



**EUROPEAN NEIGHBOURHOOD
AND PARTNERSHIP INSTRUMENT**

MOROCCO

**STRATEGY PAPER
2007 - 2013**

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SUMMARY

Morocco is a privileged partner of the European Union. The EU is Morocco's most important export market, its leading public and private external investor and its most important tourist market. Morocco also contributes to the EU's energy security as a strategic transit country for Algerian gas and as an exporter of electricity to Spain. Human exchanges are constantly expanding: the EU is the main destination of Moroccan migrant workers and an increasing number of Europeans choose Morocco as a place for holidays or even residence. Professional exchanges are also steadily increasing.

The Association Agreement, which entered into force on 1 March 2000, constitutes the legal framework for relations between the EU and Morocco. In addition to the gradual creation of a free trade area, it provides for many areas of cooperation in political, economic, social, scientific and cultural matters.

Since 2004, and in parallel with the Euro-Mediterranean cooperation process launched in Barcelona in 1995, the EU has been setting up a European Neighbourhood Policy (ENP), which establishes a new framework for relations between the EU and its neighbours of the Southern Mediterranean. The ENP recognises the increasing interdependence between the EU and its neighbours in terms of stability, security and sustainable development. The ENP is designed to deepen the partnership on the basis of common values in order to implement the reforms necessary to create an area of prosperity and stability. Morocco was among the first countries of the Mediterranean to sign a Neighbourhood Action Plan with the EU.

Better governance and effective promotion of democracy and human rights are essential objectives of the EU's external policy. Morocco fully shares this overall political vision, a vision which poses new political, economic, social and even cultural challenges. Morocco is pursuing a process of democratisation and consolidation of the rule of law, and is considered as the most advanced in the region.

Nevertheless, economic growth remains too weak to reduce both unemployment and poverty, conditions which directly affect more than 9% and 14% respectively of the population. The EU's strategy in Morocco has been to tackle Morocco's two major concerns, which dominate the country's political, economic and social agenda: to emerge from the spiral of weak growth, unemployment, poverty and migration and, externally, make a success of implementing the Association agreement and the Neighbourhood Action Plan.

This country strategy paper (CSP) establishes a strategic framework for European Community aid over the period 2007-2013. This document describes the EU's cooperation objectives, its political response to Morocco's requests and the priority cooperation areas, drawn up following a complete evaluation of the partner country's political agenda and its political and socio-economic situation. The strategy paper was drawn up on the basis of ongoing monitoring by the Commission departments of the political and economic situation in Morocco, monitoring which is carried out in close cooperation with representatives of the Moroccan government and of the Member States on the spot.

In this context the EC will focus its efforts on the following priorities:

- the social sector, in particular education, health and social protection;
- the national human development initiative (NHDI)

- economic modernisation, in particular support for the modernisation of the private sector, strengthening of vocational training, modernisation of industry, agriculture and fisheries, transport, energy and, generally, an improved environment for investment and competition in the framework of an open market economy;
- institutional support to underpin implementation of the Association Agreement and of the Neighbourhood Action Plan;
- good governance and the promotion of human rights and fundamental freedoms;
- environmental protection.

1. EU POLICY OBJECTIVES

Overall objectives of the EU's external policy

The overall aim of the European Union's external policy is to preserve its common values, promote peace and security in accordance with the Charter of the United Nations and promote international cooperation. It also aims to promote better governance through the development and consolidation of democracy, the rule of law and the upholding of human rights and fundamental freedoms.

European security policy

In December 2003 the EU adopted the European Security Strategy, which recognises that a Union of 25 States with 450 million inhabitants accounting for a quarter of the world's gross domestic product (GDP) is a global player. One of the priorities identified by the European Security Strategy is the need to promote "a ring of well governed countries to the East of the European Union and on the borders of the Mediterranean with whom we can enjoy close and cooperative relations." The strategy also clearly states the need to promote an order based on effective multilateralism and refers to the security of the EU's energy supplies.

European development policy

The essential objective of European development policy is the reduction and eradication of poverty and, in parallel, the promotion of good governance and respect for human rights. More specifically, EU development cooperation objectives are clearly set out in the "*Joint Statement by the Council and the Representatives of the Governments of the Member States meeting within the Council, the European Parliament and the Commission on European Union Development Policy: The European Consensus*" of (2006/C 46/01 of 24 February 2006). Poverty eradication and sustainable development are the essential goals of this policy.

In December 2005 the European Council adopted an EU strategy for Africa which provides a long-term strategic framework for interaction between Europe and Africa at all levels, with pan-African institutions such as the African Union, regional organisations and national authorities. The strategy rests on three pillars: (i) promotion of peace, security and good governance as prerequisites for sustainable development, (ii) support for regional integration, trade and interconnectivity to promote economic development and (iii) improved access to basic social services (health and education), decent work and environmental protection. For partner countries covered by the neighbourhood policy, the strategy dovetails with that for Africa by giving priority to measures designed to promote the political, economic and social reforms necessary for integration into the Euro-Mediterranean area.

