocco's NDC, which places particular emphasis on the National Water Strategy and National Water Plan, recognizing that water resources are Morocco's most constraining factor for sustainable economic and social development.

The above-mentioned pathways to get, leverage, push and green the efficiency frontier could be thought of as the "proximate key binding constraints" to spur sustainable economic growth and promote greater access to opportunities. To lift these constraints and embark on the proposed pathways, an explicit focus on understanding the more fundamental "underlying determinants" of why these socio-economic constraints persist is critical: why is it that, despite economic growth, Morocco is not achieving inclusive growth, building its middle class and allowing all to access quality services? What are the institutional and political root causes of the lack of inclusiveness and equity of growth and service delivery? And how can a governance system that supports inclusive and equitable development be developed?

In line with the thinking of the 2017 WDR on Governance and the Law, the SCD discusses how the “underlying determinants” are related to governance, or the process through which actors (state and non-state) interact to design and implement policies (World Bank 2017). It argues that leveling the governance playing field, and ensuring that power, resources and capacities are distributed transparently, efficiently and equitably, is critical to lifting constraints to inclusive development in Morocco. In practice, this requires addressing head-on the weaknesses of the country’s core governance functions and systems, in the spirit of the 2011 Constitution. To start building these legitimacies, the priority areas would be to create the conditions for people to be informed about public policies and the government accountable (BC#12), to use this information to voice their views, participate and engage (BC#13), and to be confident that the rule of law and justice system will protect them (BC#14).

Table ES.1 Critical areas and key binding constraints to reach the twin goals

	Critical areas	Key binding constraints
Reaching the efficiency frontier	Improving market allocation of resources across firms and sectors	Competition and innovation
		Business environment and access to finance
	Improving the efficiency of public policies, including in crowding in the private sector	Public policy formulation and coordination in a decentralization context
		Access to quality public services
Leveraging the efficiency frontier for all Moroccans	Enabling all citizens to benefit directly and/or indirectly from growth	Labor market regulation
		Targeted social protection
		Gender equality
Pushing the efficiency frontier	Raising human capital	Early childhood development
		Quality of primary, secondary and tertiary education
	Unleashing urban agglomeration potential	Urban and territorial development
Greening the efficiency frontier	Transforming the scarcity of resources and climatic vulnerabilities into opportunities	Integrated water management and climate change adaptation
Cross-cutting area	Improving governance	Access to information and accountability
		Voice, participation and engagement
		Rule of law and justice

The SCD is organized as follows: Chapter 1 presents Morocco’s poverty and shared prosperity outcomes since 2000. Chapter 2 discusses the sustainability of Morocco’s economic and social achievements. Chapter 3 analyzes the factors constraining Morocco’s fast inclusive sustainable development. Chapter 4 identifies the priority pathways to sustained inclusive development. Chapter 5 concludes the report.

Chapter 1

Morocco's poverty and shared prosperity outcomes

This first chapter presents Morocco's achievements in reducing poverty and promoting shared prosperity during the past 15 years; analyses the factors behind this performance; and discusses the remaining key poverty and inequality challenges going forward. Its main set of findings are threefold. First, Morocco has eliminated extreme poverty, significantly reduced the number of people living below the national poverty line, especially in urban areas, shared prosperity by improving the relative situation of those in the bottom forty percent (B40) and, consequently improved many social and human development indicators. Second, economic growth has been the main driver in increasing household expenditures, especially for the B40, and therefore in reducing poverty.⁷ Investment in education, health and other social services has also directly contributed to reducing poverty and improving the relative situation of the B40. By contrast, transfers and subsidies, which have also increased during the period, have been mostly regressive, thus not benefitting primarily the poor. Third, important challenges remain to further reduce poverty and share prosperity. They mainly involve further reducing inequality, attenuating the sentiment and perception of poverty, which has been growing in recent years, meeting the aspiration gap of the population, especially among the youth, and growing a strong middle class.

1.1. Successes in reducing poverty and promoting shared prosperity

1.1.1 Elimination of extreme poverty and poverty reduction

From 2001 to 2014 there was significant poverty reduction. Extreme poverty has been eradicated. Consumption per capita increased at an annual rate of 3.3 percent (3.9 percent for the bottom 20 percent), monetary poverty⁸ and vulnerability⁹ fell to 4.8 percent and 12.5 percent respectively (Figure 1.1). The improvement in living standards is also visible in changes of consumption patterns, with a reduction in the food share and diversification toward food of higher nutritional value.¹⁰ Poorest regions saw higher poverty reduction (Figure 1.2) and higher income growth: Drâa-Tafilalet, the region with the highest poverty rate, went from 40 percent poverty rate in 2001 to 14.6 percent in 2014 (Figure 1.2). Overall, the poverty rate declined from 25.1 percent to 9.5 percent in rural areas during 2001 to 2014. In urban areas, the reduction was from 7.6 percent to 1.6 percent.

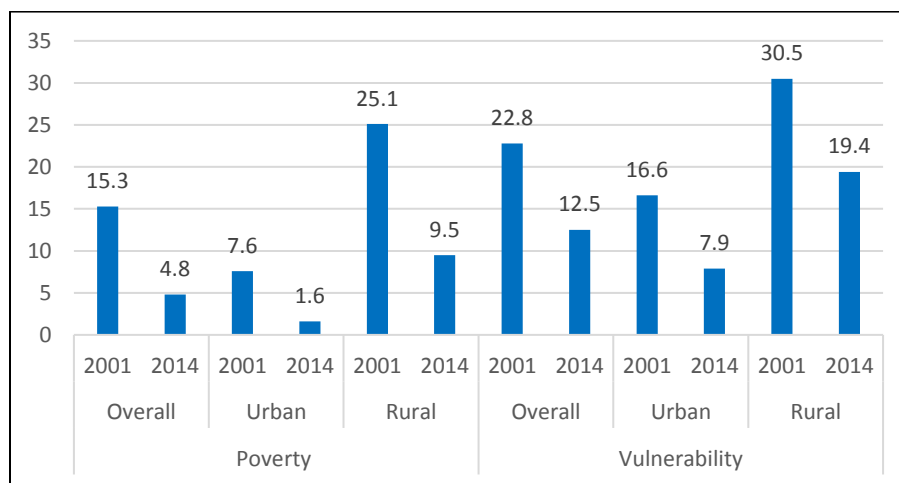
⁷ The team had only limited information on level and changes in sources of income of households, which limits ability to understand how economic growth translated into higher incomes and hence higher consumption patterns.

⁸ Poverty rate is the share of the population whose consumption per capita is below the national poverty line. In 2001, the poverty line was set at MAD 3,679 in urban areas and MAD 3,425 in rural areas, equivalent to US\$2.3 and US\$2.1 2011 PPP per day, respectively. Adjusted by CPI, the poverty line in 2007 is MAD 3,834 for urban areas (US\$2.4 2011 PPP) and MAD 3,569 for rural areas (USD2.3 2011 PPP). In 2014, the poverty line is MAD 4,667 for urban areas (US\$3.1 2011 PPP) and MAD 4,312 (US\$2.9 2011 PPP) for rural areas. These poverty lines are lower than the international line of US\$3.1 2011 PPP.

⁹ Vulnerability to poverty is the share of the population whose per capita consumption is in the range between the poverty line and one and a half times that threshold.

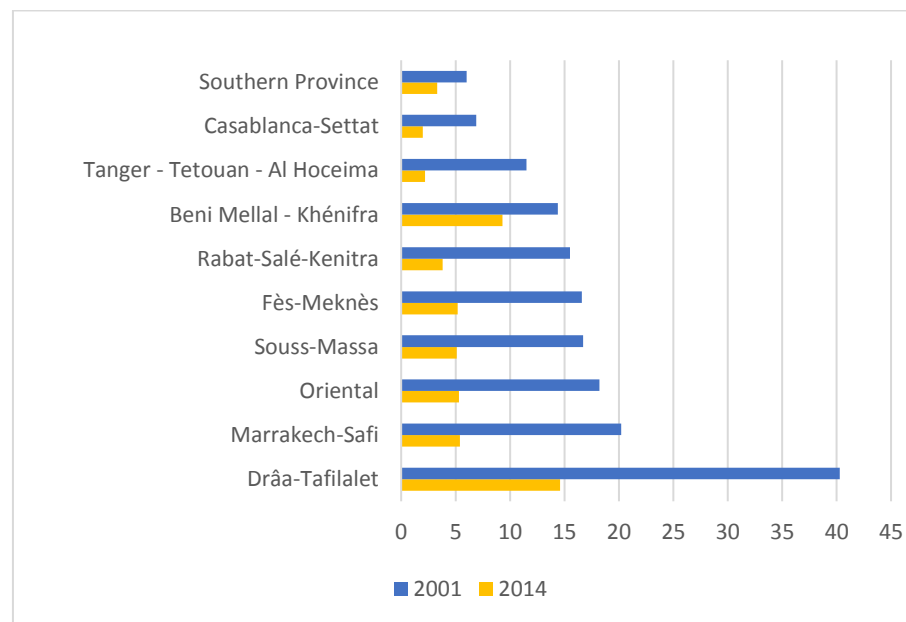
¹⁰ Multidimensional poverty also decreased substantially from 25.1 percent in 2001 to 6.1 percent in 2014. With respect to access to basic infrastructure services, nearly 98 percent of households now have access to the electricity grid, and 93 percent to clean drinking water (up from 61 percent in 2004).

Figure 1.1 Poverty and vulnerability rates by urban/rural, 2001-2014



Source: High-Commission for Planning

Figure 1.2 Poverty reduction between 2001-2014 by region



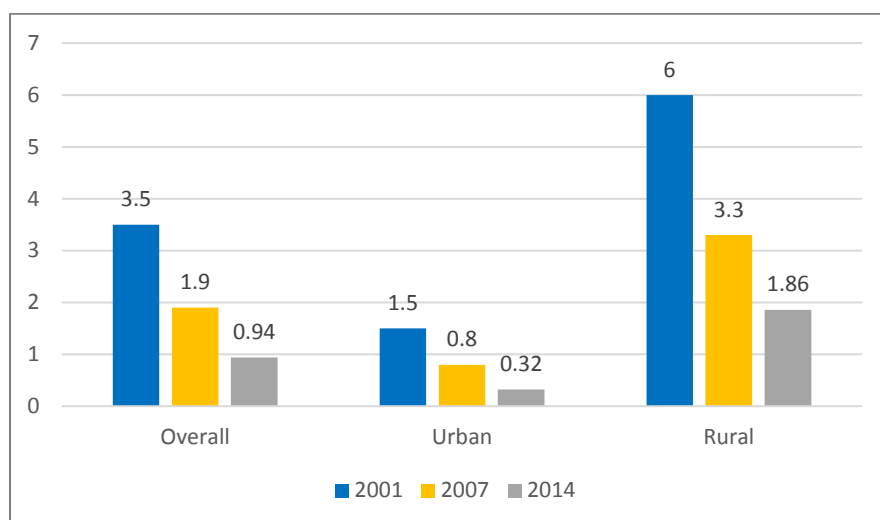
Source: High-Commission for Planning

There has also been a significant reduction in Morocco's depth and severity of poverty.¹¹ In 2014, the poverty gap, which measures the depth of poverty, had declined to 0.94 from 3.5 in 2001 (Figure 1.3). The decline in the depth of poverty was more significant in rural areas, where the index went from 6 to

¹¹ The poverty gap indicator measures the depth of poverty, calculating the mean shortfall of the population from the poverty line, counting the non-poor as having zero shortfall. This measurement identifies the resources needed to lift all poor people out of poverty using well-targeted monetary transfers. The poverty gap squared measures the severity of poverty. While the poverty gap takes into account the distance separating the poor from the poverty line, the poverty gap squared considers the square of this distance. When the poverty gap squared is used, the poverty gap is weighed by itself in order to give more weight to the very poor. The poverty gap squared therefore takes inequality among the poor into account.

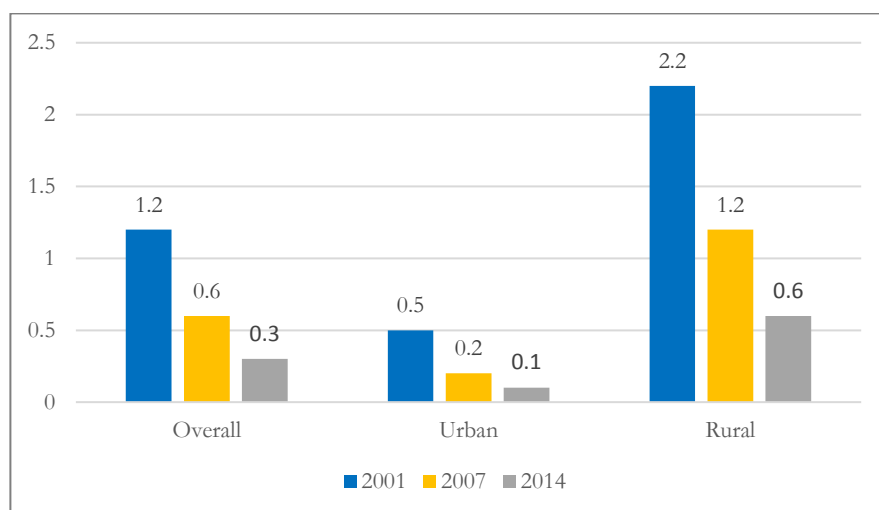
1.9. Given that this index is highly affected by the incidence of poverty, rural areas, which accounts for 40 percent of the Moroccan population, accounts for 80 percent of the poverty gap. The poverty gap squared, which identifies the severity of poverty, also declined significantly between 2001 and 2014 (Figure 1.4). The evolution of this index shows an improvement in the distribution of consumption among the poor and a reduction in the gap between their consumption expenditure and the poverty line. The severity of poverty declined by 75 percent at the national level, 80 percent in urban areas and 73 percent in rural areas.

Figure 1.3 Depth of poverty: evolution of the poverty gap



Source: High-Commission for Planning

Figure 1.4 Severity of poverty: evolution of the poverty gap squared

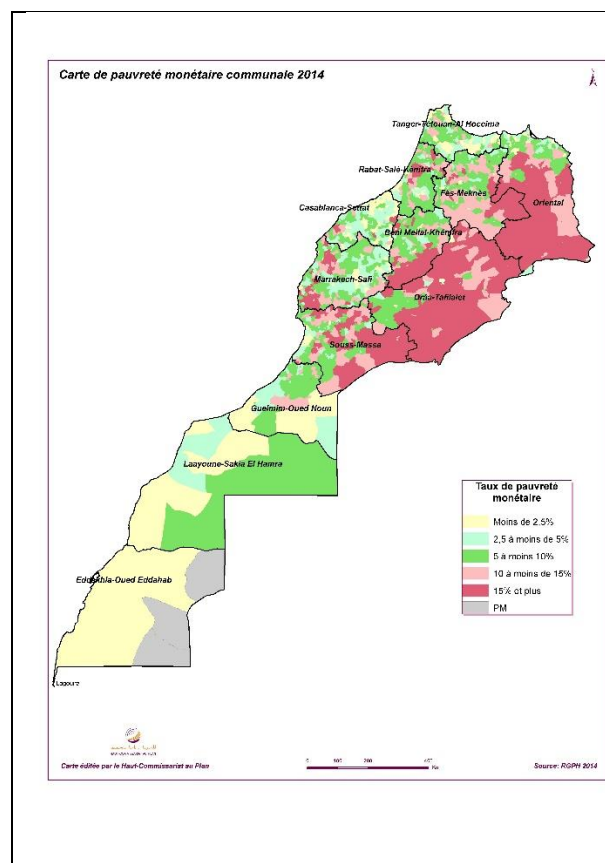


Source: High-Commission for Planning

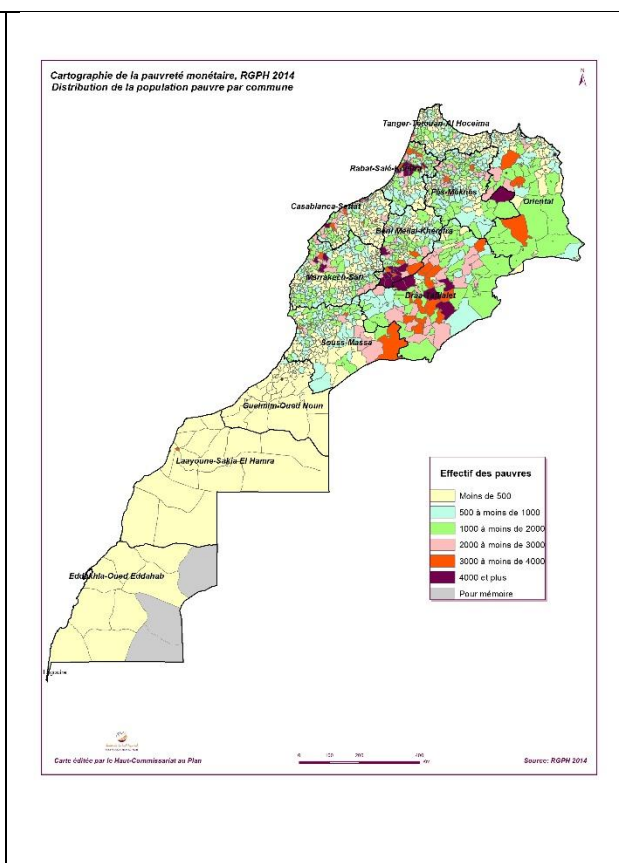
The reduction of poverty has been associated with a movement of migration of rural poor to urban areas. While poverty remains mainly a rural phenomenon, areas with high poverty rates tend to be less populated. When comparing the maps of poverty rates (see Map 1.1) with the one with the number of poor at the commune level (see Map 1.2), one can see that communes with higher rates of poverty do

not host the largest number of poor. The commune with higher numbers of poor are found north of Rabat and around Marrakech. At the regional level, Tanger and Casablanca have among the lowest rates of poverty, but the proportion of poor living in these provinces is much higher. The opposite is true for Oriental, where poverty rates are high but the proportion of the poor living in this region is low.

Map 1.1 Poverty rates by commune, 2014



Map 1.2 Number of poor by commune, 2014

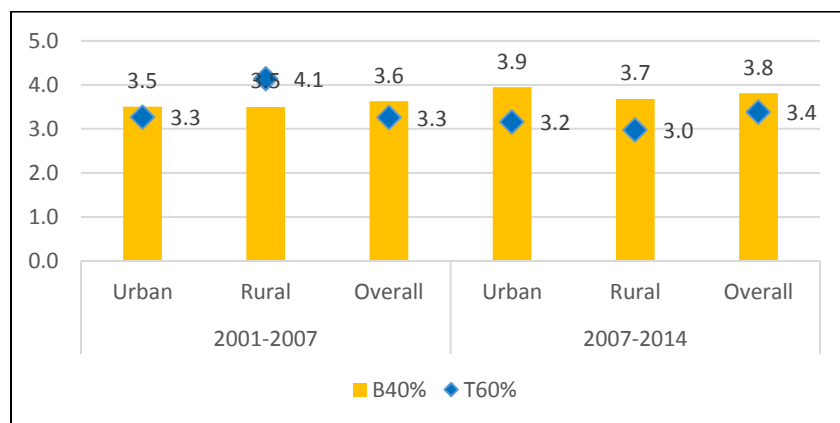


Source: High-Commission for Planning

1.1.2 Increased shared prosperity

There was progress on shared prosperity as spending by the bottom 40 percent (B40) grew faster than that of the wealthiest 60 percent (T60). This was true overall and for rural and urban areas except for rural areas between 2001 and 2007 when the bottom 40 grew at a lower rate than the top 60 (Figure 1.5).

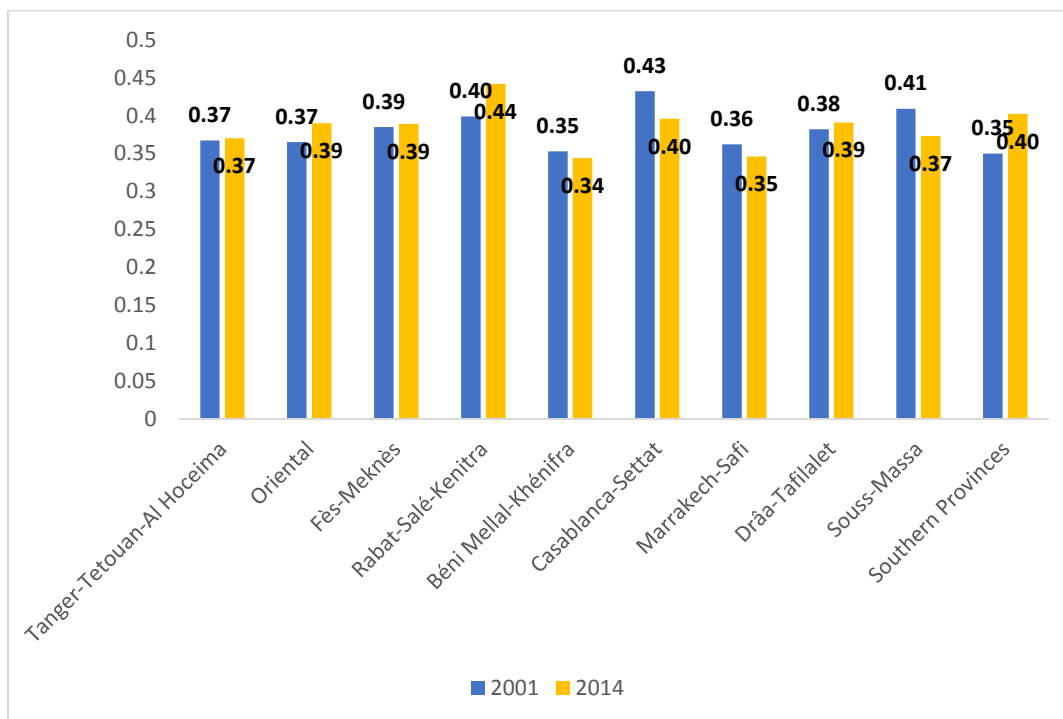
Figure 1.5 Annual growth rate B40 and T60 2001-07 et 2007-14



Source: High-Commission for Planning

Overall, inequality has slightly decreased though not in all regions. The Gini coefficient, the international measure of economic inequalities, fell slightly from 40.6 to 39.5 between 2001 and 2014. The reduction in the overall Gini coefficient was the result of two counter-balancing trends: convergence of development across regions and increased intraregional inequality in some of the regions. Indeed, inequality increased in some regions (e.g. Rabat-Sale-Kenitra from 39.9 to 44.2 and the Regions du Sud from 35 to 40.2) while it decreased in others (Casablanca-Settat, Marrakech-Safi and Souss-Massa (Figure 1.6).

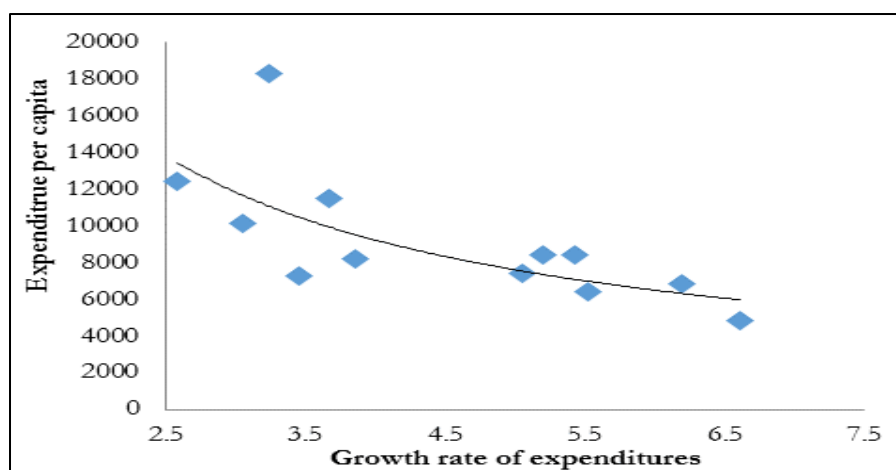
Figure 1.6 Inequality across regions 2001 and 2014



Source: High-Commission for Planning

At the regional level, the evolution of the standard of living between 2001 and 2014 showed the existence of a process of convergence of the 12 regions, although the rate of reduction in regional differences was not the same. The convergence coefficient indicates that the standard of living of the less affluent regions grew faster than that of the richest regions. Convergence has been strong in Fès-Meknès and Oriental while it has been slower in Drâa-Tafilalet and Beni Mellal-Khenifra (Figure 1.7). The process of convergence is far from complete. With an annual convergence rate of 4 percent, it would take 24 years for the convergence process to reduce initial regional disparities by half.

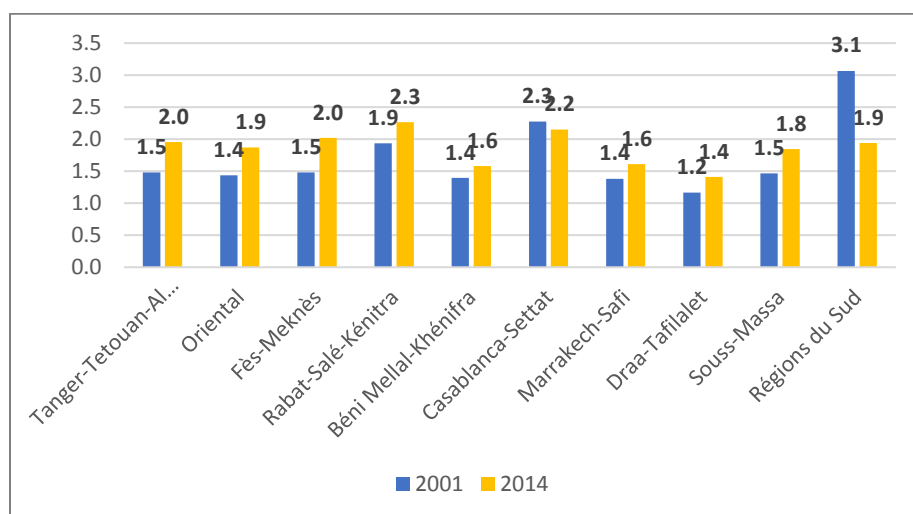
Figure 1.7 Growth rate in expenditure and initial level of expenditure



Source: High-Commission for Planning

Beyond the convergence between regions, there has also been a narrowing of the gap within most regions between urban and rural areas. Rural poverty remains higher than urban poverty, as shown by Figure 1.8 below that presents the ratio of rural poverty to total poverty. Both in 2001 and 2014, this ratio is always higher than 1, reaching in some regions values higher than 2, indicating that rural poverty rates were twice as high as the national rate.

Figure 1.8 Rural poverty to total by region, 2001-2014

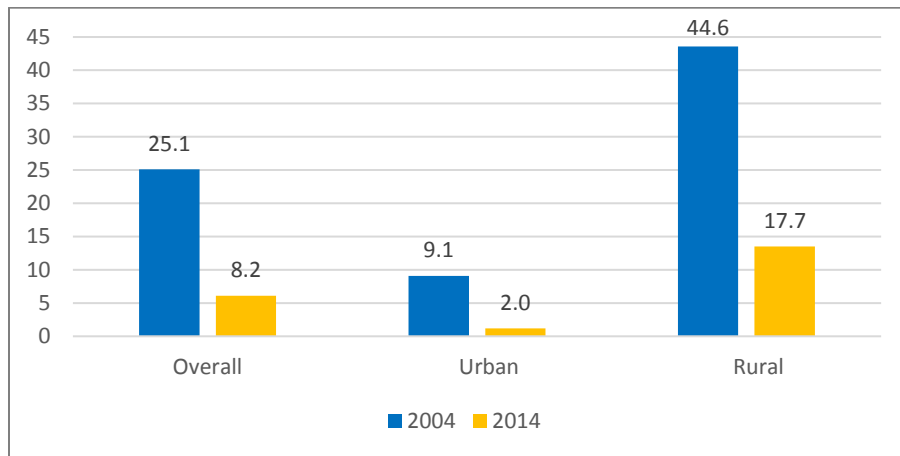


Source: High-Commission for Planning

1.1.3 Other improvements in social and human development indicators

Like monetary poverty, multidimensional poverty has decreased substantially and remains mainly a rural phenomenon. Between 2004 and 2014, the multidimensional poverty rate declined sharply, by 67 percent nationally, from 25.0 percent to 8.2 percent; 78 percent in urban areas, from 9.1 percent to 2.0 percent; and 60 percent in rural areas, from 44.6 percent to 17.7 percent (Figure 1.9). According to the multidimensional approach, the overall size of the poor population is around 2 million individuals (1,814,000 rural and 214,000 urban). These differences show how multidimensional poverty, like monetary poverty, remains mainly a rural phenomenon: almost 90 percent of the population living in multidimensional poverty resides in rural areas.

Figure 1.9 Multidimensional poverty



Source: High-Commission for Planning

The decomposition of multidimensional poverty by the various welfare dimensions shows that the deficits in terms of adult education and children's schooling account for 55.3 percent of multidimensional poverty. This contribution amounts to 33.8 percent for the living conditions dimension and 10.9 percent for the health dimension. In urban areas, over 90 percent of multidimensional poverty is due to deficiencies in education (60.8 percent) and health (24.5 percent). Rural poverty is mainly due to deprivations in education (54.9 percent) and living conditions (36.5 percent).

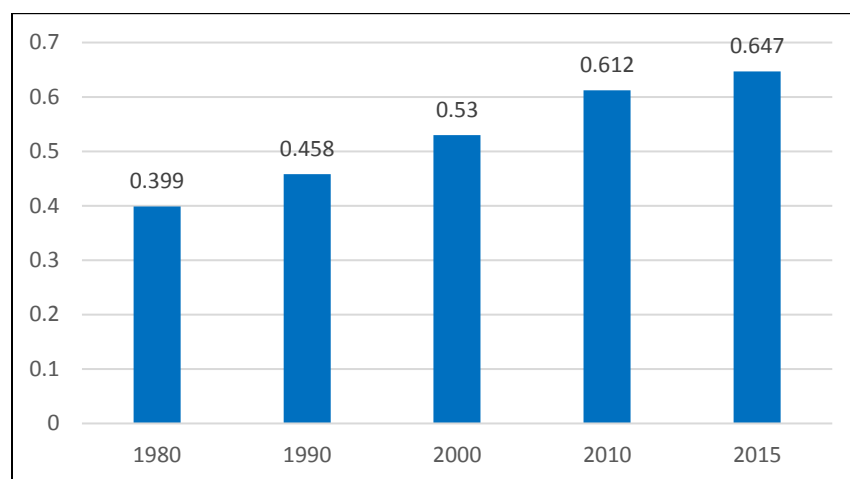
When looking specifically at multidimensional youth development, young people are experiencing a modest positive trend, but many challenges remain. The five key domains covered by the Youth Development Index (YDI) include education, health and wellbeing, employment, civic participation and political participation. The YDI allows cross country comparison and over time. In 2016, Morocco ranked only 120th (out of 183 countries), falling behind most middle-income countries in the wider MENA region including Jordan (rank 114), Tunisia (rank 110), Lebanon (rank 76), and Turkey (rank 62).¹²

Overall, Morocco has significantly improved its human development index (HDI) over the past decades, although there are significant margins for progress. Between 1980 and 2015, the value of Morocco's HDI rose from 0.4 to 0.65, an increase of 60 percent and an average annual increase of 1.3 percent. Life

¹² Youth Development Index 2016, Policy Report (<http://thecommonwealth.org/youthdevelopmentindex>).

expectancy at birth increased by 16.7 years, school life expectancy by 6.2 years, average schooling increased by 3.8 years, and per capita gross national income almost doubled over 35 years. Among comparator countries (Figure 1.10), Morocco experienced the most significant improvement between 2000 and 2015, although the current levels are still low. Morocco lags especially with respect to schooling, for which it ranks 153rd. Average years of schooling are especially low for women: 3.8 years compared to 6.4 years for men.

Figure 1.10 Human Development Index 2000-2015



Source: United Nations Development Program

In the same vein, Morocco made notable progress in achieving the Millennium Development Goals (MDGs) (HCP 2015).¹³ In addition to eradicating extreme hunger and significantly reducing poverty, Morocco almost achieved universal primary education with a net primary school enrollment ratio of 99 percent in 2014 and significantly improved its health outcomes. Morocco also made significant progress in promoting gender equality and women's empowerment. In 2015-2016, the index of gender parity reached 94 and 87 percent, respectively, for primary and secondary school.¹⁴ Morocco is nonetheless lagging on a number of indicators for the Sustainable Development Goals (SDGs). Unlike countries with the same level of development, it has failed to improve a number of indicators in such areas as level of proficiency in primary education and youth unemployment (Gable et al. 2016).

1.2. Factors behind poverty reduction and improvements in social indicators

1.2.1. Morocco's pro-poor growth performance

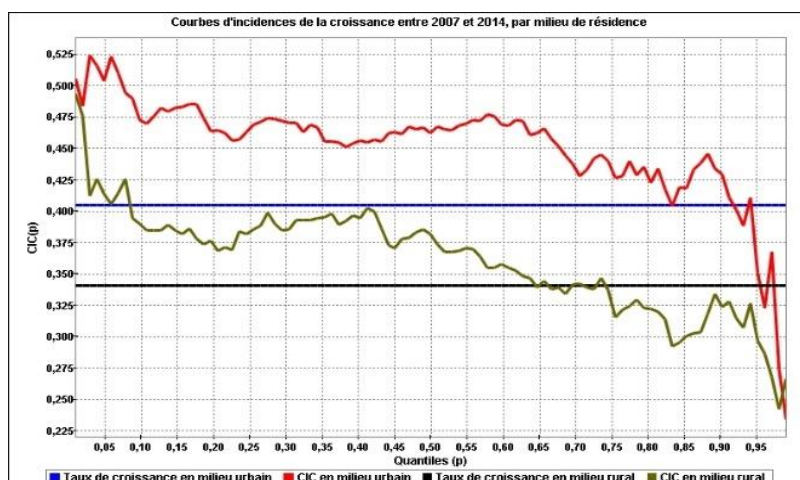
Although the urban-rural gap in poverty rates remains large, economic growth in recent years has been pro-poor. From 2007 to 2014 the growth of households' consumption in the bottom quintiles was positive and above the average both in urban and rural areas (Figure 1.11). The growth of consumption in urban areas was higher than in rural areas. Thus, urban poverty rate decreased faster than the national rate: in 2001 urban poverty was half the national level, in 2014 it decreased to a third. This was true in most regions, except for Casablanca-Settat and the provinces in the south, where urban poverty was

¹³ OMD et ODD: Les acquis et les défis, HCP (2015).

¹⁴ Recueil statistiques du ministère de l'Éducation « 2015-2016 L'éducation nationale en chiffres » p.4 <http://www.men.gov.ma/Ar/Documents/Depliant2015-16.pdf>.

higher in 2014 than in 2001 relative to the national average. Poverty rates in rural areas are almost twice as high as the national level. As of 2014, 40 percent of the population lived in rural areas and accounted for 79.4 percent of the 1.6 million poor and 62.1 percent of the 5.4 million vulnerable.

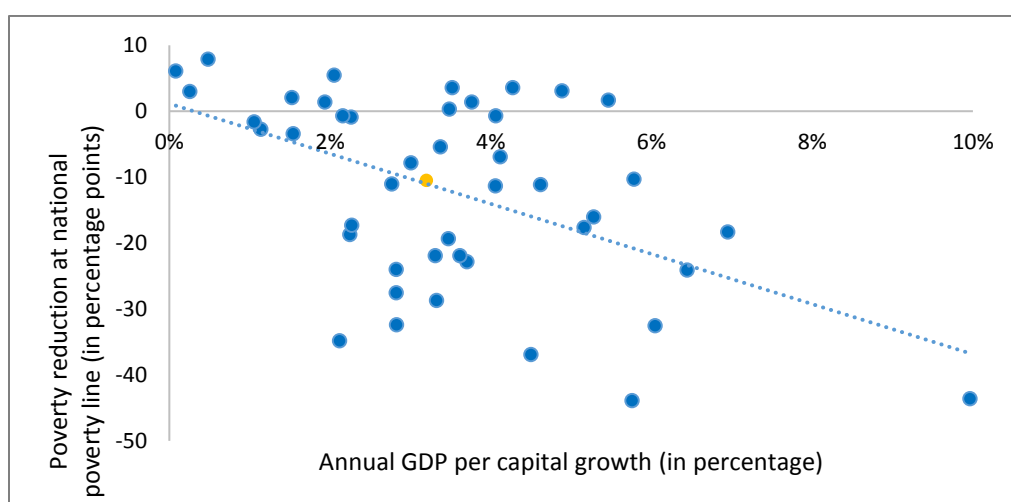
Figure 1.11 Growth Incidence Curve in urban and rural areas



Source: High-Commission for Planning

The pace of poverty reduction in Morocco has been within the average of countries with similar GDP per capita growth rates. When comparing Morocco's performance in terms of growth and poverty reduction with that of other countries (Figure 1.12), we see how it lies on the regression line. The poverty rate is particularly low compared to countries with similar GDP per capita levels (Figure 1.12). Morocco achieved a poverty rate of 5.7 percent and 10.8 percent in 2014, at the international thresholds of US\$1.9 and 3.1 PPP 2011 per day, respectively. This is comparable to the poverty rates of Iran, Mexico and Romania and below those of Bolivia, Guatemala or the Philippines (29.2 percent, 23.7 percent and 40.7 percent, respectively during the same period).

Figure 1.12 Growth of per capita GDP and poverty reduction 2001-2014



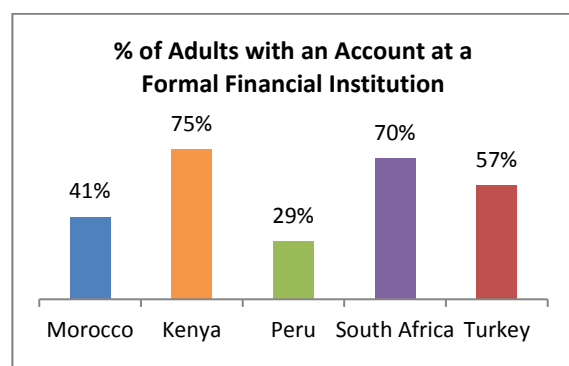
Source: World Development Indicators

While growth contributed to poverty reduction in all regions, the effect of inequality differed across regions. Growth in mean consumption explains 93 percent of the 10-percentage point reduction in poverty between 2007 and 2014. However, the contribution of inequality varied across regions: in Souss-Massa and Casablanca-Settat over 30 percent of the reduction in poverty was due to the reduction in inequality, and in several regions, changes in inequality offset the effect of growth.

Better access to finance for firms and households has also made growth more inclusive. Credit to the private sector (73 percent of GDP) and household credit (31 percent of GDP) are above regional and income group averages.¹⁵ Part of this growth has **translated** into gains in access: the share of SMEs with a loan or line of credit has doubled since 2007, and an estimated 41 percent of Moroccan adults use a formal financial product or service, also above regional and income group averages. Yet, some 13 million people are financially excluded to some degree, disproportionately female or poor living in rural areas. The banking sector is less equipped to address their needs, and the microcredit sector faces a restrictive legal and regulatory environment.

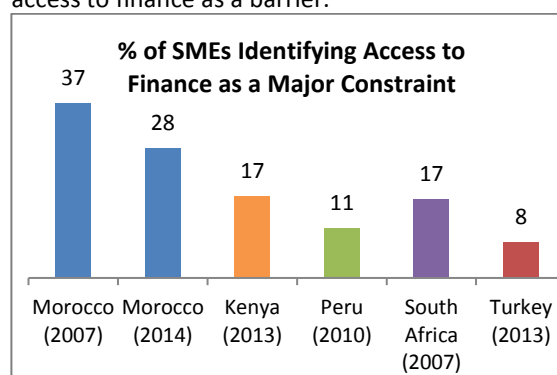
Figure 1.13 Financial Inclusion Challenges

Large segments of the population remain excluded ...



Sources: 2014 World Bank Financial Capability Survey (Morocco), 2014 Global Findex (Kenya, Peru, South Africa, and Turkey).

... and a significant proportion of MSMEs still identify access to finance as a barrier.



Source: World Bank Enterprise Surveys.

1.2.2. Investment in education, health and other social services

Access to education at all levels has progressed steadily over the past fifteen years in Morocco, though relatively low learning outcomes and early dropouts continue to remain serious challenges. According to the Conseil Supérieur de l'Éducation, de la Formation et de la Recherche Scientifique (CSEFRS 2014), age-specific enrollment rates (ASERs)¹⁶ rose between 2000 and 2013 from 53.4 to 63.5 percent for the age group 4-5 years (pre-schooling); from 79.1 to 98 percent for the age group 6-11 years (primary); from

¹⁵ Source: IMF Financial Access Survey Data (2015) and World Bank FSAP Technical Note (2017).

¹⁶ Most government reports use the age-specific enrollment rate (ASER) as the main indicator for access to education. The ASER measures the enrolment of a specific single age enrolled, irrespective of the level of education, as a percentage of the population of the same age. More common indicators used internationally are the gross enrolment rate (GER, Number of students enrolled in a given level of education, regardless of age, expressed as a percentage of the official school-age population corresponding to the same level of education; and the net enrolment rate (NER, Total number of students in the theoretical age group for a given level of education enrolled in that level, expressed as a percentage of the total population in that age group).

58.1 to 86.1 percent for the age group 12-14 years (lower secondary); from 35.5 to 59.2 percent for the age group 15-17 years (upper secondary); and from 10.4 to 22.1 percent for the age group 19-23 years (tertiary). These improvements have benefited mostly disadvantaged groups, particularly girls (+25.7 percentage points in primary) and rural populations (+ 30 percentage points in primary). An important effort has also been made to provide access to education to children with specific needs. In 2013, about 34.7 percent of children aged 6-11 and suffering from a handicap had access to some form of special education. The number of young people enrolled in vocational training (VT) and higher education (HE) increased dramatically between 2001 and 2013: from 132,000 to more than 350,000 in VT; and from 300,000 to 622,000 in HE.

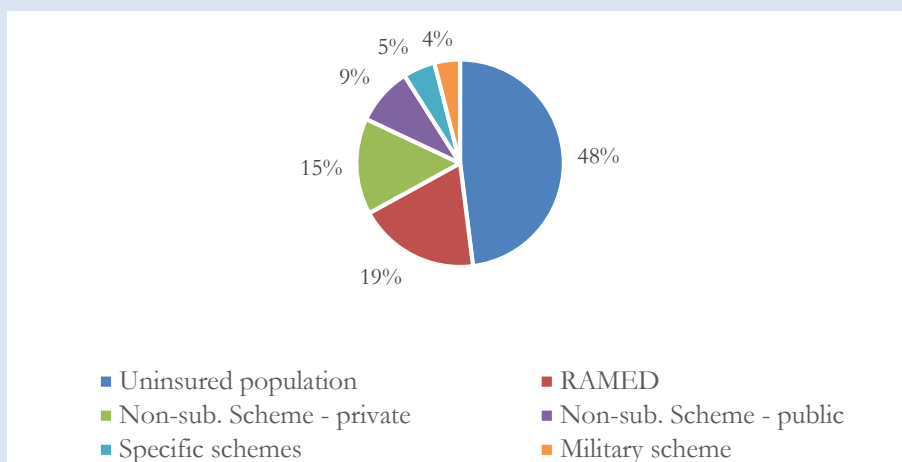
Morocco has seen significant improvement in its health outcomes since the 1990s. The maternal mortality ratio has decreased by almost 66 percent in 20 years (1992-2010). Infant and child mortality levels have been reduced by 64 percent during the same period. Health outcomes in Morocco are better than the averages for lower-middle-income countries. This reflects the fact that the public health care system was made accessible, in principle, largely free-of-charge to the entire population. The poor and vulnerable populations that are enrolled in RAMED have been exempted from the payments of care delivered by public secondary and tertiary hospitals. Along with the roll out of UHC scheme (Box 1.1), the government has engaged in several actions to increase equitable access to primary care and improve the service delivery in health care facilities in both urban and rural areas.¹⁷

¹⁷ These actions included: (i) the publication of a decree implementing the law 34-09 related to the improvement of the health care service delivery; (ii) the definition and implementation of the national nutrition strategy, including the mother and child components (2011-2019); (iii) the implementation of a pilot for the operationalization of health centers on the basis of family medicine; (iv) the implementation of several projects within national programs for the prevention and control of high blood pressure and diabetes; and (v) the implementation of the Action Plan to Reduce Maternal and Neonatal Mortality, between 2012-2016, and the Action Plan to Reduce Maternal, Neonatal and Child Mortality, 2013-2015.

Box 1.1 Efforts toward Universal Health Coverage (UHC)

In 2002, the Government of Morocco launched a health financing reform with the aim of establishing universal health coverage through (i) subsidized social health insurance (*Régime d'Assistance Médicale*-RAMED) for the poor vulnerable groups; and (ii) non-subsidized mandatory health insurance schemes for salaried workers (*Assurance Maladie Obligatoire*-AMO). Thus, a third of the population is now covered by non-subsidized social health insurance schemes, 19 percent is covered by RAMED and 48 percent remains uncovered (Figure B1.1.1). During the past years, the government has conducted preparatory work to extend the breadth of UHC to non-poor, non-salaried populations, including profiling of potential beneficiary characteristics, actuarial studies, and consultations with key stakeholders.

Figure B1.1.1 Social health insurance schemes and coverage



Sources: National Health Insurance Agency's annual report for 2014 and National Statistical Institute's results on the 2014 national census

Since 2013, Morocco has engineered a significant shift from a costly social safety net (SSN) system dominated by regressive subsidies, to a more diversified net of programs and policies to the poor (Box 1.2). In 2013, the country spent about 4.6 percent of GDP on largely regressive subsidies for energy (LPG, diesel and gasoline) and food products (local bread wheat flour/and sugar). Amid falling energy prices, the country has eliminated energy subsidies except for LPG, a commodity which represents a significant proportion of the consumption basket of the poor. By 2016, the cost of remaining subsidies (food and LPG) fell to about 1.4 percent of GDP.

Box 1.2 The modernization of Morocco's social protection system

Over time, Morocco has modernized its social safety net (SSN). The current system comprises five different types of programs:

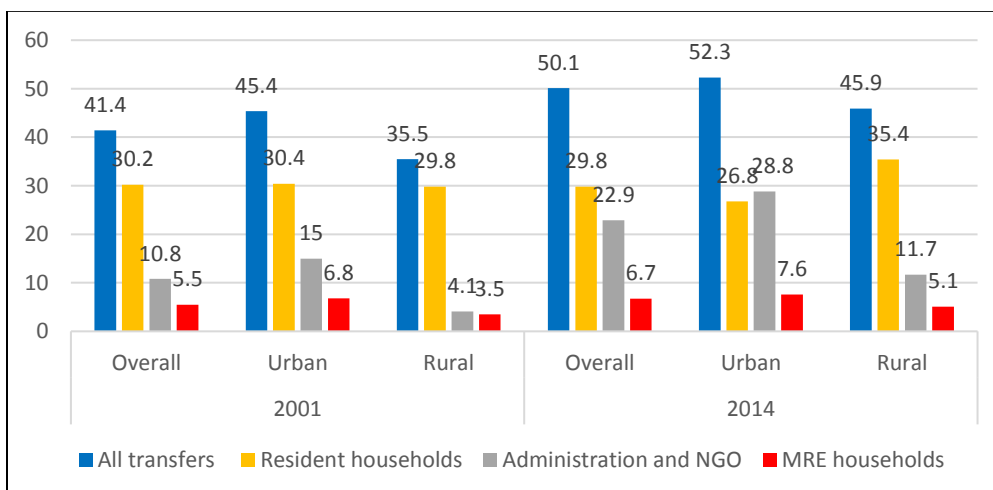
- (a) education support programs, including the conditional cash transfer Tayssir;
- (b) a health waiver program, RAMED;
- (c) social assistance programs targeted to vulnerable groups such as widows, orphans, and disabled;
- (d) social services for the same vulnerable groups; and
- (e) a social fund, (INDH) mainly to improve the living conditions of the poor, revamp local infrastructure and create revenue-generating activities, through the INDH.

In 2016, Morocco spent about 1.8 percent of GDP on SSN programs, very close to worldwide median spending. Spending on non-subsidy SSN programs amounted to 0.4 percent of GDP. If well targeted, this level of spending could have a sizeable poverty reduction effect, including by protecting the poor and vulnerable against shocks. Some of these programs use best-practice tools to identify their beneficiaries, such as a poverty map to identify the interventions areas of INDH programs, and a scoring formula to identify the beneficiaries of RAMED.

Source: Angel-Urdinola, El-Kadiri and M. Pallares-Miralles, 2015

The percentage of vulnerable households receiving some type of transfer has increased, thereby contributing to Morocco's shared prosperity and poverty reduction goals (Box 1.3). Between 2001 and 2014, the share of households receiving cash transfers increased from 41.4 percent to 50.1 percent (Figure 1.14). The increase in the share of households receiving transfers was higher in rural areas (10 percentage points compared to 7 percent in urban areas). The increase in the share was also highest amongst the poorest (10 percentage points among the first and second quintiles), but the quintiles with the highest share of households receiving some transfers remain the top one: 63 percent of households in the fifth quintile received transfers in 2014.

Figure 1.14 Share of households receiving transfers by source



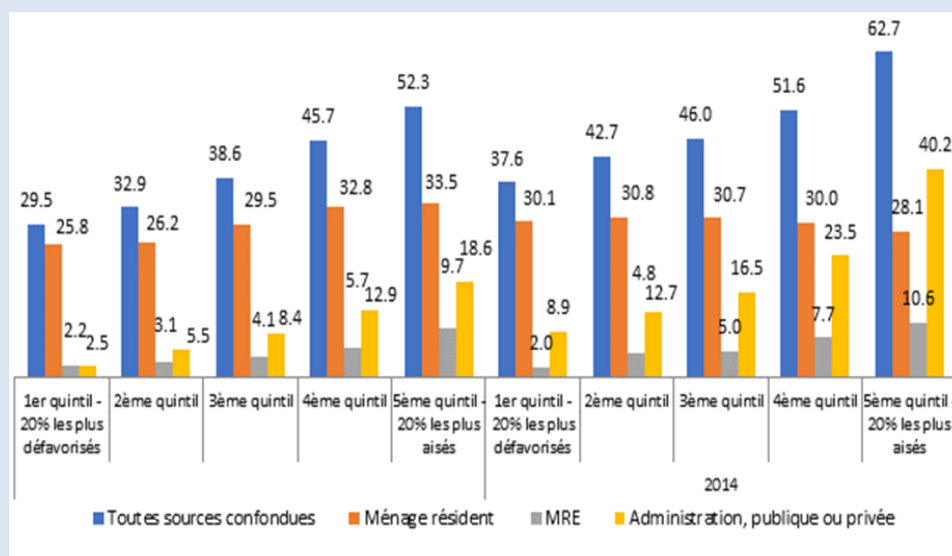
Source: High-Commission for Planning

Box 1.3 The composition and development of cash transfers

Households in Morocco benefit from several types of pecuniary transfers. They can be divided into two broad groups: private transfers (from other households' resident in Morocco or residents abroad - remittances) and public transfers (from the government or from NGOs).

- The percentage of households receiving public transfers increased substantially in all quintiles, remained higher in urban areas and in the fifth quintile. The share of households receiving public transfers more than doubled, going from 10.8 to 22.9 percent between 2001 and 2014. The percentage of households receiving public transfers was 8.9 percent compared to 40.2 percent in the top quintile (Figure B1.1.2).
- The percentage of households receiving remittances grew slightly overall, but was stagnant among the poorest quintile. In 2007, 5.5 percent of households in Morocco received remittances. In 2015, 6.7 percent did. The increase came mostly from rural areas, where the percentage went from 3.5 to 5.1 percent. In the bottom quintile, the percentage remained around 2 percent, while it increased by about 50 percent in the second and fourth quintiles.
- The percentage of households receiving transfers from households' resident in Morocco remained overall constant, though there were differences across quintiles. Overall the percentage of households receiving remittances remained around 30 percent. However, the percentage increased in the first two quintiles while it decreased in the last quintile.

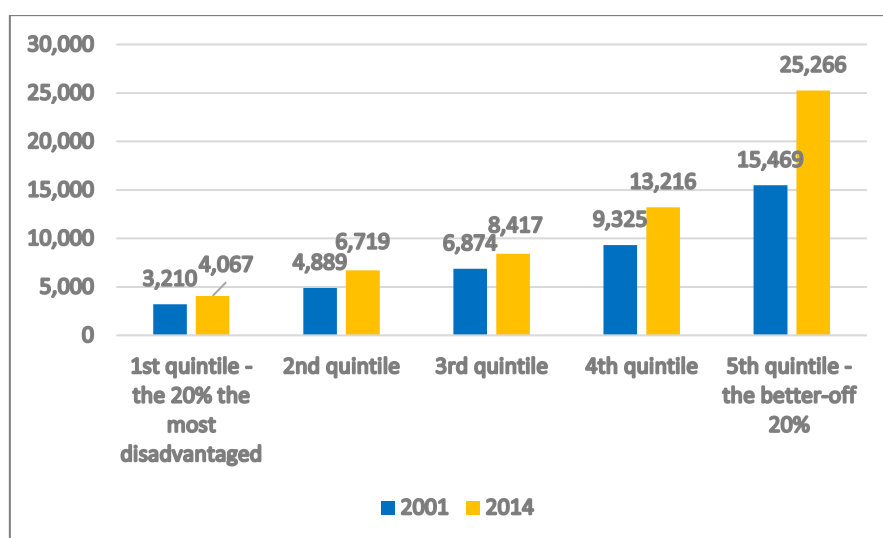
Figure B1.1.2 Share of households receiving transfers by quintile and source



Source: High-Commission for Planning

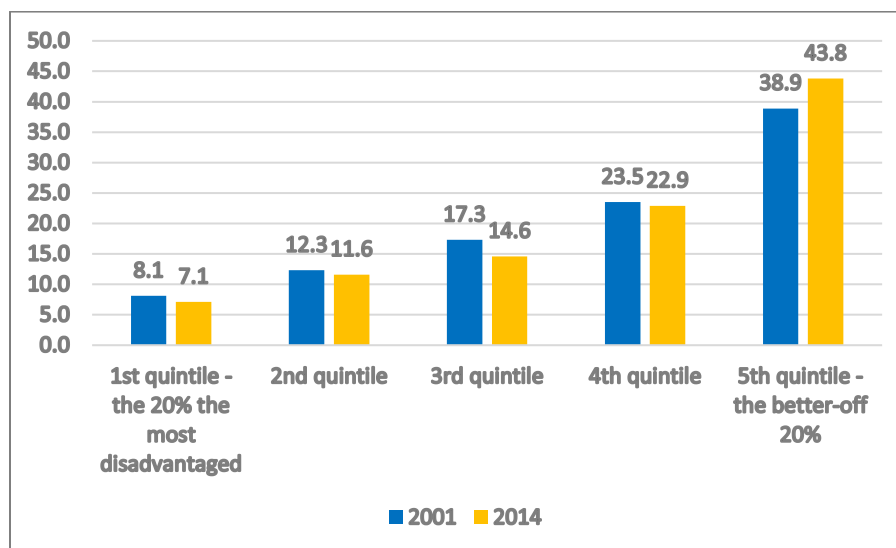
Yet, the average amount of total transfers received by households was higher and grew faster for the richest, who received 43.8 percent of the total benefits. In 2014, the average annual amount of transfers per household increases from MAD 4,067 for the poorest 20 percent, while it was MAD 25,266 for the richest 20 percent, a difference of almost 6.2 times for the benefit of these latter. In 2001, these indices were respectively MAD 3,210 and MAD 15,469, a difference of 4.8 times in the richest quintile (Figure 1.14). The upward trend in the gap between these two periods has led to an increase in inequality in the benefits derived from the cash transfers received by the poorest and richest households. In terms of benefit incidence, the richest 20 percent received 43.8 percent of the total benefits paid to households, compared to 7.1 of the poorest 20 percent (Figure 1.15). Indeed, the share of total benefits received by households in each quintile decreased for all between 2001 and 2014 but for the richest quintile.

Figure 1.15 Average amount of transfers by quintile



Source: High-Commission for Planning

Figure 1.16 Benefit incidence by quintile



Source: High-Commission for Planning

In terms of impact on poverty, the role of transfers was higher in 2014 than in 2001, especially in urban areas. In 2014, without any transfers the estimated poverty rate would have been 56 percent higher overall, compared to 28 percent in 2001. The estimated effect of transfers was particularly high in urban areas, where poverty would have been 175 percent higher. Public transfers played a major part, as without them estimated poverty would have been 106 percent higher in urban areas in 2014 compared to 24 percent in 2001 (Table 1.1). Yet, it is estimated that 3 out of 4 Dirhams still go to subsidies, universal safety net programs with significant leakage levels toward non-poor; hence, the poverty reduction impact of SSN spending remains low.

Table 1.1 Impact of transfers on poverty

	2001			2014		
	Urban	Rural	Ensemble	Urban	Rural	Ensemble
Poverty rates	7.6	25.1	15.3	1.6	9.5	4.8
Change in poverty without transfer from other households	+ 28%	+ 10%	+14%	+38%	+14%	+19%
Change in poverty without remittance	+ 9%	+2%	+3%	+19%	+2%	+4%
Change in poverty without public transfers	+ 24%	+4%	+9%	+ 106%	+8%	+27%
Change in poverty without any transfer	+ 61%	+16%	+ 28%	+175%	+26%	+56%

Source: HCP, ENCDM, 2001 and 2014

1.3. Challenges to further reduce poverty and boost shared prosperity

1.3.1. Reducing inequalities

The Moroccan people are well aware of the multispeed development process in Morocco. Even though the Gini coefficient for Morocco recently posted a downturn, it still displays high levels of income inequality. Disparities in poverty rates between regions point to spatial divides, especially between urban and rural environments, but also within cities. Nearly one quarter of rural households have no direct access to a road and live at least 10 kilometers from basic health services. Inadequate

infrastructure and transport services is still a trademark of less advanced regions as well as impoverished peripheral neighborhoods of urban agglomerations in Morocco. An average 63 percent of births in rural areas are attended by skilled staff, compared with 92 percent in urban areas. While 90 percent of households in cities are connected to the water supply network (running water inside the dwelling) and to the public sanitation network, rural connection rates do not reach 40 percent in the case of drinking water and 3 percent for sanitation (HCP 2014). Though age disaggregated inequality data may not be available, these challenges likely disproportionately affect youth, especially young women.

Morocco's multispeed development is rooted in inequality of opportunity in early childhood development (ECD).¹⁸ Inequality of opportunities in ECD remains large (especially compared to other MENA countries, see El-Kogali and Krafft 2015). As per the Ministry of Education, there is a 27-percentage point difference between preschool age-specific enrollment rates (ASERs) in rural areas and urban areas (27.9 percent vs 54.9 percent), and a 16-point difference between girls and boys in preschool in rural areas (19.9 percent vs 35.7 percent).¹⁹ In addition, overall, inequality of opportunity in ECD has only slightly improved in recent years (El-Kogali et al. 2016). Thus, inequality of opportunity for health and survival has generally improved (except for immunization and nutrition), and for early childhood care and education results have been mixed (Box 1.4).²⁰ Among the children's early circumstances determining the inequality of opportunity (El-Kogali et al. 2016) find that wealth of the household contributes the most to this disparity, but also mother and father's education, and regional and urban/rural differences play a role.

Box 1.4 Inequalities of opportunities in early childhood development

As of 2012, the most advantaged child is almost certain to have good early health outcomes, nearly 100 percent chances of prenatal care, delivery care and immunizations, and a low chance of infant mortality. In contrast, the least advantaged child has only a 54 percent chance of prenatal care, a 40 percent chance of skilled delivery, a 65 percent chance of full immunization, and a 2.2 percent chance of dying in the first year of life. Except for immunizations, there have been improvements over time (2003/04-2012) in the least advantaged children's prospects, but gaps remain large. Inequality in nutrition in terms of being stunted remains significant. In 2011, the least advantaged child had a 33 percent chance of being stunted, compared to a 5 percent chance for the most advantaged (no significant improvement since 2003/04). The level of inequality in access to adequately iodized salt is also very high. In 2006/07, the least advantaged child has a 1 percent chance of access to adequately iodized salt compared to a 38 percent chance for the most advantaged child (no data available for a comparison over time). On another hand, overall, the most advantaged children benefit most from early childhood care and education, which naturally has implications for inequality in school and then during adulthood. In 2012, the least advantaged child had a 45 percent chance of ECCE compared to a 95 percent chance for the most advantaged. This represents an improvement from 2006/07 to 2012. Disparities in development activities increased with the most advantaged child having a 79 percent chance of development activities in 2011 compared to 18 percent for the least advantaged. The least advantaged child is almost guaranteed of being violently disciplined (99 percent) while the most advantaged child has a substantial but lower chance (74 percent). The chances of work (including domestic work) are slightly higher for the most advantaged (16 percent) than the least advantaged (8 percent). Unfortunately, no data are available for the last two criteria to assess if inequality of opportunity decreases or not.

Source: El-Kogali et al. 2016

¹⁸ Early childhood is defined as the period from utero to age 5.

¹⁹ Recueil statistiques du ministère de l'Éducation « 2015-2016 L'Éducation nationale en chiffre », p. 2.

²⁰ Nevertheless, Assaad et al. (2012) find that inequalities of opportunities for ECD decreased sharply starting from the 1980s.

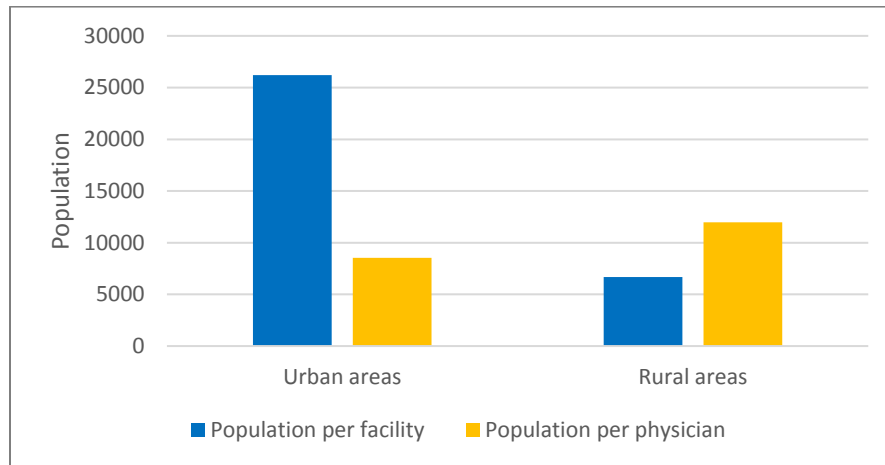
Disadvantaged groups, particularly girls and populations residing in rural and remote areas, are still facing important inequality of opportunities in access to education. As already noted, inequality of access to primary education has been dramatically reduced thanks to the government's massive investments in school basic infrastructure and teacher recruitment programs during the 2000s, as well as to the important social support program (*Programme d'appui social*, PAS) including the flagship Conditional Cash Transfer (CCT) program Tayssir. However, the gap reappears again at the lower secondary level with about a 22-point difference in ASER in rural areas compared with the ASER in urban areas (75.7 percent vs 97.9 percent in 2015-2016) and a 14-point difference between girls ASER and boys ASER in rural areas (68.8 percent vs 82.3 percent).²¹ Spatial inequalities in terms of average school life expectancy and Gini coefficient of education have been further highlighted in the recent education atlas published by the CSEFRS.²² The Gini coefficient of education and the average school life expectancy differ from one region to the other (respectively 4.8 years and 0.58 in Marrakech-Safi region, which ranks last at the national level, and 7.1 years and 0.42 in Laayoune-Sakia El Hamra region, which ranks first). Even if they are improving over time, the Gini coefficient of education and average school life do not rank well internationally (for instance, Gini coefficient of education at 0.55 ranks Morocco 150th in the world). Nevertheless, compared to other MENA countries inequality of opportunity in education is among the lowest among MENA countries (Salehi-Isfahani et al. 2014).

Inequalities in access to health services remain also important and, like for education, their adverse effects prevail beyond childhood. Inequality of opportunity for access to health care remains substantial over the lifespan of the Moroccan population and is an important factor for consideration for young people's wellbeing and Morocco's ability to see a demographic dividend. Some indicators continue to give cause for concern when comparing with countries with similar level of socioeconomic development. For example, estimated infant and maternal mortality in Morocco are below the averages for lower-middle- income countries, but higher than in neighboring Tunisia. At the same time, attention should be paid to emerging health risks, especially as they relate to youth and young women and their ability to learn, work productively and care for their families, including disease related to alcohol, tobacco use, heart disease, obesity, stress/mental health or those related to physical safety such as road traffic fatality. Important disparities remain between urban and rural areas in terms of density of primary health care facilities and medical staff. While the density of public primary health care facilities is higher in rural areas than urban areas, the density of medical staff is lower (Figure 1.17). Thus, inequalities in access to health services persist. For example, the proportion of births attended by skilled health personnel is 1.7 times higher in urban areas than rural ones and 2.5 times higher in the richest quintile than the richest one (Figure 1.17).

²¹ Recueil Statistiques du ministère de l'Éducation « 2015-2016 L'Éducation Nationale en Chiffre », p.6 www.men.gov.ma/Ar/Documents/Depliant2015-16.pdf »

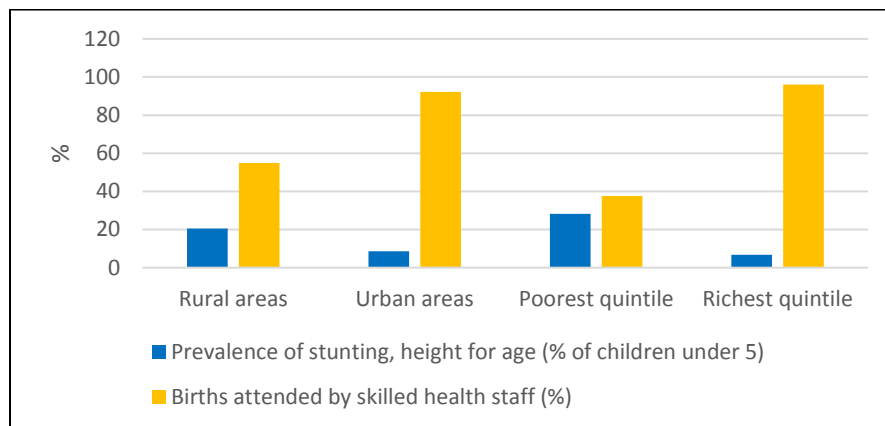
²² Atlas territorial des disparités en éducation, CSEFRS, 2017.

Figure 1.17 Density of primary health care inputs, 2013



Source: MoH's statistical yearbook book for 2014

Figure 1.18 Geographical and socioeconomic disparities in health, 2011



Source: Enquête sur la population et la santé familiale 2011

Inadequate transport infrastructure and services is still a trademark of less advanced regions and impoverished peripheral neighborhoods of urban agglomerations in Morocco. The peri-urban poor often cannot afford housing in the largest cities and their commute is both expensive and time-consuming. Despite improvements in the public transport system, in particular the introduction of tramways in 2011 in major cities and the taxi fleet renewal program, inefficiency prevails owing to urban congestion, costing the economy from 3 to 5 percent of national GDP (including around 1 percent of GDP in health-related detrimental effects). In mid-sized to large cities, given the low labor force participation of women and youth, most citizens repeatedly highlight that the state of public urban transport, particularly in terms of level of service, obstructs their access to basic social services, limits their labor force participation, and reduces their income. Improving access to quality and affordable transport services – urban, rural, and inter-urban; public transport, roads and railways - is therefore critical for a more inclusive growth of vulnerable citizens. In terms of spatial development, the relatively inefficient and costly transport sector (due in part from a lack of competition) is contributing to increased disparities between the coastal growth poles (Rabat, Casablanca and Tangier) and the lagging regions of the center

and the western part of the country (particularly rural areas) where private sector development and access to local and international markets are impeded. Improved transport infrastructure and services would underpin economic growth, poverty alleviation, and regional integration (especially for isolated areas) through the provision to populations with access to markets (including for agricultural crops), income-generating opportunities, and social services that are crucial to productivity gains.

Spatial inequalities are also marked in ICT connectivity with direct effects on territorial innovation, growth and job creation. Despite implementation of a national broadband plan to close connectivity gaps across the country,²³ the level of infrastructure coverage is significantly lower in secondary cities relative to the main cities, even where population sizes are similar. Although cities like Tangier (947,000 inhabitants) and Meknès (836,000 inhabitants) or Rabat (577,000 inhabitants) and Oujda (494,000 inhabitants) have similar population levels, their endowments in digital connectivity are significantly different. This is further confirmed by the quality of service measures performed by the regulator ANRT. The measures show that major cities (Tangier, Rabat) benefit from a better quality of service than secondary cities. Since access to digital services facilitates access to the labor market, the creation of economic activities, but also personal training, and access to knowledge, divergences in inter-urban connectivity contribute to the concentration and centralization of growth poles that do not favor harmonious economic development. And existing public financing mechanisms, such as the Fonds du Service Universel (Universal Service Fund) is not focused on reducing the digital divide in terms of broadband internet infrastructure.²⁴ The secondary cities in Morocco are in a particularly unfavorable position. They are not only lacking a connectivity adapted to their dimensioning, but they are also the ones that benefit least from the effects of competition. As an illustration, the number of districts where competition with three operators is exercised is much less in Oujda than in Rabat. ICT access is also important for economic, social and civic participation, especially by young digital natives, who increasingly leverage online and social media platforms to express their opinions and grievances, mobilize or take action, grow their personal and professional networks, and access market information and opportunities.

Better access to a diversity of financial services (savings, remittances, credit, insurance, digital payments) would help vulnerable households manage emergencies, build up productive assets, and invest in health and education. It has important applications for service delivery, notably water and solar energy, through microfinance and consumer financing. Some 13 million people are financially excluded to some degree and are disproportionately female or poor living in rural areas. The banking sector is not equipped to address their needs and the microcredit sector is limited because of a restrictive legal and regulatory environment.²⁵ Only 5 percent of male (3.1 percent of women) over 15 years old are formally borrowing from a financial institution; a minority of households are formally saving (Figure 1.19). Expanding the delivery of financial services through digital solutions, underpinned by well-developed infrastructure and transaction pathways, would help reduce disparity in access. Digital payments, which

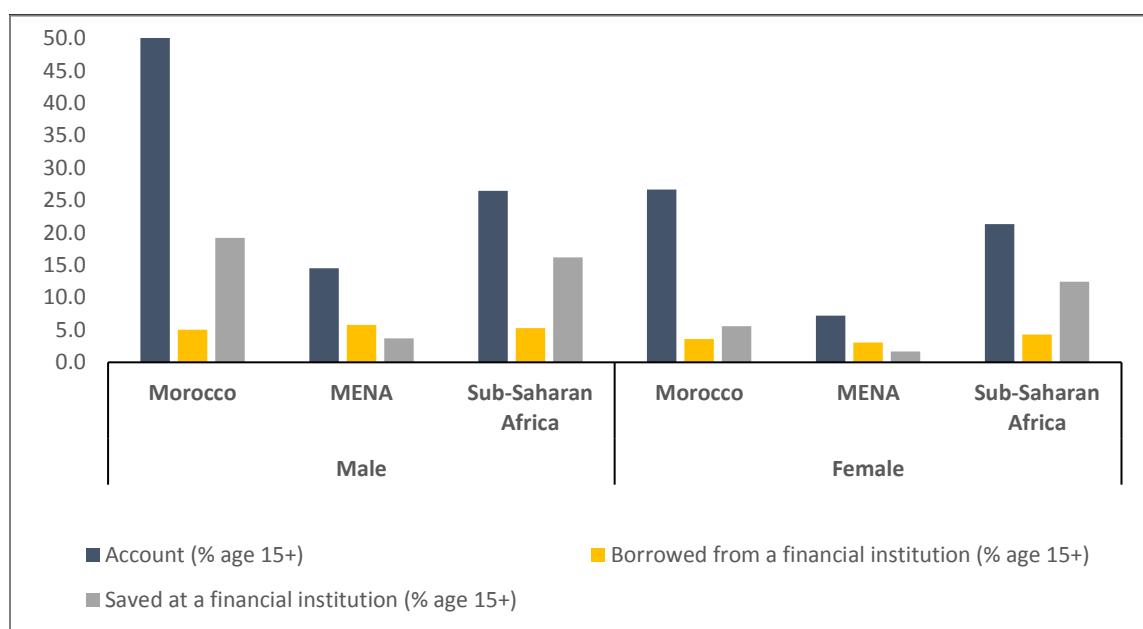
²³ The national broadband plan also seeks to generate new hirings to improve employability, spur wealth creation, help boost enterprise competitiveness, and enhance the effectiveness and efficiency of government.

²⁴ The FSU is funded by 2 percent of telecom operators' total annual revenues. Even though expanding broadband networks is a priority objective for the FSU, since 2006 none of the FSU-backed projects have massively funded the deployment of broadband infrastructure in unserved areas. As emphasized by a recent Court of Auditors (Cour des Comptes 2015) report, a reform of the FSU is needed to publicly disclose information on the FSU's achievements and decision-making procedures and ensure that FSU funds are used to increase access to broadband infrastructure and reduce the digital divide. This would prevent the FSU from being used as a source of funding parallel to the Budget Law when it comes to funding public projects.

²⁵ Data from the World Bank's 2014 Survey on Morocco's financial capability.

are still in the nascent stages in Morocco, are key to creating efficiency gains for entrepreneurs and putting them in contact with banks, employees, service providers and markets. In 2015, there were approximately 5 digital payments per capita in Morocco, compared to 22.4 for all low- and middle-income countries. Improved regulations are, however, spurring a change, and regulations for non-bank payment service providers were published in March 2017.

Figure 1.19 Gender disaggregated indicators of financial inclusion

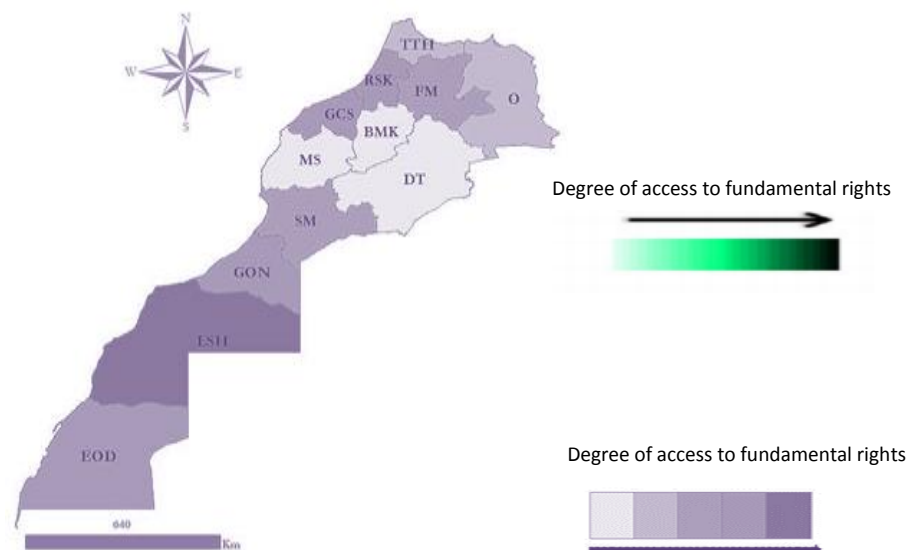


Source: World Bank, 2011, Findex

There is also large regional variation in performance in terms of realization and protection of various economic, social and cultural rights. Measured by a composite index of access to fundamental rights developed by the Ministry of Economy and Finance (2017),²⁶ the region of Laâyoune-Saguia al Hamra performs the best, followed by the regions of Casablanca Settat, Rabat-Salé-Kénitra, Guelmim-Oued Noun and Dakhla Oueddhab. On the other end of the spectrum, the region of Draa Tafilalet performs the worst, followed by the regions of Béni Mellal-Khénifra and Marrakech-Safi. While regions like Souss-Massa have seen substantial improvements since 2004, their performance in 2015 was still below the national average performance (Figure 1.20). On the other hand, some regions such as the regions of Fès-Meknès have seen a marked deterioration in their performance during 2004-2015.

²⁶ Including the right to food, water, work, housing, transport, leisure, social protection, culture, sport, etc.

Figure 1.20 Degree of access to economic, social and cultural rights by region

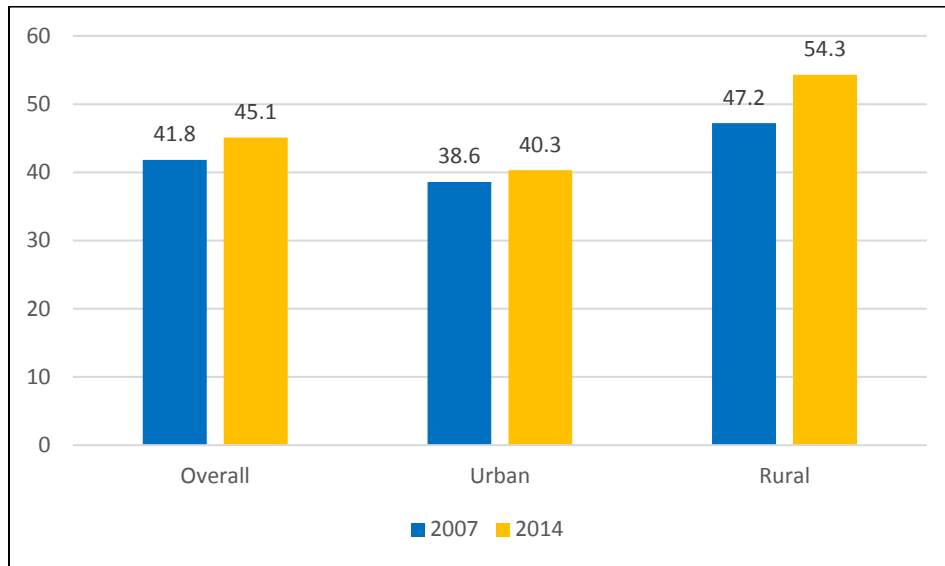


Source: DEPF, Ministry of Economy and Finance 2017

1.3.2. Attenuating the sentiment of poverty

Although Morocco has experienced an improvement in its standard of living and a combined decline in poverty and vulnerability between 2007 and 2014, subjective poverty remains at a high level, especially in rural areas. The marked divergence between subjective poverty and the monetary aspects of poverty is a common phenomenon in developing countries, which shows the complexity of the very concept of poverty. Nationally, subjective poverty rate (the percentage of household considering themselves poor) increased from 41.8 percent in 2007 to 45.1 percent in 2014 (Figure 20). The largest increase was in rural areas, where it increased by 15 percent, reaching 54.3 percent: more than half the population in rural areas consider themselves as poor. This was true also among women (55.3 percent), and among those younger than 25 years old (57.6 percent). This is particularly significant given youth decision-making and nature of their behavioral economic choice being shorter-term, immediate, and peer and relative status driven. In 2014, 68.9 percent of members of households at the bottom twenty percent considered themselves to be poor (unchanged from 2007). Overall, 39.3 percent of households thought that poverty increased and 63.9 percent believed that inequality has grown. The high perception of poverty is in contrast with the actual reduction in monetary poverty, as well as the high rate of growth in agriculture GDP.

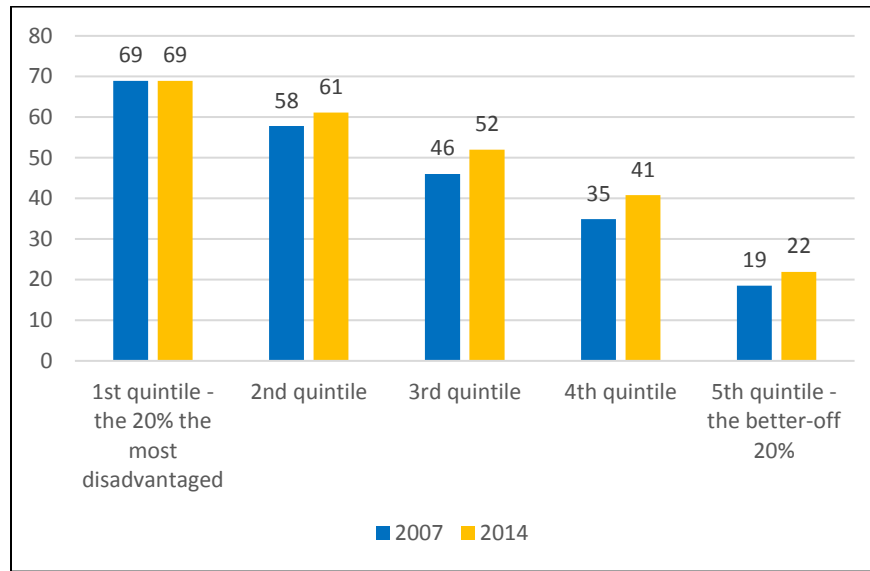
Figure 1.21 Subjective poverty 2007 and 2014



Source: High-Commission for Planning

The perception of poverty is higher amongst the poorest but has been growing amongst the more well off, especially in rural areas. The perception of poverty was unsurprisingly higher at the bottom of the income distribution. In 2014, the subjective poverty rate in the first expenditure quintile was 68.9 percent (Figure 1.21). However, the largest increases happened among the most well off. The rate in the second quintiles increased by 3.3 percentage points, 6 for the third quintile, 5.9 points for the fourth quintile and +3.4 points for the last quintile. In rural areas, these increases were even stronger: second quintile increased by 11.9 percent reaching 67 percent, and half of the fourth quintile perceived themselves as poor (an increase of 8.7 points). It is remarkable that 38.6 percent in the last quintile perceive themselves as poor. This may reflect the fact that improvements in welfare have not been uniformly distributed. Some may rightly feel that they have not been able to benefit from the generally increased education, health care, and other services. Perceptions of poverty may also actually proxy feelings of deprivation in other domains. A lack of voice, or restrictions on mobility or other factors, may be expressed as a sentiment of poverty.

Figure 1.22 Subjective poverty by quintiles, 2007 and 2014



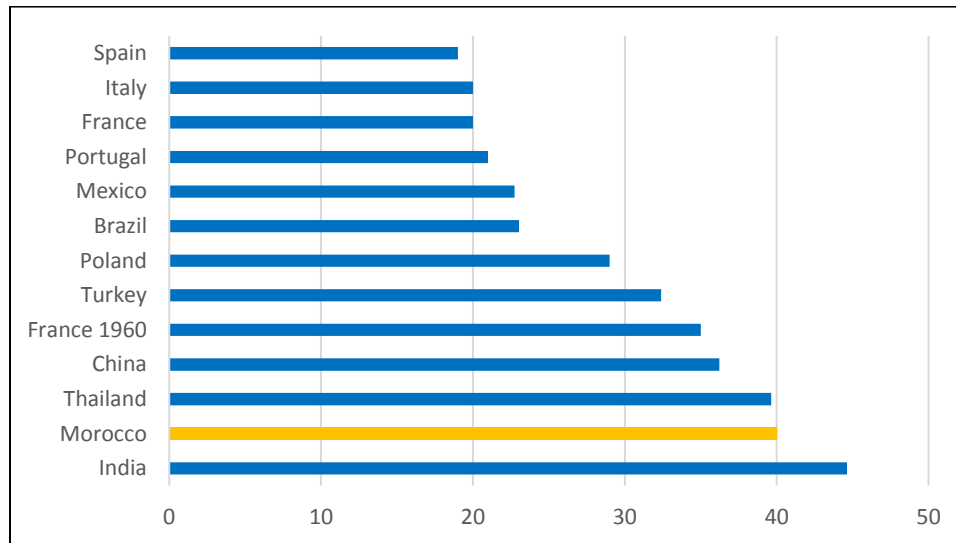
Source: High-Commission for Planning

A large share of households perceives that extreme poverty exists in their community with unemployment identified by a sound majority as its cause. When inquired about the presence of extreme poverty in their communities, 43 percent of households' report that it does, with this percentage higher in rural areas (50 percent) than in urban areas (40 percent). In terms of the causes for poverty, 58 percent see unemployment as the main contributing factor, followed by informal work (13 percent) and social inequities (10 percent).

1.3.3. Meeting the aspirational gap

Closely related to the sentiment of poverty is the existence of an aspirational gap. Like any people, Moroccans have legitimate aspirations for a better life, improved well-being, and accountable government, many of which remain unmet. Historically speaking, the current Moroccan overall standard of living corresponds roughly to the standard of living posted by the French in 1950, the Italians in 1955, the Spanish in 1960 and the Portuguese in 1965 (see World Bank 2018 for calculation details). The current structure of Moroccan households' consumer spending is similar to Europe in the 1950s and 1960s (HCP 2014, 2016). In particular, the share of food expenditure in the budget remains high (approximately 40 percent), showing families' low purchasing power and the predominance of essential expenditures in their budget (Figure 1.23). In health, Morocco's child mortality rate stood at the same level in 2010 as Europe's in 1960, at some 30 deaths per 1,000 births. Morocco also lags behind in the areas of mobility and transport. The low rate of household car ownership (18 percent) relative to a number of Southern European countries has a great impact on the Moroccan population's well-being as it occurs in conjunction with growing urban sprawl and poor quality, low density public transport systems.

Figure 1.23 Share of food expenditure in budget



Source: International Finance Corporation, Global Consumption database

Meanwhile, modern information technologies continuously expose Moroccans to others' way of living, increasing their aspirations. A large literature in different disciplines (including psychology, sociology, and economics) have studied the aspiration concept, determinants and effects (see Tanguy et al. 2014 for a recent literature review). An aspiration is commonly defined as a goal-orientations or a desired future end-states that is relevant to well-being. Aspirations rise with the use and exposure of social media, in particular Internet (Lohmann, 2015) and affect mostly the young generations.²⁷ The rise of aspirations takes different forms, for instance, there are increases in aspirations of a certain level of income/wealth or social status (the most studied type in the literature, see for instance Dalton et al. 2016), but also of educational attainment (Clair et al. 2013), of health (Skevington and McCrate 2012), of housing (Crawford and McKee 2016), and others.

Although the rise of aspirations increases income through an influence on investment behavior, it also affects negatively well-being because of envy effects. The literature has found that higher aspirations affect positively people's saving and borrowing, which makes investment to increase and ultimately raise revenues (Tanguy et al. 2014). Yet, the comparison with a higher level of living standards (the action behind the increase in aspirations) produces a reduction of well-being (Clark and Senik 2010; Lohmann 2015). These effects are seemingly behind the absence of reduction of subjective poverty, even though important reductions in objective poverty have been recently achieved. This is consistent with the above-mentioned fact that subjective poverty is growing amongst the more well-off, since they have more access to modern information technologies.

However, the negative effect of higher aspirations on well-being can be reduced if the convergence process accelerates by giving hope to Moroccans that a higher standard of living is coming to them too. Hirschman and Rothschild (1973) talk about the "tunnel effect," a concept that refers to a signal effect whereby a reference-group income contains information about the individual's own future prospects. Thus, in the context of an economic acceleration, even if an individual is not currently benefiting from an

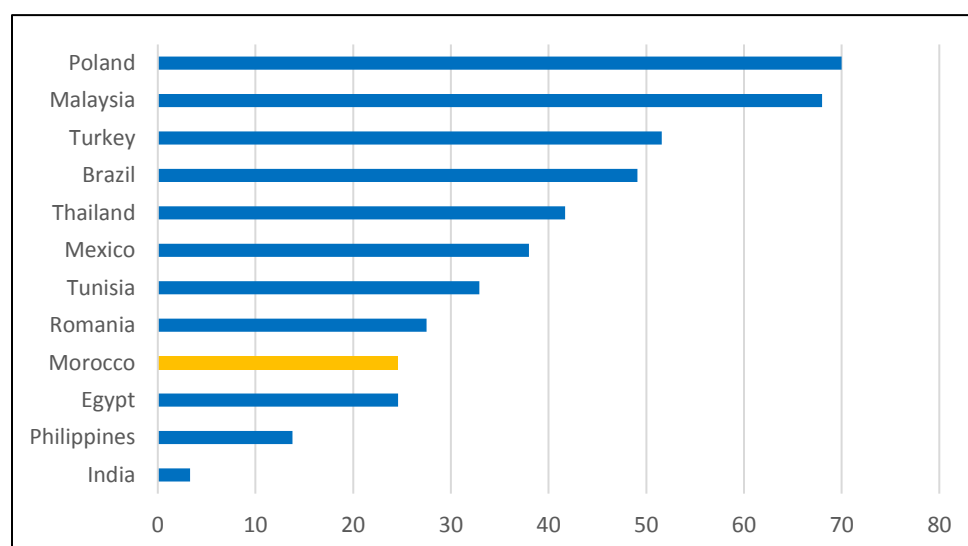
²⁷ Aspirations are not simply expectations of what the future will be like, as individuals may aspire to outcomes that might be possible only if constraints were lifted or if they changed their behavior.

economic boom, expectations tend to increase when relatives, neighbors, or acquaintances improve their economic or social position. It has been found that this effect can significantly reduce the negative effect on well-being of envy effects (Clark and Senik 2010).

1.3.4. Growing the middle class

The size of the middle class in Morocco is small compared to other emerging market countries that have experienced an economic take-off. If it is assumed that a middle-class household has a minimum income of US\$10 per person per day (PPP 2011), or US\$1,200 per month for a family of four (Pew Research Center 2015), just 25 percent of the Moroccan population is middle class. This is an extremely low rate relative to the size of the middle class in emerging countries (approximately 50 percent in Brazil and Turkey) and in countries that have experienced an economic takeoff (Figure 1.24). The middle class already accounted for 53 percent of the population of South Korea back in the 1980s.

Figure 1.24 Share of the middle class



Source: Pew Research Center

The Moroccan economy does not create enough jobs for skilled and unskilled workers, and insufficient employment opportunities affect skilled and low-skilled youth. Whereas the unemployment rate for young people (aged 15-24) was 19.9 percent,²⁸ the rate is 21.7 percent for young technical college graduates and 24.6 percent for young university graduates even as growing numbers of young people are entering university. At the same time, about 1.7 million low-skilled youth are currently discouraged by the labor market outlook, affecting young men and women in all regions. Young people who are not in education, employment or training (NEET) account for 34 percent of all young people (aged 15-24),²⁹ constituting the largest segment of Morocco's youth, which is directly being fueled by the high number

²⁸ ILO data, 2014.

²⁹ NEET rate for Morocco is not available on ILOSTAT, but can be estimated based on available education and labor force surveys (LF participation and unemployment rates from ILOSTAT (2014); estimate of the enrolment in education rate of those outside of the Labor Force from World Bank Youth Survey (2012). Both surveys are representative at national level, though the usual caveats for combining surveys apply.)

of dropouts.³⁰ This also reflects a phenomenon of job queuing among youth, whether for public-sector or “good” private-sector jobs.

The middle class is also struggling to emerge owing to the high cost of living and dysfunctional public services. The middle class threshold is estimated to be much higher than in emerging countries owing to public policy failings that burden households with large extra costs to pay: urban planning (high cost of property), education policy (expensive private schooling increasingly necessary for children as an alternative to the deficient public system), transport policy (inadequate public transport resulting in spending on transportation representing between 10 to 20 percent of household expenditure, which is disproportionately high compared to more developed countries), health policy (poor quality of the public health system, limited health care coverage and high rate of household contribution to health care expenditure). Once these costs are considered, a much lower share of Moroccan households remains in the middle or upper class, that is, approximately 5 million inhabitants out of a total population of some 34 million.

To conclude, addressing Morocco’s poverty and inequality challenges requires a complex balancing act. Economic diversification, job creation and reduction in spatial disparities depend on the twin forces of industry and services-driven wages in urban areas and economic integration of rural areas. While parts of the country display characteristics of an emerging economy, poverty continues to afflict several inland regions of Morocco. The growth and poverty reduction strategy for Morocco has, thus, to reflect the acute needs of the country’s poorer regions while not stifling the dynamism of the most enterprising ones. A strategic approach to enhance economies of agglomeration in fast urbanizing areas must accompany upgrades to service delivery and improvements in safety nets mechanisms in the poorest rural areas.

³⁰ Note that more than 30 percent in Morocco are not enrolled in secondary education. OECD, Youth in the MENA Region, Report.

Chapter 2

The sustainability of Morocco's economic and social achievements

This second chapter discusses several sustainability issues related to Morocco's past performance that could hamper the current pace and depth of poverty reduction and shared prosperity realizations. It is organized around the following six clusters of potential vulnerabilities.

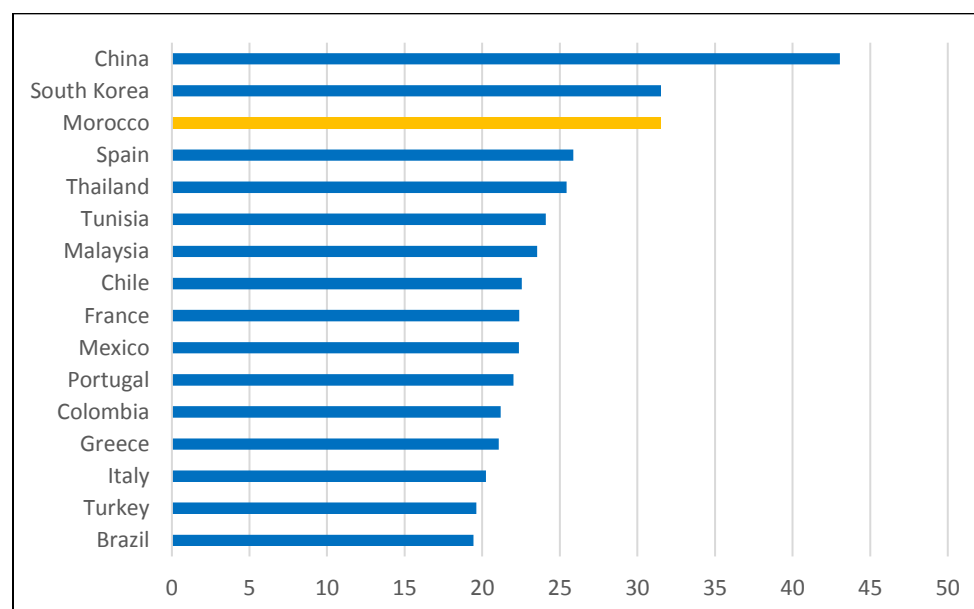
- **First, economic sustainability.** Morocco's economic model based on domestic demand, especially public investment, risks petering out without a significant increase in investment yield and productivity. This calls for a shift toward a more export-led model, where the private sector is playing a greater role as an engine of growth and employment.
- **Second, financial sustainability.** Although macroeconomic equilibria have been restored and the financial sector remains robust, Morocco displays some financial vulnerabilities. The level of indebtedness of some economic actors (government, SOEs, enterprises, consumers) has increased and is approaching critical thresholds. The trade and external account deficits are endemic and prone to increase with any bout of growth acceleration. Morocco's financing model needs to rely less on debt accumulation and more on private equity finance and other forms of innovative non-debt creating instruments.
- **Third, infrastructure service delivery sustainability.** Morocco's public investment management, including the management of SOEs, needs also to become more efficient and inclusive. This calls for public-private partnerships (PPPs) and new forms of private financing (maximizing finance for development) to continue delivering the needed infrastructure to foster efficiency and innovation.
- **Fourth, territorial sustainability.** Morocco's ongoing urbanization is not generating the expected growth and structural transformation benefits, especially regarding industrialization. Spatial inequalities and lack of inclusion are particularly pronounced in the areas of transport and ICT connectivity. By enabling more agglomeration economies instead of the fragmented urban expansion, Morocco would strengthen both its growth and inclusion potential.
- **Fifth, climate change and environmental sustainability.** Morocco is a severely water-stressed country. It has no choice but to preserve its ecosystems (forests, land, coastal zones) and more efficiently manage its natural capital to achieve sustainable and inclusive resilient growth across economic sectors and territories. To reduce the vulnerability to climate change, Morocco needs to invest in adaptation, including in agriculture, water, forest, and fishery and aquaculture management. Morocco is also exposed to increasing levels of air and water pollution. Addressing these environmental challenges will go a long way into adapting and making the Moroccan economy more resilient to climate change.
- **And sixth, social sustainability.** Strengthening the inclusiveness, transparency and efficiency of institutions would help maintain social peace.

2.1. Economic Sustainability

Morocco's growth model is showing signs of running out of steam. It risks quickly finding itself having to contend with the limitations of growth based on fixed capital accumulation. Despite positive demographics, the labor factor has contributed little to the recent growth trend. Morocco has one of the lowest labor force participation rates in the world with less than one in two Moroccans employed or

seeking work. Growth is heavily penalized by the economy's difficulty in managing available human resources (including labor market policies that constrain recruitment and retrenchment across both public and private sectors), leveraging its human capital (especially young people and women), and swiftly reallocating labor across sectors for efficiency purposes. Unlike the labor factor, capital accumulation has made a large contribution to growth, mainly owing to one of the highest investment efforts in the world in the last decade (Figure 2.1). The rate of investment rose from 25 percent in 2000 to an average of 32 percent in recent years. It now stands at the rate observed in the “economic miracle” countries.

Figure 2.1 Investment rate between 2000 and 2014
(In percent of GDP)



Source: World Development Indicators

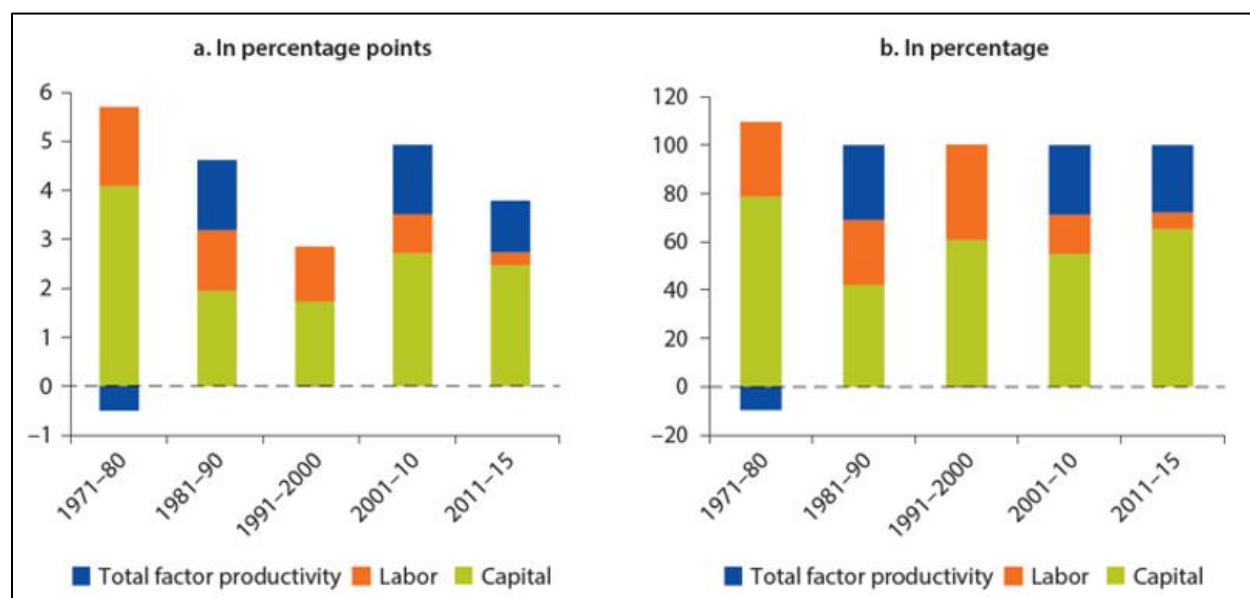
Sustainable economic growth requires not only high investment but also considerable productivity gains through diversification into higher productivity sectors. Productivity growth has been less rapid in Morocco than in comparable MENA countries. Morocco's growth path is characterized first by low returns to capital accumulation related to the fact that the main investment effort comes from the public sector and is directed to infrastructures, while most of the private sector investment is directed to low productivity sectors such as construction and commerce. Second, the allocation of labor by sector, which partially reflects government policy objectives and direct participation, tended therefore to hamper productivity gains. Sustaining productivity growth requires increasing labor and capital mobility from low to high value-added firms and reallocating capital and labor from stagnant agricultural subsectors to higher productivity sectors, either in or outside agriculture.