To implement its external policy the EU has a large array of instruments. A coherent set of instruments to ensure maximum effectiveness will be selected during the formulation of the objectives of EU-Morocco cooperation.

Strategic aims of cooperation with Morocco

Association Agreement

The EU and Morocco signed an Association agreement in 1996 which entered into force in 2000. This agreement constitutes the general framework for relations between the EU and Morocco in political, economic, social, scientific and cultural fields. This agreement falls within the broader context of the Barcelona Process launched in 1995.

The Agreement highlights the need to ensure harmonious economic and social relations between the parties in order to foster the development and prosperity of Morocco and its people¹. It also lays down the conditions for the gradual liberalisation of trade and the conditions for establishing a free trade area between the parties². For this purpose it proposes the establishment of economic, social, cultural and financial cooperation.

Ten working parties or sectoral subcommittees have been set up under the AA, including a new subcommittee on "human rights, democratisation and governance". A strengthened political dialogue has been set up. Several sectoral agreements have been negotiated or are in the process of finalisation, in particular: an agreement on the liberalisation of trade in services and the right of establishment, and on the liberalisation of trade in agricultural products and processed agricultural products; a readmission agreement with the Community for illegal immigrants; a partnership agreement in the fisheries sector (finalised on 28 July 2005) and an agreement on scientific and technological cooperation (signed in 2003, entered into force in March 2005). All these agreements testify to the dynamism and quality of EU-Morocco relations.

The European Neighbourhood Policy

In 2004 the EU proposed a new framework for relations called the European Neighbourhood Policy (ENP), which invites Morocco and other countries neighbouring the EU to establish together an area of peace, stability and prosperity. The ENP aims to prevent the appearance of any new divide between the EU and its neighbours by proposing closer relations on security matters and in political, economic, social and cultural fields. It also meets one of the strategic objectives of the European security strategy, namely the need to strengthen the Europe's security in its immediate neighbourhood.

More specifically, the EU wishes to establish closer relations with its partner countries. To achieve this the EU offers greater support for the implementation of political, economic, social and regulatory reforms, a gradual participation in the internal market and participation in certain European programmes. The speed and intensity of this process will depend on the will and capability of each partner country to engage in this broad agenda. In the case of Morocco, specific objectives were laid down in an EU-Morocco Neighbourhood Action Plan, which was jointly adopted in July 2005.

¹ Article 1(2), third indent.

² Title II of the Association Agreement.

2. OBJECTIVES OF GOVERNMENT POLICY

Over the last few years Morocco has followed a general policy which rests on three separate but highly complementary pillars: (i) a gradual but steady political development towards a completely democratic system and rule of law comparable with that of its European neighbours; (ii) achievement of stronger and more stable economic growth, which alone can create jobs in both quantity and quality; (iii) a strengthening of social cohesion and poverty reduction, reduced social deficits and assistance for the very poor. To do this, Morocco needs to consolidate its process of transition and political opening, improve its macroeconomic performance, step up the modernisation of its productive sector, continue with and speed up its institutional reform timetable and establish more effective and fairer social policies.

Morocco's determination to benefit from a closer association with the EU is enshrined above all in the continuation of its democratic reform process, the modernisation of its productive fabric and its institutions, and the stepping-up of its trade capacity. The Association Agreement and the Action Plan are a top policy priority. Morocco considers that the Neighbourhood Action Plan is ambitious and represents Europe's first favourable response to King Mohammed VI's request for "advanced status" in 2005. It rather takes the form of Europe's shared responsibility in the country's development -- a true partnership on the basis of the national government's development programme -- because it is essential to take account of the political priorities of each EU partner and of the pace of reform. Many adjustments are needed to achieve the joint objectives, as is a radical modernisation in Morocco on the lines set out below.

Economic development

- Promoting growth and employment. The government's objective is to achieve strong economic growth by creating jobs through the modernisation of the economy and promotion of investment. Efforts will focus on the modernisation of the productive base by improving the competitiveness of industry through the introduction of new technologies, the promotion of exports, improving the efficiency of the financial sector, a solution to the land problem, and the modernisation of vocational training (public and private) to meet the needs of industry.
- Diversification of the sources of economic growth by promoting the development of new sectors.
- Improvement of the business and investment climate combined with ongoing reform of the legal framework through labour market flexibility, investor protection, the right of ownership and upholding of contracts, and so on.
- Improvement of public finances, taking account in particular of the impact of tariff dismantling with the EU: the priorities are to widen the tax base, reduce tax exemptions and lower the number of VAT rates.
- Strengthening the agricultural base. The country has real agricultural potential and the agricultural sector has to make a contribution to economic growth. Climatic fluctuations explain only in part the bad performance of the sector, which is amplified by price structures and levels of protection.