The investment effort—made mainly by central government and public enterprise—has not generated significant productivity gains (Figure 2.2). A growth accounting exercise shows that low productivity growth can explain part of the weak growth performance of Morocco's economy (IMF 2017). As in other countries, the typical low productivity in construction and hospitality explains that these sectors created over half of jobs between 2000 and 2014.³¹ While higher productivity growth resides in other sectors

³¹ 570,000 jobs out of 1.1 million excluding agriculture.

(agriculture, industry and certain services), in Morocco, these sectors are mostly dominated by government affiliated or connected actors. This suggests that state-led investment efforts have to some extent been allocated to projects, which have up to now delivered rates of return that are on average lower than in peer countries. Productivity gains have been more substantial in agriculture. Yet, the sector is confronted with a worrying deterioration in the country's "water capital" (see below). All in all, the Moroccan economy has not managed to make significant efficiency gains (measured by its TFP trend) despite its broad-based political stability, structural reforms, economic openness, improved business environment, imported technologies and increase in school enrolment rates.

Figure 2.2 Morocco Contribution of Capital, Labor, and Total Factor Productivity to Growth



Source: The World Bank

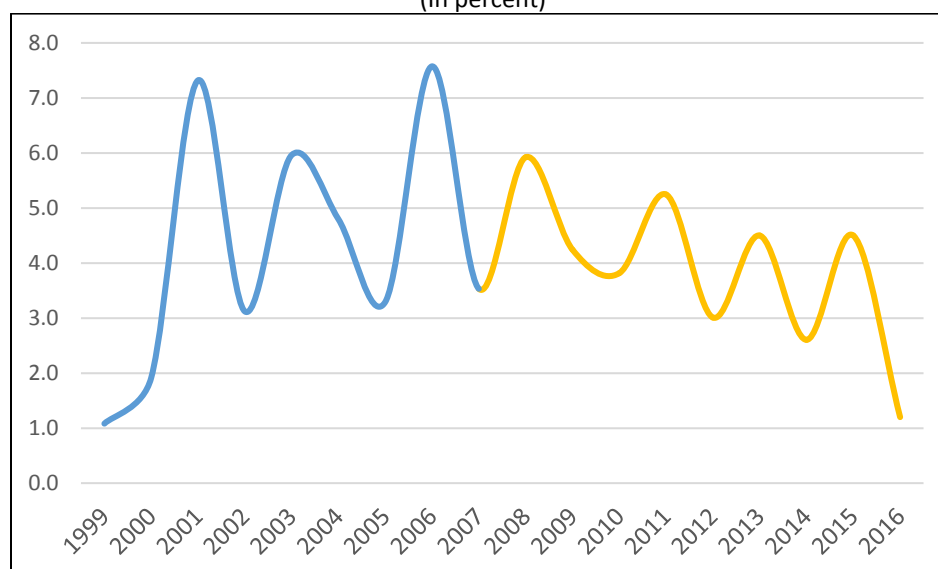
The scenario that extrapolates the trends observed over the 2000–2015 period (strong fixed capital accumulation, modest job creation and low productivity gains) is based on a capital accumulation mechanism that is hard to sustain macroeconomically. While the average current account balance in 2001-2008 was a 1.4 percent surplus, the average balance in 2009-2015 was a deficit of 6.1 percent of GDP. Without a marked upturn in productivity gains, the most plausible scenario is one of a soft landing whereby Morocco restores its macroeconomic balances, by re-establishing a sustainable current account deficit at around 2 to 3 percent of GDP. Trend growth of 3 percent may well remain respectable, especially compared with other countries in the subregion, but will fall short of the higher level expected by the population. This scenario would have significant repercussions on Morocco's rate of job creation, poverty reduction and shared prosperity. If the Moroccan standard of living were to continue rising at this pace, it would still be only 30 percent of the standard of living in Southern Europe by 2040 (World Bank 2018).

The economic growth trend since 2008 could be interpreted as a harbinger of this slow convergence scenario. Indeed, after suffering macroeconomic imbalances in the 2008–2012 period, Morocco started gradually restoring its fundamental economic balances in 2013 mainly because of a successful reform of subsidies (Verme and El-Massnaoui 2015) and a fiscal adjustment that helped curb growth in imports in an environment of plummeting oil prices. Despite the combination of several favorable internal (historically low interest rates) and external factors, it bears noting that the growth rate has been on a

downward trend in recent years (BAM 2016). This recent experience shows that, without sounder productivity gains, Morocco appears to be facing a difficult trade-off between macroeconomic imbalance and moderate growth.

Yet, this flagging growth and slow convergence scenario should come as no surprise considering international experience. Economic history shows that many countries manage to ramp up their economic growth for several years, as was the case with Morocco in the 2000s. However, in most cases, without major structural reforms, these growth gains are generally unsustainable and the growth rates end up resuming their historical trend (Hausman, Pritchett and Rodrik 2005). The economic slowdown observed in non-agriculture GDP in recent years and the growth estimate of 1.2 percent for 2016 (although depressed by bad harvest) suggest that Morocco is heading for this low-end scenario (Figure 2.3).

Figure 2.3 GDP growth rate, 1999-2006 and 2007-2016
(In percent)



Source: High-Commission for Planning

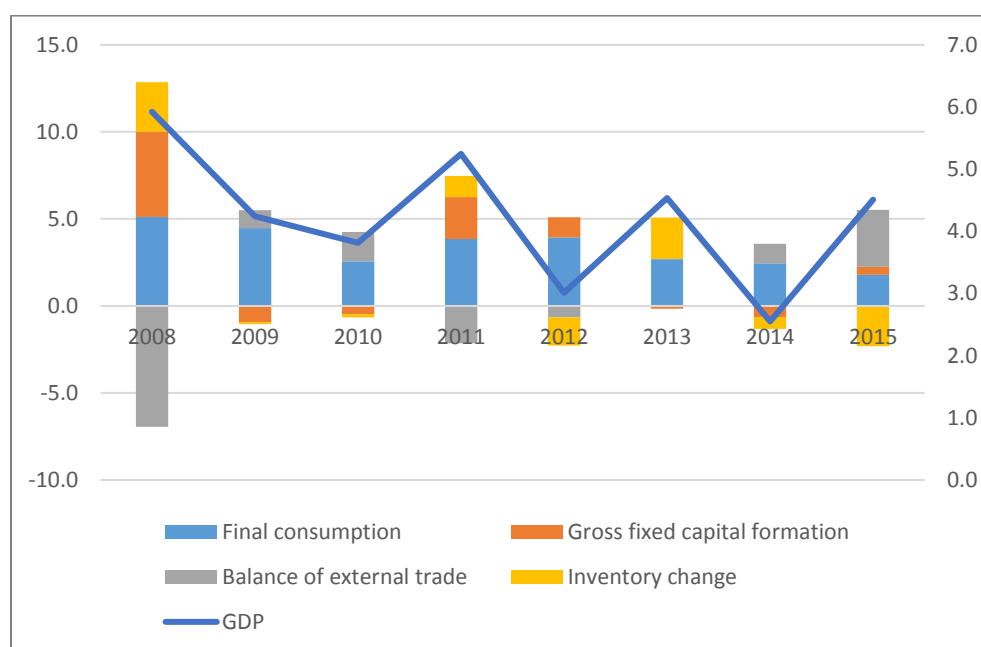
In addition to its supply vulnerabilities, the Moroccan growth model also has substantial demand weaknesses. The recent growth has been driven mainly by domestic consumption (Figure 2.4) against a backdrop of rising public and private debt. In the space of six years (2008–2014), the Treasury’s debt has grown from 45.4 percent of GDP to 63.4 percent of GDP, reflecting largely the countercyclical fiscal stance following the 2008 great recession and subsequent euro area crisis. Although it is difficult to determine a critical level of government debt, several indicators suggest that Morocco’s current level of public debt could weigh on long-term growth if the upward trend of debt is not reversed (see subsection 3.2). It is interesting to note that the countries that have successfully taken off historically had very low levels of debt when they were at Morocco’s current level of development. In the Southern European countries (Italy, Portugal, and Spain), for example, the debt ratio stood at less than 30 percent of GDP from 1960 to 1980. Some European countries (Estonia, Lithuania, Romania, Sweden, and Switzerland) still had a low public debt ratio, at less than 40 percent of GDP in 2015. In the case of Eastern and Central European countries, many benefitted from non-debt generating EU investment projects. Growing household and business debt has strongly supported the recent growth, but this source of growth has reached its limit. Structural deterioration in the national savings-investment balance created a sharp

current account imbalance in the 2008–2014 period. Even though the slowdown in growth and plunge in petroleum product prices reduced external imbalances in the short run in 2014–15, Morocco’s net international investment position (which measures the country’s foreign assets minus its foreign liabilities) deteriorated over the last decade from 38 percent of GDP in 2002 to 61 percent in 2015 (BAM 2016).

Morocco’s private sector is heavily stratified, with a dominance of large corporates. A more dynamic private sector is critical to drive Morocco’s transition toward a higher, more sustainable and inclusive growth model. The development of an expanded and thriving private sector is key to the future transformation of the economy toward higher productivity sectors. In turn, these new sectors and activities should become important generators of jobs and absorb the new entrants in the labor market. This supposes primarily improving the business environment and access to finance to encourage higher productive private investments. Closely linked is the need for an efficient and diversified financial sector—including capital markets and long-term financing instruments—to marshal needed financing for the private sector. Given the complexity of reforms of the business environment, efficient coordination between public and private actors is required to improve the business environment. For instance, the change in business and innovation culture is one important challenge that the economy should meet. Expanding the private sector will reduce also the prominence of the state in the economy and create a level playing field. Given the acute supply-demand mismatch vis-à-vis youth employment, efforts should also be made to support sustainable self-employment and growth entrepreneurship by young people and women. While the incidence of self-employment has declined in Morocco over the past decade, the low business startup rate, exacerbated by a predominant informal sector, is stymying the creation of sustainable jobs for young people. To address this issue, in 2015 Morocco implemented a new legal framework with the creation of the self-entrepreneur status. In addition to streamlining procedures for starting up a business, this status provides tax and social benefits. Since its introduction in September 2015, some 56,700 individuals have obtained self-entrepreneur status. Young people between the ages of 25 and 34 account for 40 percent of self-entrepreneurs while women account for 34 percent.

Growing non-financial SOE debt is another concern. Non-financial SOE debt stood at 70 percent of GDP, a breakdown of which shows significantly lower private debt offset by public debt. SOE debt is a political concern because financial difficulties adversely affect providers: payment delays among enterprises, particularly for MSMEs in real estate development, transport and communications, have reached crisis proportions.

Figure 2.4 Decomposition of the contributing factors to growth (demand side)



Source: High-Commission for Planning, author calculation

To increase its economic sustainability and lessen its reliance on debt-creating domestic demand, Morocco also needs to diversify its economy toward more export-oriented sectors. While export-competitiveness is determined by a large array of factors from cost of labor to monetary policy, Morocco could take some specific actions to improve it. For instance, increasing its efforts to promote innovation would help expand the potential of high value activities that would move from a logic of technology consumers to a logic of developer. Given the uncertainties in the regional and international environment, Morocco cannot solely rely on foreign demand from its traditional markets in Europe and must open up to new markets. In that regard, the openness to Sub-Saharan Africa is promising for both Morocco's and Africa's growth and development prospects—especially in light of Morocco's recent readmission in the African Union (AU) and its bid to join the Economic Community of West African States (ECOWAS).³² All things considered, Morocco will essentially have to continue relying on its own strengths to create the conditions for steadier foreign demand, by continuing its strategy of diversifying target markets and promoting exports.

2.2. Financial sustainability

Morocco has a track record of relatively sound macroeconomic and debt management. The fiscal deficit and public debt remain sustainable. After reaching 7.3 percent of GDP in 2012, the fiscal deficit fell to 4.1 percent of GDP in 2016 and is expected to reach 3.5 percent of GDP in 2017. This good performance is mainly due to ambitious petroleum product subsidy reforms, resilient public revenues, and well contained public expenditures. The debt sustainability analysis (IMF, 2016) shows that public debt (Treasury debt estimated at 64.7 percent in 2016) remains sustainable and resilient to various

³² Morocco originated more than 5 percent of the total announced FDI directed toward Africa in 2016 and almost 10 percent of the total announced FDI directed toward the Least Developed Countries (most of which are in Sub-Saharan Africa). As such, Morocco is already among the largest foreign investors in Africa and amongst the largest African foreign investors – at par with South Africa and above Egypt, Nigeria, and Kenya (UNCTAD - WIR).

shocks. However, while sustainable, it should be placed firmly on a downward path to avoid the debt burden benchmark of 70 percent of GDP for emerging markets. Reducing public debt will require fiscal reforms mainly in the key areas of tax policy and tax administration (broadening the tax base by combating tax fraud and curbing tax exemptions) and expenditures, particularly the wage bill (containing expenditures and enhancing their efficiency without compromising priority spending). Particular attention should be paid to managing potential risks relating to SOEs and the budget decentralization process.

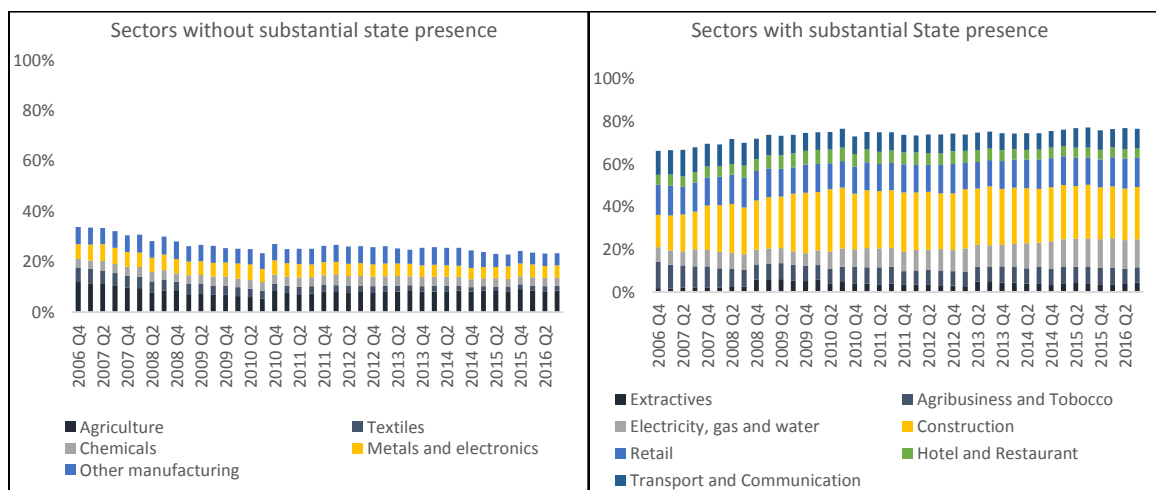
The large external imbalance in recent years has been largely resorbed. Nevertheless, the current account remains highly sensitive to Euro zone conditions, phosphates, remittances, tourism, and internal demand. The Euro zone receives more than 2/3 of Moroccan exports, with phosphates representing around 23.9 percent of total exports between 2008 and 2014. In addition, worker's remittances (at above 6 percent of GDP) come mainly from the European Economic and Monetary Union. Finally, at around 6 percent of GDP, tourism receipts are very large compared to other MENA countries. These facts point to a high dependency of Moroccan external balance in respect to only one geographical area, one commodity, and changes in remittances and tourism. Meanwhile, in the absence of substitutes for imports, the elasticity of imports to internal demand is high. Consequently, an acceleration of economic growth would importantly affect the current account deficit. In the medium term, structural reforms (aiming at increasing Morocco's potential) and diversification of products and export markets would make the current account balance more stable and less sensitive to external shocks.

The financial system is relatively robust and resilient. The euro area crisis, and supervisory tightening, has resulted in a progressive increase in non-performing loans (NPLs). NPLs have risen to 8 percent in 2016 which the banks continue to provision adequately (IMF 2016). The three largest banking groups have also expanded in SSA to diversify risk and revenues. For its part, Bank Al-Maghrib has been actively supervising the risks posed by cross-border banking.³³ Going forward, financial sector authorities should strengthen (i) supervisory capacity and resources; (ii) macro prudential policy; and (iii) crisis management and bank resolution.

The banking sector is not exposed to large risks. Bank credit to private entities flows mainly to the most vibrant sectors, buoyed by successful public policies. These sectors also have a substantial state presence (infrastructure, transport, energy or agribusiness) and receive more than 70 percent of the total credit provided to the non-financial private sector. The other less dynamic sectors, where there is low state ownership (manufacturing, textiles or agriculture), receive less than 30 percent of the total credit provided to the non-financial private sector (Figure 2.5). This may reflect the large investment efforts of the central government and SOEs over the past decade. The availability of more market-based modes of financing, particularly for infrastructure and real estate assets, may help allocate capital to more productive projects in the state-led investment effort.

³³ Potential risks could arise due to the weaknesses in banks' consolidated risk management framework, regulatory gaps in key host countries, and the lack of an effective cross-border crisis management framework (FSAP, 2016).

Figure 2.5 Credit to the non-Financial Private sector (% of total)



Source: BAM

Thanks to policies initiated earlier this decade and the 2016 pension reform, the framework for cascade financing through capital markets is coming into place. The creation in 2016 of the independent capital market authority has led to more active supervision and enforcement of capital market rules. Current policy work concentrates on the framework for exchange traded funds, sukuk, real estate investment trusts or start-up finance, and revamping investment rules for insurance companies and pension funds to allow alternative asset classes. Pension and insurance hold financial assets equivalent to a third of GDP. Long-range pension reforms launched in 2016 aim to safeguard the soundness of key institutional buyers of new market instruments. They are a pre-requisite for shifting public investment to more cascade financing.

2.3. Infrastructure service delivery sustainability

A large share of capital accumulation that has spurred growth in the last decade corresponds to major public infrastructure developments. For example, more than half of public investment in Morocco is channeled through state owned enterprises (SOEs), of which 45 percent corresponds to only four SOEs delivering energy and mining, water and sanitation, and transport services.³⁴ A large proportion of investments executed by the Central Government or through transfers to sub-national entities is also devoted to infrastructure. Going forward, investments to maintain and improve the quality of service delivery of infrastructure will still be needed to meet the aspirations of Moroccans. These will be used to maintain these assets (e.g. roads and highways); universalize access (e.g. sanitation, internet, all-weather roads) and diminish the urban-rural gap in access and even between main and secondary cities; improve the quality of infrastructure services (e.g. reliable and efficient mass transit systems such as Bus Rapid Transit - BRTs -, household connections for water access instead of standpipes, deployment of fiber optic internet connections); and keep managing the increasing demand associated with demographic and urbanization dynamics.

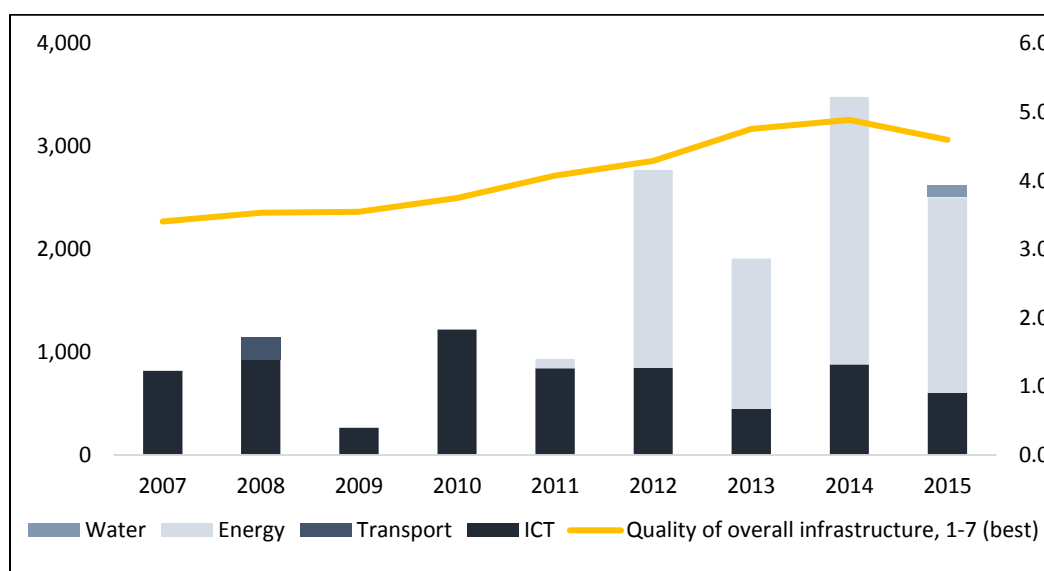
The performance of socio-economic investment projects remains below the financial efforts made. Compared to the emerging countries where the same investment efforts were made, growth and inclusion rates in Morocco have remained subdued. A growth model based on public capital

³⁴ OCP, ONEE, ONCF and Autoroutes du Maroc.

accumulation is therefore no longer possible. Mobilizing new and innovative sources of financing will be critical for improving the efficiency of infrastructure investments and optimizing the use of existing public financing mechanisms (e.g. Universal Access Fund, Rural Development Fund, etc.). A high-quality policy framework, which opens the infrastructure sector to alternative sources of financing, along with a complementary public investment management framework would increase the impact and efficiency of investments, catalyze larger flows of private investment, facilitate faster job creation, and improve the productivity of labor.³⁵

Notwithstanding the existence of comprehensive legal instruments, the oversight and monitoring of SOEs by their supervisory ministries could be strengthened with improved information flows. Like in many countries, the management of infrastructure services in Morocco is confronted with a typical principal-agent problem to regulate natural monopolies, where the principal is a line ministry, the agent a SOE or an implementing agency, and a regulator is sometimes present to oversee the agent (Baron and Myerson 1982).³⁶ The problem arises where the two parties have different interests and asymmetric information (the agent having more information), such that the principal cannot directly ensure that the agent is always acting in the principal's best interest, particularly when activities that are useful to the principal are costly to the agent, and where elements of what the agent does are costly for the principal to observe. This is a problem for infrastructure service delivery in Morocco as many of these services are provided through SOEs and there may be space for improving the service delivery efficiency of some SOEs, while also looking for ways to attract the private sector into this space. In addition, increasing the scope for private sector participation in infrastructure can promote innovative delivery mechanisms and promote and sustain efficient and fiscally sound solutions. Over the last few years, Morocco's infrastructure has been improving as private sector participation in infrastructure – especially in telecoms – rose (Figure 2.6).

Figure 2.6 Private Sector Participation in infrastructure and infrastructure quality



Sources: World Bank, PPI and Global Competitiveness Index

³⁵ It should be noted that a PIM project as a new strategic framework for monitoring implementation of public investment projects is currently being set up in the MEF with World Bank support.

³⁶ Baron, D., and R. Myerson. 1982. Regulating a monopolist with unknown costs. *Econometrica* 50: 911-930.

The Government’s oversight of infrastructure SOEs should be strengthened and new innovative financing solutions promoted. According to the 2016 Court of Auditors report on Moroccan SOEs (Cours des comptes 2016),³⁷ there are two aspects of Government’s oversight that should be reinforced: the role of the state in strategic monitoring (*pilotage stratégique*) and the role of the state as a shareholder (*Etat-actionnaire*) (Box 2.1). Maximizing finance for development, also known as the Cascade, could provide private sector solutions and resources to finance the significant expenditures that are still needed to maintain, upgrade, and increase the existing infrastructure assets, and to meet the increased demand associated with demographic trends and economic growth. Given that the financing needs amount to several points of GDP and the current macroeconomic and fiscal environment, innovative resources to be mobilized will need to include commercial financing, capital markets, and private sector participation in various forms.

Box 2.1 Strengthening the governance of SOEs

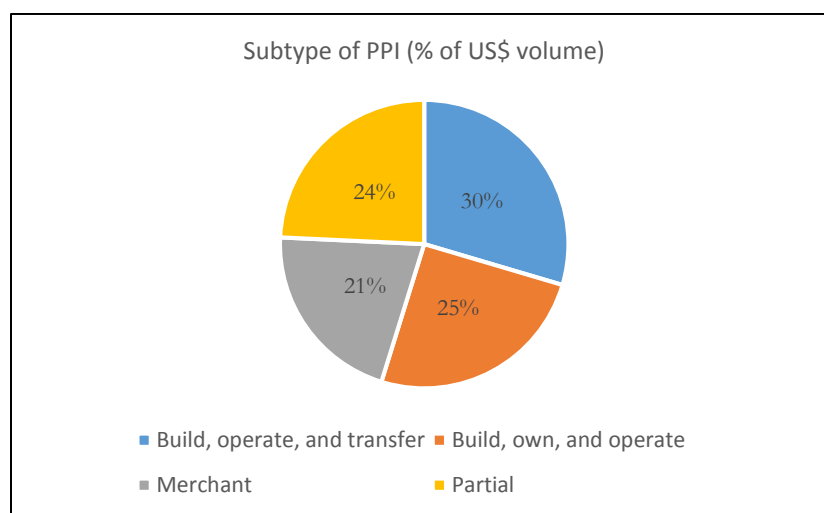
- **On strategic monitoring**, notwithstanding the existence of complex and ambitious sector strategies, the link between sectorial ministries and SOEs is often weak, with the latter ending up taking decisions that should in principle be the responsibility of the ministry. Another challenge is the governance of SOEs and the composition of their management boards. International experience suggests that recruitment, assessment, remuneration, and independence are all desirable features of SOE management to achieve efficiency. Contracting the relationship between the state and SOEs by defining reciprocal obligations in a negotiated framework has shown to be a useful way of overcoming – at least partially – this limitation. For example, ONEE and ONCF (respectively, the National Water and Energy Company and National Railways Company) today have framework contracts (Contrats Programme) in place with the state that last several years and other SOEs such as Autoroute du Maroc (Highways of Morocco) are in the process of renewing such contractual agreements after their completion. Early results show that the 2014-2017 framework contracts have yielded positive results in the energy sector through a sustainable financial recovery of ONEE.
- **On the role of the state as a shareholder**, the main issue relates to the financial supervisory functions of the Ministry of Economy and Finance (MEF) on SOEs. There is space to strengthen the MEF’s capacity and legal means to trigger change in SOEs, particularly with regard to its portfolio management and governance. The ongoing development of a shareholder strategy to manage the assets invested in SOEs through the “active portfolio management” approach, should strengthen the effectiveness of MEF oversight.

While Morocco has experienced successful public-private partnerships (PPP) to deliver infrastructure projects, the potential of the existing PPP framework has not been fully exploited. According to the World Bank PPI database, 55 percent of the total volume of infrastructure projects involving private sector participation were PPP, the rest consisted of other forms of private sector participation using merchant and partial contracts (Figure 2.7). The expansion of user fees as primary source of revenues for these projects outlines the potential of the Moroccan private infrastructure market (Figure 2.8). The Moroccan authorities have in the past few years developed a PPP framework including passing a general PPP law in 2015. Several line ministries and public entities have started considering PPP as an alternative delivery model for part of their pipeline of projects. The Ministry of Equipment, Transport and Logistics has started working on a large pipeline of projects ranging from ports, roads, airports and rail. Sectors such as energy and irrigation are building on previous track record to structure projects with increased private sector participation. However, a large portion of these stakeholders lack capacity to build robust

³⁷ Cour des Comptes. Juin 2016. Le secteur des établissements et entreprises publics au Maroc: ancrage stratégique et gouvernance.

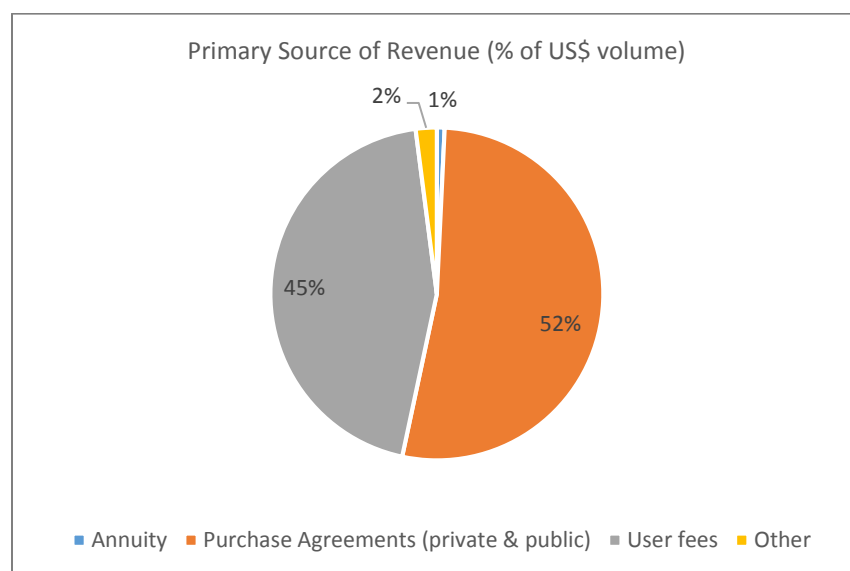
frameworks to identify, select and assess viable PPP projects as well as implement processes that could support the PPP agenda and streamline the project delivery.

Figure 2.7 Subtype of private sector investment in infrastructure (2007-2015)



Source: World Bank, PPI

Figure 2.8 Primary source of revenue for infrastructure projects with private sector participation (2007-2015)



Source: World Bank, PPI.

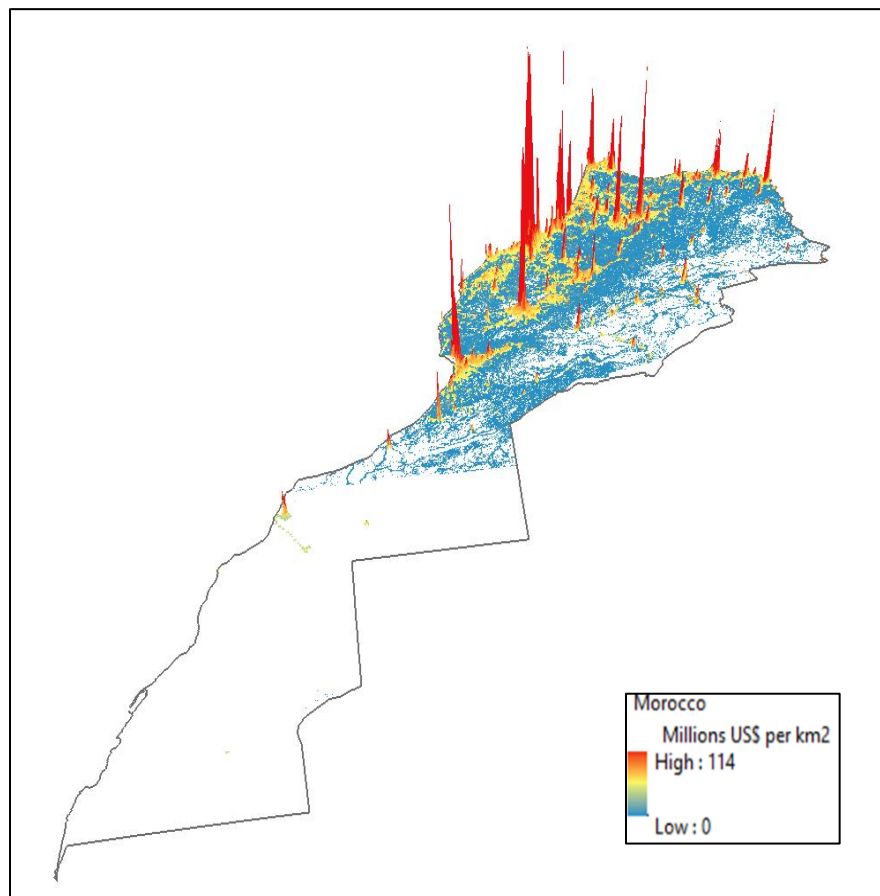
Commercial and capital market cascade solutions are under-utilized for infrastructure financing. Domestic commercial finance can bring forward investments while reducing the exchange risk and strengthen local service providers' autonomy. While sub-national service providers borrow substantially from commercial banks, the potential of national infrastructure service providers is not fully tapped, both at the domestic and international level. For instance, in the burgeoning renewable energy sector, public financing from IFIs has been crowding out commercial debt financing and indirectly subsidizing some technologies that do not require subsidies (PV and wind energy costs are below grid parity in Morocco).

Capital markets for infrastructure financing is also an opportunity that could help bridge the financing gap, given the relatively sophisticated capital markets players both on supply and demand sides, as well as the favorable regulatory environment and government commitment. In the energy sector, MASEN issued the first green bond in Morocco in 2017 to fund solar power projects, and is exploring options to tap international commercial debt. Providing guarantees to foreign investors (e.g., MIGA) could also help promote FDI by de-risking their operations in the energy as well as other sectors in the economy.

2.4. Territorial sustainability

Urbanization is rapidly unfolding in Morocco with increasing concentration of people and economic activity in urban areas. Figure 2.9 shows the mountains of economic activity around the largest cities, alongside spikes of activity in smaller towns and urban areas. These patterns of economic concentration are consistent with global experience. In fact, only 1.5 percent of the world's land is home to half of its production. In developed countries like Japan and France, Tokyo and Paris concentrate over 40 and 30 percent of their own nation's economic activity in less than 4 and 2 percent of the country's land respectively. The underlying mechanism fueling the benefits of economic density is "agglomeration economies," which enhance productivity via three key mechanisms: transport cost savings, developing markets for specialized services, and labor market matching (Box 2.2). Much like the rest of the world, urbanization comes with increasing air and water pollution, and corresponding costs (see Section 2.5 below).

Figure 2.9 Economic activity geography in Morocco



Source: World Bank calculations based on data from Ghosh et al. 2010

Box 2.2 The economics of cities

By enabling “agglomeration economies,” cities can be instrumental in enhancing productivity and spurring innovation and economic diversification. The underlying reason – Density. The most basic agglomeration economy is the reduction of transport costs for goods. If a supplier locates near customers, the costs of shipping decline. In the early 1900s, New York and London were manufacturing powerhouses, places where factories located to be close to customers and transport infrastructure. And in late nineteenth-century, four-fifths of Chicago’s jobs were compactly located within four miles of State and Madison streets, close to where people lived and infrastructure (Grover and Lall 2015). Many of these benefits increase with scale; towns and small cities cannot reap the same benefits as larger cities do. International evidence suggests that the elasticity of income per capita with respect to city population is between 3 percent and 8 percent (Rosenthal & Strange 2003). Each doubling of city size raises its productivity by 5 percent.

The density and size of cities can also create a market for specialized services including legal support, advertising, logistics and management consulting. These services are critical for young firms who can focus on their big idea and their core competence, without being encumbered by having to worry about supporting functions. The larger the cluster, the more specialized the service providers can be. Think of New York City, where a young fashion designer does not need an in-house lawyer to manage intellectual property and incorporation; and she can link with logistics firms to connect with merchandisers in Hong Kong SAR, China and production houses outside Colombo.

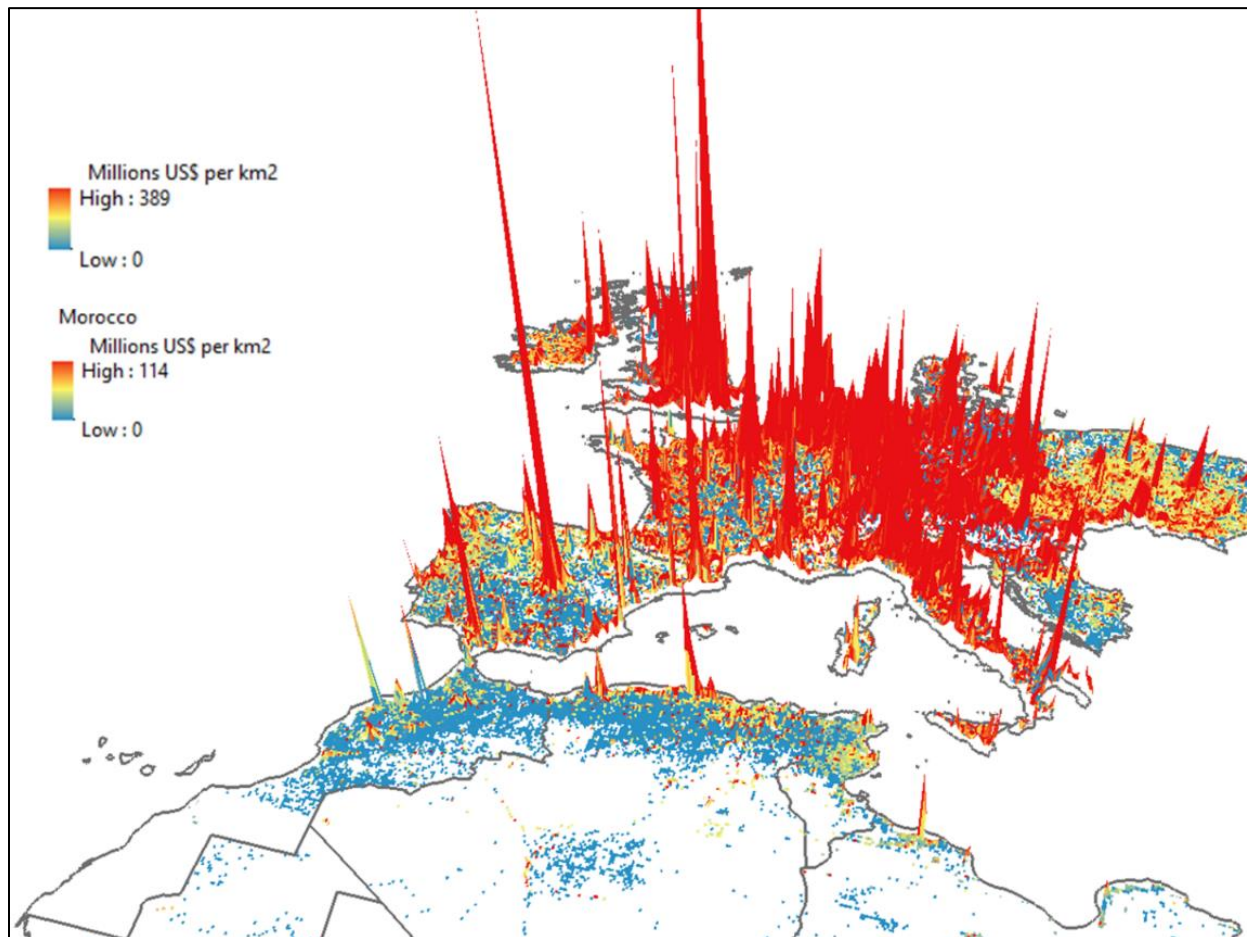
In addition, cities are also instrumental in matching skills with job opportunities, and density allows for an integrated “thick” labor market. In fact, skills matching will gain much more importance over the next 20 years as the current generation of Moroccan children gets better educated than their parents and more intensively search for jobs that fully reward their skills. Just as many Indian children growing up to become software engineers in the 1990s lined up to move to Bangalore, where many software firms are concentrated, getting cities such as Casablanca and Tangier to flourish can help Moroccan children find jobs with the firm that really wants them —and will pay for their skill set. In fact, research in the United States shows that living in cities where the number of college graduates increases faster experience more rapid salary gains than workers who live in cities where the number of college graduates stagnates (Moretti 2004). This relationship is particularly strong for workers with high-tech jobs. Well-functioning cities that nurture and attract skills and enable density-based interactions can help the current generation of Moroccan children lever the urban advantage.

Source: World Bank 2017b.

However, many policymakers in Morocco are concerned that rising economic concentration in cities is exacerbating spatial inequalities and often consider options to divert economic and population growth to lagging areas in the hinterland. The evidence suggests that these worries are unfounded and policy efforts need to be redirected. Rather than worry about the size of cities such as Casablanca and Rabat, policymakers should worry whether Moroccan cities are generating sufficient economies of agglomeration and promoting enough trade linkages among each other as well as across the Mediterranean and beyond. The evidence suggests that Moroccan cities have not contributed as much as they should. Estimates of real regional GDP for the period 2001 to 2014 show that the peripheral regions top the regional distribution of economic growth and that four central regions, representing 59 percent of GDP (namely, Fez-Meknes, Beni Mellal-Khénifra, Casablanca-Settat and Rabat-Salé-Kénitra) recorded economic growth below the national average (Ministry of Economy and Finance 2017). Indeed, the peaks of economic activity in large cities that seem to concern Moroccan policymakers are nothing but molehills

in a broader economic landscape (Figure 2). For Morocco to cross the threshold into upper middle income and beyond, economic concentration will need to rise. And at the same time, complementary policies are needed to ensure that the benefits of economic concentration are shared with all residents – in rural and urban areas alike. Moreover, given that the large share of urban residents and migrants are likely to be young (S4YE 2015), steps should be taken to ensure economic inclusion; including targeting education and training to develop skills for the services, professional or technology oriented urban markets; reducing information asymmetry, or increasing young worker and entrepreneurial networks.

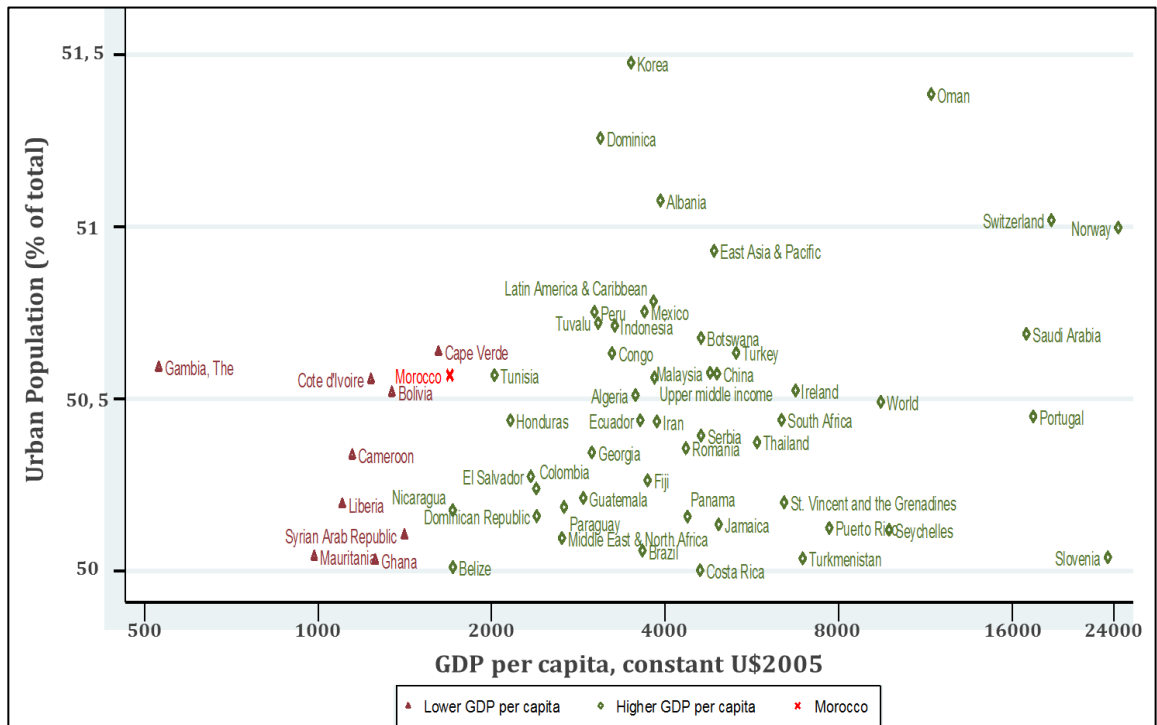
Figure 2.10 Economic activity geography in Europe and North Africa



Source: World Bank calculations based on data from Ghosh et al 2010

Indeed, urbanization in Morocco has not generated the same growth benefits as in many other countries. In 1960, Morocco's urbanization rate was close to 30 percent, while its GDP per capita was less than USD600 (constant 2005). Compared to the world, only 11 countries had a lower per capita GDP than Morocco when they crossed the 30 percent urbanization mark. The same pattern can be seen when Morocco crossed the 50 percent urbanization mark in 1993 (Figure 2.11). Of the countries that have achieved greater economic performance for the same urbanization level, many have twofold or higher per capita GDP than Morocco. These patterns suggest that Morocco needs specific policies to derive higher returns from its urbanization process.

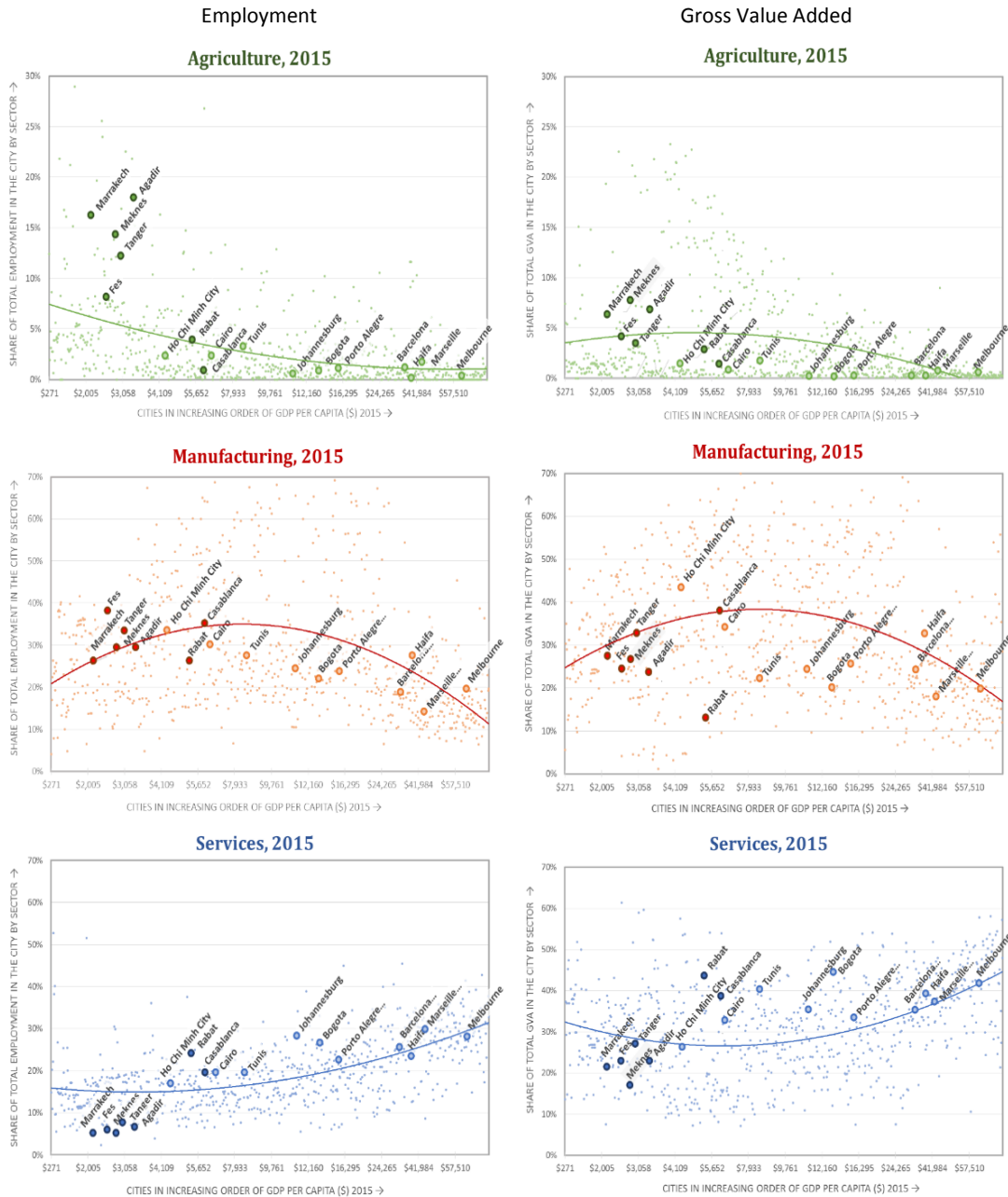
Figure 2.11 Urbanization versus development



Source: World Bank 2017b.

Moreover, urbanization in Morocco has not been accompanied by structural transformation, notably toward industrialization, and thus it has proceeded without adequate job creation. Although more than 60 percent urban, Morocco still employs about half its labor force in agriculture. The movement of urban workers into manufacturing and high value services has been minimal, stunting the creation of scale economies. The weak industrial structure of some central economic centers (except for Casablanca-Settat, and Tangier-Tétouan-Al Hoceima) is one of the explanatory factors of their low contribution to growth (Ministry of Economy and Finance 2017). Secondary agglomerations (i.e. Fez, Marrakech, Tangier, Meknès, Agadir) appear to be holding back the country's structural transformation (Figure 2.12). Primary agglomerations—especially Casablanca—concentrate the highest share of employees working in high value services, with a rate above the world average. On the other hand, Morocco's secondary cities employ a far smaller percentage of workers in high value services while keeping a significantly high rate of employment in the agricultural sector (14.5 percent). Further efforts in enabling secondary cities to transit into economies with higher productivity sectors is necessary to propel economic growth and reduce regional disparities.

Figure 2.12 Shares of employment and value-added in cities by sectors



Source: Team analysis using Oxford Economics Data, 2015

Despite a decade of sustained economic growth, Moroccan cities are still lagging in key areas for competitiveness (Sanchez 2017). Set against comparator cities from different regions and levels of income, Moroccan cities display low levels of labor productivity and low formal-employment rates as a share of the working age population (Figure 2.13). Whilst cities are not fully leveraging their economic potential, spatial disparities in living standards between rural and urban areas remain large and persistent. Per capita household consumption is 54 percent lower in rural areas than in urban areas. And, as we have seen, access to services compounds welfare differentials.

Figure 2.13 Labor productivity in Moroccan cities in international comparison

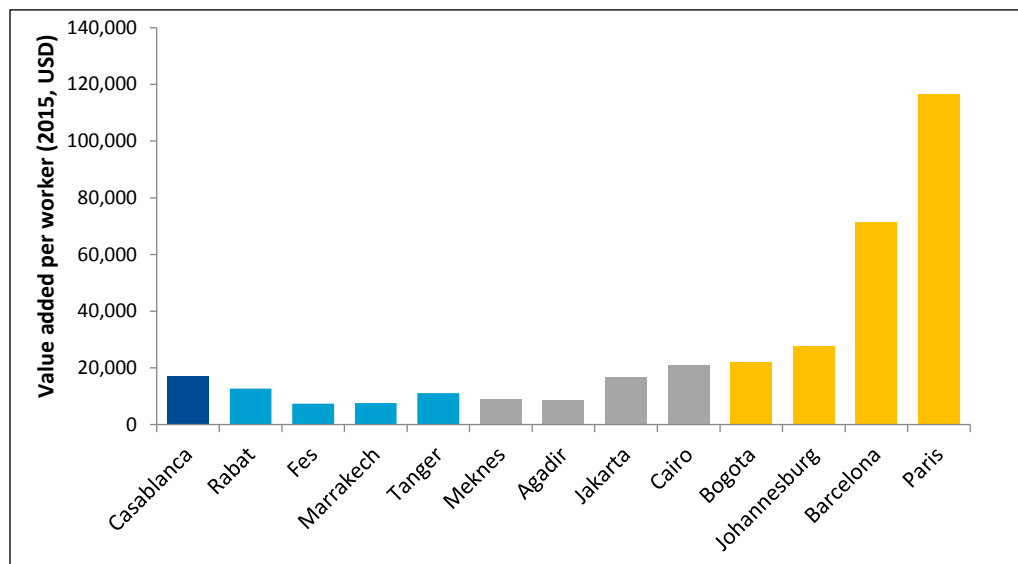
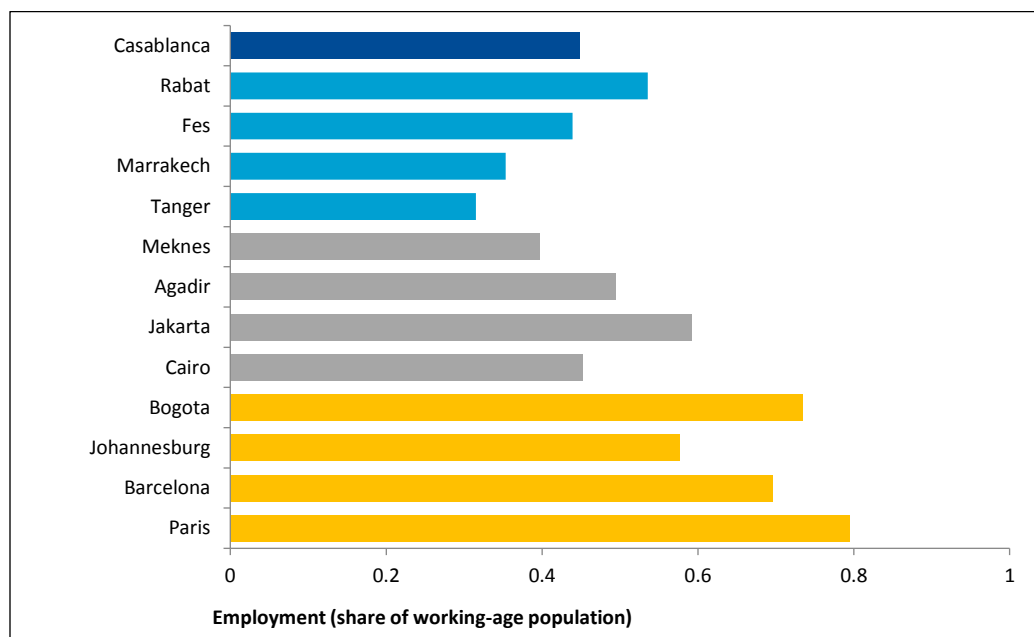


Figure 2.14 Formal employment rate in Moroccan cities in international comparison

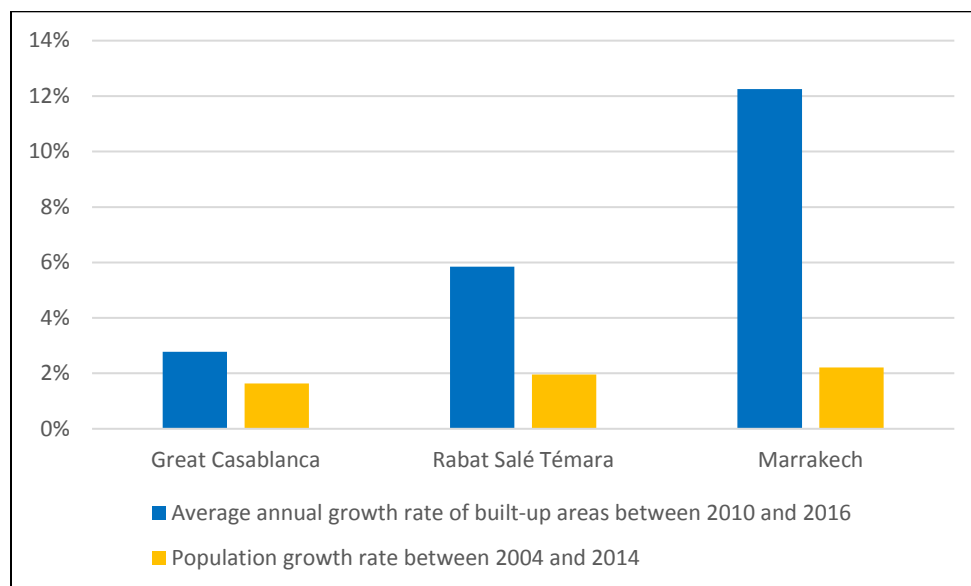


This lack of sufficient positive economic agglomeration is due to a fragmented urban expansion, which has been partly fueled by public policies (Box 2.3). Major Moroccan cities are experiencing a process of urban expansion characterized by a decrease of densities in the inner cities, suburban densification and overall leapfrogging. Urban sprawl in Morocco's main cities is characterized by scattered developments in the form of housing or tourism projects that do not have spatial and physical links with each other or their direct environment.³⁸ During 2004-2014, the growth in the rate of built-up areas was twice that of the population growth rate (Figure 2.15). De-densification (sprawl) and missed opportunities to coordinate new development at the city level are leading to inefficient development, increasing costs of

³⁸ MUR Background paper, 2017, « Rapport sur la gestion foncière et la planification urbaine au Maroc »

service provision, and mobility for workers, creating additional barriers for labor to assess jobs and economic opportunities and burdening commerce and industry with additional expenses. In addition, the on-going urban sprawl may create the sentiment of isolation among certain groups, particularly youth, which may result in the future in an increase in risky behaviors.

Figure 2.15 Evolution of built-up areas against population growth rates in the three main agglomerations



Source: Team using GHSL and e. Géopolis & INAU

Box 2.3 Fueling Morocco's urban fragmentation

Urban sprawls have largely been fueled by derogatory urban planning and the failure of establishing a comprehensive town planning code (*Code de l'urbanisme*) to modernize and provide greater flexibility to urban planning rules. Social housing subsidies through tax exemptions and the ad hoc mobilization of public land at low prices in the outskirts of cities have also encouraged leapfrogging since the 2000s. The “new towns Program” launched in 2004 also contributed to urban de-densification and compounded the lack of connectivity infrastructure linking new town residents to jobs and economic opportunities in established centers. These policies have come at a price and generated negative externalities for cities (among which Greater Casablanca, Rabat-Salé-Temara, and Marrakech). In the Rabat agglomeration, the cost of under-used infrastructure was estimated at MAD 2.7 billion for the 118 km of under-used roads mostly servicing unused plots (Ballout 2016).

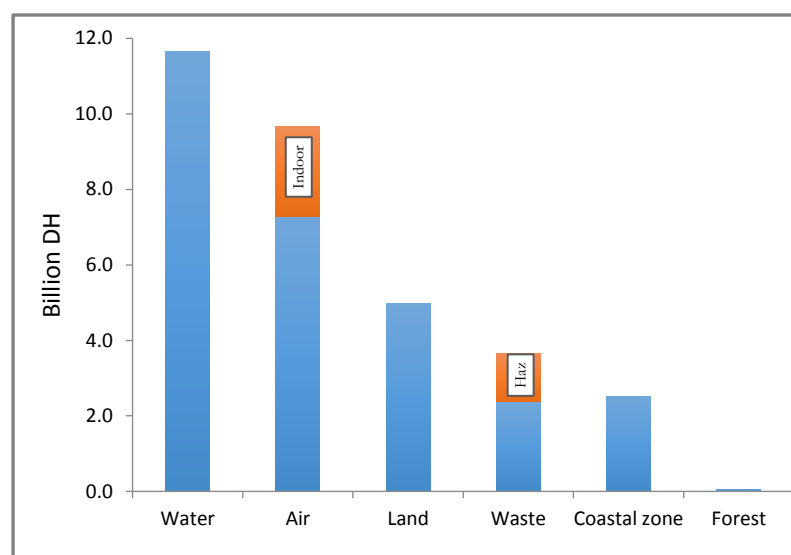
Source: World Bank 2017b

2.5. Climate Change and Environmental Sustainability

Investing in environmental sustainability pays off. Still marginal a decade ago, environmental sustainability is now a national priority in Morocco. This is particularly highlighted in the recently adopted National Strategy for Sustainable Development. Government effort over the past decade toward greener growth is yielding tangible results. For example, between 2008 and 2014, the Government has invested around MAD 2.8 billion to improve municipal waste management through the Programme National de Déchets Ménagers, cutting corresponding environmental costs by an estimated MAD 4.2 billion over the

same period. Similarly improving access to water supply and sanitation has reduced environmental health costs by 60 percent over time (Croitoru and Sarraf, 2017). Despite these significant achievements, the costs of environmental degradation remain high (3.5 percent of GDP in 2014; Figure 2.16). Efforts must be redoubled to improve water resource management (reducing groundwater overexploitation and discharges of untreated wastewater in water bodies), provide a sustainable water supply for the country, and curb air pollution. Poor people tend to be affected disproportionately by environmental degradation, as higher income groups can invest in measures that mitigate and protect them from pollution. The degradation of natural resources also disproportionately affects poor people as they derive a higher part of their income from natural resources (for e.g. wood and non-wood forest products represent 10 percent of agricultural GDP in rural areas).

Figure 2.16 Cost of environmental degradation in Morocco in 2014



Source: Croitoru L. and M. Sarraf (2017) « Le Coût de la Dégradation de l'Environnement au Maroc » Environment and Natural Resources Global Practice Discussion Paper #5. The World Bank Group.

Morocco's Strategy for Sustainable Development 2030 calls for a transition toward green and inclusive growth.³⁹ The strategy relies on four pillars: a sustainable and competitive economy, the development of its cultural heritage, a cohesive and inclusive social structure and the protection of its environment. It also recognizes the need to build resilience to limit the impact of climate change.⁴⁰

With Morocco already experiencing a warmer climate and reduced precipitation, ensuring environmentally sustainable long-term growth will require integrating climate impact into its development path. Temperatures have been gradually rising (by around 1 to 1.8°C) and precipitation

³⁹ Kingdom of Morocco (2017) National Strategy for Sustainable Development 2030 (SNDD)

⁴⁰ Of note are the seven objectives identified by Morocco as sustainable development objectives, namely, Objective 1: Strengthen governance of sustainable development. Objective 2: Shift to a green economy. Objective 3: Improve management and development of natural resources and strengthen biodiversity conservation. Objective 4: Fast-track implementation of the national climate change policy. Objective 5: Pay special attention to sensitive areas (coasts, oases and mountains). Objective 6: Promote human development and reduce social and territorial inequalities. Objective 7: Promote a culture of sustainable development.

declining (between 3 to 30 percent depending on the year) since 1960.⁴¹ Water availability per capita has declined from 2,600 m3 in 1960 to about 700 m3 today. Morocco is recovering from 20 years of drought in the past 70 years. Rangelands, covering 82 percent of the country's arid land, are already facing a degradation of plant breeding resources, because of both anthropogenic and climate factors. Future projections include reduction in precipitation and snow cover and a further increase in temperature. Geographically, the strongest warming is projected to take place close to the Mediterranean Coast, meaning that a projected 4°C worldwide warmer climate will result in increased temperature in parts of Morocco by up to 8°C.⁴² These projections will have very negative impacts on water availability (water availability could decrease to 500 m3 per capita by 2030 (TNC, 2016, p.26), agriculture production, and aridity and threaten the sustainability of national ecosystems in general.

Morocco's vision is to make its territory more resilient to climate change while ensuring a rapid transition to a low-carbon economy (Nationally Determined Contribution to the UNFCCC (NDC, 2016). This will be achieved through both adaptation and mitigation efforts. Major climate change risks in Morocco are well identified in the country's Third National Communication (TCN, 2016) and its NDC. These risks put significant pressure on the perspectives of sustainable resilient growth across economic sectors and ecosystems such as water, agriculture (impacts on irrigation capacities, crop yields and geographic distribution of growth areas); maritime fisheries; shorelines; forestry and health (e.g., through the worsening of endemic illnesses; malnutrition and hunger through impacts on agriculture); and tourism. Increasing climate variability and change is posing significant risks to the vulnerable population in the rural areas (given their substantial dependency on natural resources and agriculture) and to the urban poor, while urban population in Morocco is growing.

In the area of climate mitigation, renewables have been at the forefront of the energy sustainability agenda, and have helped Morocco emerge as the 'green' leader in the MENA region (Box 2.4). Mitigation efforts are planned to continue and be achieved through economy-wide actions. Numerous sectors are addressed by plans and strategies that will have a direct impact on the carbon intensity of the Moroccan economy (that is currently at a low level per capita). These strategies cover energy, agriculture, transportation, water, waste, forestry, industry, housing and infrastructure. Morocco aims to reduce its GHG emissions by 17 percent by 2030, which could, if the required international assistance is available, rise to 42 percent, that is, below business-as-usual levels. This goal will rely in large part on an important transformation of the country's energy sector, which will include increasing generation capacity from renewable energy sources, reducing energy consumption, including through significant energy efficiency improvements, sustain the efforts of reducing public fossil fuel subsidies,⁴³ and increasing the use of natural gas.

⁴¹ TNC, 2016: Third National Communication to UNFCCC (2016) *3e Communication Nationale du Maroc à la Convention Cadre des Nations Unies sur les Changements climatiques* <http://unfccc.int/resource/docs/natc/marnc3.pdf>

⁴² Turn Down the Heat: Confronting the New Climate Normal. Middle East and North Africa Chapter. The World Bank Group 2014.

⁴³ For example, the butane subsidy (that costs about MAD 12 billion/year) could be reviewed to better target the poor instead of subsidizing all consumers.

Box 2.4 Morocco's achievements and challenges in the area of climate mitigation

Morocco imports almost 90 percent of its energy needs and is therefore highly vulnerable to oil price level and volatility. In 2012, the government established a commission to prepare reforms aimed at introducing measures to phase out fossil fuel subsidies due to rising fiscal pressures (energy subsidies in 2012 reached 6.5 percent of GDP or about the size of the fiscal deficit that year). Tight fiscal space coupled with foreseeable climate change impacts has pushed Morocco to diversify its energy mix. Yet, with relatively strong economic growth, energy demand is expected to continue to rise strongly. The energy import bill still weighs heavily on the balance of payments, and fuel subsidies, although significantly reduced, continue to weigh on the national budget.

Morocco has shown an impressive readiness to face up to the three principal challenges of modern energy policy: security of supply, affordability and sustainability. However, to lessen its dependency on imported petroleum products, Morocco needs to engineer a comprehensive energy transition. It made the strategic decision to maximize use of its domestic renewable energy sources (RES) and adopted a National Energy Strategy in 2009, with a view to reducing the country's import dependency, lowering the energy intensity of the economy and mitigating climate change. The RES target, initially set at 42 percent of installed power generating capacity in 2020, was increased to 52 percent by 2030 in its nationally determined contributions (NDC) as well as targets for reducing energy consumption by 12 percent by 2020 and 15 percent by 2030 through energy efficiency. Until now, the concentrated solar power (CSP) technology has dominated Moroccan solar power development. The second phase of the National Energy Strategy will be to encourage the large-scale development of photovoltaic (PV) facilities to take advantage of the impressive cost declines that have been observed around the world. The development of the country's vast renewable energy potential is inscribed in a broader policy of green growth.

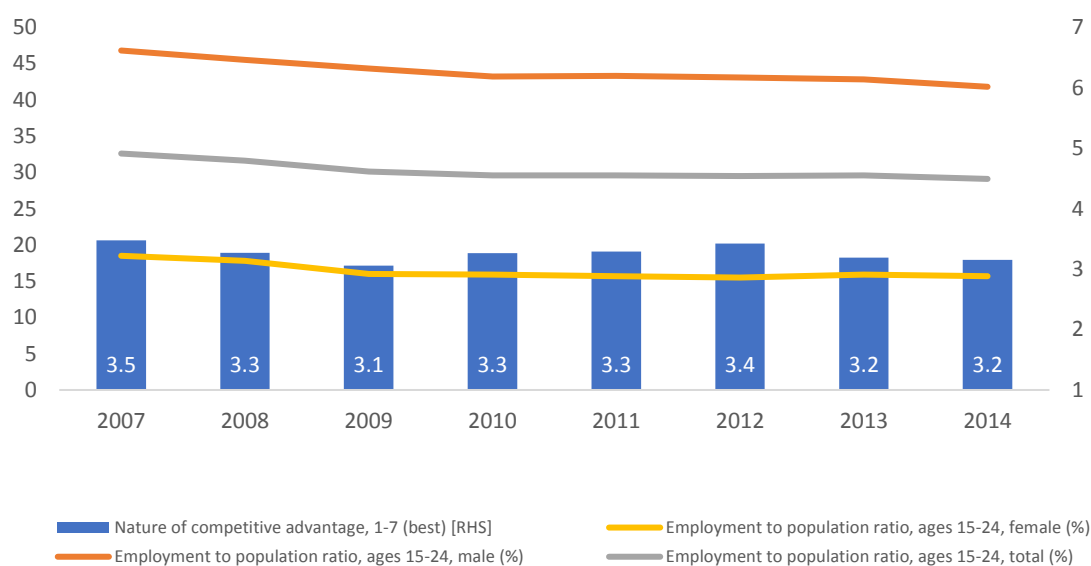
To achieve a comprehensive energy transition, the country needs to accelerate the pace of reforms, in particular to reinforce the current energy efficiency strategy through clear regulation and incentives, to support the deployment of renewables through both large power plants (through MASEN) and decentralized private sector generation. While the Moroccan model relies on the public sector to take responsibility for site selection and land allocation, and subsequently retain the asset at the end of the contract period (very much like any similar infrastructure projects across the MENA region and elsewhere), it also sees the Government take on additional project development and delivery risks with the goal of driving down prices, accelerating capacity deployment and achieving an economically optimal outcome. However, the interventions in these areas have not been fully effective, especially with regard to attracting private investments. In addition, public funding from IFIs has been the least popular financing mechanism for most of the pipeline projects in solar and wind. More concerted efforts are needed to offer the right incentives and strengthen associated infrastructure (particularly on transmission and distribution) to maximize the potential of private sector financing of Morocco's renewable opportunity.

Having made great strides on the mitigation front, investing in adaptation to reduce the country's vulnerability to climate change is Morocco's current priority (NDC, 2016). The proportion of Morocco's national budget dedicated to adaptation is a testimony to the scale of the challenges facing Moroccan society: 9 percent of its total investment spending between 2005 and 2010 was dedicated to adaptation efforts. However, efforts should increase, and Morocco forecasts that between 2020 and 2030, the implementation of adaptation programs will cost at a minimum US\$35 billion for the water, forestry and agriculture sectors alone. The bill is likely to be much higher if one considers the resilience of the coastal areas. Morocco's vision for adaptation involves quantified sectoral goals for 2020 and 2030 in agriculture (mostly associated to irrigation services), water (mostly on groundwater management and increased access to piped water and sanitation services), forests (replenishment, protection, and afforestation), and fisheries and aquaculture (mostly on sustainable management of species and on protection of marine areas).

2.6. Social sustainability

As in other MENA countries, Moroccan citizens are increasingly clamoring for inclusive development, particularly in lagging regions. These issues were at the heart of the 2011 protests, to which the government swiftly responded with promises of reform and redistribution. Yet, citizens' persistent feeling of relative deprivation and the lack of trust in certain institutions have led to new protests. The recent multi-faceted crises in certain regions point to the challenge of consolidating inclusive, transparent and efficient institutions in Morocco, institutions that can earn citizens' trust in the policy process and provide equitable service delivery – two prerequisites for the maintenance of social stability. With an aspirational mindset for change, youth should be seen as an asset with an important role in any initiatives to strengthen the social contract, public trust, and social cohesion. At the same time, improving market contestability is critical to creating sustainable jobs, especially for young people. The data show that youth employment figures in Morocco were falling as the private sector was growing less competitive (Figure 2.17). Enhanced competitiveness would facilitate more effective integration of young people in the labor market.

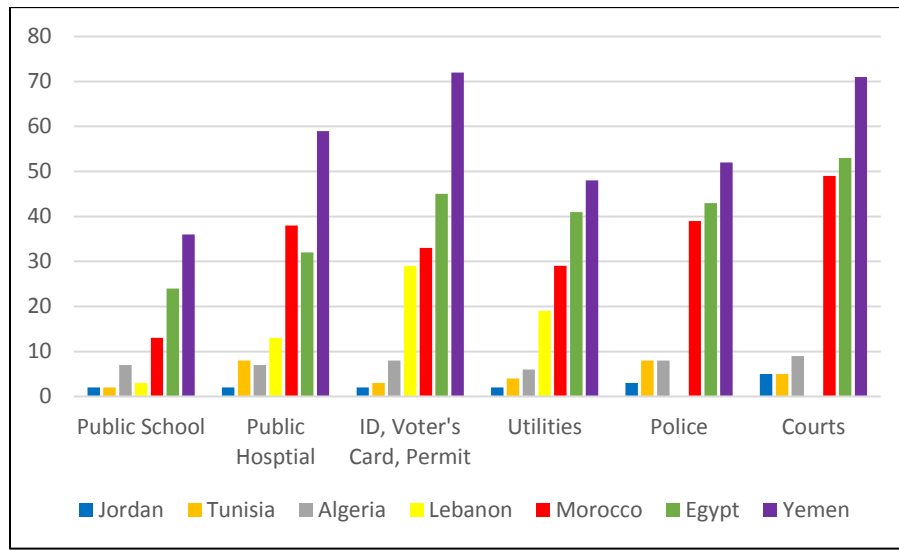
Figure 2.17 Youth unemployment and the nature of competitive advantage



Source: World Bank WDI and GCI

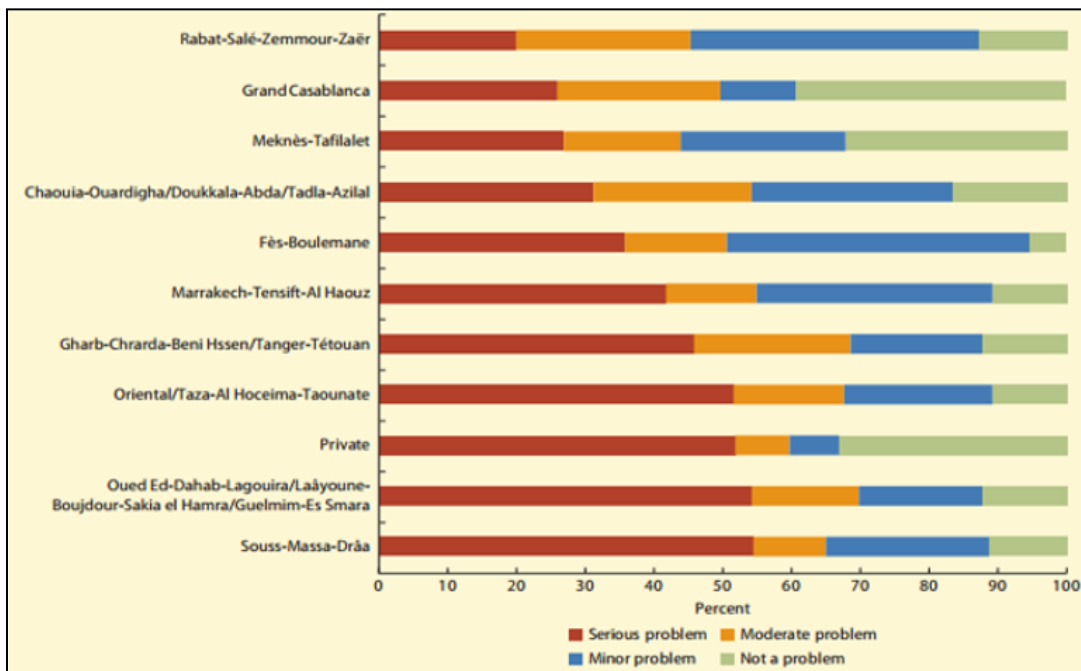
The inefficiencies and inequity of service delivery discussed earlier can to a large extent be traced back to governance challenges at the local level, whereby the accountability relationship between service providers and citizens breaks down. In Morocco, over 35 percent of respondents surveyed stated that they paid a bribe to obtain publicly available services from courts, police, or hospitals (Figure 2.17). Another way in which service providers can extract rents from politicians is through absenteeism and low-quality service provision. As we have seen, this is particularly relevant in the education and health sectors. Indeed, in Morocco teacher absenteeism is perceived to be a “serious” problem by parents in over half of the regions, and doctor absenteeism averages around 40 percent nationally—reaching over 70 percent in provinces such as Beni-Mellal, Errachidia, and Fez (Figure 2.18, and Figure 2.19).

Figure 2.18 Percentage of respondents reporting payment of bribes, by service



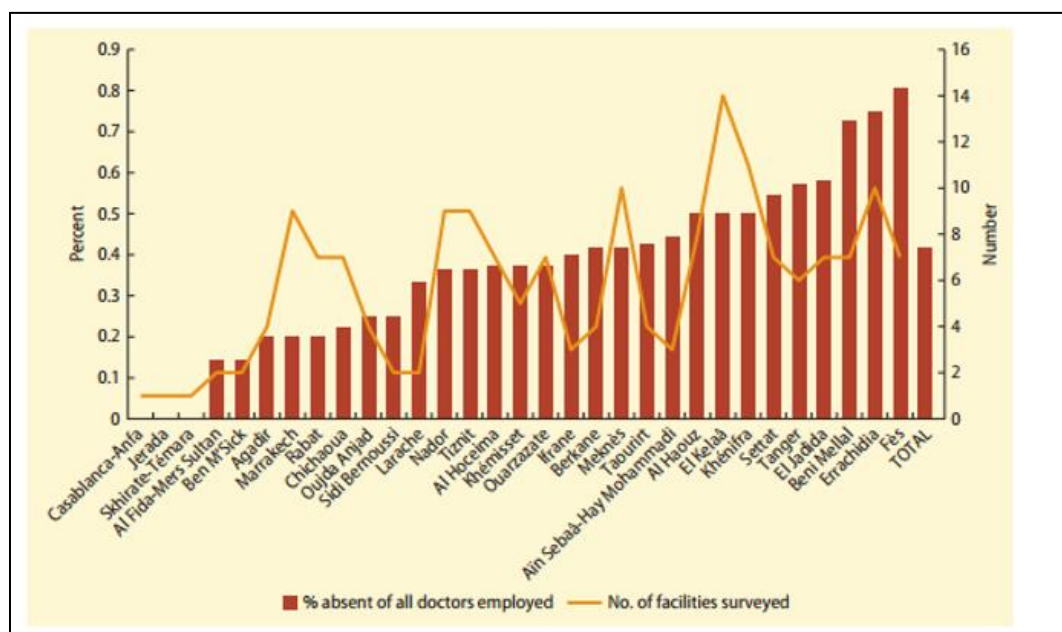
Source: Global Corruption Barometer, 2015/2016

Figure 2.19 Parent's perception of teacher absenteeism in Morocco by region



Source: TIMSS, 2011

Figure 2.20 Doctor absenteeism in Morocco by region



Source: Brixi et al. (2013), using data from PETS (health), Morocco, 2011; QSDS (health), Morocco, 2011.

To ensure that policies and expenditures lead to improved outcomes and citizens' satisfaction, there needs to be greater accountability for service providers to deliver. Some analyses have identified weak information systems as a critical factor undermining the capacity of the health sector to design and implement policies based on reliable information as well as to monitor providers (World Bank 2013). However, as the WDR 2017 argues, this low capacity is the result of past decisions not to invest in building such capacity or to develop stronger accountability mechanisms. Indeed, local cases of success in delivering better health services reveal how this dynamic can be shifted (Box 2.6). A diagnostic of case studies exploring these cases found that “autonomy, accountability relationships, and participation at the local level” were critical factors in determining success (Brixi et al. 2013).⁴⁴

Box 2.5 Pockets of effectiveness in public health: “Concours Qualité”

In 2007, the Ministry of Health launched the “Concours Qualité” approach as a way to improve public healthcare in Morocco. Concours Qualité is a system based on competition among health care providers to achieve the following nine dimensions of quality: Satisfaction (of community, staff); ethics (of institution, staff); accessibility, timeliness, continuity; rationalization of resources; safety, responsiveness; Leadership, partnership; continuous improvement; technical capacity; and functionality. The program has now undergone six rounds of implementation (2007, 2008, 2010, 2011, 2013, 2015). Participation in the program is entirely voluntary, and has expanded from 188 health facilities in the initial round to 411 facilities in the most recent round—with participation peaking at 665 facilities in the 3rd round.

Performance is measured through both self-evaluation and peer-evaluation assessments. Based on the assessments, the top Concours Qualité health care providers are recognized publicly with awards by the Ministry of Health for their achievements in different categories of performance (i.e. top hospitals, top maternity wards, top health centers, top effort for improvement, etc.). Following the assessments, all participating health care providers work to devise and implement plans for improvement with technical

⁴⁴ The new budget framework law and its regional monitoring/evaluation framework could provide operational solutions for this issue.

support provided by local, regional, and national counterparts in Concours Qualité and the National Institute for Health Administration. The approach is based on instilling a culture of quality monitoring, evaluation, and improvement in health care providers.

According to a recent review of the program, clinics participating in Concours Qualité “exhibited a sense of a shared mission and a collaborative ethic, supported by good record keeping, transparency, participatory training workshops, and attention to interpersonal relations. The clinic staff regularly communicates with the provincial and regional officials of the Ministry of Health to ensure adequate supplies of medications and to solve related implementation problems. Moreover, clinic health workers actively engage with nearby social organizations and individuals—such as youth groups, the murshidat (women serving as religious guides), and women working in the local hammams (public baths)—to build awareness of health issues such as family planning, HIV/AIDS testing, breast cancer, and chronic diseases” (Brix et al. 2015).

Sources: Adams, Stuart and Andrew Wilson. 2012. « Improving health care system-wide: Approaches in Morocco and Yemen ». Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

Brix, Hana; Lust, Ellen; Woolcock, Michael. 2015. « Trust, Voice, and Incentives: Learning from Local Success Stories in Service Delivery in the Middle East and North Africa ». Washington: World Bank

Ministry of Health, Government of Morocco. <http://www.sante.gov.ma/Pages/actualites.aspx?IDActu=202>

<http://www.sante.gov.ma/Pages/actualites.aspx?IDActu=92>

<http://www.sante.gov.ma/Ministre/Documents/Discours%20Ministre%20CQ%202011.pdf>

Chapter 3

Factors constraining Morocco's fastest inclusive sustainable development

Attaining and maintaining a higher level of inclusive economic growth and quality job creation is both a goal and a major challenge for Morocco. Over the past 15 years, Morocco has boasted some real success stories, especially with respect to infrastructure and the emergence of several promising economic sectors. The kingdom's ambition now is to "generate new sources of shared prosperity and well-being that can benefit all the country's citizens and regions by means of collective dynamics in a new confidence pact" (BAM and CESE 2016). Planning for and implementing this national ambition calls first for an analysis of the constraints to inclusive and sustainable growth in the coming decades. This is the purpose of this section. It places the notion of inclusion in its various forms at the center of that ambition:

- **First, Morocco suffers from the lack of inclusion of its market institutions.** Effective and inclusive market support institutions are gauged based on at least three objectives: a level playing field for competitive capital allocation, high rates of economic participation and low structural unemployment, and strong international economic and financial integration. They essentially aim to promote a business-friendly environment and financial inclusion; support entrepreneurship, SME development, and labor market inclusion; and enhance competitiveness and diversification.
- **Second, Morocco displays a lack of inclusion of its public governance.** In addition to market institutions, inclusive public institutions and services are essential to accelerate private sector growth. More inclusive public governance means more inclusion in the development and implementation of the rule of law, more inclusion in the administration of the state, and more inclusion in access to and delivery of public services.
- **Third, Morocco suffers from the lack of inclusion of its human capital formation.** The theory of human capital posits that, providing they have access to quality education, health and early childhood development (ECD), all individuals can improve their productivity or the future productivity of their children by making voluntary investment choices.
- **Fourth, Morocco suffers from the lack of inclusion of its social capital.** Social capital—or the set of norms and networks that facilitate collective action—exerts positive, concrete effects on economic life.⁸⁹ It is a key element in enhancing the effectiveness of a country's political and economic institutions. Social capital is important for economic life in that it prevents various types of conflicts among sectors of the population that may seriously stymie investment and growth. Two of the many aspects of social capital, which have a direct bearing on possibilities for improving productivity in Morocco, and which can be addressed by the public authorities with significant concomitant benefits, are gender equality and interpersonal trust.

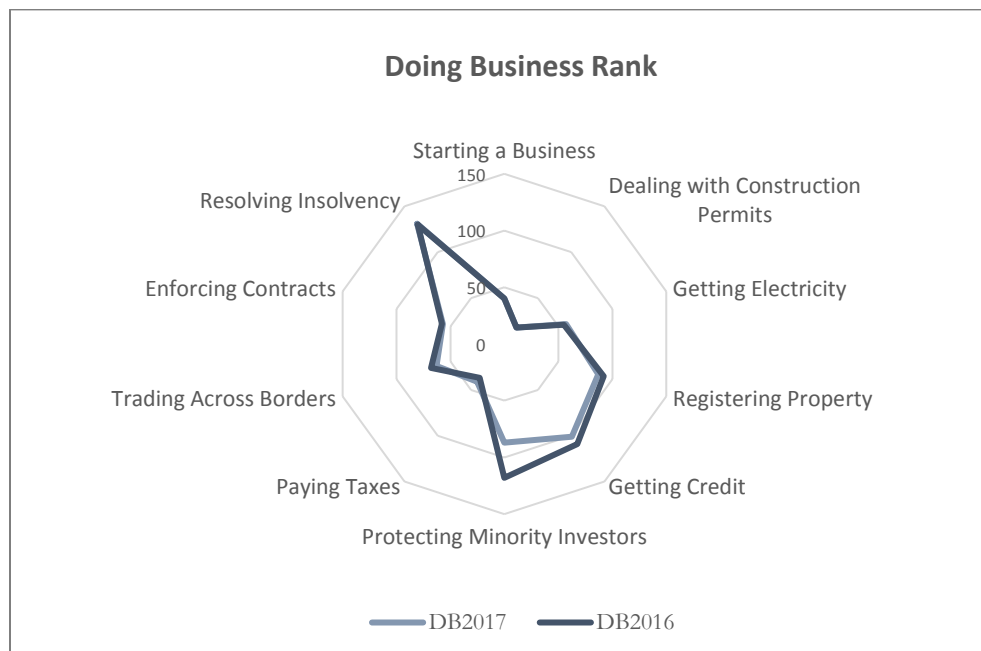
⁸⁹ When there is trust among individuals, the business climate is more favorable. When the social networks within a society are numerous and interlinked, it becomes easier for individuals to act as part of the group. When all members of society can fully exploit their potential and contribute to economic and social life, regardless of their gender, religion, or any other defining factor, society as a whole derives economic benefits.

3.1. More inclusive market institutions

3.1.1. For the business environment

Over the past 15 years, Morocco has made significant changes to its business environment and its public policies to modernize the economy and encourage efficiency and innovation. This effort has resulted in the adoption of numerous sectoral strategies, reforms of the business climate, the signing of free trade agreements, modernization of the governance of large public enterprises, which have been converted into private corporations, and the launching of flagship projects in partnership with foreign investors. These changes have also affected the private sector, with the reform of the General Federation of Moroccan Businesses (CGEM), which is actively involved in resolving issues relating to SMEs, and the emergence of new entrepreneurs wishing to become involved in matters of public interest. The National Business Environment Committee (*Comité National de l'Environnement des Affaires CNEA*), chaired by the Head of Government, has brought together public and private players in a joint reform effort. The efforts made by Morocco to improve the business climate have been recognized in many international rankings, such as the World Economic Forum's Global Competitiveness Report and the World Bank's Doing Business Report (2014a). Morocco's Doing Business ranking improved from 129th to 68th between 2010 and 2016, owing to business start-up reforms (World Bank 2017). Morocco performs well in key Doing Business areas. This is especially the case for essential components enabling investment or business creation: construction permits, enforcing contracts, or starting a business. However, Morocco's Doing Business indicators fall behind for important indicators relative to the functioning of courts and justice: namely, resolving insolvency or protecting minority investors.

Figure 3.1 Morocco 2017 Doing Business Rank

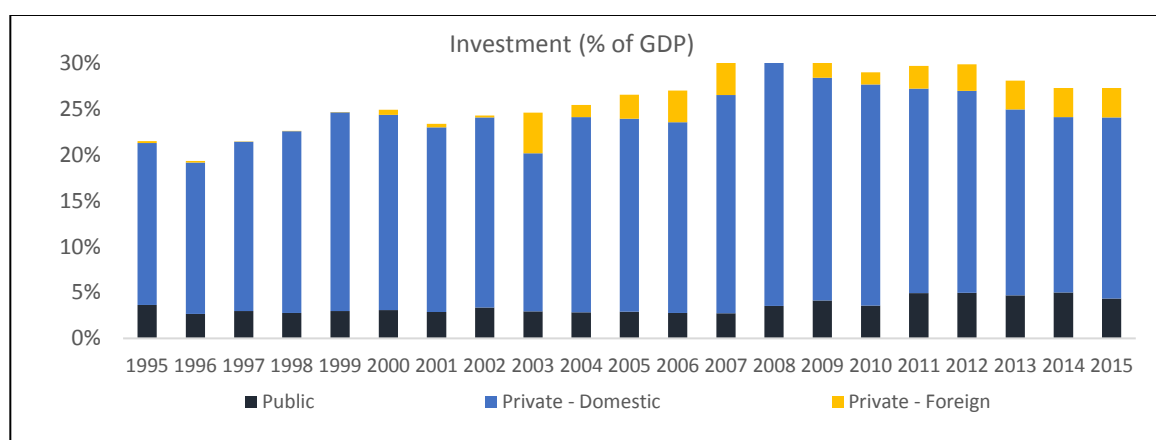


Source: World Bank Doing Business database

However, the business climate is still seen by most players as too unpredictable and bureaucratic and does not inspire the confidence that economic agents need to invest in the medium to long term. The importance of constraints such as burdensome, complex, and opaque administrative formalities and

procedures is regularly confirmed in surveys of businesses. The constraints most often mentioned by the formal sector are corruption, competition from the informal sector, low workforce education levels, and difficulties in accessing financing (Figure 3.3) (World Bank 2013a). For very small enterprises and small and medium enterprises (VSEs and SMEs), especially those owned by youth and women, these barriers can be unsurmountable (World Bank 2014a). Young micro-entrepreneurs (who may also be more likely to hire other youth) likely face more credit constraints and lack business know-how, regulatory and market information, or supply chain access. The creation of an enabling environment for national private investors is key in order to stimulate economic activity and, in so doing, promote job creation. While Morocco has high investment rates, with a significant contribution (in recent years) of FDI and public investment, national private investments represent approximately 75 percent of total investment as a percentage of GDP (Figure 3.2) The continual decline in national private investment since 2008 demonstrates that obstacles to the investment climate are detrimental to economic activity. Consequently, there needs to be a greater effort made to create an enabling environment for national private investors and thus support the creation of more sustainable and inclusive employment.

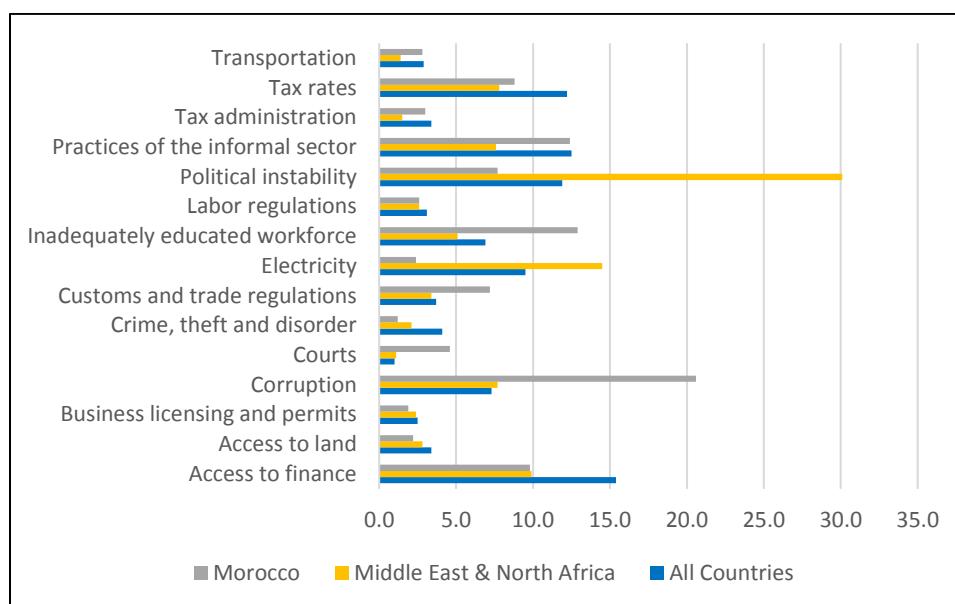
Figure 3.2 Breakdown of Moroccan Investments



Source: World Bank WDI and IMF Capital Stock Database

Corruption is partly related to the lengthy, complex, and opaque procedures for obtaining industrial and commercial permits at the local level, particularly owing to a legal and regulatory framework that is not very user friendly and that often gives government departments discretionary authority to interpret the laws and regulations. It is also related to abuse of tax audits. Access to industrial property is difficult despite the launch of several integrated industrial platforms (P2i). Obsolete nontariff barriers jeopardize access at a reasonable cost for international players and impede the development of some local industries. A certain lack of transparency and the complexity of procedures for allocating subsidies and other forms of public support make it a relatively inefficient system. These constraints are regularly confirmed by CGEM barometers, which indicate that business leaders have a rather negative view of the business climate. According to the barometer for the first quarter of 2016, only 22 percent of business leaders state that the climate is favorable to business (payment arrears from major public and private enterprises contributed to the demise of SMEs providing good and services). Legal uncertainty is considered a major obstacle to growth by more than 60 percent of businesses.

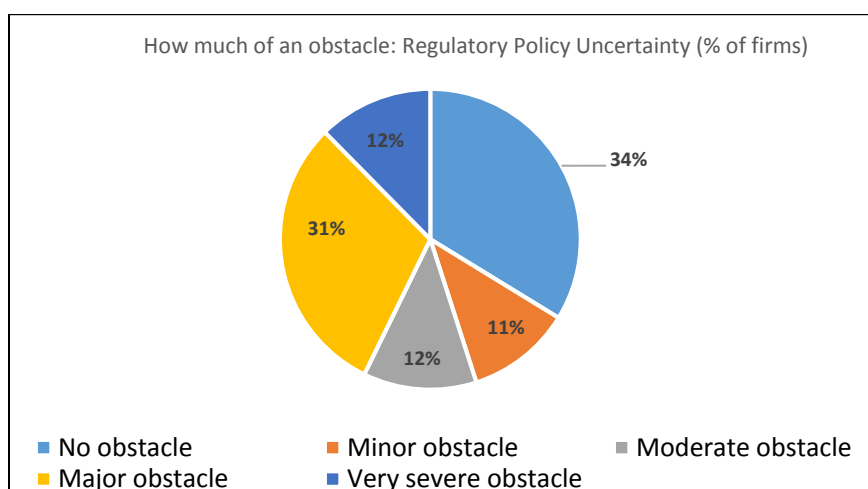
Figure 3.3 Main obstacles for enterprises' development, 2013



Source: World Bank Enterprise Surveys

The business environment exhibits judiciary shortcomings and regulatory ambiguity. Morocco's Doing Business indicators fall behind for important indicators relating to the functioning of courts and justice: namely, resolving insolvency or protecting minority investors (Figure 3.4). The country's legal framework displays a number of shortcomings. For instance, Morocco's rule of law appears less effective than comparable countries for criminal justice, fundamental rights and civil justice (World Justice Project). Thus, more than half of the enterprises surveyed in the 2013 Enterprise Survey consider that the court system is neither fair nor impartial and uncorrupted, and that it is vulnerable to corruption. Consequently, this undermines regulatory capacities and leads to uncertainties. Forty-three percent of enterprises surveyed also identified regulatory policy uncertainty as a significant or major obstacle to their operations (Figure 3.4).

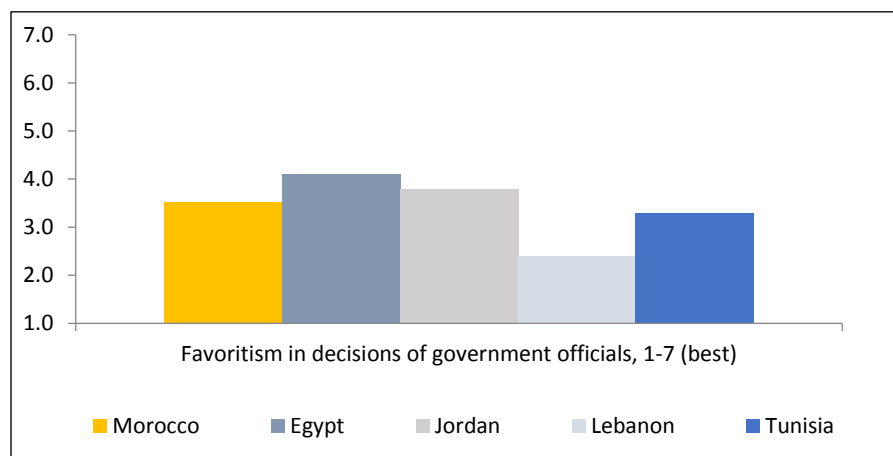
Figure 3.4 Enterprises that consider regulatory policy uncertainty to be an obstacle for their operations



Source: World Bank, Enterprise Survey 2013

In turn, legal shortcomings and regulatory uncertainties create space for public sector interference. This situation induces a high incidence of arbitrary decisions that hurt the enterprises involved in the largest sectors. These regulatory shortcomings involve a lack of transparency, leaving room for arbitrary decisions and public sector interference. For instance, in the 2013 enterprise survey, 46 percent of enterprises stated that government officials' interpretation of regulations are not consistent or predictable. The Global Competitiveness Index points to sizeable perceptions of favoritism in government official's decisions, including with respect to comparable MENA countries.

Figure 3.5 Enterprises' perception of favoritism in government officials

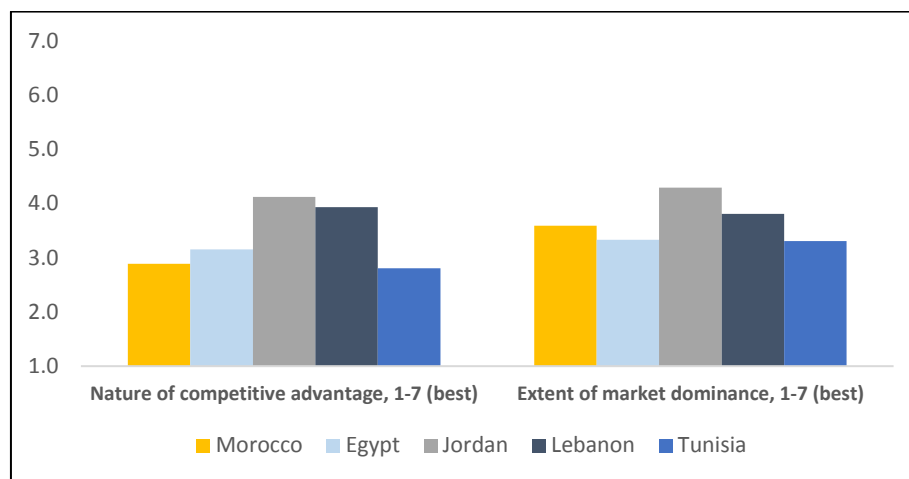


Source: Global Competitiveness Index, 2016

Against this backdrop, the degree of competition is perceived to be lower in Morocco than in comparable MENA countries. There is a perception that certain actors command market dominance (Figure 3.6). While most sectors have been liberalized, there remain cases of oligopolies or breaches to fair competition using a variety of indirect barriers to entry and asymmetries of information. A number of enterprises enjoy financial and commercial privileges at the expense of enterprises that do not have access to these privileges. Price agreements between operators continue to exist in several sectors.⁹⁰ A new Law (20-13) adopted in June 2014, provides for the independence of the Competitiveness Council as the guarantor of transparency and competition and greatly strengthened its powers. The Council thus transformed from a consultative body to an institution possessing the power to impose sanctions against anticompetitive practices in cases either raised by operators or self-identified. However, the Council still is not operational given that its members have not yet been appointed, even as its technical staff is investigating around 50 practices.