Social development and poverty

Morocco has formulated a series of regulations and legislative measures, plus intervention strategies, which cover all spheres of activity in the social sector. On the occasion of the

fiftieth anniversary of independence, and on the initiative of King Mohammed VI, a report on "50 years of human development in Morocco and perspectives for 2025" was drawn up by a group of national experts and published in January 2006. This report puts into historical perspective Morocco's efforts on social issues, sheds light on the existing deficits and proposes long-term development perspectives. This is the country's most ambitious effort to know and make public its real social situation.

In his speech of 18 May 2005 the King launched the national human development initiative (NHDI), a political framework which set out objectives for social development, in particular the reduction of social deficits, poverty reduction and assistance for the extremely vulnerable.

Other documents look at the continuing efforts to reform the social sector, including the "National Education and Training Charter", the "Strategic Framework for Development of the Education System" and the quite recent "National Strategy for Equity and Gender Equality". The health sector is working on a medium-term strategy.

These documents put forward a number of common points:

- The enhancement of human resources. This entails the reform of the education and vocational training systems. Under the National Education Charter reforms focus on development and the organisation of basic education, higher education and vocational training. It also embraces the fight against the illiteracy of young people and adults (in particular women), which remains one of the government's first priorities. Current health reforms aim at the qualitative improvement of public health and improved access to healthcare and medical cover.
- Social development. To ensure a more even distribution of the fruits of economic growth, the main thrust of social policy is to tackle poverty and increase access to basic social services, extend social protection and pursue the strategy to increase participation by all sections of society, including women, in the country's development. This policy component was given a major impulse by the launching of the NHDI.

Institutional development

- Reform of the administration and of public-sector enterprises. This is a priority for the government. One of the objectives is to refocus the role of the state on its priority tasks, to continue to reduce and rationalise public expenditure - including the wage bill, to increase its effectiveness and so make take a more active part in the country's development. make up for time lost in the modernisation of public-sector enterprises.

Regional development and planning, regional integration

- Rural development and reduction of regional disparities. Agriculture remains the main source of rural development in Morocco. Apart from its strategic role in domestic food security, agriculture plays an essential role in production, employment, regional planning and the environment. In view of the forecast increase in food needs, the adjustment of agricultural production to the needs of an increasingly open market is becoming imperative.

- Regional and urban planning. In the interests of sustainable development, regional disparities must be reduced and the development of urban sectors linked to the improvement of rural conditions.
- Regional integration. Apart from its political dimension, regional economic integration is a major factor in the country's economic development. The size of the economic area in particular must be sufficient and provide the economies of scale required to make most productive investments effective.

3. ANALYSIS OF COUNTRY'S SITUATION

With a population of more than 30 million, Morocco is one of the most populous countries of the Mediterranean region. Per capita income stood at €1 300 in 2004, which puts Morocco below the regional average of €1 375. However, these figures should be treated with caution in view of the size of the informal economy.

3.1. Political situation

Morocco is a constitutional monarchy. King Mohamed VI came to the throne in 1999. The 1996 constitution consolidated the powers of parliament and introduced a bicameral system. In the last elections of September 2002 the two most important parties, the socialist *Union Socialiste des Forces Populaires* (USFP) and the conservative Istiqlal Party formed a broad coalition. The main opposition party is the *Parti de la Justice et du Développement* (PJD), which supports political Islam. The next parliamentary elections are due in 2007.

In recent years Morocco has embarked on a proactive process of modernisation and democratisation. There has been undeniable progress in the areas of democratic reform and respect for human rights, in particular the adoption of the new family code, the law on political parties, the law outlawing torture, the strengthening of local democracy, the reform (under way but still very slow and problematic) of the justice and prison systems, and drafting of the new electoral code. The recommendations of the Fairness and Reconciliation Commission (IER), which was set up to set right the wrongs suffered by the victims of arbitrary detentions and forced disappearances, have paved the way for several new measures, including constitutional reform measures.

The current government's policy is to seek consensus so as to maximise support for the reforms under way. This has occasionally slowed their implementation. In order to ensure the long-term success of these reforms, Morocco must have the means necessary to implement them.

An advisory committee on human rights has started work and will probably be given further responsibility for coordinating implementation of the IER's recommendations. The Interministerial Commission responsible for freedoms and human rights, chaired by the Prime Minister, has announced the government's decision to withdraw a number of reservations Morocco has entered against international conventions on human rights to which it is signatory³. The Commission has also announced Morocco's accession to the Optional

³ Article 14 of the International Convention on the Elimination of All Forms of Racial Discrimination and Articles 20 and 22 of the Convention against Torture. These articles concern complaint mechanisms and the conduct of inquiries by the committees concerned. The reservation entered against Article 14 of the Convention on the Rights of the Child (freedom of conscience) has been withdrawn and replaced by an explanatory statement (even if it constitutes a de facto reservation - children in Morocco are born with a declared religion).