⁹⁰ For example, in 2013, the Competitiveness Council disclosed the existence of a tacit price agreement between market operators in the dairy industry and denounced the high concentration of this market in *Centrale Laitière*.

Figure 3.6 Enterprises' perception of competitive advantage and extent of market dominance



Source: Global Competitiveness Index, 2016

Concentration issues - sometimes related to State ownership - are hampering the competitiveness of Morocco's most productive sectors. An employment/investment multiplier analysis undertaken by IFC shows that the agriculture, manufacturing, and business services sectors are more likely to contribute to employment and investment growth in Morocco than all other sectors of the economy.⁹¹ However, the Moroccan private sector is characterized by the strong presence of large corporates and government-owned operators⁹² active in sectors such as extractives, construction, and utilities. For instance, the 15 largest Moroccan enterprises are involved in the non-tradable sectors. Thus, the concentration in key sectors, combined with the significance of public procurement, as well as a business climate that is still evolving, curb the momentum of the formal private sector, particularly in the agricultural and manufacturing sectors. Evidence shows that credit allocation tends to be biased toward the sectors where Morocco's largest corporates are involved (including the State-owned ones) at the expense of the tradable sectors. The utilities, construction, and retail/wholesale sectors receive more credit than their share of GDP and employment would suggest, while the manufacturing and agriculture sectors receive less (Figure 3.6). This constrains the growth of enterprises and job creation in the formal sector, resulting in a large informal sector and a narrow formal private sector outside the large corporates and State-owned companies.

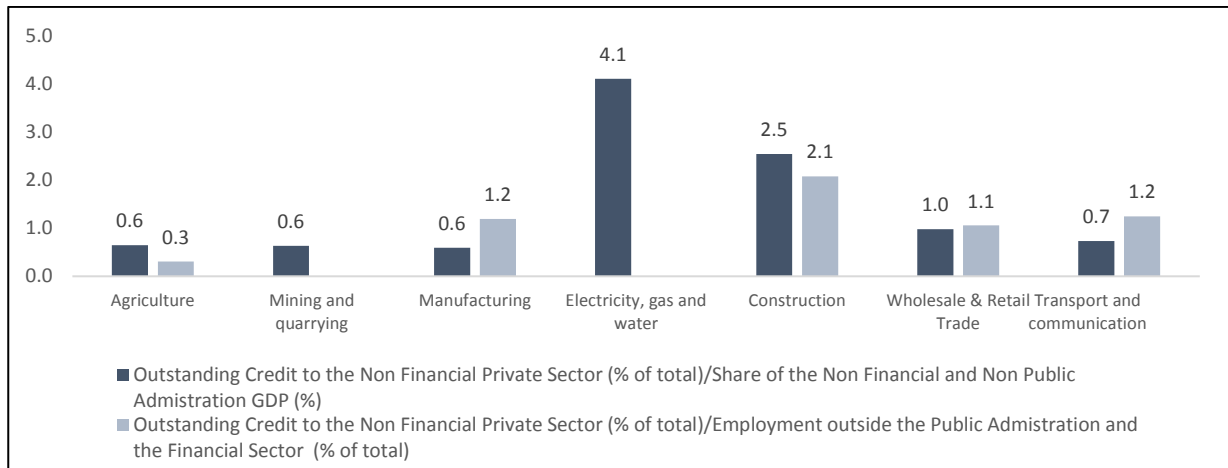
This "missing middle" of formal private enterprises embodies Morocco's private sector development challenges.⁹³

⁹¹ IFC Economic Impact Assessment Tool.

⁹² The private sector includes commercial public enterprises managed according to commercial laws.

⁹³ Sources: Enterprise Survey, Thomson Reuters, Economie et Entreprises, Autorité Marocaine du Marché des Capitaux, Cour des Comptes, and IFC's staff calculations

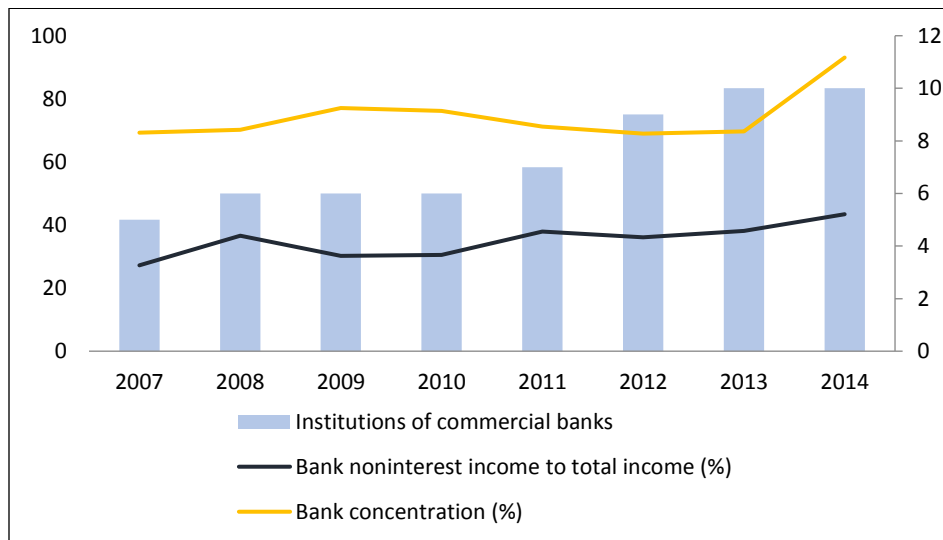
Figure 3.7 Ratio of the sectoral credit allocation to the nonfinancial private sector over the contribution of the nonfinancial sector to GDP and employment outside the nonfinancial private sector (2014)



Sources: National data and IFC estimates

Competition is also limited in the banking sector. In Morocco, there are only 19 commercial banks (11 of which are regional banks belonging to the *Banque Populaire* group), and bank concentration is high.⁹⁴ Because of low competition, financial institutions tend to charge high user fees and 43 percent of total bank income arises from non-interest income (Figure 3.8). Thus, the banking sector is highly concentrated. In 2016, the counterparts or groups of counterparts receiving a credit higher than 5 percent of banks' own funds increased by 7 percent from 2015 (MAD 355 billion covering on- and off-balance-sheet commitments).

Figure 3.8 Banking Sector Concentration

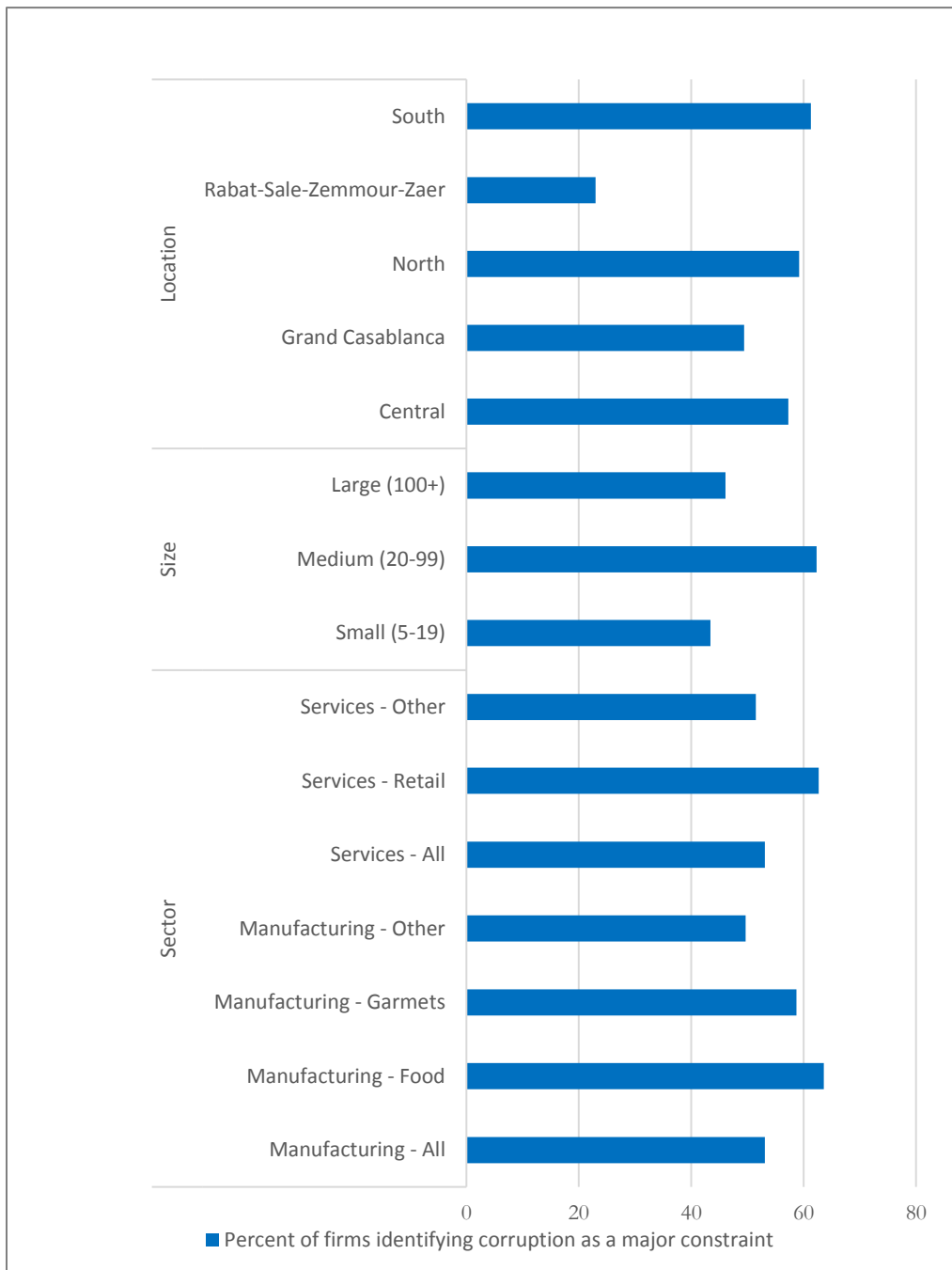


Source: IMF, Financial Access Survey

⁹⁴ At end-2016, there were 10 commercial banks, 33 non-bank financial institutions, 6 offshore banks, 13 microcredit associations, and 10 payment institutions specializing in funds transfers.

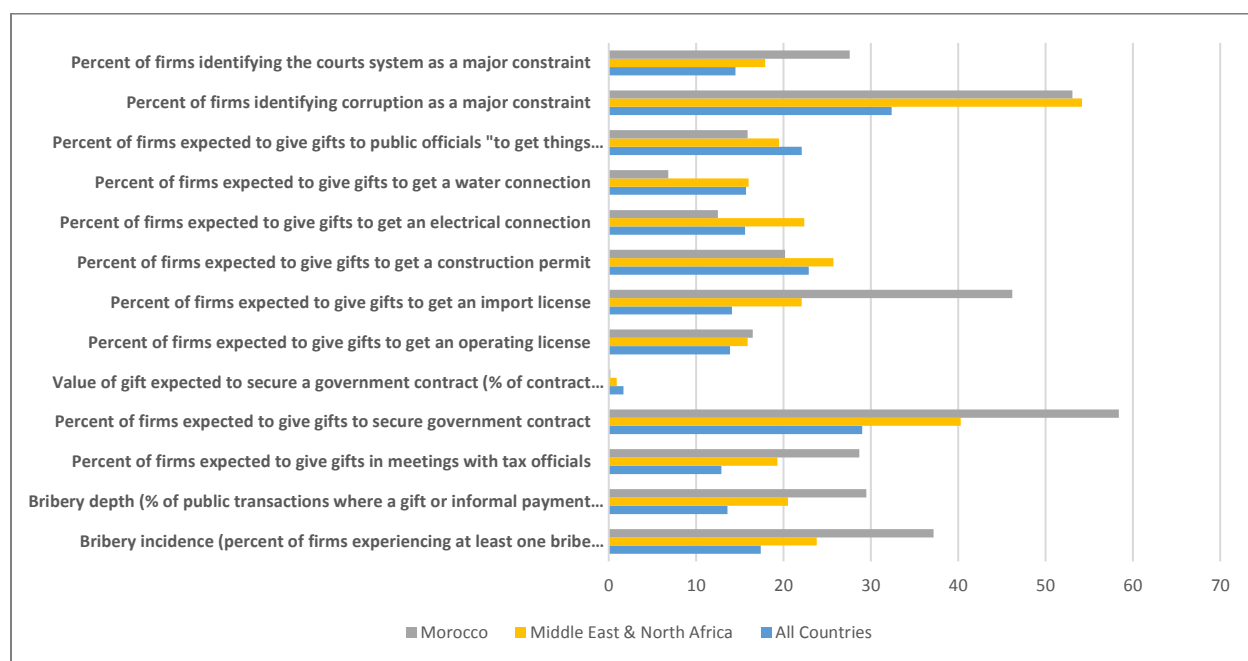
Corruption is most commonly cited by enterprises as the largest impediment to doing business in Morocco. According to World Bank Enterprise Survey data (Enterprise Survey 2013), over 20 percent of enterprises say it is the largest obstacle, compared to only around 7 percent globally and in the MENA region. Over 53 percent of enterprises identify corruption as a major constraint. This share varies widely depending on location, enterprise size, and economic sector (Figure 3.10). Medium-sized enterprises and enterprises in the food, manufacturing, and retail service sectors find it to be a larger constraint than small or large enterprises or those operating in other sectors of the economy (Box 3.1). The problem is also regionally differentiated. Only 20 percent of enterprises consider corruption to be a major constraint in Rabat-Sale-Zemmour-Zaer, while over 60 percent consider it to be a major constraint in the North and the South. However, depending on the region, enterprises may face unique obstacles. For example, around 45 percent of enterprises are expected to pay bribes for an electrical connection in the South, while no enterprises in other regions report this to be an obstacle. The situation is similar for getting an operating license in the Grand Casablanca region, which took 44 days in 2012 compared to only 13 days in the Rabat region. In 2013, the Casablanca region launched a paperless system for obtaining this license, which is expected to have a significant impact on efforts to reduce corruption.

Figure 3.9 Enterprises identifying corruption as a major obstacle
(The size refers to the number of employees)



Source: World Bank Enterprise surveys

Figure 3.10 Corruption obstacles



Source: World Bank Enterprise surveys

Box 3.1 Corruption across economic sectors in Morocco

Corruption in Morocco varies substantially across economic sectors and is found to be driven by both the rent-potential of enterprises as well as the collective action of enterprises. A recent analysis by Corduneanu-Huci (2016) found that “enterprises in sectors with low rent potential are more likely to coordinate, claim, and obtain better governance in exchange for taxes, whereas high-rent companies find it difficult to sustain effective pro-governance collective action.” The data suggest that enterprises in sectors with high and expanding profit margins benefit less from good governance than enterprises with stable profit margins. Enterprises with high profit margins obtain 90 percent less governance gains in terms of access to public services and control of corruption on average than enterprises in steady profit industries. Collective action also plays an important role in improving governance. For every 10 percent increase in claims made by business associations for better governance, enterprises were likely to obtain 18 percent additional governance gains through securing government’s commitment to promote benefits and incentives to stimulate the industry. Similarly, the data suggest that more vocal business associations paid less administrative bribes on average. The study also looked at differences across enterprises in specific sectors: (i) textile and apparel; (ii) construction and real estate; and (iii) IT and telecommunications. Findings suggest that enterprises in the textile and apparel sector have a lower rent potential and higher mobilization capacity, which helped support gains in governance rewards, while the higher rent potential of enterprises in the construction and real estate sector undermines their mobilization capacity and enables more tax evasion. Enterprises in the IT and telecommunications sector had mixed results, which can be explained by mixed competitiveness and marked deregulation.

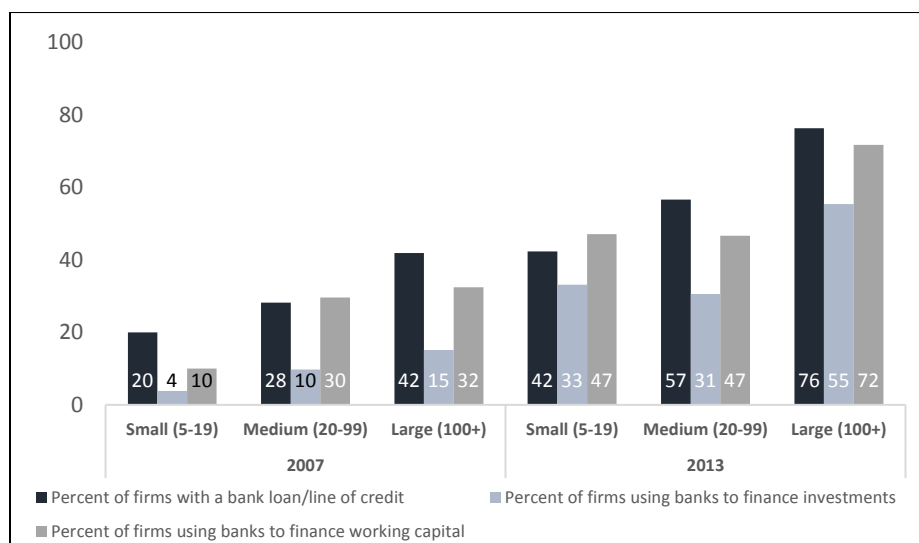
Source: Corduneanu-Huci, Cristina. 2016.

3.1.2. For SMEs and entrepreneurship

Business environment issues weigh particularly on SMEs, which generally have less financing access and breadth than large enterprises.⁹⁵ Although Morocco achieved significant progress in recent years, financing constraints, particularly relating to equity financing, continue to hurt SMEs (Figure 3.10). While 76 percent of large enterprises in the 2013 enterprise survey have a bank loan or a line of credit, this was the case in only 42 percent and 57 percent of small and medium enterprises, respectively. Only about one third of small and medium enterprises' investments are financed by banks. Although on a smaller scale, similar patterns emerge for the use of banks to finance working capital between SMEs and larger enterprises. About 28 percent of SMEs identify access to finance as a major constraint and banks require collateral for 91 percent of the loans they grant to SMEs. SMEs also suffer from long client payment delays, which increase their need for working capital financing and threaten bankruptcy in extreme cases.

According to data from the Bank Al-Maghrib (BAM), inter-enterprise payment delays increased by 20 days during 2012-2015. SMEs were particularly hard hit, with an average delay of 129 days. There were delays of up to 158 days for very small enterprises. SMEs also suffer from difficult access to markets, either because of a lack of information or indirect exclusion from public procurement (because of size, limited experience, etc.). In January 2018, the Government made arrangements with the banks to settle MAD 10 billion in VAT arrears to private enterprises, a new law setting forth the penalties for payment delays was enacted, and the *Observatoire des Délais de Paiement* was recently created. Rapid and effective implementation of these new measures could have an immediate impact on improving conditions for SMEs, their competitiveness, and the development and investment decisions.

Figure 3.11 Access to Credit by Enterprise Size



Source: World Bank, Enterprise Survey 2013

Business environment issues are more acute for new entrepreneurs. Morocco currently ranks 82 out of 138 countries in the Global Entrepreneurship and Development Index (GEDI). Morocco performs relatively well with regard to innovation (product and process), but lacks the capacity for young

⁹⁵ Silva, F. and Carreira, C. 2010. "No Deep Pockets: Some Stylized Empirical Results on Enterprises Financial Constraint " *Journal of Economic Survey*, Vol. 24, No. 4, pp. 731-753 for a review of the literature.

entrepreneurs to access finance and human capital. Moroccan start-ups face challenges in accessing equity financing, particularly between the angel/seed stage (US\$50,000) and the later stage (US\$2 million and above). The Government has recently rolled out programs to address this issue and leverage a growing array of business incubators and accelerators. The legal framework governing investment funds specializing in high-growth enterprises was revamped in 2016. The same applies to the legal framework for real estate investment schemes, which help reduce the need for financing for industrial and commercial buildings and land.

Support for entrepreneurship and SMEs should be strengthened in terms of opportunities for job creation. Public policies remain oriented toward the development of large investment projects, notably through the establishment of various funds such as the FDI (*Fonds de Développement de l'Investissement*) for projects of at least MAD 50 million. SMEs can theoretically benefit from the support provided through various sectoral strategies (for example, in agriculture, tourism, and industry) as well as capacity-development support programs from MarocPME such as Imtiaz, Moussanada, but these programs are difficult to access in practice (Cour des Comptes 2015). However, based on a survey carried out in Casablanca-Settat by the *Centres régionaux d'investissement* (CRI) with World Bank support, enterprises' weak internal management capacity during the initial years of existence, as well as difficult access to market opportunities and information, are among the top causes of their demise, followed by access to financing. This highlights a real need for robust support solutions for young enterprises. Moreover, despite their awareness of enterprises' needs in terms of various support services, the CRIs continue to shape their work program around large investment projects and barely offer SMEs any support or monitoring beyond the creation phase owing to a lack of resources and clarity regarding their mandates, as outlined in the November 2017 report from the Cour des Comptes. Finally, entrepreneurship support initiatives are largely geared toward income-generating subsistence activities and social impact. Support for SMEs with a strong development and job creation focus is in the incipient stages.

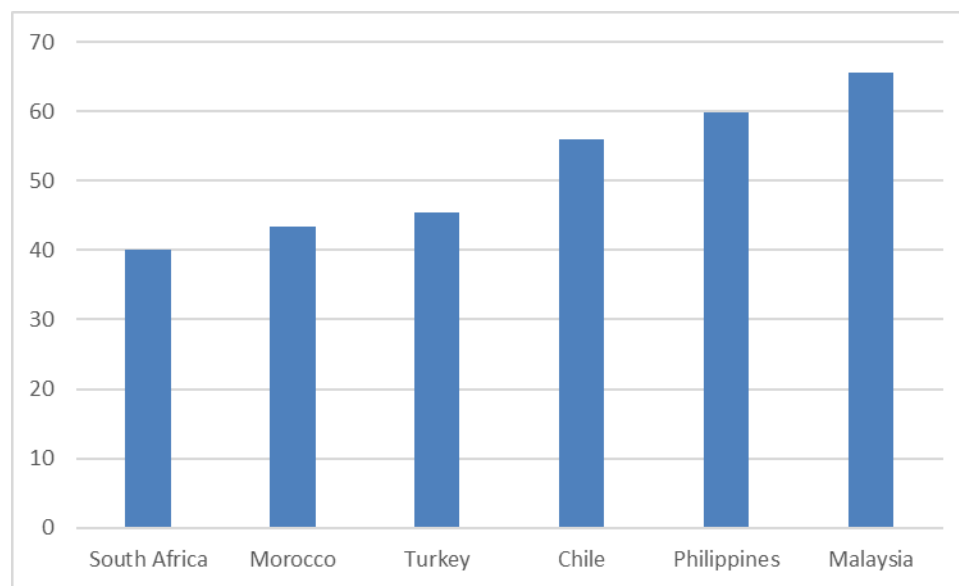
Limited data on the SME landscape hampers the development of better-targeted programs. Apart from data on enterprise incorporation centralized in OMPIC, no institution in Morocco carries out comprehensive monitoring of the SME landscape.⁹⁶ Although part of its mandate, the *Maroc PME* agency has not yet established a reliable database on SMEs. The Micro-, small and medium enterprise (MSME) Observatory established in 2016 is expected to produce a detailed map of the MSME landscape soon, thereby facilitating better targeting.

3.1.3. For labor market inclusion

Average job creation has been modest over the past 15 years, and a large share of the working-age population remains excluded from the labor force. Between 2012 and 2016, only 26,400 net new jobs were created per year for a working-age population (15-65 years old) that grew by a net 270,000 people on average per year (HCP 2016b). Relative to its population, Morocco creates almost half as many jobs as Malaysia (Figure 3.12). Between 1999 and 2015, the working-age population increased by over 4 million people, whereas 1.6 million joined the labor force.

⁹⁶ The central bank monitors a sample of SMEs based on validated financial statements.

Figure 3.12 Net creation of jobs relative to the size of the working-age population (2014, in %)



Source: WDI

Youth in Morocco face a considerable range of employment constraints. More than three out of four working-age women are not active in the labor market. In Morocco, there are approximately 1 million unemployed people (9 percent to 10 percent of the working-age population), the vast majority of whom are young men living in the cities. The youth unemployment rate (15 to 24 years) stands at 19.9 percent nationally, and can rise to close to 40 percent in the cities. In addition, about 4 million young people are discouraged by the labor market and are considered inactive and no longer attend school. Official numbers suggest that the unemployment rate is highest among young graduates (21.7 percent for young technical college graduates and 24.6 percent for young university graduates). However, youth surveys have shown that most low skilled youth and school drop-outs do not register as unemployed (partly due to the cost of doing so).

In fact, in 2015 the country was estimated to have 1.7 million young people (age 15-24) not in education, employment, or training (NEETs) among the approximately 4 million economically inactive youth. When considering the aspirations and needs of all young people without work, it becomes evident that the clear majority of them is low skilled or unskilled, even as growing numbers of young people are entering university. These young job seekers are also long-term unemployed, with two thirds of them having been unemployed for more than a year (HCP 2016). This massive youth unemployment is worrying for the authorities: young Moroccan men and women have not sufficiently benefited from the upturn in the country's economic growth in the 2000s. Moreover, informality is rampant, and approximately 90 percent of working youth do not have an employment contract; they live with working conditions that they consider inadequate and work in the informal economy, indicative of the insecurity of their employment situation. The resulting employment uncertainty for this young population heightens the risk of social upheaval.

Access to "good" jobs is not sufficiently merit based. Young people feel that it is hard to find a formal job without connections (HEM 2016). This situation fuels a feeling of exclusion and injustice and reinforces the image of a society in which adult male heads of household are those who benefit the most from labor market opportunities. Lastly, there is little prospect of social mobility and climbing the ladder

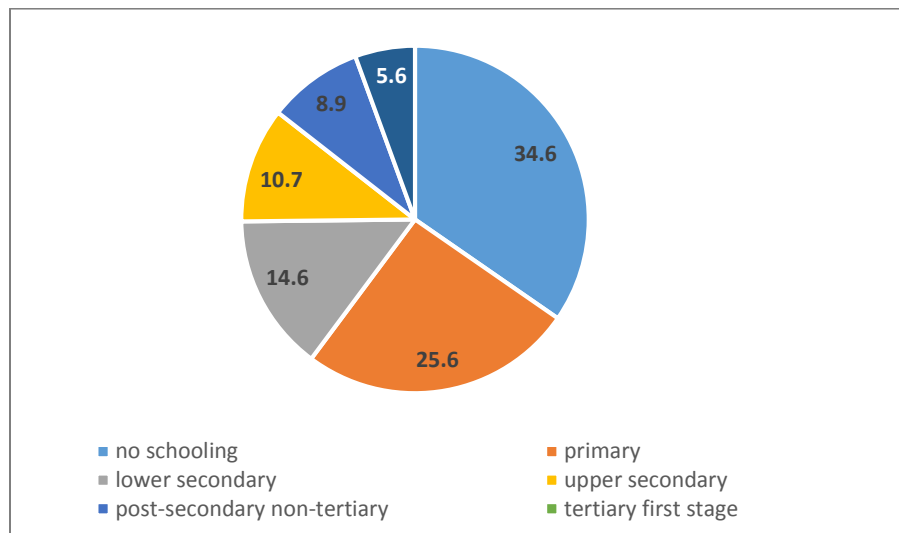
to more productive jobs. Public employment therefore becomes the preferred channel alongside labor migration in search of better opportunities abroad. In Morocco, the labor market is characterized by strong exclusion and inequalities of opportunity (World Bank 2013 and 2015). Inadequate urbanization, including affordability, availability and reliability of transport, prevent the connection of urban youth to economic opportunities, potential jobs or vocational training.

The reasons underlying the sluggish labor outcomes are to be found on both the supply and demand sides of the labor market. On the supply side, it takes time for improved schooling to be reflected in the labor force.⁹⁷ In 2012, less than 35 percent of employed people had completed secondary education or higher (Figure 3.12). Moreover, better-educated workers may not necessarily have the skills required by largely expanding services and by a more technologically sophisticated and highly capital-intensive manufacturing industry. General management and project management skills are particularly rare. In all sectors, an inadequately educated labor force is a major constraint for roughly one third of enterprises (Figure 3.12). While skills-related problems are a more pressing issue for small enterprises, (approximately 40 percent believe that skills represent a major constraint), large enterprises are also affected (Figure 3.13). Although Moroccan enterprises in all sectors may not be able to resolve basic education deficiencies, they are better placed to provide some formal training to their employees than enterprises in the rest of the Middle East and North African region. On average, 26 percent of Moroccan enterprises offer formal training to their employees compared to 18.2 percent for the entire MENA region. However, there are sizable disparities between enterprises in terms of formal training.

Although over half of large enterprises offer formal training to their staff, this is the case for less than 20 percent of small enterprises. Moreover, cultural factors and norms influence the low participation of women in the labor force: Morocco's laws may have widened opportunities for women to participate, but actual changes only occur gradually. On the demand side, Morocco, like most middle-income countries, is undergoing structural change: the share of agriculture in GDP and in employment is declining, and will continue to decline, and, the share of services in GDP and employment is increasing and will continue to increase. The surplus labor resulting from the transformation of agriculture and the shrinking segments of the manufacturing industry sector does not necessarily have the skills demanded by the expanding sector - mainly services and the highly capital-intensive segments of the manufacturing sector. The core of the modern sector of the economy is dominated by State-owned enterprises, which may or may not have the dynamism to adapt to technological changes and may not have a need for low-skilled workers.

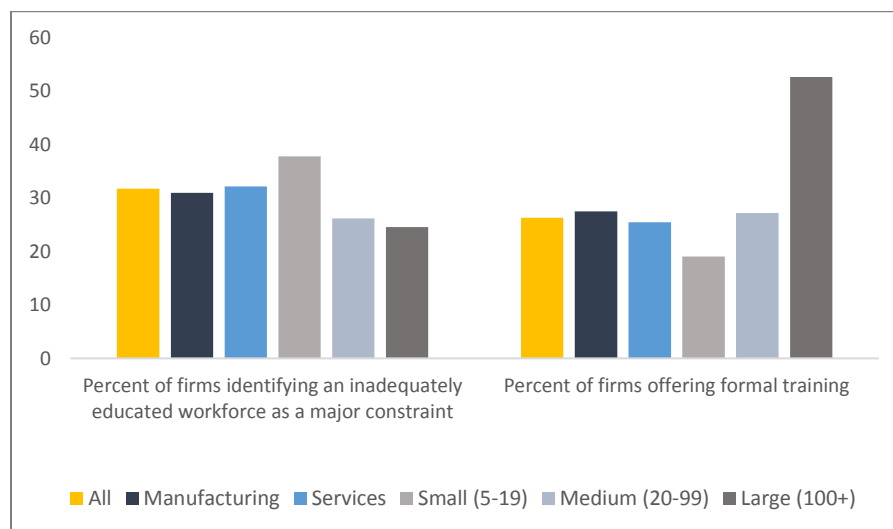
⁹⁷ In 2015, over 2 million workers (22 percent of the total employed) aged 15-34 had only completed primary level education or less. These workers will potentially be in the labor market for at least another 30 years.

Figure 3.13 Education level of employed persons (% of total - 2012)



Source: OECD WISE

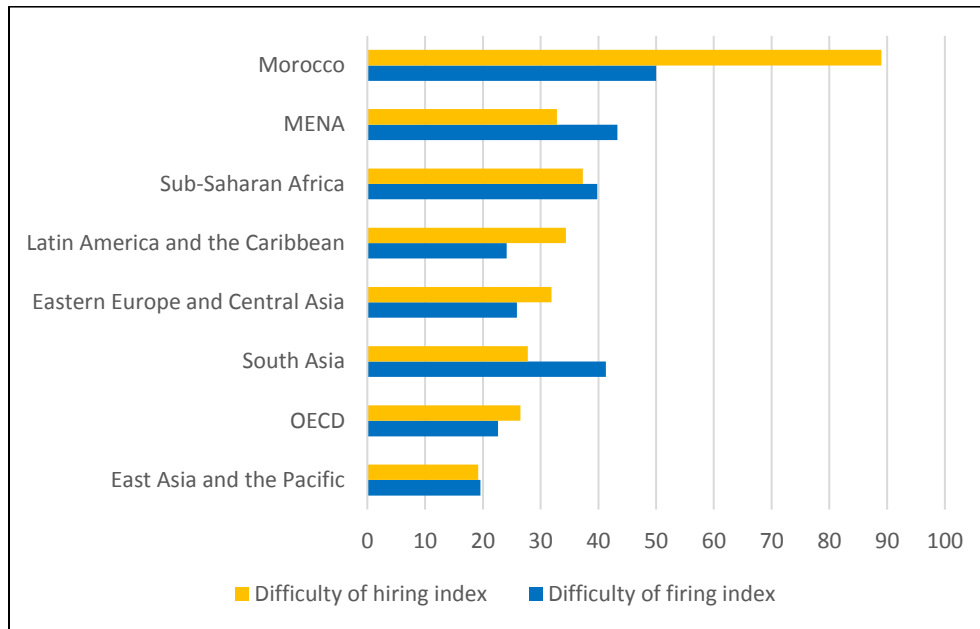
Figure 3.14 Workplace skills



Source: World Bank, Enterprise Survey

Morocco's labor market institutions may not effectively play their role of facilitating the intermediation of labor demand and supply. The Moroccan Labor Code appears to include cumbersome regulations unsuited to the country's needs with respect to structural change, especially to the ongoing job reallocation process required for efficiency purposes. Compared with many competitor countries, Moroccan labor market regulations are particularly restrictive in terms of the use of fixed-term contracts, firing, and working hours flexibility (Figure 3.15). The minimum wage is relatively high, and collective agreements and seniority pay end up pushing wage levels higher than staff productivity. All in all, the labor market rules do not appear to be capable of reducing the informality that affects 7 in 10 private jobs. The active labor market policies (PAMT) and employment agencies cannot produce the expected outcomes.

Figure 3.15 Hiring and firing difficulties



Source: Doing Business 2013

All in all, the various factors and output distortions discussed in the preceding sections limit the emergence of new economic opportunities, with adverse consequences for Morocco's productivity.

The allocation of resources across sectors and across enterprises within a sector has theoretically and empirically been shown to be one key factor behind the countries' total factor productivity (TFP) performance.⁹⁸ The rapid reallocation of resources across sectors has been an important driver of economy-wide productivity gains in fast-growing regions (e.g., South-East Asia) and countries (e.g., Turkey, Poland, Bangladesh), which experienced significant employment shifts out of agriculture. Yet, structural change in Morocco has played only a minor role in supporting labor productivity growth. Structural change accounted for less than 30 percent of productivity growth in Morocco in 1990-99 and in 2000-11, slightly more than countries in Asia, Latin America, and lower than in Sub-Saharan Africa, where it represented 55 percent of total increase in labor productivity (Auclair et al., 2017). However, Asia and Latin American countries have experienced higher total productivity growth compared to Morocco, due to higher "within productivity growth," especially in the manufacturing sector. In addition, in Morocco, while the decline in agricultural employment contributed positively to structural change by freeing labor from the economy's least productive sector, the labor force migrated to sectors such as construction and wholesale trade, where productivity growth was also relatively weak, which limited aggregate productivity gains.

Based on the World Bank's Enterprise Surveys, it is estimated that the market distortions in the manufacturing sector in Morocco could explain a total factor productivity "deficit" of up to 56 percent, compared to more advanced countries that display less distortion (Chauffour and Diaz-Sanchez 2017). In other words, closing part of this deficit over the next 25 years could add significant percentage points of annual manufacturing and total GDP growth (Box 3.2). Among the various distortions, Morocco's low manufacturing productivity is particularly caused by a serious misallocation of land in the manufacturing

⁹⁸ Hsieh and Klenow (2009), Bartelsman, Haltiwanger, and Scarpetta (2013), McMillan, Rodrick, and Verduzco-Gallo (2014), Dabla-Norris *et al.* (2013) among others.

sector. A study conducted for the SCD computed the degree of land misallocation in the manufacturing sector and the potential TFP gain associated to a better reallocation of land across enterprises. It found that the degree of distortions in the land market is not different from the overall market distortions discussed above (Chauffour and Diaz-Sanchez 2017). Knowing that land represents on average roughly 20 percent of the total amount of production factors used in the production process, a better reallocation of land up to the level of relatively undistorted economies would raise TFP by almost 11 percent. A full removal of distortions on land markets in the manufacturing sector would increase TFP by 16 percent.

Box 3.2 Measuring the Effects of Market Distortions in Morocco's Manufacturing Sector on Potential Total Factor Productivity

Factor distortions are credit constraints, financial policies, tax policies, and labor regulations that differ across enterprises (for instance because of political connections) and affect the relative prices of capital and labor. Output distortions include regulations restricting market access and/or enterprise size, bribes that have to be paid by enterprises in order to operate, public output subsidies, trade policies in the form of import protection and export subsidies (taxes), and distortions generated from exchange rate policies and price controls.

Marked heterogeneity in enterprise-level productivity within a sector may indicate misallocation of resources across enterprises, with a consequent negative and sizable effect on aggregate total factor productivity (TFP). Applying the analytical framework developed by Hsieh and Klenow (2009) to the microdata from the 2007 and 2013 World Bank Enterprise Surveys for Morocco allows for estimation of the effects of market distortions in the manufacturing sector on the level of resource misallocation in Morocco and derivation of the potential TFP gains to be expected from the removal of these distortions (Chauffour and Diaz-Sanchez 2017).

Although empirical results show a reduction in the level of market distortions in the manufacturing sector in Morocco between 2007 and 2013, the overall level of distortions in 2013 remained much higher than the levels in France or the United States as well as in some developing countries such as China and India (Table B3.2.1). The manufacturing subsectors posting the largest distortions are the chemical (1.13) and food (1.06) sectors, while the textile (0.62) and machinery (0.6) sectors appeared less subject to distortions. It is estimated that the full removal of these distortions (full liberalization) would result in gains of around 84 percent in manufacturing TFP. A reduction of these distortions to the level prevailing currently in advanced countries (partial liberalization) would result in a significant 56 percent improvement in TFP.

Table B3.2.1 Level of Market Distortion and Potential TFP Gains

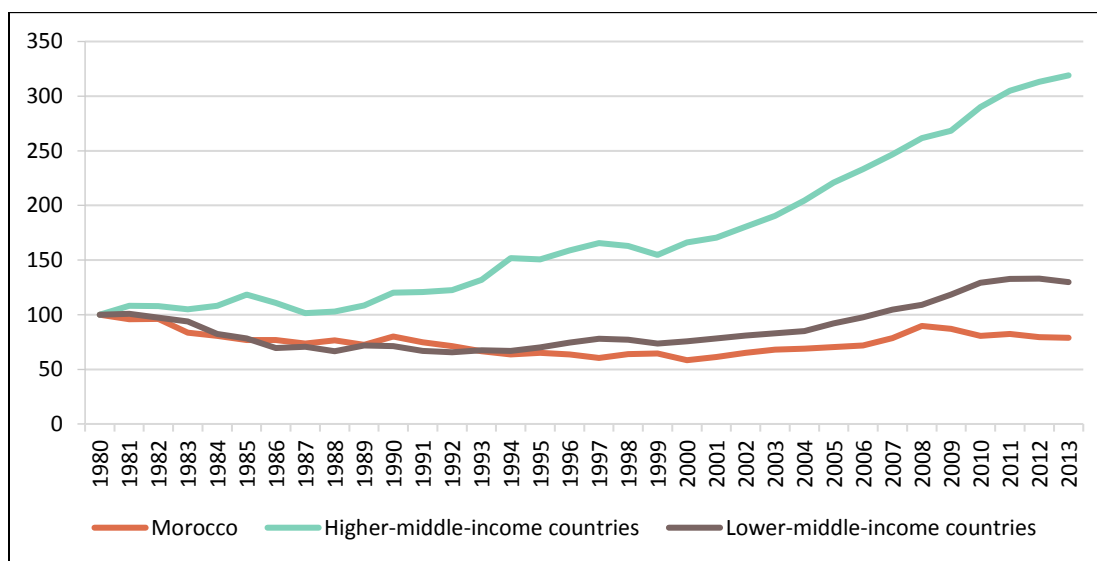
Country	Morocco		United States	France	South Korea	China	India
Year	2007	2013	1997	2005	2012	2005	1994
Level of market distortion	1.01	0.77	0.49	0.48	0.55	0.63	0.67
Potential TFP gains in %	N/A	83.8	42.9	N/A	N/A	86.6	127.5

3.1.4. For competitiveness and diversification

Although Morocco has gradually opened its economy to international trade and foreign investment, it is struggling to take full advantage of its political stability, geographical proximity to Europe and relative attractiveness to foreign investment, and make this openness a decisive competitive advantage driving a rapid, inclusive economic convergence process. Morocco's share of international trade has been on a downward trend since the early 1980s, while most of its competitors have seen their shares increase substantially (Figure 3.16). Without underrating the growth in the technological content of new exports of manufactured products (automotives, aeronautics and electronics), Morocco is struggling overall to increase its export volume and the level of sophistication and value of its exported products.

Nearly 70 percent of Moroccan consumers consider "Made in Morocco" products to be of mediocre quality compared with the foreign competition (CGEM 2014). To date, and despite encouraging results in Sub-Saharan Africa, Morocco has only managed to penetrate a small segment of its potential markets, with a limited range of products, especially in Europe. While there is some growth in the technological content of new exports of manufactured products, such as cars, the export basket has only slightly expanded, and remains focused on a limited range of industries (textile, electronics, phosphates and derives, fresh fruits and vegetables, fisheries) (Figure 3.17). In addition, although Morocco broke new ground when it liberalized certain service industries (air transport) a few years ago, it has tended to specialize in relatively unsophisticated service trades and does not fully exploit the value-added to be found in activities upstream and downstream of the global value chains.

Figure 3.16 Morocco's Share in World Trade
(Index 100 in 1980)

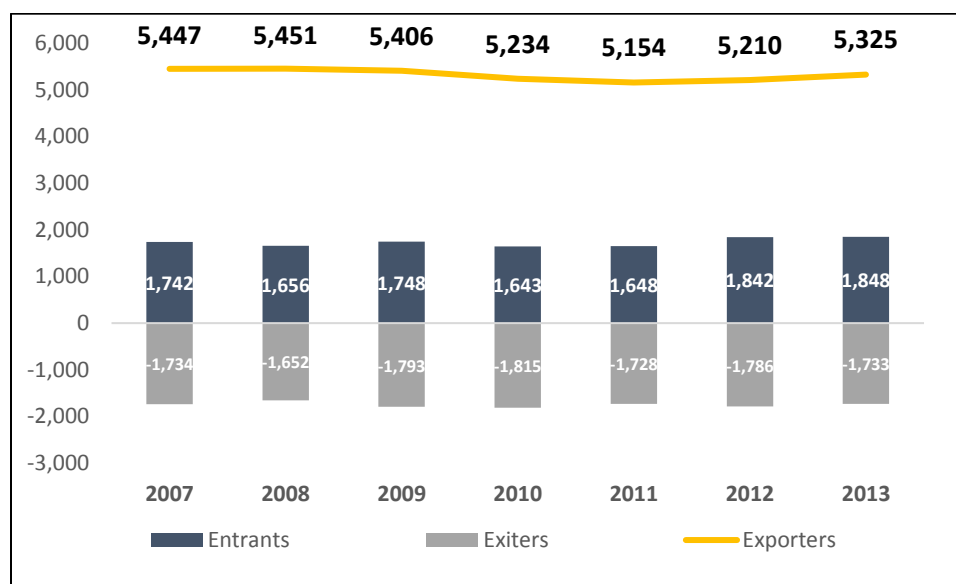


Source: World Development Indicators, World Bank.

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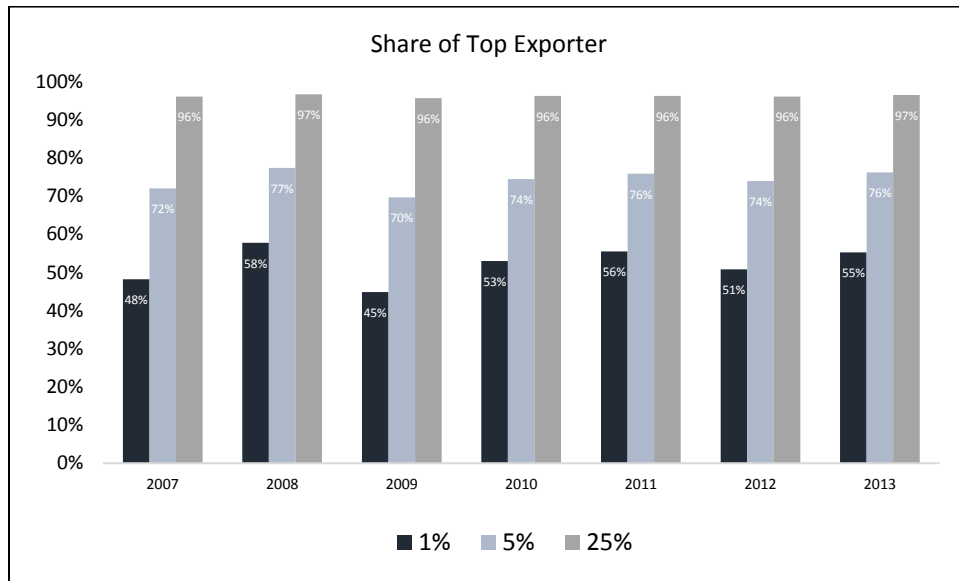
The poor penetration of Moroccan exports, both goods and services, highlights the country's sizeable competitiveness problems. These problems find root in several factors: not only the high costs of inputs, due to protection of the service sectors and domestic price rigidity, but also the quality of trade-related (including transport) infrastructure and logistics. Despite the remarkable achievement of the Tanger-Med Port and real progress with customs management, Morocco is handicapped by longer lead times and higher costs for its export and import logistics than its main competitors. In 2015, Morocco ranked 86 out of a total of 160 countries on the Logistics Performance Index, down 24 places compared with the average ranking during the 2007–14 period (World Bank 2016). These problems are exacerbated by an exchange rate system that has just begun to show increasing flexibility, and by capital controls conducive to the development of nontradable goods sector, but which form a substantial obstacle to Morocco's price competitiveness, product diversification and regional and global integration. Given the current state of market incentives, the lack of diversification into more sophisticated export products is also partly due to exporter risk aversion. The number of exporter enterprises has been decreasing, as the number of exiters had exceeded the number of entrants until recently (Figure 3.18). Moreover, the existing ones are often old, small and less capable of supplying the global value chains than local subsidiaries of multinationals. Furthermore, Morocco's exports are concentrated on a limited number of exporting enterprises (Figure 3.19). The top 1 percent of exporters account for 55 percent of Morocco's total exports. A limited number of enterprises is actually exporting (less than 20 percent included in the 2013 Enterprise Survey), depriving Morocco of important potential productivity gains.

Figure 3.18 Number of exporters



Source: Exporter database

Figure 3.19 Exporter concentration



Source: Exporter database

It has been clearly established theoretically and empirically that the institutions governing a country's foreign trade serve to capitalize on the benefits of specialization and the international division of labor for greater economic efficiency, faster structural change and higher incomes. Morocco will raise its productivity if its foreign trade sector can develop and contribute more to growth. This transition will call for an end to the "anti-export bias" that continues to be endemic of the institutions and policies governing foreign trade (World Bank 2006).

- **Ease exchange arrangements and controls.** A fixed exchange rate system conducive to the nontradable goods sector tends to weaken price competitiveness on third markets. As recommended in analyses conducted by Bank Al-Maghrib (BAM 2016), Morocco could consider swiftly adopting a more flexible exchange rate system to enable the dirham to permanently stand at its market-clearing price. This change is especially urgent because Morocco is positioned mainly in low value-added products whose price competitiveness on third markets is decisive and for which foreign competitors are quick to use the exchange rate instrument. For example, the dirham has appreciated around 100 percent against the Brazilian real and the South African rand since 2012, and 50 percent against the Turkish lira since 2013.⁹⁹ At the same time, currency control is expected to continue to be relaxed to guarantee the dirham's full convertibility in the medium term and hence increase Morocco's attractiveness to investors and global trade operators, including with a view to making Casablanca Finance City a regional financial hub.
- **Reduce market incentives to domestic sectors.** The government of Morocco offers a diverse range of incentive programs to investors, sometimes overlapping, and most of them with a sectoral focus.¹⁰⁰ In the case of the *Fonds de Développement Industriel* (endowed with US\$2 billion to

⁹⁹ However, it is important to note that the recent literature on the links between exchange rate and competitiveness emphasizes the significant role of vertical specialization. Consequently, a real effective exchange rate indicator that allows for vertical trade specialization (when imports are used to produce export goods) would be a better indicator of competitiveness (see, for example, Berns and Johnson 2012).