Protocol to the International Covenant on Civil and Political Rights concerning complaint procedures and that it is still studying the remaining reservations concerning the Convention on the Political Rights of Women and its Optional Protocol. The procedure for lifting the above reservations is proceeding and Morocco deposited an application with the United Nations in early 2006. Accession to the Optional Protocol of the International Covenant on Civil and Political Rights concerning the death penalty is not yet under consideration, although this was recommended in the IER's final report (December 2005).

Despite this progress Morocco still has a way to go on the path to democratisation, respect for human rights, good governance and consolidation of the rule of law; it needs to complete its legislative framework and adopt the relevant implementing laws. It is also necessary to increase the operational capacity of the specialised agencies set up to protect citizens' rights and to disseminate genuine culture of respect for human rights.

Minorities: a royal institute for Amazigh culture has been set up and, in addition to promoting this culture, it is responsible for integrating the Berber language in the educational system. Some pilot projects are already under way.

The media and civil society organisations enjoy considerable amount of freedom compared with other countries of the region.

The participation of women in politics remains very low. Until 2002 no more than two women were ever elected in general elections. In 2002 significant progress was made with the introduction of national lists reserved for women. In all, 35 women (30 on national lists, 5 on local lists) were elected to parliament. They make up 10.8% of elected representatives. Nevertheless great disparities between men and women in decision-making remain.

Corruption remains a major problem, despite the government's declarations and desire to combat this scourge. There are wide divides between the various sections of the Moroccan society, something that is worsened by the lack of functioning redistribution mechanisms and adequate social nets. Reforms are ongoing or in the pipeline but are still inadequate to deal with the scale of the problem.

In its **foreign policy** Morocco plays an active role in international and regional initiatives, particularly in the Euro-Med partnership. It is signatory to the Agadir Treaty with Tunisia, Egypt and Jordan, which aims to establish a free trade area among the countries of the South Mediterranean which have signed an Association Agreement with the EU. It has also signed free-trade agreements with Turkey and the United States.

Morocco is one of the original signatories of the Arab Maghreb Union (AMU). However, Morocco is not a member of the African Union. The participation of Morocco in the work of AMU has been influenced by the situation in the Western Sahara. The new plan to settle the conflict proposed by the United Nations in May 2001 has not yet been approved by the all the parties. The resolution of the conflict in the Western Sahara is crucial for the regional stability and development of the Mediterranean.

Morocco has been a member of the UN since the end of French Protectorate in 1956, a member of the Arab League since 1958, and is also a member of the Organisation of the Islamic Conference (OIC), a member of the AMU and a founder member of the subregional structure called the 5+5 Dialogue. In the economic sphere, Morocco is member of the International Monetary Fund (IMF), the World Bank, a founder member of the World Trade

Organisation (WTO), the World Customs Organisation (WCO), the World Intellectual Property Organisation (WIPO) and the Bern Union for the protection of literary and artistic property.

In relations with the EU Member States the issue of illegal migration is one of the principal sources of concern. In addition to the two million Moroccans who reside legally in the EU, one million are thought to be living there illegally. Morocco is also a transit country for illegal immigrants from sub-Saharan countries going to the EU.

Morocco fully supports the European Neighbourhood Policy. It shares the opinion that the Neighbourhood Policy and the Action Plans constitute a clear political message stemming from a shared political objective, in particular that of obtaining a more advanced status than that conferred by the Association Agreement and of giving concrete expression, through short-term actions and a medium-term political perspective, of the country's anchoring in Europe. The Action Plan also has a regional dimension concerning Morocco's role in the Maghreb.

Morocco, a country attentive to African issues, should be able to play a greater role in the dialogue between the EU and the AU. Morocco is increasingly involved in the efforts undertaken by the UN and regional organisations to bring peace, stability and sustainable development to the African continent, as its engagement in the New Partnership for Africa's Development (Nepad) testifies.

The EU's cooperation with Morocco on **security/justice/home affairs** issues is important for both partners. In the context of the EU's growing cooperation with third countries in the fight against terrorism, Morocco is a key country and could become the "pilot" country for actions with other partners in the region. With a view to greater Moroccan involvement in the European Security and Defence Policy (ESDP), contact points have been set up in Moroccan and Community institutions for the exchange of experiences on crisis management. Morocco has already taken part in SFOR and KFOR missions in the Balkans. On the basis of this experience, there is now a possibility of stepping up dialogue and/or specific cooperation with an eye to Morocco's possible participation in EUFOR and/or missions to maintain/restore peace in Africa.