¹⁰⁰ While there have been no impact evaluations of these programs, the nature and modalities of attribution of the

support the development of the manufacturing sector), eligibility criteria for incentives remain for the most part focused on project size in terms of investment, rather than their impact in terms of employment, value-added growth and export. As a result, domestic investors tend to maintain a preference for less risky domestic sectors, and most of the growth in exports of tradable products is attributable to foreign investors rather than to the emergence of a network of Moroccan exporters. For example, in the aeronautical sector, with growth approaching 20 percent per year, there were no SMEs with Moroccan financing among its manufacturers or suppliers at end-2017. While there are some innovation and export support mechanisms in place,¹⁰¹ they remain largely underutilized and poorly endowed compared to the incentives for the establishment of large projects. While some of these incentives remain necessary to address persistent barriers to investment (in particular access to land and credit), Morocco would gain from harmonizing the multiplicity of overlapping incentives schemes and from revising their purpose as tools to promote the competitiveness and growth of the sophistication of Moroccan production, with eligibility based on results rather than initial investments.¹⁰²

- **Improve the trade regime and trade facilitation.** Morocco could lower its trade barriers, for example by launching a new plan to reduce and consolidate the most-favored-nation tariffs (high at 25 percent), by reducing the number of tariff lines for which the applied rates continue to exceed Morocco's WTO-bound rates, and by gradually equalizing customs duties for all its partners (WTO 2015). Similarly, there is huge potential to liberalize agricultural trade, which remains protected by quotas and high customs duties. Morocco would also benefit from amending and harmonizing its non-tariff measures and their related procedures in terms of time and cost (Cadot, Malouche and Saez 2012). Lastly, trade facilitation and regional connectivity, especially maritime transport, is an unfinished, but vital agenda for Morocco's integration.
- **Improve the foreign investment regime.** Although Morocco has opened the majority of the sectors of its economy to foreign investment, it still needs to phase out certain restrictions on foreign ownership of capital in some sectors (transport services, insurance, professional services, etc.) while ensuring that the incentives used to attract foreign investors do not prevent local integration and that clear legal provisions on local content are properly enforced. Morocco could adopt a less expensive, more transparent and more consistent stable property policy to attract more foreign investors. The Ministry of Justice is working on revamping the legal and regulatory framework for collective proceedings given that the insolvency regime is currently ranked last on the Doing Business index. The recovery rate is only 28 cents on the dollar for an insolvency procedure lasting three and a half years on average.
- **Negotiate an ambitious Deep and Comprehensive Free Trade Agreement.** The prospect of a Deep and Comprehensive Free Trade Agreement with the European Union constitutes a strategic objective with unique potential for growth and change for the Moroccan economy (Chauffour

incentives indicate that they are geared toward projects with heavy investments and capital accumulation rather than innovation and enhancement of the players' capacities to increase the sophistication of their exchangeable products and to conquer export markets and integrate global value chains. Apart from tax and customs incentives, the bulk of sectoral incentives aim to support the construction of buildings and the acquisition of equipment in a variety of sectors focused primarily on the domestic market (housing, tourism, agriculture, etc.) where Morocco's export competitiveness is low.

¹⁰¹ Export Synergia, Aide primo-exportateur, export growth premium by FDI etc.

¹⁰² It is worth noting that during the evaluation of investment projects benefiting from foreign-derived intangible income (FDII), special attention is paid to their ability to contribute to achievement of the objectives set forth in the Industrial Acceleration Plan, particularly job creation.

2013). The promotion of greater freedom of movement for goods, services, capital and labor between Morocco and the European Union would better position Morocco in worldwide competition, including by means of its integration into the European value chains, thereby doing a great deal to increase the country's total factor productivity.

- **Diversify South-South trade and investment.** Through the expansion of its economic activities in Sub-Saharan Africa, Morocco is in the process of building strong South-South cooperation in high value-added sectors, where Morocco is globally competitive. This has been supported by Morocco's foreign policy, the centralization of investment promotion activities, and the subsequent relaxation of foreign investment regulations. In parallel, the slowdown in advanced economies, excess capacities, and relatively saturated domestic markets pushed some leading Moroccan corporates to invest in emerging and developing economies, especially in Sub-Saharan Africa. While opening to Sub-Saharan Africa offers opportunities, it also carries risks, particularly in the banking sector where exposure to African markets, specifically domestic sovereign bonds, may decrease asset quality.¹⁰³ Expanding and deepening the positive effects of Morocco's South-South investments require making it easier and more accessible for more Moroccan enterprises to invest in other emerging and developing countries. While Moroccan enterprises should keep deepening their links with Sub-Saharan Africa, they should also diversify further their investment destinations and explore further opportunities within the Maghreb region (notwithstanding the political constraints), in the broader MENA region as well as in Turkey and other emerging markets. Doing so requires improving credit allocation to the competitive sectors, reducing unfair competitive advantages, and excessive market powers as well as further promoting trade and investment integration, regional cooperation, as well as regulatory and policy harmonization. Supporting the development of local/regional capital markets would also be essential.

Along with international trade, greater economic efficiency, faster structural change and higher incomes also depend on the capacity to take full advantage of domestic trade and diversification, especially out of subsistence agriculture. Morocco's quest for fastest inclusive sustainable development will remain elusive in the absence of increased economic opportunities for the rural population, farmers in large majority and better incentives for young farmers—within and outside the agriculture sector. Approximately 85 percent of the rural population is employed in agriculture and it is estimated that the agriculture sector generates 40 percent of jobs nationwide, employing 4 million people. Farming is the main source of income in rural areas, and most farms have low quality, low productivity, semi-subsistence farming on small lands. Small farmers face significant constraints. These include marginalized land, land titling issues, land fragmentation, unpredictable rainfall, limited access to markets, and limited farmer organization. One of the underlying constraints is the very low education level (high illiteracy rate).

As in other developing countries, Moroccan agriculture displays striking inequalities between rich and poor farmers and between men and women. Highlighting the dualistic nature and inequality of the agriculture sector is the fact that less than 1 percent of farmers—representing 14 percent of cultivated land—have highly profitable, commercial, and export-oriented farms. Most small farms are operated by older heads of household with low education levels—more than 45 percent of the heads of farming families are over 55 years old and 81 percent are illiterate. These heads of household lack technical know-how and rarely use modern technologies. To meet food consumption needs for their livestock and

¹⁰³ For instance, Africa (outside of Morocco) represents around 20 percent of the net income and 13 percent of the assets of the three leading Moroccan banks: Attijariwafa, BCP, and BMCE (Fitch and Moody's, 2016).

themselves, smallholders produce low-value agricultural commodities—such as wheat and barley—for which subsidy schemes and market protection incentives are provided by the Government. The small but very efficient groups of commercial farmers producing high-value export crops provide jobs to 50 percent of the rural labor force (World Bank, 2013a). Women actively engage in agriculture, with 57 percent of the female population participating in agricultural work; however, their contributions often remain unpaid or underpaid, and they lack access to land, finance and technical advice. About 73 percent of female labor in the primary sector is unpaid, even higher than the 60 percent unpaid labor rate for youth. Women earn 50 percent less for agricultural work than men. This is the largest gender wage gap—for the same job and same qualifications—of any sector in Morocco. Overall, women earn between 30 and 50 percent less than a man depending on the sector (World Bank, 2015).

To tackle these challenges and create more economic opportunities for rural populations, in 2008, Morocco launched a comprehensive agricultural development strategy, the Plan Maroc Vert (PMV). The plan was designed to encourage a transition from a highly protected agricultural sector to one more open to markets, while emphasizing value addition along agro-food chains to benefit both small and large producers and climate resilience. The PMV aimed to double the value-added of the agriculture sector, create 1.5 million jobs, and halve poverty in rural areas by 2020, thus transforming the sector into a stable source of growth and broad-based economic development.

Notwithstanding the progress made (Box 3.3), the Government acknowledges the need for adjustments during the remaining PMV implementation period (2016-2020). This agenda includes implementing reforms for wholesale markets and slaughterhouses; improving the aggregation model based on international experiences; strengthening the country’s agricultural innovation system; promoting better access to financial services; strengthening farmers’ professional organizations; targeting and improving the efficiency of public policies (“smarter” subsidies); and continuing the transition toward a resilient, climate-smart agriculture sector. Still, there are concerns about the market’s capacity to absorb production increases from increased farm investments (in tree crops). The Ministry of Agriculture, Marine Fisheries, Rural Development, Water and Forests (MAPMDREF) wants to place greater emphasis on improving the coordination and performance of key value chains.

Box 3.3 Plan Maroc Vert (PMV): Morocco’s sector policy for agriculture

In addition to its transversal institutional and policy reforms, the PMV is founded on two pillars: Pillar I targets commercial farmers and their integration into national and international markets through high-value agriculture, while Pillar II targets small farmers, mainly in marginal areas. Under both pillars, financial and organizational support is provided to link farmers to market. Transversal measures include the improvement of irrigation management, the modernization of domestic markets, fiscal and incentive policies, the mobilization of agricultural land and the creation of intra-industry organizations (“Interprofessions”). Specific targets have been agreed upon between the Government and representatives of the industry (Interprofessions) through framework contracts (*contrats programmes*) covering the period until 2020.

The PMV has been further translated into Regional Agricultural Plans (PARs), which identify priority value chains based on agri-ecological conditions and development potential. The Agricultural Development Fund (FDA), the Government’s principal agricultural subsidy instrument, has been reformed and its actions have been aligned with the strategic directions of the PMV. The PMV’s total investment needs are estimated at US\$2.37 billion, during the period 2008-2020, of which 75 percent is to be funded by public institutions and the remainder by beneficiaries’ contributions.

In terms of implementation status and results, the PMV has increased production of some crops, with olive production nearly doubling. From 2008 to 20[16], agricultural GDP increased by [7.7] percent annually compared to [4.4] percent for overall GDP. The value of Morocco's agriculture rose from MAD 75 billion in 2008 to MAD [118] billion (US\$[12] billion) in 20[16]. Agricultural investments multiplied by 1.7 and agro-food exports increased by 30 percent. State-owned lands were rented at low prices, leading to the planting of 13 million fruit trees. The use of certified seeds has increased by 120 percent. At the institutional level, the key PMV outcomes include introducing a new management model for wholesale markets; improving the institutional and regulatory framework for slaughterhouses; creating a legal framework for contract farming; modernizing the agriculture innovation system (competitive research mechanism; opening extension services to the private sector); establishing a more effective food safety control system (a higher number of certifications and a lower share of export rejections from the EU); and improving the efficiency of farmers' water use, the performance of irrigation service operators, and the Government's irrigation planning.

The agro-food industry could also play a greater role in creating new economic opportunities in rural areas. The agro-food sector also remains largely underdeveloped with low enterprise intensity (well below 1 percent).¹⁰⁴ The size of the agro-food sector is currently estimated at 2,050 enterprises, most of which are small and medium enterprises, employing approximately 143,000 people. Agribusiness development is hampered by constraints such as a lack of reliable access to quality raw materials in key value chains to support value addition, lack of traceability, inefficient inspections and certification processes for food safety and export, lack of quality infrastructure including post-harvest facilities, a great deal of informal processing requiring upgrading for quality and market access, and limited access to finance for medium- and long-term investment. Agribusiness SMEs, and young agripreneurs especially, are constrained by a lack of access to business development services, skills and finance.

To develop the agro-food industry, a framework contract was signed on April 17, 2017 with 13 professional associations. It aims to strengthen integration between production upstream and processing downstream; develop new, higher value-added products; include industry in the international economic environment and improve its competitiveness; enhance export promotion on traditional markets and develop new, high-growth export markets; stimulate private investment geared toward revenue-generating products on the international markets; contribute to rural development, securing and increasing farmer's incomes; and stabilize jobs in the sector as well as create value-added.

3.2. More inclusive public governance

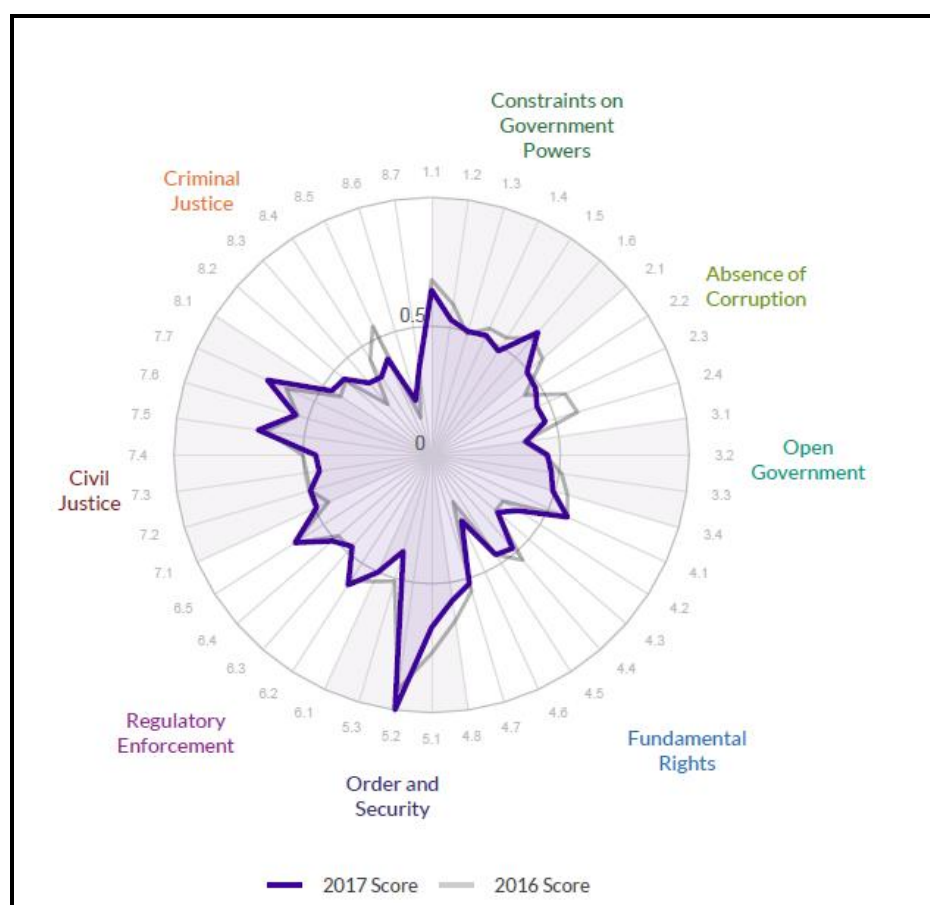
3.2.1. In elaborating and implementing the rule of law

Despite the general reforms undertaken to strengthen the rule of law, particularly the fundamental rights of citizens via the 2011 constitution and the adoption of a Justice System Reform Charter, the rule of law and judicial system in Morocco still face clear challenges (World Bank 2014b). According to the Rule of Law Index (World Justice Project 2017), the main weaknesses relate to criminal justice (particularly the lack of independence of the judiciary), fundamental rights (particularly the right to privacy), and corruption (particularly in the judicial system) (Figure 3.20). The judicial authority still suffers from a poor reputation in the eyes of the general public (inefficiency, lack of independence, and corruption). According to the 2012–14 Arab Barometer, fewer than one quarter of Moroccans questioned consider their judicial system to be effective, while in Jordan or Kuwait, for example, more

¹⁰⁴ Ratio of agribusiness enterprises to number of farms.

than three quarters of those questioned have favorable views of their justice system. As per Transparency International's Corruption Perception Index (2016), Morocco has regressed and is now ranked 90th, outperformed by several countries in Sub-Saharan Africa and the Middle East and North Africa.

Figure 3.20 Rule of Law Index for Morocco, the Middle East and North Africa Region, and Lower-Middle-Income Countries



Source: World Justice Project, Rule of Law Index, 2017-2018

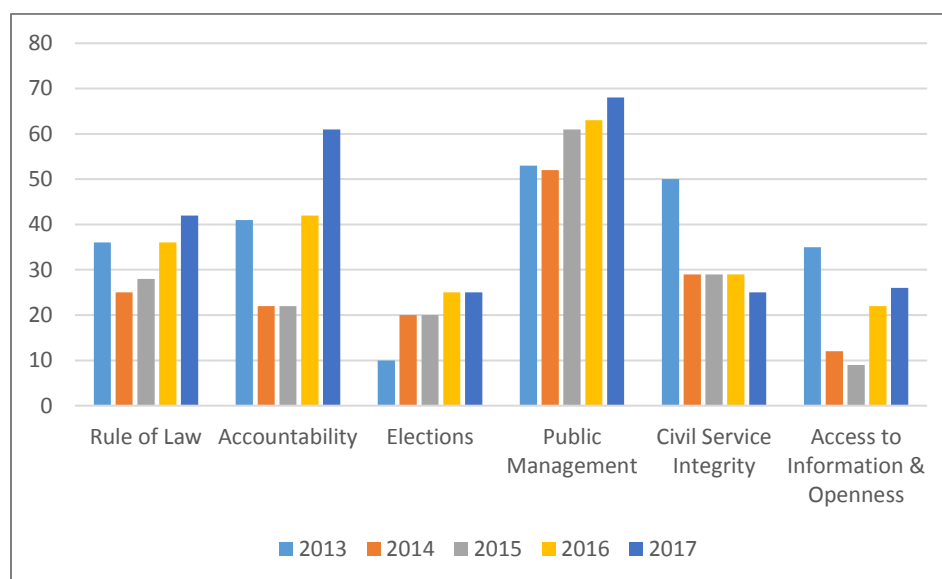
Note: Each number around the circle represents an indicator

Morocco has made mixed progress in designing and implementing a legal framework around issues related to access to information, transparency and accountability. According to Global Integrity's Africa Indicators, Morocco has improved in all sub-indicators, except in the area of Civil Service Integrity where its performance has worsened substantially. Morocco performs highest in the areas of Public Management and Accountability—scoring within the “moderate” performance range. It remains to be seen though if open budget reforms will ensure greater accountability. Morocco performs worst in the areas of Elections, Civil Service Integrity, and Access to Information and Openness—scoring within the “weak” performance range (Figure 3.21).

While Morocco has made progress in promoting access to information, a more decisive commitment to openness is still needed. In line with the constitutional requirement, a draft law to clarify the procedures and limitations for requesting information has been submitted to Parliament several months ago. However, concerns have been raised over delays of approval by Parliament, the law's

requirements of justification for requests, delays in granting requests, lack of clarity over the exceptions, and possible penalties for the reuse of information (OECD 2015). Finally, the lack of progress toward improved access to information undermines Morocco's ability to join global initiatives, such as, the Open Government Partnership (OGP).

Figure 3.21 Global Integrity's Africa Indicators



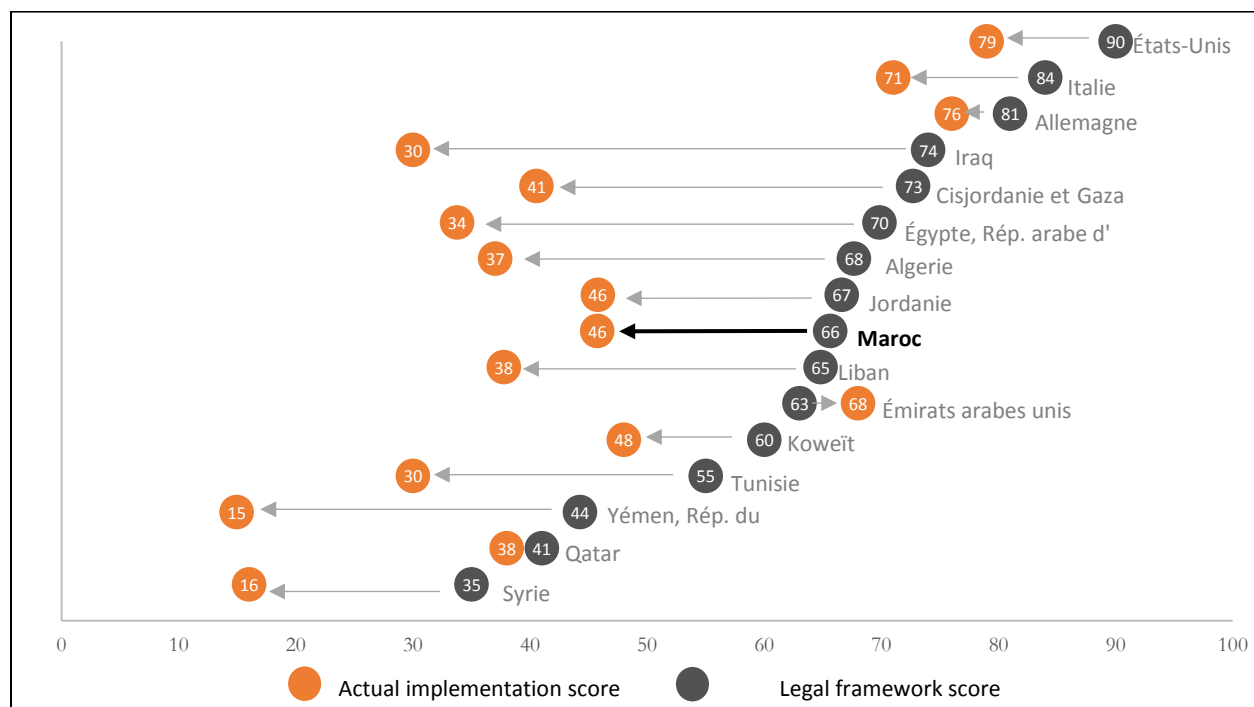
Source: Global Integrity Africa Integrity Indicators, 2017.

Note: Strong (81-100); Moderate (61-80); Somewhat Weak (41-60); Weak (21-40); Very Weak (0-20)

More generally, while recent reforms have ensured that some institutional checks exist on paper – it is unclear whether sufficient commitment mechanisms have been put in place to ensure they are effective in practice. In terms transparency and accountability, the large gap between the quality of the legal framework (de-jure) and its actual implementation (de facto) is wide (Figure 3.22). For example, the Constitution of 2011 created the new anti-corruption agency (the *Instance Nationale de la Probité, de la Prevention et de la Lutte contre la Corruption* INPPLC), and a dedicated law further outlined its role in investigating public sector corruption.¹⁰⁵ However, its effectiveness remains limited owing to the delay in becoming operational.

¹⁰⁵ Law No. 12.113 of June 2015

Figure 3.22 Transparency and accountability legal framework and implementation score (2013-2017)

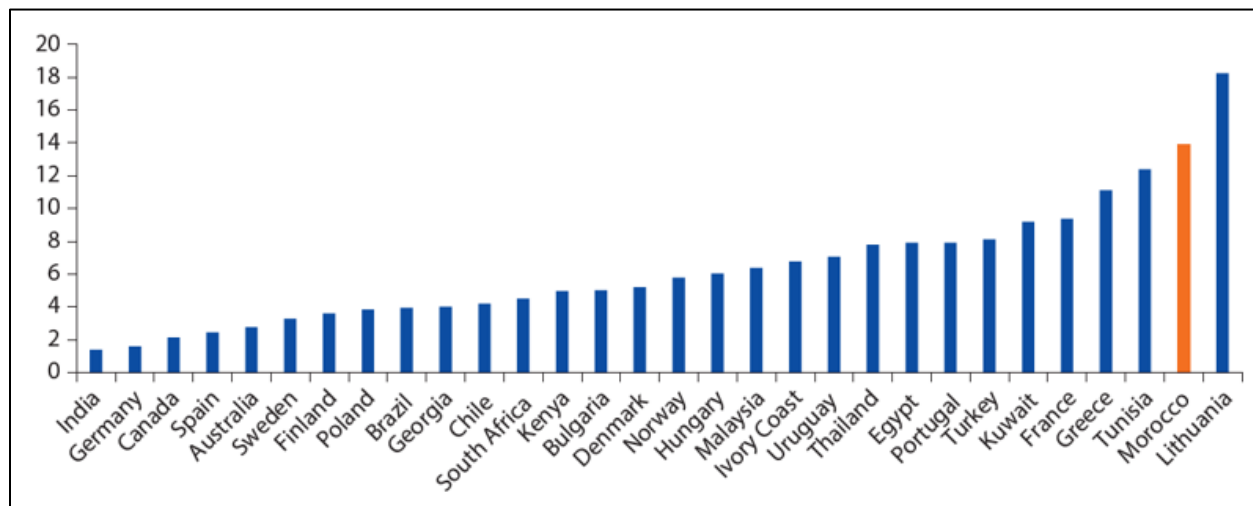


Source: Global Integrity Indicators

3.2.2. In administrating the state

Despite modernization efforts, in the context of Public Administration Reform Development Policy Programs (PARAPs), the General Civil Service Regulations, which date from 1958, remain inadequate to meet the requirements for modern human resources management. The civil service continues to operate on the notion of status and seniority promotion whereas the concepts of position and performance should be the operating principles of this service. The remuneration structure is rigid, incoherent and inequitable. It does not reward individual or collective performance. Disciplinary problems (absenteeism in particular) are not properly sanctioned, despite issuance by the Head of Government in 2012 of a circular to that effect and the introduction in 2014 of a dedicated portal (Chikaya.ma). In addition, the cost of running the Moroccan civil service is high given its service quality. Civil service wages (including in the local administrations) are twice as high as in the private sector and represent 14 percent of GDP. Morocco's wage bill is high compared to that of emerging countries (Figure 3.23). At the same time, however, different official evaluations emphasize the low quality of the public services and their poor image among the people (CESE 2013; Audit Office 2016).

Figure 3.23 Civil Service Wage Bill, including Local Governments, 2012, Percentage of GDP



Source: World Development Indicators, World Bank.

On civil service integrity, while Morocco has formal law on in place to protect against corruption, nepotism, and conflicts of interest, in practice “political interference, clientelism, dismissal and redistribution of senior civil servants and civil servants in the civil service is commonplace.”¹⁰⁶ As His Majesty King Mohammed VI remarked to Parliament, “State agencies are suffering from several shortcomings, including weak performance and issues relating to the quality of the services provided to citizens. They also suffer from an inflated workforce and from the lack of competence and absence of a sense of responsibility among many employees.”¹⁰⁷

Taxation in Morocco is subject to high levels of discretion, which undermines the effectiveness of redistributive policies. Citizens are less willing to pay taxes if they do not believe that the taxation process is fair or equitable –benefiting only a limited portion of society at the expense of others. In the case of Morocco, a recent analysis found that the tax policy allows for a personalized treatment of tax payers.¹⁰⁸

Yet the world over, modernization of the administration calls for a change to the design of public services and the civil service, in particular in association with government decentralization. The reform pathways generally taken aim to deconcentrate human resources management responsibilities, empower administrators, increase the flexibility of the recruitment and career development policies, encourage individual and collective performance and, more generally, streamline the administration (OECD 2011). Many member countries of the OECD and some emerging countries (New Zealand, Mexico, Korea, and Singapore) have gone further by reforming the public employment framework, essentially by quite simply phasing out civil service status for most government employees (World Bank. 2016). 2016).¹⁰⁹

¹⁰⁶ Source: Analysis done by the Africa Integrity Indicators group.

¹⁰⁷ Throne Speech. His Majesty King Mohammed VI. 2017.

¹⁰⁸ Ceriani et al, Arithmetic and Politics of Domestic Revenue Mobilization, World Bank Policy Research Paper No. 8029, April 2017.

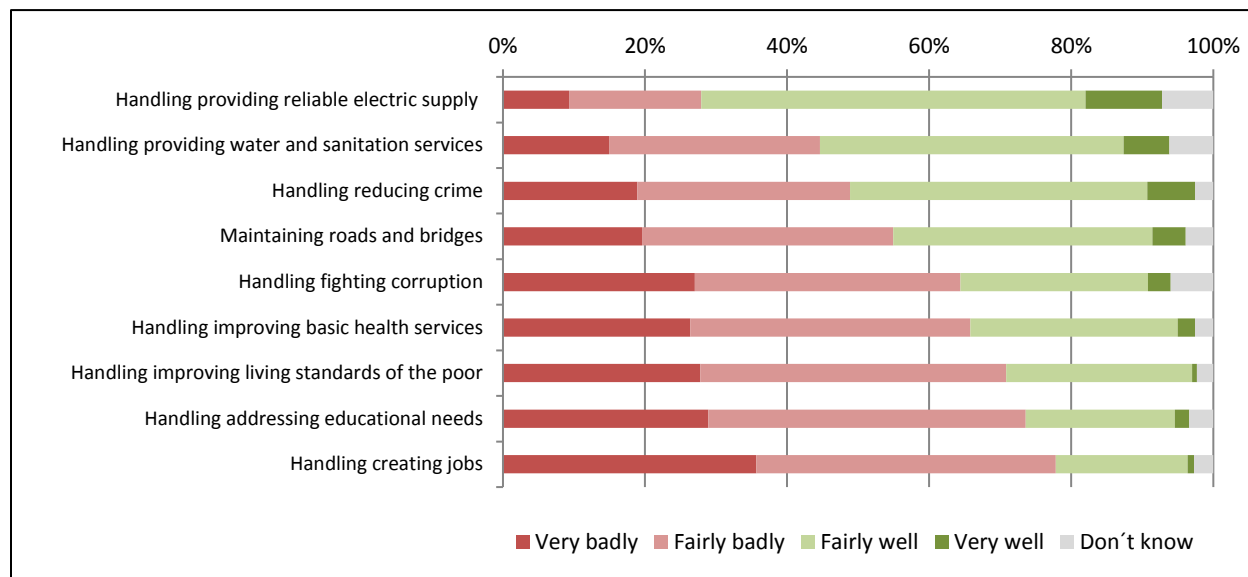
¹⁰⁹ World Bank. 2016. Good public service governance as a lever for achieving economic and social development. Unpublished, CEM background paper.

- **Decentralize government.** Morocco's decentralization process (aka "advanced regionalization") has arrived at just the right time to correct the institutional and central, regional and local governance imperfections and to establish the authority, means and mechanisms to establish a better balance in the distribution of powers between the central government, the regions and the regional and local authorities. For this to happen, Morocco must resolutely scale up the pace of implementation of systemic deconcentration and decentralization in the context of advanced regionalization. The process will need to be particularly careful and diligent to avoid deconcentration resulting in the multiplication of deconcentrated departments, a pure and simple duplication of central government organization charts, or the development of a regional bureaucracy without any real decision-making authority or adequate means and capacities for action.
- **Reforming the civil service.** As adapting the civil service regulations is a delicate matter, Morocco could initially consolidate the reform actions underway in human resources management to more efficiently prevent underperformance and absenteeism. The implementation of advanced regionalization and strengthening of the local civil service also provide a unique opportunity to review the civil service regulations to adjust them to the standards of good modern management and governance practices, and to normalize performance as a key element of the human resources recruitment, management and promotion process. Morocco should strengthen actions initiated to encourage mobility within the administration, expand the use of fixed-term contracts and promote gender equality. It should also strengthen its civil service's human capital with the full implementation of its training program by means of a consistent, efficient continuing training policy regularly updated following a diagnosis of missing skills and organized into individual training plans integrated into the evaluation process.
- **Reduce operating costs.** Morocco should seek to control its civil service operating costs with a tighter rein on the wage bill. This implies the diligent implementation of the new Budget Framework Law (LOLF) to cap personnel appropriations and effectively embark upon the advanced regionalization process. Line ministries should also be assigned the management of their remuneration appropriations (ministry program budgets currently exclude remuneration, which sometimes represents over 90 percent of their recurrent costs) and their budget accounting, with oversight to ensure consistency of their actions with the macroeconomic public finance constraints.

3.2.3. In delivering public services

Overall, at the national level, Moroccan citizens appear dissatisfied with the performance of the government in handling the delivery of key services and addressing major problems faced by the country. According to results from the 2014/15 Afrobarometer, more than 60 percent of survey respondents in Morocco think that the government is doing very badly or fairly badly in handling education, unemployment poverty, healthcare, and corruption—the five most important problems facing the country, according to the same survey (Figure 3.24). Providing a reliable electricity supply is the only basic service for which over 50 percent of citizens perceive the government is doing very well or fairly well.

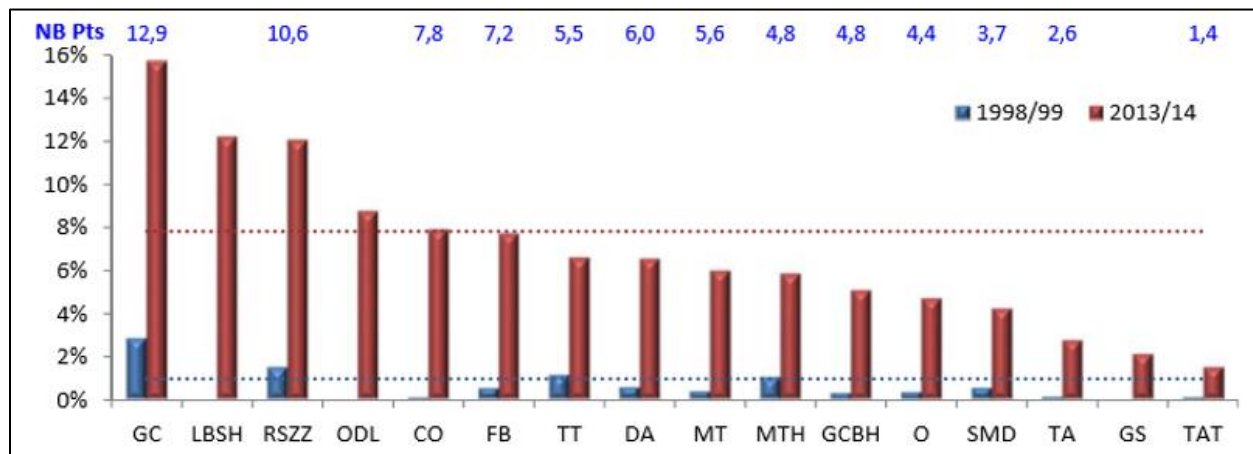
Figure 3.24 Perceptions of how well the (central) government is performing
(Share of total correspondents)



Source: Authors using data from Afrobarometer, Round 6, 2014/15

Citizens' dissatisfaction with public service provision can entrench existing exclusions by incentivizing wealthier citizens' reliance on private providers. If tax payers do not feel that they are receiving quality public services in return for their contributions, they may choose to “opt out” and look for private or informal alternatives instead –breaking down the social contract and further entrenching existing inequalities. The substantial increase in private school enrollment discussed earlier is one manifestation of this type of exit. According to data from the Ministry of Economy and Finance, the share of private sector in enrolment in secondary schools has jumped from around just 1 percent nationally in 1998/99 to almost 8 percent in 2013/14—with increases in all regions. In the Grand Casablanca region, as many as 16 percent of secondary students were enrolled in private schools in 2013/14 (Figure 3.25).

Figure 3.25 Share of private sector in enrolment in secondary school 1998/99 and 2013/14



Source: Ministry of Economy and Finance (2015)

Oued Ed-Dahab - Lagouira	ODL
Laâyoune - Boujdour - Sakia El Hamra	LBSH
Guelmim - Es-Semara	GS
Souss - Massa - Drâa	SMD
Gharb - Chrarda - Béni Hssen	GCBH
Chaouia - Ouardigha	CO
Marrakech - Tensift - Al Haouz	MTH
Oriental	O
Grand Casablanca	GC
Rabat - Salé - Zemmour - Zaër	RSZZ
Doukkala - Abda	DA
Tadla - Azilal	TA
Meknès - Tafilalet	MT
Fès - Boulemane	FB
Taza - Al Hoceima - Taounate	TAT
Tanger - Tétouan	TT

The system's failings seem to be more due to a governance problem, especially the poor relationship between the civil service and general public users, than a problem of means. Equal access to services continues to be held back by many regional and local economic and social inequalities. Absenteeism, rife in public services such as education and health, compromises equality of access for all Moroccans, especially those living in rural areas. The culture of evaluation and accountability is not well established in Morocco. This is true at all levels of public service provision and, more generally, at the level of public policies and the budget programs that finance them.

The quality of public goods and services conditions the development of the private sector and the emergence of the middle class (Bluhm and Szirmai 2011). Quality institutions transparently accessible to all contribute not only to economic performance, but also to collective well-being, trust, civic responsibility and thus social capital. Users have a key role to play in improving public service governance

and strengthening the accountability of the State. Today, it is understood that good public service governance must look at the quality of the services provided instead of focusing on just the inputs or seeking to import models not suited to the local context and problems. Improving public service governance entails placing the user at the center of the system as its beneficiary and regulator.

The current public finance management (PFM) system contributes only moderately to the improvement of the quality of public services (2016 Public Expenditure Framework Analysis (PEFA)). Service-delivery performance is one of the new procurement act's objectives. The act introduced a performance-based approach and provides targets and indicators on the quality of the services. To translate the ambitions of the new Organic Act in improving the quality of public services, several conditions would need to be met including a better programming of large-scale investment and efficient procurement in line with specific sector needs, both at the central and decentralized levels. Also, the ongoing deployment of the new performance-based approach and reporting tools, such as performance contracts, must be accompanied by a thorough change management process and a conducive environment which will spearhead players' incentives. Lastly, the State must reinforce its oversight of external operators by moving from traditional financial supervision to operational supervision with a focus on the provision of improved basic public services by these operators. To this end, the new procurement act offers an opportunity to better track public service providers' resources and performance, including from the point of view of efficiency and quality of services. It also creates the space for the Government to engage with citizens on service-delivery performance. This should be done through: (i) revision of the role of central government focusing its efforts on policy making rather than on service delivery; (ii) enhanced decentralization of financial and human resources; and (iii) the establishment of a mechanism facilitating citizen engagement.

3.3. More inclusive human capital formation

3.3.1. Via education

The remarkable expansion in school coverage discussed earlier has mostly been the result of massive and consistent public investments in education since 2000. The general education subsector has consistently received between 25 and 28 percent of government budget allocations since 2000, which corresponded to 5.3 to 5.8 percent of GDP (World Bank 2014).¹¹⁰ International comparisons show per student expenditures within the high range of middle income countries averages, particularly at secondary education level.

However, there is a stark contrast between high spending and poor education outcomes (Box 3.4). Although government spending per primary student increased in Morocco from 2001 to 2011, with a nominal cost per capita raising from US\$300 to US\$480, the average score of Moroccan students in TIMSS and PIRLS for 4th grade¹¹¹ fell to about 300 over this time period (IMF 2015).¹¹² From 2000 to 2012, 248,000 students dropped out of school on average every year and 68 percent of all students left the education system without any qualification. Estimates show that school drop-out generated an average

¹¹⁰ World Bank – Education Sector Public Expenditure Review, February 2014

¹¹¹ TIMSS and PIRLS are international comparative assessments of student achievement in mathematics and science (TIMSS) and in reading (PIRLS) in more than 60 countries. TIMSS: Trends in International Mathematics and Science Study PIRLS: Progress in International Reading Literacy Study

¹¹² IMF (2015).

cost of US\$250 million per year between 2009 and 2011 (CSEFRS 2014).¹¹³ At the same time anecdotal evidence indicates that the education system is not accounting for urbanization, globalization and technology trends and thus failing to adequately prepare students for the fast-changing world of work. The competencies and skills required to thrive in service, green, digital, entrepreneurial “global” markets – such as communication, critical thinking, customer service, STEM (Science, Technology, Engineering and Mathematics), and coding – are not being generally delivered through Morocco’s education system. In other words, supply is failing to meet demand, undermining economic growth and competitiveness. Lastly, it is worth noting that poor education outcomes are not only an economic and social problem, but can potentially lead to security issues.

Box 3.4 Morocco’s weak education outcomes and its sources

Low quality of education outcomes is reflected in Moroccan student’s poor performance in national and international learning assessments. Over the past 15 years, a period characterized by the Government’s efforts to generalize education, Moroccan students participated in several standardized learning assessment exercises.

- Results from the 2008 National Learning Assessment Program (PNEA) reveal that the average student does not reach any of the country’s benchmarks in mathematics, science, and languages at any of the key cycles of basic education.
- Morocco’s participation in TIMSS since 2003 consistently shows a country trailing its regional neighbors and scoring very low by international standards. In 2011, 92 percent of Grade 4 students in Morocco did not reach the TIMSS-PIRLS low international benchmark levels in all three subjects (reading, mathematics, and science), meaning that they have not acquired what is internationally considered to be basic knowledge in these subjects. Similarly, in all three subjects, less than 1 percent of students reached the high benchmark level.¹¹⁴ **For Grade 8 students, Morocco produced the second weakest scores after Oman, in mathematics, and the weakest score in science.**
- The results of the 2015 TIMSS survey show that Morocco made some progress in terms of student learning outcomes, but the country is still far below the international average. Between 2011 and 2015, the average score in mathematics increased from 334 to 377 points for 4th graders and from 371 to 384 points for 8th graders. Between 2011 and 2015, the average score in science also increased from 264 to 352 for 4th graders and from 376 to 393 for 8th graders. Despite these improvements, Moroccan students are still below the TIMSS reference average of 500 points. Out of 56 participating countries, Morocco ranks among the bottom three countries in both mathematics and science.
- The results of the large-scale national standardized assessment (PNEA) published in 2016 show that 10th grade students in upper secondary school have not acquired basic knowledge as intended in the primary and lower secondary school national curricula (CSEFRS 2016).¹¹⁵ Students score very low in the four common subjects, with an average score below 51 percent in all subjects. French is the subject where students perform the worst, with an average score between 19 percent and 42 percent according to the core curriculum. Few students are considered to be high performing in Arabic (9 percent in the sciences curriculum and 4 percent in the humanities curriculum). In mathematics, the vast majority of students are not able to use basic knowledge they supposedly acquired in primary and lower secondary school, which points to the temporary nature of their learning outcomes.

¹¹³ CSEFRS, 2014.

¹¹⁴ A high benchmark level (score 625 and above) means that students can use their understanding and knowledge in a wide variety of complex situations.

¹¹⁵ The average level of student achievements is expressed in percentage of intended learning outcomes that have been actually achieved. *Rapport analytique PNEA 2016*, CSEFRS, 2016.

Subject	Average level of student achievement per subject (PNEA 2016)			
	Original curriculum	Social Sciences & Humanities curriculum	Sciences curriculum	Technical curriculum
Physics & Chemistry	-	-	39 %	48 %
Life sciences	50 %	51 %	50 %	-
Mathematics	38 %	38 %	33 %	42 %
History & Geography	42 %	42 %	48 %	50 %
French	19 %	23 %	32 %	42 %
Arabic	38 %	39 %	46 %	51 %

Box 3.5 Poor public education service delivery

Poor education outcomes may be explained by deficiencies in the public education service delivery. The 2016 SDI survey conducted in Morocco on 4th grade students revealed some significant gaps in the quality of education service delivery along the public/private and rural/urban divides.¹¹⁶ These deficiencies are measurable through the whole chain of service delivery: resources, efforts, knowledge and qualifications, and support programs.

- **Resources:** The proportion of students having a school textbook is 98 percent in private schools, 86 percent in public schools, 94 percent in urban areas and 84 percent in rural areas. There is a particular issue regarding the availability of textbooks in mathematics since one fifth of 4th grade students in public schools do not have any, with this proportion falling to one third in satellite schools. In one third of public schools, more than 10 percent of students do not have the minimum learning materials, namely a notebook and pencils. The minimum availability of infrastructure, defined as the existence of accessible and clean toilets and adequate lighting in the classroom, seems to be a major issue in the public sector, as those requirements are not met in 80 percent of satellite schools, 68 percent of rural schools and 58 percent of public schools.
- **Efforts:** The rate of teacher absenteeism in public schools (4.8 percent) is twice the rate in private schools (1.7 percent). The same proportion is noticed when observing the lack of teachers in the classroom (5.9 percent in public schools and 2.7 percent in private schools). The gap between urban and rural areas is also significant in both cases (the rate of teacher absenteeism is 3.6 percent in urban areas and 5.9 percent in rural areas). The highest absenteeism rates are found in central schools (9.7 percent) and community schools (4.9 percent). When citing reasons for such absences, school directors invoked illness (38 percent), maternity leave (9 percent), teacher training outside the school (7 percent) and other non-specific reasons (15 percent). Still, 27 percent of absences could not be explained. The daily effective time of instruction in public schools is 30 minutes below the official time provided by the national curricula, and 90 minutes below the effective time of instruction in private schools.
- **Teacher knowledge and qualifications:** teachers are considered to have the required minimum knowledge if they pass the evaluation test with a score of 80 percent. The survey shows that a great majority of teachers do not have the minimum skills and knowledge to teach Arabic and French. None of the teachers assessed passed the French test with a score equal to or higher than 80 percent; only 3.5 percent of public school teachers and 8.6 percent of private school teachers did so on the Arabic test. If test results in languages and mathematics are combined, the proportion of teachers meeting the minimum level of skills in French and mathematics is also extremely low (3.1 percent), the same applies to Arabic and mathematics (3.8 percent). Results in mathematics are considerably better with two thirds of teachers (67.2 percent for public school teachers and 70 percent for private school teachers) having a score equal to or higher than 80 percent in the mathematics test. Teachers in

¹¹⁶ Service Delivery Indicators survey in education, draft report 2016, not yet publicly released

private schools show slightly higher results in Arabic and mathematics tests than teachers in public schools. Critical factors in teacher performance seem to be the gender and the level of qualification: female teachers have significantly higher results than male teachers in French and Arabic tests. Most qualified teachers (graduate degrees and higher) get better results than less qualified teachers (end of secondary school baccalaureate or undergraduate degree).

- Support programs: students enrolled in the Tayssir program (CCT program targeting children in rural areas) get lower test results than other students, especially in French and mathematics. It means that Tayssir is not sufficient by itself to enable children from disadvantaged areas to catch up with students from advantaged areas in terms of learning outcomes. Lack of public transport programs also appears to be detrimental to students' performance. Students who walk to school achieve significantly lower scores in every subject than students benefiting from private or school transport.

While there is no conclusive difference of knowledge and qualification between public school and private school teachers, the survey revealed that students in private schools perform much better than those in public schools. Public school students obtain an average grade in Arabic, French and mathematics tests (64.4 percent, 41.6 percent and 53.6 percent) that is much lower than the results obtained by students in private schools (76.8 percent, 88.8 percent, 79 percent). This suggests that Moroccan public schools could improve their performance by working on other factors such as time on task, student support, school environment, etc.

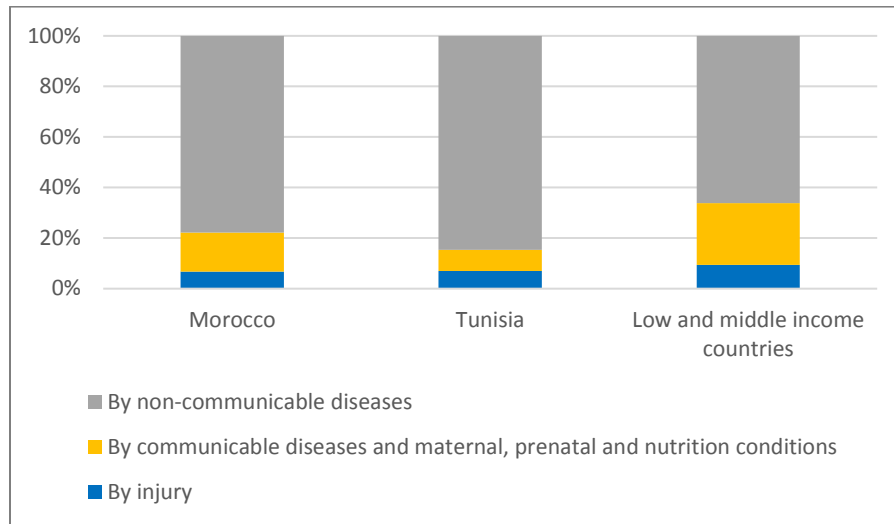
Source: SDI education survey, 2017 (forthcoming).

In addition, the poor performance of the Moroccan education reflected in the large number of students who are forced to repeat years. Estimates made for the CSEFRS 2014 analytical report show that only 34 percent of the children who entered school between 2000 and 2002 completed the full cycle of primary education in six years and only 4 percent of them passed the Baccalaureate examination after 12 years of study, the normal durations for those cycles. Despite some improvement during the past decade, repetition rates remain high: 10.5 percent in primary and 16.7 percent in secondary in 2012, on average. As a result of late entry into the school system and repetitions, about 39 percent of primary school, 56 percent of lower secondary and 62 percent of upper secondary students were one year or more behind. Converging evidence from international experience confirms that in addition to increasing the overall cost of education, repetition does not improve likelihood for better learning. Results from PNEA 2016 show that students who repeated at least one year at school have lower scores than students who did not.

3.3.2. Via healthcare

Morocco is in a socioeconomic, demographic and epidemiologic transition, facing a double burden of disease. As discussed earlier, Morocco's GDP per capita increased by more than 50 percent since 2000. During the same period, the urbanization rate increased from 55 percent to 60 percent, while the fertility rate remained relatively low (2.21 births per woman in 2014) and the population aged, e.g. the share of the population aged 0-14 is now 27 percent versus 31 percent in 2004. The combination of these transitions contributed to lifestyle changes and an increased share of non-communicable diseases, which now account for 75 percent of the causes of death. However, the share of communicable diseases and maternal, prenatal and nutrition conditions in the causes of death is still high compared to Tunisia, for instance, even though this share is below the average for the set of lower-middle-income countries as a whole (Figure 3.26).