3.2. Economic situation

Over the last five years Morocco has recorded good economic performances and displayed a good capacity to resist internal and external shocks while maintaining macroeconomic stability, which is a solid *acquis* for coping with challenges in the medium term. In a context of greater international competition, these challenges include reducing unemployment and poverty while continuing budgetary consolidation. The macroeconomic perspectives and medium-term expenditure framework which form the basis of the authorities' strategy, provide for a continuation of the structural reforms and a macroeconomic policy that will maintain a low inflation rate and control domestic and external balances.

3.2.1. Growth

The average growth rate forecast for 2006-2008 is 5%. This rate is based on a consolidation of the average growth of the last five years and reflects the difficulty of stimulating private investment with the current reforms, despite a national savings surplus. Growth is expected to be driven mainly by domestic demand and to a certain extent by exports, depending on

Morocco's capacity to exploit its comparative advantages in a context of increased international competition. The authorities' macroeconomic scenario nevertheless supposes that continuing structural reforms to promote private investment and productivity should lead to greater investment in the non-agricultural sector. The likely growth sectors are building and public works, mining, energy, agri-foods, tourism and the emergence of rapid growth sectors such as telecommunications and electronics. Industry should recover after the slight slump recorded as a result of difficulties in the textile sector after the end of the Multifibre Arrangement. Economic growth will remain, however, subject to fluctuations in agricultural production⁴. It should perform well in 2006 after slowing in 2005.

On the whole, the growth rate of the economy will not reduce the unemployment rate significantly, also taking account of the constant rise in the number of first entrants on the labour market. The growth level of the last five years did, however, reduce urban unemployment from 22% in 1999 to 18.3% in 2005, and the national rate from 13.9% in 1999 to 10.8% in 2005.

The growth target should produce continued poverty reduction, poverty levels falling from 19% in 1999 to 14.2 % in 2004, thanks, partly, to the improved performance of the agricultural sector. The authorities are also implementing accompanying measures to reduce poverty, in particular the NHDI, which puts emphasis on a better targeting of actions touching on education, health, social habitat, and social infrastructure in vulnerable areas.

3.2.2. Public finances

Morocco's budgetary framework remains sustainable in spite of external and internal shocks. However, over the last five years the deficit has remained on average above 5 %⁵. Budgetary consolidation in the medium term depends on the current structural reforms, in terms of both spending and revenue. Furthermore, the exceptional revenues from the privatisations carried out since 2001⁶, which have helped to contain the external debt, will fall in coming years⁷. The implementation of new reforms will help to avoid a reversal of the current trend towards reducing the external debt ratio,

Budgetary consolidation will therefore remain an important issue in coming years. The target is to reach a deficit of 3% in 2009 following a gradual reduction between 2006 and 2008 as a result of the expenditure and revenue reforms.

The administrative and budgetary reforms initiated since 2004 with the support of the European Commission, the World Bank and the African Development Bank, should give control over the wage bill⁸.

Thus in the medium term overall government spending as a proportion of GDP should slightly decrease, the level of public investment being maintained and the wage bill falling from 13% of GDP in 2005 to 11.5% in 2008. In addition, the reforms of the subsidy systems for basic products should reduce expenditure on this item and make them fairer thanks to a better targeting of vulnerable groups. The current budgetary reform will introduce greater

⁴ Agriculture accounts for 15% of GDP on average.

⁵ Excluding revenues from privatisation.

⁶ Approximately 2.1% of GDP on average between 2001 and 2005.

⁷ Approximately 0.4% of GDP in the period 2006-2010 (IMF estimates).

⁸ Thanks to the programme of voluntary retirement in 2005, the net cost of which was 2.1% of GDP.

transparency into the spending process and improve the effectiveness and the efficiency of public policies.

The objective for tax revenues at a time when customs duties are falling is to try to maintain them at an adequate level. This objective is retained in the medium-term macroeconomic framework, thanks in particular to the measures contained in the tax reform. This involves reducing tax exemptions, broadening the tax base, reducing distortions and simplifying the system. Measures to tackle tax administration will also help to improve the tax yield.

The planned budget will lower the total public debt stock, which would fall from 71.4% of the GDP in 2005 to 66.5% in 2008, despite the gradual fall in privatisation revenue.

3.2.3. External balance and trade balance

Until now the trade deficit has been more than compensated by the good performance of transfers from Moroccans resident abroad and revenue from tourism. This produced a surplus on the current balance-of-payments account of 2.4% of GDP in 2005.

The Moroccan trade balance is in structural deficit. Exports cover only 50 % of imports. Exports are not very diversified: textiles and clothing 35%; food and tobacco 20%; phosphates 17%. However, electric and mechanical engineering exports are rising. Imports are dominated by capital and consumer goods (42%), energy products and lubricants (19%) and food and tobacco (8.5%).