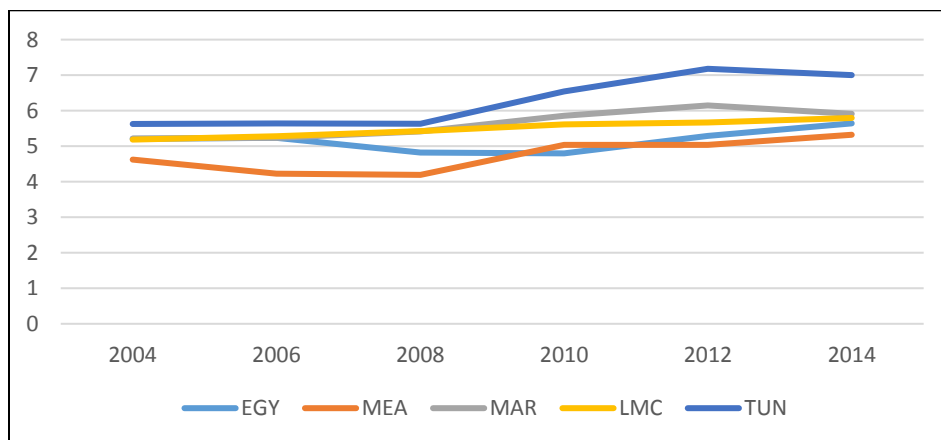
Figure 3.26 Causes of death (% of total) – International comparisons (2015)



Source: World Development Indicators

Morocco spends less on health care than comparable countries. Spending in health, in particular public spending, is lower than in comparator countries. Total expenditure on health as a percent of GDP has been steadily increasing in Morocco. It is above the average for lower-middle-income countries, but below the Tunisian percentage (Figure 3.27). However, public health expenditure as a share of total health expenditure is particularly low in Morocco and below comparators (Figure 3.28). According to the latest estimates, the general budget and non-subsidized social health insurance schemes represent respectively 57 percent and 43 percent of the public resources for health (National Health Accounts for 2010). Partly as a consequence of a low public health expenditures, out-of-pocket (OOP) payments for health care by households remain high, accounting for 62 percent in total health expenditures in 2010.¹¹⁷

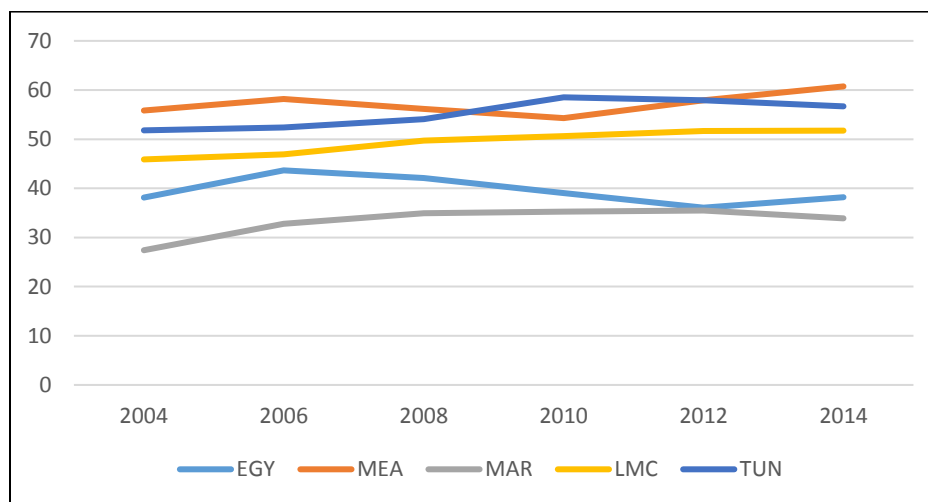
Figure 3.27 Health expenditure, total (% of GDP)



Source: World Development Indicators

¹¹⁷ Source: National Health account of 2010 (the most recent available).

Figure 3.28 Health expenditure, public (% of total health expenditure)



Source: World Development Indicators

Yet, health and economic development are intricately intertwined, with the causal relationship working both ways. Adolescent and youth health has particularly potent implications for growth, productivity and demographic dividend and inter-generational well-being.

An improvement in health and nutrition has multiple repercussions on households' revenues in view of its effects on cognitive capacities, education, fertility and labor market participation. Health policies reflect societal choices. There is generally a case for government intervention in healthcare because life and death are not ordinary "products," but also because of established shortcomings on the healthcare service market and the need to guarantee equitable care for all. Several axes of the Government's strategy would need particular support (Box 3.6).

Box 3.6 Alleviating constraints to affordable quality healthcare

In support of the Government's strategy, the reform's priority tracks could include:

- Extending medical coverage. Extending medical coverage (or pooled financing) is a key aspect of the reform of Morocco's health sector and could facilitate access by all to essential health services based on their needs, averting the catastrophic financial consequences of illness. This extension of medical coverage entails the adaptation of healthcare services in the context of a comprehensive and coherent vision aimed at extending and harmonizing coverage plans.
- Improving allocative efficiency. To provide universal health coverage, Morocco would need to scale up investments in health. Budgetary appropriations should increase relative to real needs. Specific investments in healthcare establishments and primary care establishments in particular are critical. To enhance the effectiveness of public health spending, the government should complete the reform of results-based programmatic budgeting. The prevention and early detection of noncommunicable diseases provide an indirect method of freeing up budgetary resources over the medium term. The extension of mobile healthcare services is another source of budgetary efficiency and improved healthcare service delivery, particularly for disadvantaged or isolated communities.
- Improving health system governance. Reforming the governance of the health system would aim to provide the necessary incentives to promote the efficiency and effective management of resources, and ensure greater access to health care and improved service quality. Three far-reaching reforms are key to putting patients' needs back at the center of the system. First, all players need to be made more accountable, which requires the introduction of an organizational reform of the Ministry of Health as part of the decentralization process underway (the Ministry needs to "steer rather than row"). There is an urgent need to enforce the rule of law and discipline in health establishments by making them accountable to the people and curbing absenteeism and corruption. Second, Morocco could re-motivate its health personnel with financial and intangible incentives (continuing training, career management and working environment). Last, the creation of an integrated, computerized, accessible health information and management system could generate many positive externalities (better management, rapid data transfers and more effective healthcare) and contribute to quality control.
- Expand provision of services to establish healthy habits among young and old alike. As with all middle-income countries, Morocco is undergoing the transition from diseases of poverty to those of relative affluence. The incidence of "non-communicable" or "lifestyle" diseases such as Type-II diabetes, heart disease, and stroke, are increasing significantly. These diseases are fundamentally the result of decisions about consumption and behavior, and those habits are established in adolescence. Expanding public sport and fitness opportunities is possible for both rural and especially urban citizens who are more vulnerable to poor nutrition and less physical activity.

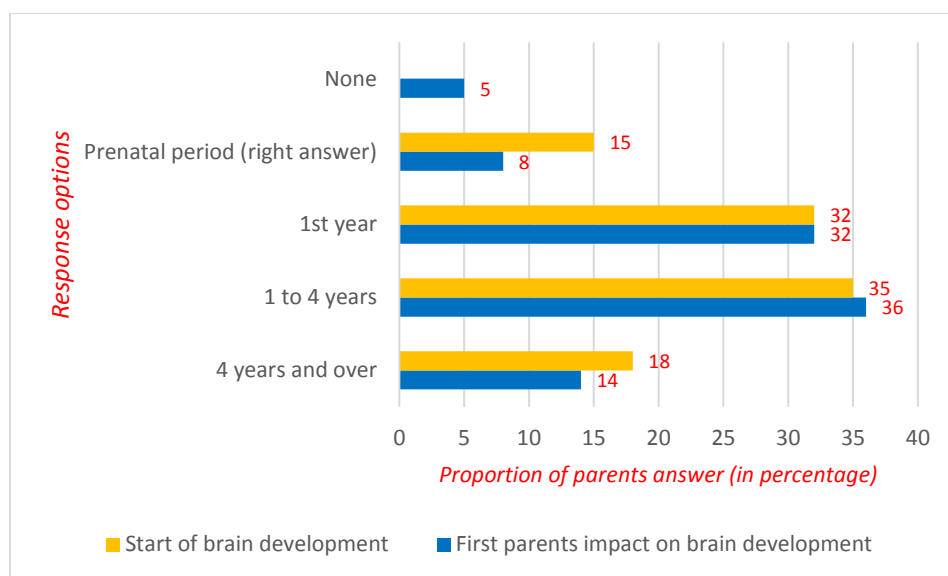
3.3.3. Via early childhood development

Not enough attention is paid to protecting and assisting with the development of young children in Morocco (El-Kogali and al. 2015 and 2016). As mentioned above, infant mortality remains higher and above average for the Middle East and North Africa region, owing to the lack of postnatal care and imperfect, uneven immunization coverage. Children under five years old in the poorest segment of the population are three times more likely to die following preventable wounds or childhood illness. Those born out of wedlock are sometimes subject to severe physical and mental damage as single mothers are often left to their own devices with no programs in place to assist them. Moreover, many young Moroccan children continue to suffer from malnutrition and micronutrient deficiencies and are consequently more vulnerable to cognitive deficits, serious health problems, and lower productivity and

lower earnings in adulthood.¹¹⁸ There also appears to be little parental stimulation and care, vital factors for the child's physical, social, emotional and cognitive development (Figure 3.29). In particular, fathers have little to do with their children's education (only 58 percent participate in at least one activity with their children). Violent discipline is endemic in Morocco, constituting a further obstacle to early childhood care and proper development.

Figure 3.29 Parent knowledge of early childhood development

At what stage does brain development start and do the parents have their first impact?



Source : Zellman, Karam et Perlman, 2014

Providing protection and development support during early childhood—a period during which many irreversible changes take place in the young child's development—would alleviate a long-term constraint to future investment returns in education and health. Investment in early childhood care and education is key to raising economic efficiency and productivity, protecting children's rights and reducing the social determinism, exclusion and inequalities that originate in this period of life. Whether from the point of view of human rights, equal opportunities or economic efficiency that encourages female labor force participation, ensuring that all Moroccan children can receive better protection and better care during their early years is of critical importance. This calls for work in the areas of public information, coordination of government programs, improved investment quality and more responsible parenting.

3.4. More inclusive social capital

Whereas institutional capital is based on the relationship between individuals and the state, and human capital mainly lies within individuals themselves, social capital refers to the capital derived from the relationship between individuals in society (Putnam 1993; Fukuyama 1995). It concerns mainly the place of fundamental individual freedoms and the attendant rules and responsibilities impact

¹¹⁸ According to the latest UN report on World Food Security and Nutrition, Morocco has reduced the prevalence of undernourishment during the last decade, but 3.5 percent of Moroccans, or 1.2 million people, still suffer from the phenomenon, including many children. The Kingdom, however, has the lowest prevalence rate of undernourishment in North Africa. Worldwide, it is estimated at 10.7 percent.

social relations to allow everyone to develop critical and self-critical skills, freely question dogma, immutable truths and other commonly held assumptions, and more easily imagine and creatively invent the future. Although social capital is the most intangible of all the intangible assets, it conditions the effectiveness of all the other forms of investment (physical, institutional, and human) and therefore the wealth creation process itself (World Bank 2018). A country's social capital could explain, among other things, the relationship among men and women, and more generally, the interpersonal relation in society, including trust and civism.

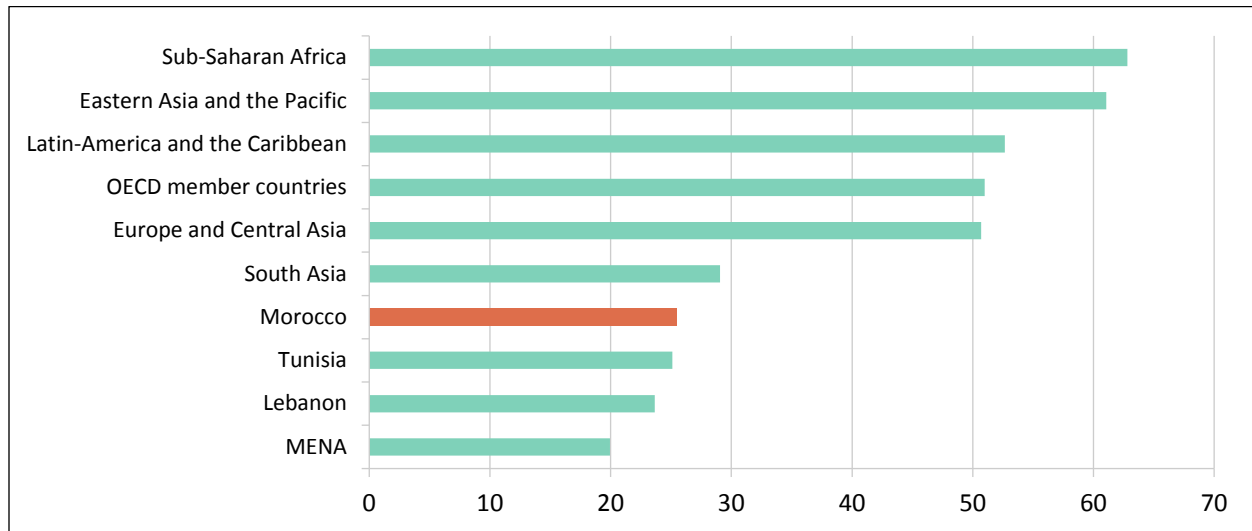
3.4.1. For women: the agency factor

The relationship between men and women and the status of women within society are among the most visible and important manifestations of a nation's social capital. The gender dimension pertains to the social architecture that accords cultural meaning to sexual identity, thus tending to determine the entire gamut of choices and possibilities available to men and women, respectively. The consequences of the lack of opportunities and freedom of action preventing girls and women from realizing their potential are huge, not just for the women and girls themselves, but for their families and society. Gender discrimination hampers the development and building of social capital: it undermines trust between the sexes, distorts relationships within the family, limits social networks and weakens social capital and society's ability to work toward common goals (World Bank 2012). The world over, equal participation and autonomy for women have traditionally come up against obstacles associated more with the societies' sociocultural characteristics than economic reasons. Gender equality may be important in itself, but it is also advantageous from an economic standpoint. Greater gender equality can increase productivity, improve development outcomes for future generations and make institutions more representative, all goals that are key to Morocco's future sustainable inclusive growth.¹¹⁹

With less than one quarter of working age women active (in the labor market), Morocco is among the world's lowest 20 percent of countries for female labor market participation (Figure 3.30). Despite progress made, especially with the adoption of a new family code in 2004 and the new constitution in 2011 (article 19), Moroccan women are still victims of many inequalities today (World Bank 2015). The first concerns employment. Although substantial reforms of the legal framework have been adopted to secure and guarantee gender equality, Moroccan women continue to face major discrimination. Not only do women do the vast majority of household tasks, but once employed, women are also the most exposed on average to job insecurity, informal work and lower pay. Moreover, they tend to leave their jobs when they marry, under pressure from social norms and also because jobs don't offer opportunities for flexible work. The influence of patriarchal society on female employment is evident from the fact that only one-third of Moroccan women ages 15 to 49 years make decisions about their employment on their own. Most of the time, the men decide.

¹¹⁹ The Ministry of Economy and Finance, in partnership with the OCP Policy Center, emphasized the positive impact on growth of gender-sensitive measures aimed at improving women's participation in the job market (0.2 percentage points to 1.9 percentage points).

Figure 3.30 Rate of Participation by Women in the Labor Force



Source: World Bank WDI.

Substantial legal gender discrimination also persists (World Bank 2015). For example, women have fewer rights to economic assets (inheritance) and social security benefits and marital property. Divorced women struggle to assert their alimony rights, and single mothers and their children are highly marginalized and are subject to discrimination. No legislation fully and satisfactorily addresses marital and domestic violence even though 60 percent of Moroccan women are victims of domestic violence, totaling just over 6 million women (HCP 2010). The number of marriages involving underage girls is high and rising. Last, even when the law makes real progress for women, it is unequally applied and the public services that are supposed to help women gain access to justice also remain under the influence of social norms.

3.4.2. For all citizens: the trust factor

It has been established that a lack of interpersonal trust and sense of civic duty throughout society exacts a high economic cost. In the absence of adequate interpersonal trust, cooperation and social cohesion, “honest and respectful” behavior tends to be confined to small circles of related people. Yet, the more a society practices ostracism, the less it will be able to promote economic opportunities in the long run. When individuals lack trust in others and do not respect the rule of law, the provision of public goods and services tends to be inadequate and subject to nepotism and corruption. Conversely, in open societies where social relations are governed by interpersonal trust and general rules of good conduct, the climate is more conducive to business, innovation, initiative and individual engagement for the common good (Tirole 2016).

Many studies have shown that the quantity and quality of social capital tie in closely with a country’s sustainable economic growth, given that this is what enables the country to tap into the full potential of its other forms of physical, human and institutional capital.

Interpersonal trust in Moroccan society is low and below average for lower-middle-income countries. Moreover, World Value Surveys conducted over the past 15 years indicate that the level of trust in the society appears to have declined over time in a downturn typically ascribed to an unraveling of respect

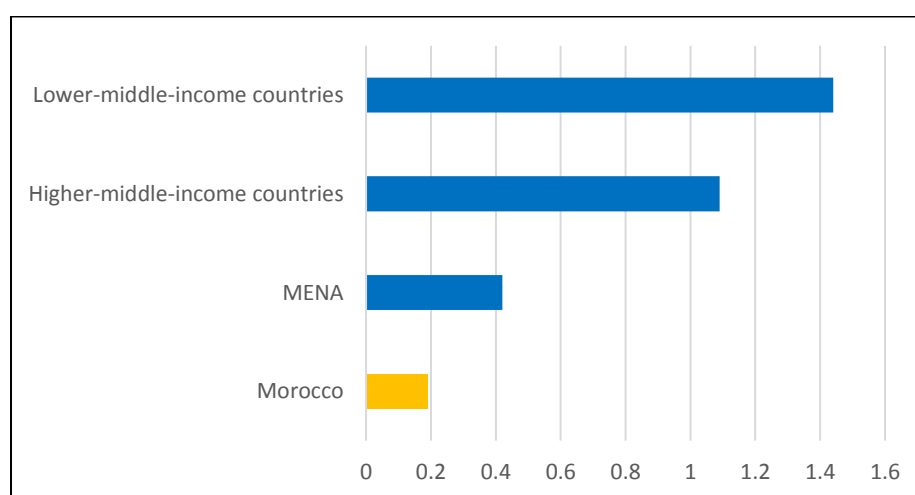
for the rule of law, sense of civic duty and solidity of social bonds. More than elsewhere, social bonds in Morocco are confined to closed circles (friends, family, and neighbors) at the expense of more open, detached groups within which contacts could be made (Box 3.7). Moroccan society also has a low level of civic engagement compared with both the level worldwide and other developing countries (Figure 3.31). Weak citizen participation also translates into a significant lack of a sense of civic duty and respect for the rules of life in society such as respect for others, respect for nature and respect for public goods. This lack of a sense of civic duty is especially evident and measurable on Moroccan roads where violations of the traffic laws contribute to more than 200 fatal accidents for every 100,000 vehicles on the road each year, compared with, for example, fewer than eight accidents per 100,000 vehicles in Western Europe. (WHO 2015). Traffic fatalities are a leading cause of death among the Kingdom's youth.

Box 3.7 Explanation of interpersonal trust in Morocco

In Morocco, social connections are disproportionately formed within circles of women, beginning with the family and extending to friends and neighbors, at the expense of more open relationships externally, such as with strangers or people who belong to a different identity group.

Although a low level of trust between external groups is a common phenomenon in the majority of countries, regardless of income level, Morocco's situation is unique. The level of trust with respect to people of another religion or nationality, or with whom there has been no prior contact, is lower in Morocco than in other developing countries (see World Values Surveys (2010-14)). These findings indicate that more than ever, in Morocco, social connections are firmly anchored in closed relationships—the family, and to a lesser degree, friends and neighbors—and that networks that transcend traditional social categories to form new connections remain limited, or even nonexistent (Figure 3.31 below). It appears that there is a greater spirit of cooperation and a higher level of interaction in societies where lifestyle is less centered around the family (Heinrich et al. 2001).

Figure 3.31 Rate of Voluntary Membership of an Association

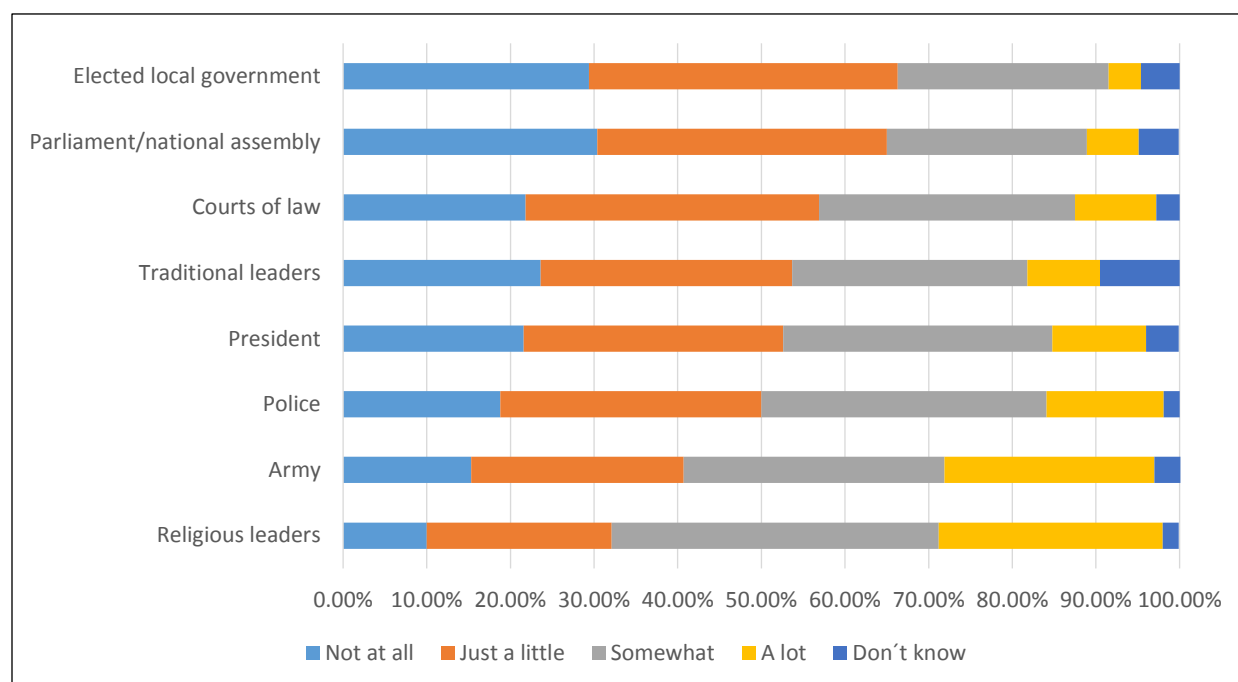


Source: World Value Survey (2010-2014)

The lack of interpersonal trust and civic engagement also explain the low trust in public institutions. In terms of perceptions of trust in Morocco, elected local governments are the least trusted institutions (with over 65 percent of respondents stating they have no or little trust), followed closely by parliament,

courts of law, and the Head of Government. Religious leaders, on the other hand, are among the most trusted (with over 65 percent of respondents stating they have some or a lot of trust) (Figure 3.32).

Figure 3.32 “How much do you trust each of the following institutions?”



Source: Afrobarometer

By investing more in social capital, especially in youth, Morocco could hope to reap significant tangible economic gains. Yet, a country has a small range of means available to build its social capital as it is impossible to mandate the general level of trust among people or the way people live, relate to one another and work together. Social capital is a byproduct of perpetual or inherited structural factors that are hard to change (geography, history, culture, and mindsets). Nevertheless, studies have turned up the possibility of raising the level of social capital by triggering certain drivers and incentives associated with respect for rules, voluntary engagement, and the evolution of customs and attitudes (Box 3.8).

Box 3.8 Alleviating constraints to interpersonal trust

The literature and experience usually point to the following factors to enhance interpersonal trust:

- Promote greater respect for the rule of law, civic responsibility and exemplary behavior. Morocco could take direct measures to strengthen social capital by ensuring greater compliance with the rule of law at all levels of society and by promoting exemplary conduct in all spheres of power by imposing tougher sanctions on behavior that is socially deviant, illegal or uncivil. Restoring the values of probity, honesty, justice and openness in society could lead to increased economic growth through the development of a culture of trust and by allowing all citizens to realize their potential in an equitable, stable, predictable and transparent environment.
- Encourage and create opportunities for voluntary engagement. By implementing appropriate public policies, Morocco could also promote all forms of civic and citizen engagement, especially in associations, and refrain from taking measures liable to hinder voluntary engagement in civil society, whether at the level of social networks, civil society (associations) or the media. Service learning and volunteerism can also offer young people a chance to gain critical social, leadership and teamwork skills that can serve them in job seeking, economic as well as citizen engagement.

- Support a change in attitudes. Morocco could initiate awareness campaigns to promote new ways of thinking in relation to the values of cooperation, freedom and mutual respect, citizenship and civic duty. These values should be introduced into school curricula as a matter of priority. Indeed, it is on the basis of their experiences in the school system and later in university that men and women learn how to set up associations, work in teams, and strive toward collective goals. Recent studies have demonstrated that in countries where school curricula tended toward a more collaborative approach, community life and the attendant values of civic association and engagement have gained in importance (Algan, Cahuc and Shleifer 2013).

Chapter 4

Priority pathways to sustained inclusive development

Given the vulnerabilities of Morocco's economic and social achievements and the numerous factors constraining rapid progress toward convergence, a new wave of reform is needed to overcome the challenges faced by the Moroccan society. As recently highlighted by His Majesty the King, "as far as our development model is concerned, I should like to see an integrated vision that gives it fresh momentum, that helps overcome the hurdles impeding its adjustment and that addresses the weaknesses and shortcomings revealed by past practices."¹²⁰ Indeed, although the government has a clearly defined development vision, this vision lacks intersectoral coherence, which hampers its implementation. As a result, the country is not as efficient, equitable, and resilient as it could be. This has been recognized by the highest authorities in several recent statements (Box 4.1).

Box 4.1 The official calls for a new reform momentum

In a series of recent speeches, His Majesty the King has emphasized that Morocco's economic and social achievements have been short of the country's ambitions and that, in many sectors, this is mostly due to the inadequacy of joint action, the lack of a national, strategic vision, inconsistency instead of harmony and reciprocation, disparagement and procrastination instead of entrepreneurship and concrete actions. These shortcomings echo many of the factors constraining Morocco's development discussed in the recent CEM and this SCD. They could be regrouped into four key areas: efficiency, inclusion, innovation, and sustainability. In His Majesty the King's words:

- **Efficiency.** "All in all, our development policy choices remain sound. The problem lies with mentalities that have not evolved as well as with the inability to implement projects and to innovate." "One of the problems which impede Morocco's progress is the weakness of the civil service, be it in terms of governance, efficiency or the quality of the services provided to citizens." "Many civil servants do not have the skills, qualifications or ambition required; moreover, they are not always guided by a sense of responsibility." "Although they focus their attention on young people, social and sector-specific public policies have only a limited impact on the situation of young Moroccans because of a lack of efficiency and coordination, and because programs are not suited to all youth groups."
- **Equity.** "The challenge is even more daunting in regions with the biggest shortage of health, education and cultural services, not to mention the lack of jobs. Greater cooperative efforts are required to close gaps and help these regions catch up with the others." "I call for the development of a new integrated youth policy—similar to the National Initiative for Human Development—that would be based primarily on training and employment. It should be effective in terms of finding realistic solutions to the actual problems plaguing our youths, especially in rural areas and poor suburban neighborhoods."
- **Education.** "The education and training system does not fulfil its role in terms of training young people and ensuring their integration into society." "The proper training of young Moroccans and their active and constructive involvement in public life are among the most important challenges that ought to be

¹²⁰ "What I am seeking to achieve today, in all regions of the Kingdom, is a new *massîra*, or march - a march for the achievement of human and social development; a march for equality and social justice for all Moroccans, because such a major endeavor cannot be carried out in one region and not in the others. One may come up with the most efficient development model and the best plans and strategies, but without a change in mentality; without having the best civil servants; without the political parties choosing the best elites that are qualified to run public affairs; without a sense of responsibility and national commitment; one would not be able to offer all Moroccans the free, dignified life one wants them to have" His Majesty the King's Speech on the occasion of the 18th anniversary of His ascension to the Throne, July 2017.

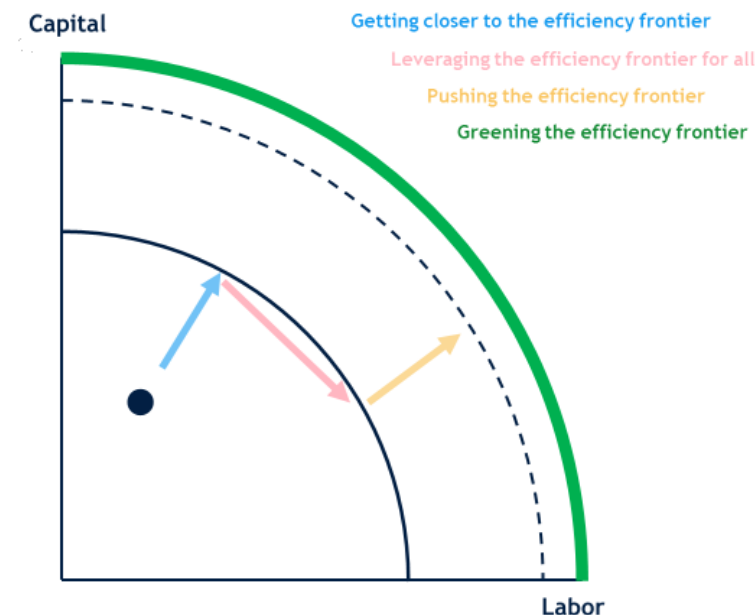
met. I have emphasized, many a time, that young people are our real asset. They need to be seen as the engine of growth, and not an obstacle to it.”

- **Endurance.** “Climate change on a global scale is significantly hampering Africa's development and poses a serious threat to the basic rights of tens of millions of Africans. There are already 10 million climate refugees in Africa. By 2020, nearly 60 million people will be displaced because of water scarcity if no measures are taken in this regard. Water-borne diseases, which kill thousands of people each year, would be eradicated if wastewater treatment plants were created. Finally, the degradation of land and of natural resources could continue to be the main driver of most transnational conflicts in Africa.”

Sources: Excerpts from His Majesty the King’s speeches on the occasion of the Throne Celebration (July 2017), Parliament Opening (October 2017), and Opening of the Africa Action Summit on the sidelines of the COP22 (November 2016).

Scaling up Morocco’s convergence process in an inclusive and sustainable manner would require implementation of the selected reform program, which represents a break from the past and would have to be implemented simultaneously, even if the full effects of some reforms will only be felt in the long run. To make Morocco more efficient, inclusive, innovative and sustainable, the reform pathways proposed in the SCD will aim to (1) get Morocco closer to its efficiency frontier; (2) leverage the efficiency frontier for all Moroccans; (3) push the efficiency frontier over time; and (4) green the efficiency frontier. Yet, only deeper change to Morocco’s system of governance would make these pathways possible (Figure 4.1).

Figure 4.1 Reform pathways



Morocco’s efficiency frontier is defined similarly to the way that potential output is commonly understood in the literature. Thus, the efficiency frontier represents the maximum amount of output that Morocco can reach given its current utilization of labor, capital and total factor productivity (including human and social capital, institutions, technology, and factor allocation). First, reaching the

frontier (Morocco's potential) would imply increasing labor participation and capital utilization up to their "natural" levels. Pertinent policies to reach this potential include reducing labor and capital market rigidities and improving management and governance of existing resources. Second, to make this increase in output work for all, the increase in factor utilization should also take place for women and youth (in the case of labor participation) as well as in lagging regions. Third, pushing the efficiency frontier requires new investment in physical and intangible capital (institutional, human and social) to increase Morocco's TFP gains. For instance, the increase in labor participation beyond normal levels would need, among others, policies to improve the matching of supply and demand in the labor market through worker skills, including entry level better adapted to labor needs. Increasing TFP would involve a large range of policies over several years, including structural reforms in different fronts (competition, openness, public efficiency), education reform and development of human capital, strengthening of institutions and social capital, better technology absorption, sustainable entrepreneurial and productive self-employment support and progressive structural change. Finally, the movements toward and beyond the frontier should consider the impact of growth on Morocco's natural environment and the climate change impact on growth.

One important objective of the SCD is to identify the priority pathways that will have a significant and sustainable impact on the twin goals. Although Morocco faces significant challenges and constraints to speed up poverty reduction and shared prosperity, a prioritization objective is important to identify the most binding constraints that constitute critical bottlenecks, and then to better guide public interventions. This section presents a description of the process that led to the final list of prioritized constraints.

From the long list of factors constraining Morocco's fastest inclusive and sustainable development discussed in the above section 3, a sub-list of key binding constraints has been identified using a set of "prioritization filters."

To be sure, quantifying the marginal impact on the twin goals of reducing any given constraint is a highly challenging exercise. World Bank experts from different sectors with experiences working in different countries participated in this exercise. This process benefited from consultations with government authorities from different ministries, think tanks (e.g. the OCP Policy Center), civil society, and other international organizations throughout the entire one-year process, including the consultations conducted with six thematic groups covering all areas discussed in the SCD.¹²¹ The selection of key binding constraints was based on the following five criteria, with governance constituting a cross-cutting priority necessary for any reform to succeed (Figure 4.1).

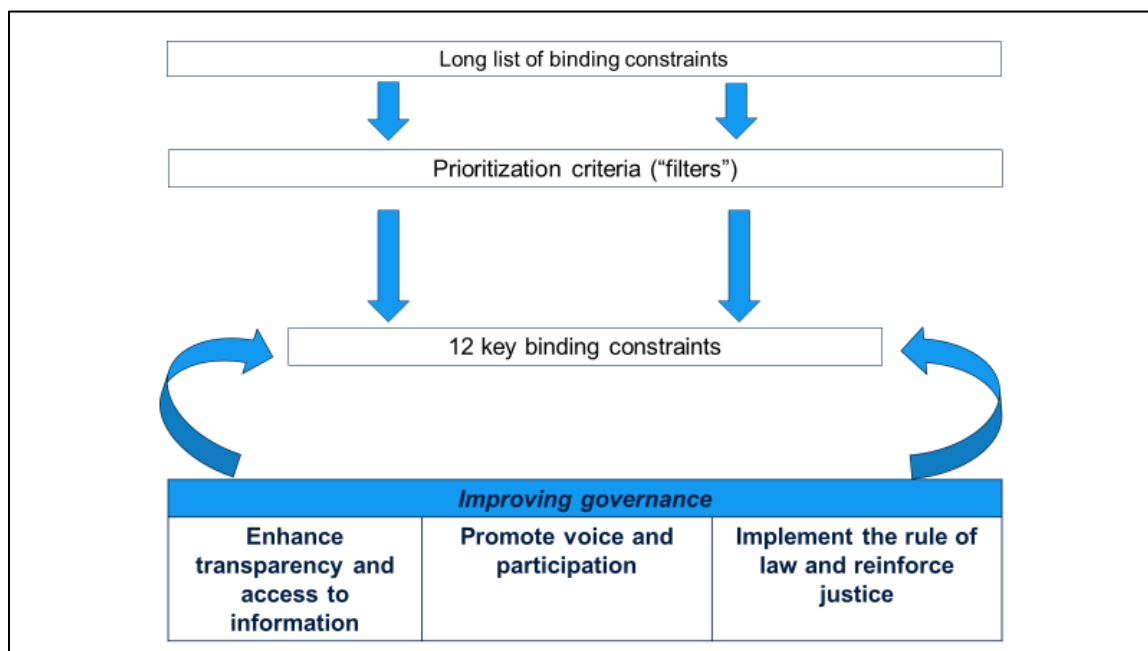
- **Prerequisites:** Conditions in terms of political economy, human and/or financial institutional capacity before implementing any reforms. In the case of Morocco, promoting gender equality and improving access to information and accountability do not pose major challenges in terms of human and institutional capacity or financial constraints. Moreover, political conditions currently favor addressing these constraints. Initial situation: It is assumed that removing constraints in sectors/areas that have low initial conditions will have a stronger impact than in the case where conditions are more favorable. This assumption follows the theoretical implications of the law of diminishing returns. For example, improving the quality of education in Morocco (where quality is

¹²¹ In July 2017, a series of thematic group meetings with representatives from ministerial departments, the central bank (BAM), the high-planning commission (HCP), and the private sector (CGEM) were held on the following themes: (1) macroeconomic management; (2) poverty reduction and shared prosperity; (3) private sector development; (4) human development; (5) sustainable development; and (6) governance.

low) would have a greater impact on the twin goals than improving the quality of education in countries with a higher quality of education.

- **Causal linkages:** In the development process a two-way causality between growth and growth determinants (institutions, human capital, safety nets, etc.) is commonplace. The challenge is therefore to identify the strongest causal link, which also often depends on the country's state of development. Health and education outcomes have an impact on economic growth; however, stronger growth helps improve health and education outcomes. In Morocco, the resources allocated to the education sector seem to be sufficient. This is not necessarily the case for the health sector. Consequently, we find that for education, the causality goes from education to economic growth and for health, the causality goes in the opposite direction, economic growth to health.
- **Spillover effects:** The removal of constraints in one sector/area that have significant indirect effects on the twin goals through its impact on other sectors/areas will be prioritized. Increasing efficiency in the public sector would have considerable spillover effects on the majority of social and economic outcomes.
- **Strong overall direct impact on twin goals:** This criterion assesses the size of the potential direct impact on the twin goals of the removal of a given constraint compared to the direct impact on poverty and shared prosperity of addressing another constraint. For example, although improving competition and the tax administration both have a direct impact on the twin goals, the economic literature suggests that the first (improving competition) will have a greater impact.

Figure 4.2 From the long list to the short list of key binding constraints



The selection process was carried out as follows: From a list of 30 constraints identified when discussing each of the areas covered by the SCD above, a list of 14 binding constraints (BC) was selected. This initial list was presented and discussed with country experts focalized in cross cutting issues in Morocco (e.g.

macroeconomists from the World Bank and the International Monetary Fund) and with several senior government officials in different meetings especially in the final consultation meeting with representatives of the main ministries and the private sector held on July 24, 2017. Given the demographics, it is further recognized that the response to each of these critical areas and binding constraints must be youth-informed and implemented with a prioritization of impact on and outcomes for young people. The final consultation broadly validated the list of priorities presented in Table 4.1 below. The key areas, which focus on improving the effectiveness of public policies, namely, increasing human capital and improving governance, are pillars of the Government's current program.

Table 4.1 Critical areas and key binding constraints to reach the twin goals

	Critical areas	Key binding constraints
Reaching the efficiency frontier	Improving market allocation of resources across enterprises and sectors	Competition and innovation
		Economic environment and access to credit
	Improving the efficiency of public policies, including with a view to crowding in the private sector	Public policy formulation and coordination in a decentralization context
		Access to quality public services
Leveraging the efficiency frontier for all	Enabling all citizens to benefit directly and/or indirectly from growth	Labor market regulation
		Targeted social protection
		Gender equity
Pushing the efficiency frontier	Increasing human capital	Early childhood development
		Quality of primary, secondary and tertiary education
	Capitalize on urban agglomeration potential	Urban and territorial development
Greening the efficiency frontier	Transforming the scarcity of resources and climatic vulnerabilities into opportunities	Integrated water management and climate change adaptation
Cross-cutting area	Improving governance	Access to information and accountability
		Voice and participation
		Rule of law and justice

4.1. Pathway 1: Getting closer to the efficiency frontier

Morocco could act in two priority areas to get closer to its efficiency frontier: improving its market allocation of resources across enterprises and sectors and improving the efficiency of public policies, including with a view to crowding in the private sector. The former will entail unlocking Morocco's competitive and innovative drive (BC#1) and improving further the business environment (BC#2).

The latter would involve better public policy formulation and coordination, including in the context of "advanced regionalization" (BC#3) and better access to quality public services (BC#4).

4.1.1. Through competition and innovation

Morocco's institutions should get better at fostering a more market-driven allocation of resources; this will help channel more resources to the knowledge economy. Enforcing competition rules encourages businesses to innovate and adopt new technologies, reducing costs and improving the quality of their outputs. Competition is key to the knowledge economy, which is a growing source of wealth creation in all countries (World Bank 2016). Despite recent gains, Morocco's access to internet remains low relative to peers and this is mainly due to a strong and persistent lack of competition as Morocco still maintains barriers to entry for different type of internet players.¹²² Morocco could act in the following three priority areas to unlock competitive and innovative drive and get closer to its efficiency frontier:

- **Strengthening fair competition.** The changes brought by the new 2011 Constitution and the many laws passed since to increase market competition must become reality. In the main, steps should be taken to make the regulatory authorities autonomous. In particular, the Conseil de la Concurrence remains to be activated. The role of the public players with commercial purpose needs to be reviewed to make sure they comply with competition rules and do not displace private sector. Limiting state prominence and interventionism in certain activities would also help transition toward more competitive allocations of capital and labor. Besides, action should be taken to reduce visible rents (for example, derogatory land use approvals, transport licenses, and administrative authorizations) invisible rent mechanisms (regulatory loopholes, unequal access to information) and indirect barriers to competition (arrears of payment, payment delays). Access to urban and industrial property should be improved by transparent and facilitating regulations. The authorities should put an end to discretionary practices and ensure that the laws and regulations apply equally to all businesses, especially to new entrants. In the telecom sector, the authorities should also need to update the legal and regulatory framework of the telecom market to introduce attract new players on the telecommunications market (international gateways, backbones, backhauls and access networks).
- **Scaling up the promotion of innovation.** An innovation is the implementation of a new or significantly improved product (good or service), or process, marketing method, organization of business practices, or workplace organization.¹²³ The knowledge economy encompasses the nation's capacity to adapt existing expertise, concepts and ideas. Most of the time, the knowledge economy favors the emergence of clusters of excellence. The resulting momentum to innovate

¹²² Access to high-speed Internet is generally associated with superior knowledge, innovation, trade and jobs outcomes.

¹²³ There are four main sub-types of innovations: product innovation (to the enterprise, to the market, to the international market), process innovation, marketing innovation and organizational innovation (Oslo Manual, Paragraph 146).

pushes the structural transformation and sophistication of the economy. This could come about by gradually shifting public incentives (such as access to land and finance) away from supporting the accumulation of physical capital. Morocco should expand incentives that support intangible assets, and reserve incentives for land and finance only where there is a strong access constraint. Innovation promotion policy at enterprise level could also include technology extension policies to diffuse new ideas and build capacity to promote their adoption. According to research, this would particularly work through new enterprises that are a natural conduit for introducing high productivity ideas, provided progress is made on using intangible assets as collateral for bank loans.

Encouraging a cultural change in support of fair competition and innovation. Moroccan youth aspire to better opportunities and spaces for innovation, but these aspirations are still held back by barriers (legal and financial) and by the uncoordinated and scattered opportunities provided by public programs and policies. Social norms and mentalities also play an important role. A 2015 survey of high school students found that only 13.4 percent of future high school graduates wanted to enter the private sector, while 60 percent aspired to join the civil service (Ministry of education and HEM business school 2015). The same survey found that only 37 percent of high school students felt they might be interested in starting up a business, whereas over 44 percent had no opinion on the matter. A culture of fair competition and innovation could be promoted in schools and supported by appropriate policy instruments, starting with a business-friendly administration that encourages innovation and risk taking. The institutional players involved in designing and implementing public policies need to gain more credibility, which implies introducing new governance for the private sector, a reform essential to improve the country's economic performance, especially in innovation.

4.1.2. Through favorable business conditions and improved access to finance

Businesses face formal and informal hindrances to their operations and investments, both domestic and foreign (see section 4 above). Morocco has made significant progress in overhauling its regulations and procedures to improve the business environment. The Government aims to accelerate the movement and this could be done in two ways:

- **Ensuring that existing regulations are enforced.** The gap between *de jure* and *de facto* business procedures calls for serious actions by the concerned administrations. In particular, the role of public entities overseeing the business environment (e.g., CNEA) could be extended to ensure that regulatory reforms are effectively implemented and that the discretionary behavior of public servants is limited to extent possible. Effective implementation also requires coordination, information, monitoring and evaluation, in addition to capacity building especially at the local level.
- **Further improving the business environment through more business-friendly, especially SME friendly, regulation.** Morocco aims to be one of the top 50 Doing Business performers by 2021. The *Centre National de l'Environnement des Affaires* continually aims to improve access to finance (draft law on personal property security), registration of property, protection of minority investors and contract enforcement, regulation and procedures to resolve insolvencies, and reduce the burden of taxes, fees and social security contributions, especially for SMEs. The law on customer-supplier payment times needs to be enforced, especially for SMEs, starting with payment arrears to SMEs by the Government and public enterprises.¹²⁴ Enhancing SME's access to equity financing

¹²⁴ In January 2018, the treasury announced arrangements with the banks to settle MAD 10 billion in VAT arrears to private enterprises.

and new markets will also boost Morocco's competitiveness. This will contribute to the creation of more and better jobs, help formalize businesses, and spur innovation.

4.1.3. Through improved public policy formulation and coordination

Public policy formulation would benefit from a more comprehensive approach. Morocco should have a long-term development vision, rather than a series of parallel centralized "top-down" sectoral strategies in most areas of government intervention. These strategies are designed to share diagnoses, define guidelines, and set goals but with insufficient consideration being given, upstream, to their consistency and, downstream, to the local economic specificities and needs of the populations. Furthermore, information on these strategies is often shared piecemeal, with the published documents generally restricted to describing often-ambitious and quantified goals without sufficient analysis to justify the decision making and choices made. In the absence of information, public, academic, or parliamentary debate on the merits of a particular sectoral plan prior to its adoption remains incomplete. Yet, in an increasingly complex and uncertain world, public debate is critical for the collection of information, correction of possible biases, and, ultimately, enhancement of the quality of public policies. To improve the efficiency of public policies, the following two key avenues could be followed:

- **Developing a comprehensive development "vision" and ensuring more effective inclusion of local public and private stakeholders in policy formulation.** Morocco would benefit from adopting a comprehensive development vision that would reflect the competing ideas among political parties and the will of the majority of the population. As is, the effectiveness of the sectoral strategies and policies risks further erosion, especially in the new decentralization context (*régionalisation avancée*). The implementation of the new institutional framework poses several governance challenges that need to be addressed in the short term, whether for the identification, financing, implementation or management of development strategies and projects. The process entails the revision of the role and governance of establishments and public enterprises exercising key roles in local and regional development. These include regional development agencies, local public enterprises, and key public finance players (e.g., CDG and Hassan II Fund), which need to improve their governance and transparency to ensure greater involvement of local stakeholders.¹²⁵
- Although the most active local stakeholders are often decentralized representatives of ministries and central agencies, they are still too few and are constrained by statutes and financial management rules that limit their operational effectiveness. The regionalization process therefore offers an opportunity to revisit the formulation of the national sectoral strategies to better anchor them in a local development process that considers the specific advantages and needs of the territories.
- **Improving the coordination of sectoral strategies and policies.** The strategic management and coordination of the programs and activities of line ministries pose a complex implementation challenge, in particular in view of the proliferation of sectoral policies and public and private stakeholders. The success of the public initiatives will in fact hinge in large measure on the

¹²⁵ Implementation of the public enterprises and establishments' (EEP) code of good practices on governance, officially launched by circular from the Head of Government in 2012, facilitated progress on increasing the frequency of meetings of the deliberating bodies, establishment of specialized committees stemming from these bodies, as well as the adoption of governance documents (ethics charters, rules of procedure, etc.) and assessment tools (launch of self-assessments and external evaluations). Efforts are under way to update the code to adapt it to the new provisions relating to governance provided for in the draft law on the governance and financial control mechanism and the integration of innovations.

government's capacity to lay out, coordinate, monitor and evaluate public policies at various levels: the government, central administrations, local administrations, autonomous agencies, private sector operators, and active civil society representatives. Existing inter-ministerial committees to monitor and coordinate various sectoral strategies have had mixed results so far (depending in part on the influence of their leadership) and stronger mechanisms than can force players to coordinate their actions need to be introduced, as recommended by the CESE. Yet, without the formulation of an overarching development vision, which is currently missing or at least not being spelt out and shared, the question remains as to the possibility of effectively aligning strategies and coordinating them better.

4.1.4. Through access to quality public services

Improving access to quality public services will require an administration that is efficient, close to the users, and accountable to them, as well as the implementation of cohesive action from provincial actors responsible for programming, financing, and performance and management of public services.

As the Government's program suggests, there is a need to deepen and make actionable the ongoing reforms to modernize the public sector, both at the central and local levels. As noted earlier, the 2011 Constitutional reform created new institutional capacities and political incentives to enhance the effectiveness and accountability of the Moroccan state, and support better and more equitable service delivery. Government commitment to this ambitious constitutional reform agenda has been strong. Some key organic laws, particularly those addressing institutional and political reforms, have been adopted.¹²⁶ Progress has also been achieved in advancing citizen engagement through the adoption of the organic laws on regional and local authorities, public petitions and legislative motions. Despite its scope and complexity, this comprehensive governance reform agenda is beginning to receive greater buy in of all stakeholders at all levels of the Government in order to implement it under the best conditions.¹²⁷ In the same vein, and with a view to formalizing the participatory approach of advanced regionalization, the Ministry of the Interior is engaged in a broad collaborative process with its preferred partner, the *Association des Régions du Maroc* (ARM). This collaborative process led to the preparation by the two partners of an operational action plan aimed at addressing the different constraints and challenges hampering effective implementation of this formative approach, from which two major priorities emerged: ensure the success of the decentralization process and effectively modernize the administration (at both the central and local levels).

¹²⁶ List of key organic laws adopted:

- Organic law on political parties (article 7)
- Organic law regulating citizens' right to submit legislative proposals (article 14)
- Organic law regulating citizens' right to submit petitions to local authorities (article 15)
- Organic law on the Defense Council [*Conseil de Régence*] (article 44)
- Organic budget law (article 75)
- Organic law regulating the status of magistrates (article 112)
- Organic law on the Supreme Council of the Judiciary [*Conseil supérieur du pouvoir judiciaire*] (article 116)
- Organic law on the Constitutional Court (article 131)
- Organic law on regionalization (article 146)
- Organic law on the Economic, Social and Environmental Council (article 153)

¹²⁷ In the same vein, and with a view to formalizing the participatory approach of advanced regionalization, the Ministry of the Interior is engaged in a broad collaborative process with its preferred partner, the *Association des Régions du Maroc* (ARM). This collaborative process led to the preparation by the two partners of an operational action plan aimed at addressing the different constraints and challenges hampering effective implementation of this formative approach.