The EU is Morocco's leading trading partner. Morocco's exports to the EU are composed mainly of machinery and plant (31%), textiles and clothing (21%), vehicles (9%), chemicals (8%) and agricultural products (10%). The EU's imports of Moroccan products consist mainly of textiles and clothing (41%), agricultural products (20%) and engineering products (10%). In the service sector, exports to Morocco account for 1% of total EU exports and imports from Morocco for 0.6% of total imports. The services imported by the EU consist of transport (28%), tourism (53%) and business and communications services (19%).

Subregional trade with the Maghreb and southern Mediterranean countries is very limited (respectively 1% and 5% of the total). The reasons for this low level reside in the lack of harmonisation of national legal frameworks, the insufficient exploitation of economic complementarities, application of different rules of origin and the embryonic state of the subregional free-trade agreements.

In the medium term the trade imbalance should stabilise as a percentage of GDP, reflecting the continuous growth of imports and of exports under the effect, in particular, of the policies and reforms implemented (in particular the emergence plan), greater export openings (free-trade agreements) and a suitable exchange rate policy.

The current account surplus recorded since 2001 would be reabsorbed slightly and directed to the medium-term balance. The external position will thus remain sound. As a result, net external assets stood at more than MAD 150 billion at end December 2005, making it possible to cover almost 10 months of imports of goods and non-factor services.

Foreign direct investment (FDI) accounted for €3.6 billion in 2003 against €1.7 billion in 2002. FDI comes mainly from the EU. FDI from the US accounts for 2%. Thanks to the

improvement in the current account balance and the high level of FDI, Morocco has reduced its external debt considerably; it dropped from 65% of GDP in 1999 to 35% in 2005.

3.3. Structural reforms

For several years Morocco has been engaged in a vast range of ambitious structural reforms in several sectors. A law on public limited-liability companies was adopted in 1996, a commercial code in 1997, a law on the setting-up of commercial courts in 1998, and a new customs code and a new insurance code in October 2002. A new labour code entered into force in June 2004. Related legislation is also in place, in particular a law on the freedom of prices and competition. A charter for SMEs was adopted in June 2002. An agreement to bring about a greater liberalisation of agriculture was concluded in December 2003. An ambitious administrative and budgetary reform is being implemented with the support of the European Commission. Other major reforms concern the liberalisation of trade, restructuring of the financial sector and public-sector companies, transport, sickness insurance, the labour market and the business environment. Morocco also signed up in 2004 with other Mediterranean partner countries to Euro-Mediterranean Enterprise Charter.

Morocco made the political choice to continue its structural reform programme, in the context of the increasing openness of its economy. The success or failure of these reforms will shape the country's future.

The improvement of the investment climate in Morocco is a key priority for the future of the country and for achieving greater economic competitiveness. The private sector has to be the engine of stronger economic growth; it alone is capable of creating many jobs when the number of people arriving on the labour market is still increasing. Accordingly, the government intends to encourage private investment by simplifying the regulation, recruitment and firing of workers, the obtaining of authorisations and licences, access to credit, in particular for small and medium-sized enterprises, and facilitating business transfers.

The most sensitive sectors requiring structural reforms are agriculture, fisheries, energy, and transport.

The agricultural sector suffers from deep structural problems; it remains very sensitive to climatic fluctuations and to the pressures of trade liberalisation. This sector accounts for approximately 15% of GDP and occupies almost half of the population. What is more, 70 % of the poor live in rural areas, which results in a massive rural exodus towards the cities or the EU (often illegal emigration). The reform of the sector is not only essential in itself but is unavoidable because of the deadline for the liberalisation of agricultural trade with the EU, negotiations for which began recently. To be able to profit fully from this liberalisation, in particular for exports to the EU, Morocco will have to improve the health and plant health situation. The issue of what is effectively a water subsidy to promote the cultivation of cereals in unfavourable areas will also need to be tackled.

The **fisheries** sector accounts for 3% of GDP. The government estimates the number of direct and indirect jobs at 400 000 (including 104 000 fishermen). The small-scale fisheries sector (100 000 people), however, lags far behind other branches of the fisheries sector owing to the lack of infrastructure and of harbour facilities and plant. The adoption of a fisheries agreement with the EU will help to improve the own resources of the public fisheries sector and so develop it.

Implementation of the Association Agreement and the Action Plan, plus subregional ambitions (Agadir, the long-term Maghreb grid-integration project, and the longer-term establishment of a Maghreb gas market), are all further reasons to pursue modernisation of the transport and energy sectors because of their importance for economic growth and competitiveness. In particular, it is important to continue the radical overhaul of institutional and legal frameworks, the opening of markets to competition and the enhancement of human resources.

Given the country's dependence on imported energy and the increase in the costs of fossil fuels, further efforts are needed to improve energy efficiency, better exploit the national potential for renewable forms of energy and promote the clean combustion of coal.

The continuation of reforms in the transport sector is of equal priority, as all forms of transport are concerned, land, rail, sea, air, ports and airports. The service quality and cover in the sector is poor and waiting times (in ports) excessive, which often leads to high transport costs. The above transport reforms and the simplification and harmonisation of customs procedures are measures to be promoted in coming years and carried out with an eye to the reference standards of the World Customs Organisation designed to secure and facilitate world trade, the creation of common border checkpoints and common/shared controls and improved cooperation between customs services in order to minimise waiting times at the borders and facilitate long-distance maritime, rail and road movements. Improved safety for all modes of transport is also a priority. Regarding regional cooperation, national strategies should be coherent with the conclusions of the Marrakesh ministerial conference and with the recommendations of the Blue Book concerning an integrated system of Euro-Mediterranean transport and the final report of the high level group on the extension of the TEN-T to neighbouring countries and regions. The promotion of subregional cooperation could thus help the development of the trans-Maghreb multimodal corridor.

3.4. Social situation

The last UNDP Human Development report (2006) ranked Morocco in 123rd place, a figure which, beyond the statistical aspects, points to a level of social progress that does not correspond to the country's real potential. Morocco's 123rd position in the HDI should be compared with its ranking in terms of per capita income (105th in 2006); *this gap show that growth and wealth are not being translated into social and human well-being*. The general poverty level in Morocco increased in the 1990s, with a tendency for poverty to be increasingly feminised. After reaching almost 19% in 1999, the poverty rate fell sharply thereafter, standing at 14.3% in 2004⁹. Poverty affects rural areas and women above all. The most vulnerable women are young women without schooling. But the incidence of poverty is also high in households headed by women.

The precarious situation in which a large section of the population lives is a constant source of instability and insecurity. Illiteracy, bad health conditions and poor levels of education also make many vulnerable. Unemployment, informal employment and underemployment are a source of concern: unemployment stands at 18.4% in the towns (2005) and at 32.7% among young people (2005), whether or not they are graduates, and the rate was rising in 2006. In

⁹ According to the absolute poverty threshold of USD 2/pp/day: demographic and socio-economic findings of the 2004 general population census, Statistics Department of the High Commission for the Plan.

addition to the fact that this is a social issue which threatens human dignity, citizens' attitudes to their country and its institutions, and the protection of human rights, this situation intensifies social marginalisation, which affects women in particular, and is a serious obstacle to economic development and to the general improvement of living and labour conditions.

From this point of view, social reforms, in particular improving access to health and education, are a matter of urgency if insecurity and poverty are to be tackled.

Education has been national priority for Morocco since independence. All governments have devoted considerable resources to it. Despite this, the illiteracy rate in the population over ten stands at 43% and reaches up to 60.5% in rural areas (46% for men and 74.5% for women). There are serious issues in formal education, in particular the completion of primary education in rural areas, access often being difficult, the creation of the required conditions and means to ensure the expansion of secondary schooling, the indicators for which are still very low, and improvement of the quality of teaching and internal performance.

The decade 2000-2010 has officially been designated the "decade of education" in order to speed up quantitative, qualitative and institutional improvements in the education system. Following the adoption of the National Education and Training Charter in 2000, an instrument to implement the Charter in the form of a strategic framework to develop the education system was unveiled at the end of 2004. A literacy and non-formal education strategy was also adopted in September 2004.

Education is key to Morocco's economic and social development strategy. Modern higher education was introduced just after independence. The first university was opened in Rabat in 1957. Currently there are 14 universities with 105 institutions established in 17 cities and covering 14 types of teaching. Changes in society and globalisation are factors which have speeded up the review of Moroccan universities. The new teaching reform for the decade 2000-2010 aspires to align it on the European system of higher education (in particular the Bologna Process), which will facilitate students' national and international mobility. The introduction of the LMD system (Degree, Master's, Doctorate) is intended to gear students towards careers and provide flexible training. Efforts to promote higher education have made some quantitative progress. According to the 2005 Statistical Yearbook, 289 900 students (45.9% female) were enrolled at university in the academic year 2004/05 (all years combined). Despite these efforts, higher education is confronted with many problems:

- The universities which are not subjected to the system of the quotas, such as the faculties of letters, of right and of sciences, and which welcome approximately 92% of all the students, are over-populated.
- There is a widening gap between rising student numbers and the material resources available to most higher educational establishments;
- The inadequacy of the guidance and advisory system for students leads to mistaken choices and considerable waste.

Despite the progress achieved in the health sector, Morocco's key health indicators still give cause for concern, in particular in terms of the mortality/morbidity of the most vulnerable groups. The infant mortality rate is 40/1000 births and the maternal mortality rate is 227/100 000 births. There is persistent inequality of access to healthcare, both geographical and financial. There are also serious problems as regards the quality of the care offered. An important reform package has been launched focusing on the decentralisation/devolution of the sector and improved access to care.