The decentralization of responsibilities and resources to the country's regions according to the principle of subsidiarity is one of the key axes of governance reform enshrined in the 2011 Constitution.¹²⁸ This far-reaching reform creates opportunities to make more responsive and accountable institutions and better inform policy making at the center level. Key challenges are being addressed and need to be tackled in the years ahead to ensure the viability and impact of the “advanced regionalization”:

- **Implementing the principle of subsidiarity.** The regionalization reform provides an illustration of the gap between the adoption and implementation of reforms in Morocco. The relatively slow adoption of the organic law's implementing decrees has resulted in the continued absence of the administrative and executive structures required to make regionalization a reality. These delays in the transfer of responsibilities and resources to the regions stand in sharp contrast with the expectations generated by the 2015 regional elections: these elections have put in place regional presidents with political commitments and programs, but with low human and financial capacities.
- **Clarifying the respective responsibilities of different governance levels.** The distribution of responsibilities across the different governance levels remains to be clarified in practice: the responsibilities of the regions are quite vaguely defined, and many overlap with the competences of the central government and its deconcentrated services at the regional and provincial/prefectural levels. This blurriness is a potential source of coordination problems among, on the one hand, the central government and its deconcentrated services and, on the other hand, the decentralized, regional governments. It constrains the action of regions and leaves space for central or/and local government's arbitrary intervention.
- **Providing adequate decentralized human and financial resources.** Regions have inadequate levels of financial resources to carry on their mandate, and have little autonomy in the management of these resources. They remain dependent on the central government's financial transfers and have limited capacities to raise their own resources.

Meanwhile, despite modernization efforts, the General Civil Service Regulations remain inadequate to meet the requirements of efficiency and delivering quality public services. The civil service continues to operate on the notion of status and seniority promotion whereas the concepts of position and performance should be the operating principles of this service. The remuneration structure is rigid, incoherent and inequitable. It does not reward individual or collective performance. Disciplinary problems (absenteeism in particular) are not properly sanctioned, despite issuance by the Head of Government in 2012 of a circular to that effect and the introduction of a dedicated portal (Chikaya.ma). In addition, the cost of running the Moroccan civil service is high given its service quality. Civil service wages (including in the local administrations) are twice as high as in the private sector and represent 14 percent of GDP. As indicated in section 3.2.2, Morocco has a high wage bill compared to several competitor emerging countries. At the same time, however, different official evaluations emphasize the unsatisfactory quality of the public services and their poor image among the people (CESE 2013, Cour des Comptes 2016).

¹²⁸ The 2015 Organic Law No. 111-14 on regions specifies the new political, administrative and financial prerogatives of regions. It also strengthens its financial resources and responsibilities, including in the area of economic and rural development, and professional training and employment.

Provided the civil service modernizes, it could contribute directly to improving access to quality public services and raising the country's productivity. Although traditionally based on the principle of meritocracy, the Moroccan civil service (like others around the world) has tended to generate certain attitudes, such as aversion to risk and innovation and a sense of service sometimes transformed into a defense of entitlements, incompatible with its necessary adaptation to the changing role of government. Yet, the world over, the modernization of the administration calls for a change to the design of public services and the civil service, often in association with government decentralization. Public administration reforms generally aim at deconcentrating human resources management responsibilities, empowering administrators, increasing the flexibility of the recruitment and career development policies, encouraging individual and collective performance and, more generally, streamlining the administration (OECD 2011).

- **Deconcentrating power and resources.** Advanced regionalization has arrived at just the right time to correct the institutional and central, regional and local governance imperfections and to establish the authority, means and mechanisms to establish a better balance in the distribution of powers between the central government, the regions and the local authorities. For this to happen, Morocco must resolutely embark upon a systemic decentralization and deconcentration process by organizing a genuine transfer of decision-making powers and the corresponding resources and means to the appropriate local and regional levels. The process will need to be particularly careful and diligent to avoid deconcentration resulting in the multiplication of deconcentrated departments, a pure and simple duplication of central government organization charts, or the development of a regional bureaucracy without any real decision-making authority or adequate means for action.
- **Reforming the civil service.** Because adapting the civil service regulations is a delicate matter, Morocco could initially consolidate the reform actions underway by effectively introducing the notion of performance and outcomes into human resources management to more efficiently prevent underperformance and absenteeism. The implementation of advanced regionalization and strengthening of the local civil service also provide a unique opportunity to review the civil service regulations to adjust them to the standards of good modern management and governance practices, and to recognize performance as a key element of the human resources recruitment, management and promotion process. Morocco should strengthen actions initiated, expand the use of contracts and promote gender equality. It should also strengthen its civil service's human capital with the full implementation of its training program by means of a consistent, efficient continuing training policy regularly updated following a diagnosis of missing skills and organized into individual training plans integrated into the evaluation process.
- **Reducing the government operating costs.** Morocco should seek to control its civil service operating costs with a tighter rein on the wage bill. This implies the diligent implementation of the new Budget Framework Law (LOLF) to cap personnel appropriations and effectively embark upon the advanced regionalization process. Line ministries should also be assigned the management of their remuneration appropriations (ministry program budgets currently exclude remuneration, which sometimes represents over 90 percent of their recurrent costs) and their budget accounting, with oversight to ensure consistency of their actions with the macroeconomic public finance constraints.
- **Envisaging a civil service 2.0.** More broadly speaking, Morocco should aim to make its civil service more modern and efficient (by increasing the use of new information and communications technologies), in particular, by continuing its program for the automation of citizen and business

services, but also more productive and strategic by preparing to make more use of delegated services in partnership with the private sector with a suitable training program and skills upgrading. Likewise, the widespread introduction of shared crosscutting services within the administration would improve efficiency and reduce costs. Improving the public procurement system would also help achieve increased budget efficiency, competitiveness and service-delivery.

4.2. Pathway 2: Leveraging the efficiency frontier

Morocco does not only need to improve the efficiency of its private and public sectors, but it needs to enable all citizens to participate and benefit directly or indirectly from the resulting growth dividends. To leverage the frontier for all, Morocco could act in three priority areas: promoting a more inclusive formal labor market (BC#5), targeting better its social protection programs (BC#6), and ensuring greater gender parity (BC#7).

4.2.1. Through labor market reforms

As discussed earlier, although the growth model of Morocco allowed the economy to achieve respectable growth rates over the last 15 years, the jobs content of growth has been weak. The main cause of this shortcoming lies in the distorting policies implemented by the State that not only favored a capitalistic mode of production due to the high price of labor relative to capital but favor capital accumulation outside of manufactures in relatively low productivity sectors (mainly rent-seeking activities in construction and services). Addressing this shortcoming needs revising policies and incentives to encourage labor and reorient investment to more productive and job-creating sectors and activities, especially in the industry.

Given the demographic and social challenges, it would be in Morocco's best interest to place employment at the center of public policy by reshaping its labor market institutions and programs on more sound, inclusive foundations. Estimates suggest that doing so would significantly raise economic participation and employment, especially formal employment for young people and women, and reduce unemployment without jeopardizing wages (Angel-Urdinola 2016). Like other reforms conducted in several countries, this reform should be guided by the principles of flexibility of employment, security for workers and effective active labor market policies.

- **Adapting labor regulations** To fight informality, reduce unemployment and increase participation, the Labor Code could be greatly simplified and aligned with international standards and practices—especially those of competitive countries that have attained full employment—in the areas of firing and severance payments, use of fixed-term contracts, flexibility of working hours, remuneration of overtime and other aspects of the Labor Code, including improving supervision of the exercise of the right to strike under a suitable new organic law. It should also facilitate the formalization of individual businesses.
- **Lowering the cost and improving security for workers.** Lowering labor costs while preserving salaries would help increase formal employment, reduce the number of precarious jobs and boost worker competitiveness. Different minimum wage schemes could be introduced to attract low productivity workers to the formal sector and provide them with social security coverage. Greater social security financing transparency and efficiency should create fiscal room to finance a universal unemployment insurance system, improve worker protection and facilitate the mobility of labor based on the principle of protecting people rather than jobs.

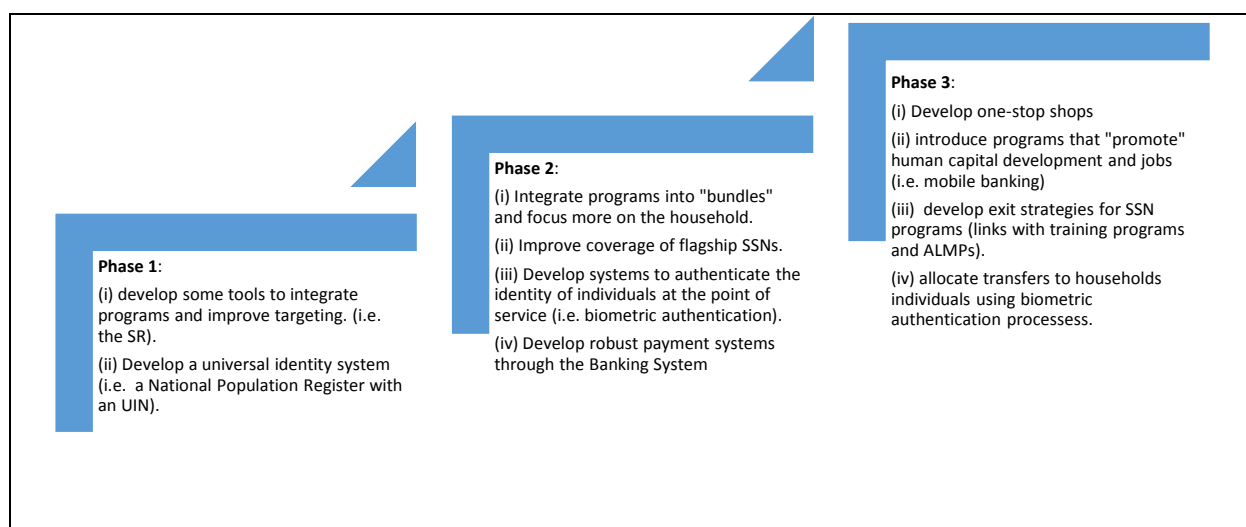
- **Improving the effectiveness and targeting of active labor market policies (ALMPs).** There is an urgent need to outsource employment and training services under performance-based contracts to better meet the needs of employees and businesses. The labor market policies should also include the unskilled population according to demand and the current and foreseeable needs of the private sector. Active employment programs [*programmes actifs d'emploi* PAE] such as “Idmaj,” “Tahfiz,” and “Taehil,” implemented by the National Agency for the Promotion of Employment and Skills (ANAPEC), remain overly focused on young graduates. Lastly, the effectiveness of PAEs, which are subject to monitoring and evaluation, has not been proven. The governance, effectiveness and efficiency of ANAPEC’s labor market policies could be improved with an increased focus on unskilled labor and improvement of results-based monitoring and evaluation systems.

4.2.2. Through targeted social protection programs

Targeting social protection means developing a unified national social protection strategy that focuses on addressing the risks of disadvantaged households holistically. In the absence of such a strategy, the ongoing reforms may not produce the intended results and/or may not sufficiently reach out to the intended beneficiaries. The establishment of a National Population Register (NPR) and a Social Register (SR) are two important pre-requirements to improve the efficiency of social expenditures, particularly of social safety nets SSNs. The sustainability of the reforms will also rely heavily on the implementation of an adequate legal framework, which will require consultation and coordination with multiple stakeholders.

Morocco could develop a phased reform with the vision of developing a better delivery system for SSNs that: (i) is more integrated; (ii) displays higher coverage; (iii) allocates resources more progressively and with better governance; (iv) develops better systems of ID verification and payments; and (v) promotes human capital and jobs (Figure 4.3).

Figure 4.3 Phased Reform for of the SSN Delivery System in Morocco



Adopting a Social Register (SR). The SR would help improve governance, targeting, and coordination of three main flagship SSNs in Morocco (RAMED, Tayssir, and DAAM).¹²⁹ Beyond screening households (or individuals) for eligibility of benefits and services, the SR is expected to become a powerful administrative tool that allows for monitoring, data mining, and business intelligence in relation to the design, implementation, and administration of social programs. The development of the social registry, which will also be the basis for revising targeting methods of social programs, will allow the Government to provide more effective support to the poor and vulnerable population of the country and reduce implementation errors and fraud and promote savings to the administration. In the medium term, it is expected that, thanks for this reform, other programs (as well as new programs) will also use the SR as an entry point and that existing social programs will need to extend their coverage to the poorest segments of the population.

- **Adopting a National Population Register (NPR).** The NPR would support the development of a universal ID system that will allow programs to better verify the identity of SSN beneficiaries (to avoid fraud and double dipping). In the short term, the UIN may remain a back-office identifier that will allow the administration to better assess the identity of beneficiaries of SSNs and promote interoperability between a selected set of information systems. In the medium run, the UIN could fill the gaps of the identity ecosystem in Morocco since the main national identity program, the CNIE does not cover the minor population and lacks integration with clients' digital identification services. The Government could rely on the UIN as an electronic identity authentication tool. Beyond benefits to the SP sector, a universal ID system with proper authentication capabilities in the medium term can contribute to the development of secure and efficient payment systems while promoting the development of private industries such as mobile banking and e-commerce.

4.2.3. Gender Mainstreaming

As noted earlier, despite the progress made since the passing of the new family code in 2004 (*Moudawana*), there is still a long way to go to improve access to economic opportunities and empowerment for Moroccan women. Reforms in this area could be guided by three key objectives:

- **Increasing economic opportunities for women, especially young women.** Morocco could first and foremost increase economic opportunities for women by lifting the obstacles to their labor market participation (including connectivity bottlenecks) and developing entrepreneurship. The government could focus on reforms that increase female schooling, lift social cultural barriers that limit educational and occupational choices, support the structural transformation of the economy, encourage private sector investment, increase access to safe and affordable child care, and stimulate growth to help women shift away from agriculture and other low productivity sectors and occupations. This entails lifting the legal and social barriers that discourage the hiring of women, including the financial inclusion of women, women-headed households, as well as for business start-ups. Finally, greater parity and career growth for women in the public sector will allow women's voice to have greater resonance in the decision-making process and to ensure laws and policies better reflect women's needs in terms of an enabling professional environment.
- **Encouraging the emancipation of women.** Morocco could also reduce the gender gap in terms of voice and agency by further supporting women's participation in political life and protecting women's rights in the household and, more broadly, within society and in public spaces. The legislative framework could be developed (to do more to protect women against violence) and

¹²⁹ Program for direct aid to widows in precarious circumstances.

made more consistent (to better reflect the recently acknowledged equality of responsibility within the household). Measures could also be taken to give women more control over their economic assets by correcting prejudice within the service institutions and improving the way the credit markets operate. A better distribution of responsibilities and greater agency for women are needed so that the financial and social gap between women and men is bridged and equality rights are thoroughly observed across sectors and social aspects (salaries, economic inclusion, family rights, ownership rights, etc.).

- **Systematically mainstreaming gender into public policies and continue modernizing the law.** There is considerable scope for improving the situation of Moroccan women, starting with the enforcement and implementation of legislation and existing laws, and the promotion of an egalitarian model within the country's various political, administrative, and professional bodies. Beyond the existing laws, the religious and social frameworks provide large margins to continue modernizing the law, changing mindsets and sociocultural norms and bringing about true equality between men and women.

4.3. Pathway 3: Pushing the efficiency frontier

4.3.1. Via early childhood development

Over the medium term, Morocco not only needs to make better use of its current endowment (land, labor, capital, etc.) in an inclusive manner but to push its efficiency frontier, join the club of emerging economies, and converge toward the most advanced countries. Building human capital and unlocking the potential of urban areas are the only two known mechanisms to facilitate this convergence.¹³⁰ Accordingly, the priorities to create the productivity gains and related better-paid jobs are to invest in early childhood development (BC#8), to significantly raise the quality of primary, secondary, and tertiary education (BC#9), and to facilitate Morocco's urban and territorial development (BC#10).

Given the proven importance of early childhood development (ECD) in explaining the progress of nations and the high returns typically generated by ECD investments, Morocco should consider elevating the importance of its ECD policies. Priorities in early childhood care and education reform in Morocco would include:

- **Launching ECD public awareness and information campaigns.** Morocco could conduct public awareness and information campaigns, especially to combat misconceptions about early childhood development. A mere 15 percent of parents interviewed correctly identified the prenatal period as marking the start of brain development and only 8 percent of parents understood correctly that their own impact on brain development began during the prenatal period (Zellman *et al* 2014). Once a child is born, it is vital that systematic information campaigns be used to better inform parents about ideal nutritional practices and health and general hygiene matters. The messages designed for families and communities would have greater impact if childhood problems were understood to be an important public health issue.
- **Coordinating ECD programs and public policies.** Morocco could take up the challenge of the intersectoral nature of early childhood development by rethinking the organization of its public policies and improving the coordination of its programs. One option would be to identify an entity (ministry or high-level interministerial coordinating council) to be tasked with defining the

¹³⁰ Enhancing human capital is a critical pillar of the Government's current development program.

country's vision and objectives for early childhood protection and support, a strategy to achieve these objectives, and a process to evaluate progress.

- **Investing in early childhood care and development interventions.** Children need quality environmental inputs to grow in a healthy, timely fashion. Essential physical inputs include quality pre- and postnatal nutrition, health care, and safe physical environments. Equally crucial are social inputs, including nurturing, protection, and stimulation. Interactions between children and their caregivers—who are often, but not always, their parents—leave a significant imprint, literally shaping the developing brain (*WDR 2018*). Moreover, early grades (PreK through Grade 3) are the most critical to build a solid foundation for education. Therefore, expanding quality pre-schooling, especially in lagging regions and ensuring the highest quality inputs (teachers, learning and teaching material) is potentially the most important investment that renders the highest economic returns. Priorities would include extending preschool education in rural areas (including through PPPs when appropriate), ensuring a quality framework for both public and private operators in urban and rural areas (for instance by implementing UNICEF standards nationally), developing a national set of approved curricula, establishing a supervision body at the Ministry of Education to oversee preschool education (the sector is currently fragmented with the coexistence of several supervisory authorities), and setting up the appropriate monitoring and evaluation systems.
- **Involving parents and bring them on board on ECD issues.** The role and participation of parents, particularly fathers, could be stepped up with training and targeted information campaigns to more effectively galvanize mothers and fathers to do more for their children's development. Morocco could usefully draw on several foreign experiences with nutritional and disciplinary practices (for example, Jordan).

4.3.2. Through quality of education

If Morocco is to push the efficiency frontier and improve its prospects for long-term growth, it has no choice but to increase its productivity and hence its population's level of education. In contrast to measures to scale up resource allocation—as was the case for the emergency program—the absolute priorities need to be the education system's adaptability and the quality of the education it provides, both of which are vital to building the country's human capital. The strong messages from the monarch and the mobilization of players since 2013 attest to the importance accorded by Morocco to the problems facing education and pave the way for a long-term strategic vision (2015–30) for the education sector. However, if the education reforms advocated by the strategic vision are to be effective, they would need to be realistic, selective and far-reaching. They must, as a priority, tackle major constraints in a “shock therapy” approach designed to trigger an “educational miracle,” that is, a huge improvement in Moroccan students' level of education compared with other countries.

Elements of such reforms would include:

- **Modernizing the educational ecosystem.** This entails revising the curriculums and teaching methods for teachers to convey positive values and cognitive and non-cognitive skills (merit, progress, liberty and responsibility), check and guarantee the learning of all children with varying abilities and providing multiple pathways for learning and training that meet the different needs of students, including vocational training with real employment prospects.
- **Improving teacher recruitment and training.** An education system is only as good as its teachers. Improving the quality of education calls for a departure from the current method of teacher

recruitment to attract motivated, competent applicants with strong potential to the teaching profession, better prepare them and develop suitable assessment and coaching systems to improve the performance of working teachers. The prospect of a major renewal of the teaching corps in the coming years is a landmark opportunity to recruit future teachers based on their education, skills and motivation.

- **Adopting a new public school governance.** Governance of the public-school system should be refocused on providing better service to students. This extensive reform could focus on three key issues to make the system more effective, more transparent and more efficient: (a) reviewing the powers and responsibilities of all the players in the educational system, especially principals and teachers to make the organization more efficient and responsive to students' needs; (b) conducting more frequent and more substantive assessments of learning outcomes so as to make stakeholders more accountable and promote quality, which entails revising the status of teachers, their evaluation and compensation; (c) engaging the private sector to better align learning and student preparation to employer needs; and (d) involving parents more to help improve the quality of the system in collaboration with school institutions.
- **Developing alternative educational options.** Morocco could accompany the reform of its traditional public system and increase educational emulation by promoting alternative private options, relying for instance on charter schools or vouchers to address equality considerations. Private schools offer a variety of potential benefits, such as proximity, ability to innovate, or to fulfill parents' preferences. Private schools may also have lower rates of teacher absence, and stronger accountability mechanisms. These alternative options require public support policies given that the existing institutional framework can hamper the development of private educational establishments. However, these benefits come with many risks that need to be carefully managed, including on equity, social cleavages, and imperfect accountability in contexts where parents are unable to accurately assess quality (WDR 2018, *LEARNING to Realize Education's Promise*).
- **Promoting "21st century skills."** If schools are to benefit from the digital revolution underway, they should teach the necessary skills to prosper in tomorrow's economy: collaboration, communication, social and cultural skills, a sense of civic duty and respect, and of course mastery of information and communications technologies (World Bank 2016). In addition, given the improvements that information and communications technologies can generate (modernization of school management, learning tailored to each student's level, additional training programs for teachers and additional forms of assessment), a complete strategy should be put in place looking beyond their technical aspects to promote their useful, reasonable use, including to guarantee the learning of basic skills and develop creativity, adaptability and critical thinking
- **Developing technical and professional skills.** The skills gap is a serious problem in Morocco as unemployment is more pronounced among skilled than unskilled workers (OECD WISE). While Moroccan enterprises are more likely to provide formal training for their employees than in the rest of the Middle East and North Africa region, significant disparities exist between enterprises. Skills enhancement in the workplace requires improvement of the existing technical and vocational education framework. This is particularly important in order to provide an enabling environment for small enterprises to offer training opportunities, to build working partnerships between the private sector and training institutions, as well as to capitalize on education technologies.

4.3.3. Through urban and territorial development

Moroccan cities have an opportunity to contribute to pushing the efficiency frontier and become vanguards in the country's quest for rapid job creation and economic growth as well as social and spatial inclusion. As discussed earlier, cities offer proximity and scale that can decrease the costs of infrastructure, utilities and service provision. They can also benefit from workers with increased opportunities provided by the concentration of enterprises in a single area. Enterprises benefit from being close to their suppliers and to consumers of their products; they also benefit from the proximity to other, similar enterprises, as they can share technologies and information. Yet, inequalities in living standards can adversely affect national unity and social cohesion and foster political instability. And global experience shows that persistent spatial disparities in living standards are neither desirable nor inevitable.

Addressing Morocco's urbanization challenges would require three complementary sets of policy packages to strengthen institutions, invest in connective infrastructure, and adopt spatially targeted interventions. The relative weight to be given to each of these recommendations would need to be calibrated based on location-specific urbanization challenges (World bank 2017b). As noted above, Morocco's regionalization and decentralization agenda is an opportunity to align mandates, resources, and capacities at the national, regional, and local level to empower the different tiers of government to work together effectively on addressing the challenges of urban and territorial development.

- **Strengthening the institutions supporting land administration, land planning, as well as the financing and delivery of basic services.** All three dimensions are limiting the pace and efficiency of Morocco's urbanization process, and pose a major constraint to the Country's spatial and economic transformation. Low income households who can't afford urban land in the formal market settle in informal settlements without adequate access to basic services. Access to industrial land is a major constraint to the development of new businesses. These constraints do not only pose short term challenges but contribute to shaping the long term spatial development of Moroccan cities, which are experiencing a process of urban expansion characterized by a decrease of densities in the inner cities, suburban densification and overall leapfrogging.
- **Investing in connective infrastructure.** Several factors limit the circulation of people, goods and ideas within cities, as well as between cities and regions. High transport costs within cities keep workers from jobs and people from services. The cost of transporting goods across Morocco is high¹³¹ and amounts to roughly 17 percent of merchandise values compared to 7 percent in neighboring countries. This high cost is in part driven by the atomization and poor quality of freight. Rural connectivity is also relatively low thus disadvantaging people living in predominantly rural regions. Finally, the circulation of ideas is limited by the relatively low quality of information and communication technology (ICT) connectivity in Morocco.¹³²
- **Establishing "metropolization" and its governance approach.** This would require empowerment of the polarized areas where the key challenges exist and ensuring their integration across the entire country, which is likely to address the need for both equity and effectiveness. These

¹³¹ DEPF (2013) Le secteur de transport des marchandises: Contraintes et voies de réformes.

¹³² According to the National Telecommunications Regulation Agency [*Agence nationale de réglementation des telecommunications* ANRT], 99.5 percent of the rural population is connected by 2G technology, 85 percent by 3G technology, and 70 percent by 4G technology.

metropolitan areas are increasingly called upon to acquire equipment for global connectivity and assets that give them a competitive advantage.

- **Adopting spatially targeted interventions to deal with social exclusion and promoting emerging centers as urban support structures for rural areas.** The persistence of pockets of poverty—both in urban and rural areas—and the rise of youth unemployment call for targeted interventions. The constraints to an efficient urbanization process mentioned above lead both to the concentration of poverty in disadvantaged urban and peri-urban neighborhoods, and to the persistence of high levels of poverty in certain rural areas. While the long-term solution to these challenges rests with the improvements to institutions and connective infrastructure, these specific situations also require immediate targeted interventions to address specific issues of social exclusion. Yet, integrating young Moroccans into the labor market is the most sustainable way to deal with exclusion. This calls for addressing many of the bindings constraints discussed in this SCD.

4.4. Pathway 4: Greening the efficiency frontier

Morocco finally needs to consider the effects of climate change on its development strategy and make its long-term development consistent with the preservation of its environment and natural resources. While sustaining the country progress in the area of mitigation, including Morocco's large renewable energy investments and ambitious further investments under the nationally determined contribution (NDC), special attention should be paid to the area of climate adaption, especially with regards to water management (BC#11). This is recognized in the NDC, which puts an emphasis on the *National Water Strategy* and *National Water Plan*, recognizing that water resources are the most constraining factor for sustainable economic and social development.¹³³

4.4.1. Through integrated climate adaptation and water management

Morocco is undertaking significant efforts to factor adaption into national strategies. As discussed earlier, its vision for climate adaptation involves several ambitious quantified sectorial goals for 2020 and 2030 identified in its NDC. Sectoral strategies and plans start to integrate climate change aspects in agriculture (Plan Maroc Vert), fisheries and aquaculture (Halieutis Plan), forests (e.g., Master Plan for reforestation, National Action Program to Combat Desertification, etc.); urbanism (e.g., National Charter for Territorial Management), tourism (Vision 2020) and health.¹³⁴ Central to its climate adaptation strategy, the National Water Strategy identifies the country's primary water risks and emphasize the need to strengthen the governance of water resources management as well as investments in water storage and production infrastructure.¹³⁵

- Efforts to combat climate change effects cannot be fully grasped without the territorial dimension insofar as territory represents the receptacle for public and private interventions that must strive

¹³³ The National Water Strategy and National Water Plan "aim to improve integrated and appropriate water resources management, the development of unconventional water resources, preservation methods, the protection against pollution, training, scientific research and awareness around these themes."

¹³⁴ A detailed list of policies and programs is provided in the NDC (2016, p. 2224) and TNC (2016).

¹³⁵ Morocco has invested heavily in surface water storage, constructing 140 large dams over the past 50 years, as well as numerous small dams, and 13 inter-basin transfer schemes. However, the capacity of these infrastructures was considerably bogged down by a high sedimentation rate.

to promote the harmonious development of territories. From this standpoint, the inclusive and sustainable development of environmentally sensitive spaces (oases, mountains, coasts) and their resilience to climate change effects should be promoted. These sensitive spaces, which are subject to numerous challenges that adversely affect spatial disparities and territorial equity, require special attention owing to their potential and the socioeconomic and ecological roles they play as well as their high vulnerability to climate change effects.

Turning water risk into water and climate resilience will require action on several fronts. Morocco faces growing competition for water between sectors, and regions are decreasingly willing to see “their” water resources transported to other basins – be it for cities or agriculture. Deliberate action now, will allow Morocco to capitalize upon its improved legal framework and numerous pilot activities in areas such as groundwater governance and non-conventional water supply to build water security in terms of both resilience to shocks and more productive use of scarce water resources:

- **Consolidation, extension, and operationalization of existing information systems on water and climate.** The existing fragmented systems should be integrated and extended to all aspects of the water cycle, in accordance with the provisions of the new law 36-15 on water. Moreover, remote sensing and other information technologies are providing rapid, easily generated information on water and its use (evapo-transpiration) which can be used for resource evaluation, monitoring, and management. Rapid development of applications is making this information available to the range of stakeholders from policy makers to water managers to individual farmers and households. However, calibrating these systems – regarding groundwater and other infrastructure – requires significant investments in ground truthing and sharing of existing technical information.
- **Streamlining and optimizing the use of scarce water resources.** Numerous institutions (including basin authorities, irrigation schemes, water utilities, environmental agencies, etc.) are directly involved in the management of water resources but with limited mechanisms and incentives (including water tenure and tariffs) to induce stakeholders to improve water use efficiency or to facilitate potential inter-sectoral or inter-regional transfers. This is particularly an issue for groundwater, which is coming under increasing pressure in response to climate variability in agriculture and in cities. Policies governing water across sectors need therefore to be better adapted so as to help further optimize the use of scarce water resources.
- **Expanding non-conventional supplies of water that are becoming competitive.** Technologies for desalination of ocean and brackish waters, and recycling of treated wastewater are evolving rapidly. This is bringing down the cost of these non-conventional water supplies to levels which allow for cost recovery – particularly for urban and industrial users. Given rapid technology innovation, this is a particularly interesting area for build-operate-transfer and other privately financed development mechanisms. However, non-conventional water extraction, such as desalination, requires considerable energy inputs. These sources should be aligned with the country’s energy policy, which aims to promote renewable energies. Similarly, the Government has implemented a water pumping policy that encourages farmers to use solar energy as the sole energy source. The national electricity and water company (ONEE) plays a key role in promoting sustainable solutions to the problem of water scarcity, including through appropriate water-energy synergies and linkages.
- **Improving water quality.** Although Morocco is catching up to other middle-income countries with respect to industrial and household wastewater treatment, a significant amount of untreated effluent is returned directly into wadis or percolates into aquifers with direct risks to human health

and the environment. Moreover, high salinity levels are observed in a number of aquifers located in irrigated zones, and groundwater overdraft is resulting in sea water intrusion in coastal aquifers.

4.5. Governance as the overarching cross-cutting pathway

The above-mentioned pathways to get, leverage, push and green the efficiency frontier could be thought of as the “proximate key binding constraints” to spur sustainable economic growth and promote greater access to opportunities. To lift these constraints and embark on these pathways, an explicit focus on understanding the more fundamental “underlying determinants” of why these socio-economic constraints persist is critical: why is it that, despite economic growth, Morocco is not achieving inclusive growth, building its middle class and allowing all to access quality services? What are the institutional and political root causes of the lack of inclusiveness and equity of growth and service delivery? And how can a governance system that supports inclusive and equitable development be developed?

In line with the thinking of the 2017 WDR on Governance and the Law, this last section discusses how the “underlying determinants” are related to governance, or the process through which actors (state and non-state) interact to the design and implement policies (World Bank 2017). It argues that leveling the governance playing field, and ensuring that power, resources and capacities are distributed transparently, efficiently and equitably, is critical to lifting constraints to inclusive development in Morocco.

While Morocco is indeed a reformist country, especially by MENA standards, and has made substantial efforts to expand political and socio-economic opportunities, many reforms have remained suboptimal or have not been fully implemented, and their impact on inclusive growth has remained limited.¹³⁶ Rules on paper have often fallen short in creating opportunities and achieving progress on the ground. As discussed earlier, the “implementation gap” is a common challenge in the MENA region and Morocco is an average performer (Al Dahdah et al. 2016).¹³⁷

As countries transition from a growth model based on tangible investment to a growth model based on innovation and intangible investment, both their policies and institutional arrangements need to adapt to support this transition. A new elite bargain is needed to support growth. A failure of this adaptation is often manifested in what was referred to earlier as “the middle-income trap.” This does not mean that middle-income countries are more likely to face growth challenges than countries at other income levels (Bulman, Eden, and Nguyen 201). What it means is that at middle-income levels, actors who benefited from initial gains in economic transitions are more likely to use their newfound economic power to block further necessary reforms. Moreover, as economies become more complex, traditional “deals-based” interactions between the state and business elites, which may have been necessary to

¹³⁶ Morocco has invested heavily in water conservation/storage, constructing 136 large dams over the past 50 years, as well as numerous small dams, and 13 inter-basin transfer schemes. However, a considerable portion of this infrastructure has been diminished due to accelerated rates of sedimentation and must be upgraded to ensure its safety.

¹³⁷ According to Global Integrity, Morocco ranks 6th among 13 MENA countries (for which data is available) for the quality of its legal framework. The quality of a country’s legal framework is scored by Global Integrity based on an Integrity Indicators scorecard, which assesses the existence of key governance and anti-corruption mechanisms in a given country through actionable indicators. For more details on the methodology and data, see <https://www.globalintegrity.org/research/reports/global-integrity-report>.

overcome early coordination challenges, may hinder further growth as corruption and clientelism stymie opportunities for competition (World Bank 2018). As we discussed earlier, corruption is most commonly cited by enterprises as the largest impediment to doing business in Morocco.

The legitimacy of the state and non-state actors is one of the key “underlying determinants” of the likelihood that the proposed pathways will materialize. To start building these legitimacies, the priority areas would be to create the conditions for people to be informed (and therefore for the government to be accountable) (BC#12), to use this information to voice their views and participate (BC#13), and to be confident that the rule of law and justice system will protect them (BC#14).

4.5.1. Through access to information and accountability

Access to information plays an important role in strengthening state legitimacy by promoting participation and accountability. Information and ideas are increasingly important (and have a greater impact) because economic actors and citizens are facing increasingly complex situations. In most public intervention sectors, a strategy’s success hinges on a large number of interdependent economic, social, political, and technological parameters. Globalization is further enhancing this complexity and conditions the relevance of an intervention to external developments, which, by definition, cannot be controlled. Moreover, research in behavioral economics has shown that the reaction of actors to public policy changes is hard to predict (World Bank 2014). All of these factors weaken the capacity of economic actors to anticipate the outcomes of their actions and draw a distinction between “what works” and “what does not.”

Education actors, for example (such as teachers, parents, and trade unions) must contend with issues for which there are no simple solutions: Should performance-based financial incentives be provided to teachers? Should digital technology be introduced in schools or should cameras be installed in classrooms? Should children begin learning a foreign language in their first year of primary school? What reading methods should be adopted? In this context marked by complex choices, actors have several options to reduce the uncertainty facing them and potentially help them review their positions: increase the level of knowledge, enhance transparency, and encourage evaluation.

- **Increasing the level of knowledge through access to information.** All public policies are premised on assumptions regarding the functioning of the economy and the society (if action is taken with respect to A then B will occur). The role of information and academic research is to provide an objective basis for the selected assumptions. Without information or the benefit of research, decision makers are compelled to rely on subjective opinions or on intuitions that are often biased. Modern public policies are evidence-based; in other words, they are based on empirically proven causal relationships. As an immediate step, and in keeping with the spirit of the Constitution, the draft law on Access to Information should be adopted and supported by effective implementation mechanisms to ensure that the civil service has the capacity to comply with the legislation’s requirements, computerized information management systems are in place to facilitate information sharing; and dedicated communication campaign and outreach are conducted to sensitize citizens.
- **Enhancing transparency.** Analysts and decision makers are, like any individual, prone to flawed reasoning and cognitive biases that affect their judgment. The propensity for excessive optimism, the powerful aversion to losses, the sometimes effective but also often counterproductive role of emotions in decision making, selective memory, or even manipulation of one’s own beliefs are

perfect examples (Tirole 2016). They are often placed at a disadvantage by asymmetric information and cannot know all aspects of a public policy. In these circumstances, transparency in public policy can contribute significantly to the improved quality of public decisions. Consulting the relevant actors makes it possible to gather information so as to better anticipate the outcomes of the planned intervention. Similarly, releasing data and documents on the related policy to the general public helps inform public debate and encourages decision makers to demonstrate the relevance of the selected options.

- **Encouraging accountability through evaluation.** The new development economics paradigm advocates the systematic evaluation of public policies, when possible, to objectively show their effectiveness (Banerjee and Duflo 2011). This evaluation can be done *ex ante* using tests, or *ex post* using mechanisms to record the reactions of the beneficiaries (feedback loop). The information collected in this manner consistently helps improve public policy design and execution. In particular, experimentation and evaluation could test new approaches in public service delivery—especially when up against ingrained habits and special interest groups—and better understand the psychological motivations of users and service providers (World Bank 2015b). Experimentation and evaluation can promote competitive tendering by service providers, the emergence of diagnostics and more inclusive change practices, and the introduction of incentives for innovation, all of which are ways of fostering steady improvements to public policies for users.

4.5.2. Through voice, participation and engagement

Increasing opportunities for citizens—especially youth and women—to strengthen voice and agency by engaging with public authorities and participating in public affairs could help bridge the State legitimacy gap. There are four complementary key mechanisms through which citizens can engage with policy makers and become “agents of change”: political participation, political organization, social organization, and public deliberation (*WDR 2017*). As discussed earlier, several reforms have strengthened these mechanisms in the past decades and led to more open opportunities for enhanced contestability and new spaces and incentives for elites and citizens to coalesce to promote changes.

Further enhancing voice and participation would require the full implementation of ongoing reforms – including the effective functioning of mechanisms for citizen engagement – and the equitable access of all to the opportunities generated by these reforms (moving beyond asymmetries of access to power and voice).

- **Implementing fully the civil and political rights enshrined in the 2011 constitution.** While the 2011 constitution has asserted a key role for citizen engagement in the governance of public affairs,¹³⁸ many of the institutions required to ensure their effective functioning have not been established in practice or not necessarily in the spirit of the constitution. While the constitution guarantees freedom of assembly and association, Moroccan law specifies broad exceptions: organizations which “pursue activities that are ‘illegal, contrary to good morals, [or which aim] to undermine the Islamic religion, the integrity of the national territory, or the monarchical regime, or call for

¹³⁸ It stipulates that “non-governmental organizations are to participate in the preparation, implementation, and evaluation of state institutions (Article 12), that “the state is obliged to create institutions, such as consultative bodies, that engage non-state actors in these functions (Article 13),” and that “citizens also have the right to propose draft bills (Article 14) and present petitions (Article 15).”

discrimination’ are prohibited” from operations (ICNL 2017). Similarly, while the constitution guarantees the freedom of the press, there remain many restrictions on the media in practice. Defamation is a criminal offense as is any content deemed to infringe on “Islamic rule, the monarchical regime, territorial integrity, or public order.”¹³⁹ The authorities also retain significant control over the media (*Freedom of the Press*, 2016).

- **Giving a greater voice to public service users.** A number of the organic laws resulting from the new Constitution should improve public service governance by strengthening the public’s voice and participation in the development and implementation of public services and policies. Several tools are or will soon be available to Morocco to enable citizens to have a direct influence on service delivery and must be fully utilized. These include the right of petition and legislative motion, a draft access to information legislation and public consultations such as the one that Morocco undertook in the health sector (Intidarat).
- **Strengthening political engagement.** The positive constitutional, legal and political developments have created new opportunities for political contestability, including in the electoral process, and created incentives for elites to respond to citizens’ demands. But these opportunities have not yet fully translated into realities. In terms of citizen participation in elections, the share of registered voters who turned out to vote fell from 85 percent in 1970 to 43 percent in 2016. This means that in 2016, just 29 percent of the voting age population voted in the elections. Morocco scores “weakly” on the Africa Integrity Indicators for its performance on elections – though it has improved slightly since 2013. Morocco does not have an independent agency to ensure the integrity of its electoral process. While trust in the ruling political party has increased slightly in recent years, it remains low – with over 50 percent of respondents stating that they have no or little trust. This number reaches almost to 70 percent for the trust in opposition parties. This is consistent with criticism that political parties in Morocco are not driven by programmatic agendas, but rather tend to be driven more by personal ties or the possibility of some members gaining material benefits. Political parties are also characterized by a top-down organizational structure, with limited opportunity for input from ordinary members (Bergh 2017). Even in cases where formal law has changed to order power more equitably, large *de facto* asymmetries in power remain. Data from V-Dem suggest that, although power has become more equally distributed between genders, between socioeconomic groups, and between social groups, it is still held primarily by a limited set of actors: men have “a dominant hold on political power” and wealthy people have “a very strong hold on political power.” These and other power asymmetries undermine the effective design and implementation of key policies needed to achieve the citizens’ social and economic aspirations.

4.5.3. Through rule of law and justice

Effective implementation of the new rights provided by the constitution and the Justice System Reform Charter would be an important step forward in strengthening the rule of law. Additional provisions will be necessary to ensure that the new laws are in keeping with the spirit of the constitution and that they are accompanied by appropriate implementing provisions. Moreover, Morocco should adopt a strategy aimed at ensuring that all ancillary legislation will enter into effect within a reasonable period of time. Without such a legislative framework, it will be difficult to apply the laws, with judges and other public officials benefiting from significant discretionary authority, particularly in providing services related to the protection of persons, property and contracts. Sequencing and prioritization would make the commitment to implement the new provisions provided by the Charter more credible. In particular,

¹³⁹ <http://www.med-media.eu/wp-content/uploads/2015/09/ma052fr-1.pdf>.

the Justice System Reform Charter would benefit from a comprehensive monitoring and evaluation framework to assess implementation and guide the new reforms.

- **Improving the security of persons.** Morocco could considerably improve its justice system, in particular to guarantee procedural fairness (right to life and security of person) and fair criminal justice (impartiality and corruption control) to ensure effective legal protection and security for all. Morocco could send a signal of its desire to improve the security of persons by quickly adopting safeguards, redress measures and monitoring of abuse. Equal access to justice services could be better guaranteed by scaling up the legal aid system and improving the control of the use of pretrial detention. To this end, key performance indicators and standards should be introduced, for example, as well as data collection standards (including user satisfaction) to increase effectiveness and accountability and better guarantee equality of treatment by the courts.
- **Improving the protection of property.** In order to remove hindrances to investment and development opportunities, the protection of property must be improved to ensure that the principles of equity and equality are respected. This involves making the system of land governance, particularly the land tenure regime (divided into the official land tenure regime based on official registration and the traditional, customary regime), more predictable. The legislative framework could be clarified through the adoption of a single comprehensive property law. Moreover, simplification measures and tax measures should be taken to ensure that land transactions are increasingly recorded in the land registry and the government could ensure that a system combining formal and informal dispute resolution mechanisms is genuinely accessible to all citizens to better guarantee the security of property rights. The opaqueness of the current expropriation regime also calls for measures to clarify the compensation criteria and processes, as well as the publication of relevant reliable data that will allow for better monitoring of the administrative use of public lands. To support changes to the status quo in terms of equality of access to land for women and men, the government should try new approaches to make the property rights of women more secure, particularly with respect to collective land.
- **Improving the enforcement of contracts.** Last, an in-depth review of enforcement procedures and processes should help to improve and standardize the performance of the courts in the enforcement of contracts, which is another important factor in promoting economic activity. An in-depth review should identify the bottlenecks along the enforcement process (timetable, costs, and procedural steps), include a detailed survey of users, and thus help to overcome practical and procedural obstacles to the provision and effective enforcement of services throughout the national territory.

Conclusion

Morocco stands out as an exception in a turbulent Arab world. It has considerable assets to be able to enhance its distinctiveness and become the first non-oil-producing country in North Africa to join the ranks of emerging countries by the next generation. To this end, Morocco can take up real drivers for change on the political level (the stability of its leadership), the institutional level (the values and principles endorsed by the 2011 Constitution), and the economic, social, and environmental levels (normative convergence with the European Union), to undertake the dozen key policy reforms that constitutes as many pathways to further reduce poverty and increase shared prosperity.

Many of the proposed pathways to Morocco's faster sustained and inclusive development have a common characteristic: they belong to the realm of intangible assets. Whether it is strengthening the rules and institutions in the areas of market competition, public policy coordination and public service delivery, improving the quality of human capital formation, starting with early childhood development, or fostering state legitimacy, interpersonal trust and other dimensions of social capital, Morocco's overarching binding constraint is to grow its intangible capital. Indeed, if there is one lesson to be learned from accrual accounting or capital-based accounting, it is that inclusive sustainable development is essentially based on the accumulation of intangible assets in the form of institutional, human, and social capital (World Bank 2018).¹⁴⁰ In this age of the knowledge economy and the digital revolution, the wealth of nations is less the outcome of the mere cumulative volume of labor or physical capital than of the quality of institutions, expertise, and knowledge, and collective action standards. Ultimately, these drivers also form the best vectors for strengthening the economic and social cohesion of Morocco and ensuring an organized transition toward economic emergence.

¹⁴⁰ The CESE also published a report on Morocco's intangible capital in 2017, "Richesse globale du Maroc entre 1999 et 2013: Le capital immatériel facteur de création et de répartition équitable de la richesse nationale."

In-depth research

[1] Analysis of sources of income and how their changes relate to changes in poverty and shared prosperity. We currently have limited information on households' sources of income. This limits our ability to understand how the growth translated into higher incomes and hence higher consumption patterns.

[2] Analysis of labor market and the poor. We currently do not have any analysis of the performance poor in the labor market. Understanding the types of jobs the poor and bottom 40 and how these have evolved over time is extremely important in understanding the pro-poor growth pattern observed and in looking forward.

[3] Relation between subjective and objective well-being. The presence of questions in the household survey related to subjective well-being offers an opportunity to gain insights into the determinants of this perception, well beyond what can be attained through the analysis of perceptions survey that collected limited information on the households.

[4] Lack of panel data does not allow for the analysis of mobility. It would be interesting nonetheless to exploit the cross-sectional data to construct synthetic panels to at least start investigating these issues.

[5] Lack of age-disaggregated data limits ability to fully detect deficits or points of inequality in youth and intersectionality.

[6] Understanding better the structure and dynamics of the middle class in Morocco.

[7] Deepening the understanding of the socio-economic characteristics of the various regions to better understand the nature of the disparities and prioritize interventions.

[8] Lack of data on private sector operators and especially on SMEs constraints private sector development policies. Some additional analyses would help understand better private sector constraints and opportunities. This would be particularly useful to harness the private sector's development impact. IFC is planning a Country Private Sector Diagnostic for Morocco which aims to (i) assess private sector's contribution(s) to development; (ii) identify factors to unlock private sector growth/investment; (iii) "connect the dots" between private finance and public policies.

Annex 1. Data diagnostics

Section 1: General Information about the Statistical System	
Legal status of NSO	Government Agency of High Commission of Planning
Statistical Legislation (latest)	Decree on Statistics, 1968
NSDS/Statistical masterplan	Plan d'action à long terme de la Direction de la Statistique [Department of Statistics Long-Term Action Plan]

Section 2: Micro-data:						
Type of census/survey	Latest (Year)	Second Latest (Year)	Representativeness (national, regional, urban/rural)	Data Accessibility (open access/with permission/no access)	Optional Disaggregation (Y/N)	
					Gender	Regional
Census						
Population Census	2014	2004	National, Regional	No access	-	-
Agriculture Census	-	-	-	-	-	-
Business/establishment census	2001-2002	-	-	-	-	-
Surveys						
Household Survey on income/consumption	2014	2007	Regional (urban/rural)	No access	-	-
Household survey on education (e.g. MICS)	-	-	-	-	-	-
Household survey on health (e.g. DHS, MICS)	2009-2010	Survey of Multiple Indicators and Youth Health 2006-2007	National	No access	-	-
Labor force Survey (LFS, household survey on labor only)	2015	2014	National /regional	No access	-	-
Business/establishment survey	2006-2007	2005-2006	National/Regional	Available	-	-
Other (specify):						

Section 3: Macro-data:				
Does the country subscribe to the IMF SDDS or participate in the		SDDS		
If SDDS	Periodicity		Timeliness	
	SDDS	Country	SDDS	Country
National accounts: Gross Domestic Product by Production and Expenditure at Current and Constant Prices.		Q	Q	1Q 3M
Consumer price index		M	M	1M 3W

Central government operations	M	M	1M	1M
Balance of payments	Q	Q	1Q	1Q
External debt	Q	Q	1Q	1Q
Merchandise trade	M	M	8W	1M
Production index	M	Q	6W	10W
Employment	Q	Q	1Q	6W
Unemployment	Q	Q	1Q	6W
Producer price index	M	M	1M	1M

Section 4: Compliance with WBG's core data standards			
	WBG Standard	Compliant (Y/N)	Actual yearly interval or %
Household Survey of income or consumption	One every 3 years	N	7 years
PPP price survey	One every 3 years	N	5 years
CRVS	<ul style="list-style-type: none"> 80% of births registered 60% of deaths registered with cause of death 		

Section 5: STATISTICAL CAPACITY INDICATORS	
Method	90.0
Source Data	80.0
Periodicity	83.3
Overall (Memo: Overall Average all IDA)	84.4

Section 6: DATA OPENNESS INDICATORS	
Open Data Barometer Score	16.17
Open Data Index Score	26 %

Section 7: Data for country priorities			
Indicator Name	Available (Y/N)	Latest year	Issues
Proportion of children under 5 suffering from stunting	14.6%	2011	
Birth attended by skilled healthcare workers	73.6%	2011	
Other health indicators such as maternal mortality rate and the Civil registration and vital statistics (CRVS) not completely up to date	Maternal mortality rate per 100,000 live births is 72.6		
Other Sustainable Development Goal (SDG) indicators	0	2014	Missing many variables on education quality and gender inequality

Section 8: Data Gaps Identified and Recommended Actions	
Major Data Gaps Identified	Recommended Actions
Infrequent household surveys	Experiment with shorter but more frequent household surveys that capture the essential aspects of well-being
Agricultural census or survey	Conduct census or survey as recommended internationally
Labor force Survey	Conduct census or survey as recommended internationally
Business census/survey	Conduct census or survey as recommended internationally
Quality of services	Incorporate administrative data from different ministries and program administration (e.g. INDH)
Qualifications	Conduct skill and competence testing

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