3.5. Environmental situation

High demographic growth and constant socio-economic development have put pressure on natural resources and caused environmental degradation¹⁰. Morocco's main problems are the qualitative and quantitative deterioration of water resources, waste management, marine pollution, nature conservancy and desertification.

To cope with this situation, the national authorities drew up in July 2003 an overall national strategy for the environment, which was followed by a national action plan for the environment (PANE). The action plan identifies priority areas of action, in particular the sustainable protection and management of water resources, soil and natural environments, air protection, the promotion of renewable energy, improvements in the urban and peri-urban environments, etc.

Broadly speaking, the framework legislation for environmental protection and related subsectors has been adopted, apart from a few lacunae such as waste management. But laws to implement this legislation are still lacking in a number of areas such as environmental impact assessments, control of atmospheric pollution, protection of coastal areas and wetlands, and of highly polluted areas. Morocco is having difficulty implementing and applying legislation and conducting strategic planning owing to inadequate administrative infrastructure and a lack of human and financial resources.

3.6. Crosscutting issues

The issue of equality between women and men is social, political and economic in nature. It measures a country's degree of development and adherence to the universal values of human rights. Currently, except for life expectancy, the economic and social development indicators for Moroccan women (e.g. the urban unemployment rate, rural and urban activity ratios, the percentage occupied in non-remunerated home work in rural areas) are systematically lower than those of men. The Moroccan government has recognised that equality is at the centre of any development process and committed itself to improving the status of women.

Major reforms have been carried out to improve the legal situation of woman, in particular the new family code, the amendment of the penal code to make more suitable provision against discrimination and violence, the adoption of the electoral code which gives new opportunities to women, and the entry into force of the new labour code based on the principle of the non-discrimination as regards employment and wages.

The secretariat of state for the family, children and disabled people is the institution responsible for coordinating and supervising public policies targeting the promotion of woman. However, its administrative capacity is small for the tasks assigned it. It recently launched a national strategy for gender equality which aims to incorporate the concerns of men and of women into the design, implementation, monitoring and evaluation of government programmes so that women and men from benefit equally and current inequalities are not perpetuated.

Gender focal points have also been identified within each ministry to disseminate information on gender issues and raise the awareness of decision-makers and planners in all sectors.

¹⁰ A detailed description of the environmental situation can be found in Annex 2.

Finally, the finance and privatisation ministry has started a process of adding a gender dimension to the budget. This involves analysing the implications for women and men of the allocation of resources when drafting and analysing sectoral budgets as a component of the budgetary reform. Morocco has thus introduced, for the first time, a gender report annexed to the economic and financial report which accompanies the 2006 Finance Act. Some ministries have already embarked on a "genderisation" of their budgets, including the education, health, and agriculture ministries.

4. COOPERATION PROGRAMMES

4.1. Community programmes

4.1.1. Financial protocols (1977-1996)

Under the four financial protocols of the 1976 Cooperation Agreement signed between the EC and Morocco, Morocco received a total of €1091 million, including €74 million from the Community budget and of €18 million in the form of loans from EIB own resources.

The protocols gave sectoral priority to rural development (46%). Other sectors of activity were, in order of importance: economic infrastructure (17%), the social sector (15.6 %), the private sector (10%), vocational training (10%) and civil society (0.4%).

4.1.2. MEDA

The Meda programme (adopted in July 1996) is the EU's principal financial instrument for the implementation of the Euro- Mediterranean partnership. The budgetary resources allocated under Meda were €3.4 billion for 1995-1999 and €5.4 billion for 2000-2006. Morocco has become the principal beneficiary of the Meda programme, with commitments totalling €1.472 billion for 1995-2006, of which €660 million under Meda I (1995-1999) and €812 million under Meda II (2000-2006).

Meda cooperation touched all socio-economic spheres in Morocco. Several structural adjustment programmes were set up in essential sectors such as finance, taxation, water, transport, health, education, the civil service, plus twinnings and exchanges in services such as customs, the environment, youth, transport and justice.

Investment programmes were implemented to support enterprise development, vocational training in the tourism, textile, and information and communication technology sectors, the development of the national road transport infrastructure such as the Mediterranean "rocade" and the rural network, integrated rural development, and water and sanitation programmes in rural areas (PAGER), measures to deal with unhealthy habitats to get rid of slums and improve access to social facilities. Meda funds were also channelled to migration, with the aim of fostering a better management of migratory flows. Financial cooperation also concerned environmental protection and the promotion of human rights and fundamental freedoms.

4.1.3. EIB

Since 1996 the EIB has granted Morocco loans of €87 million from own resources. Within the framework of the Barcelona process the EIB has strengthened its financial links with the

Mediterranean partners thanks to the creation of a specific instrument: the Euro Mediterranean investment and partnership facility (FEMIP).

These loans underpin the process of modernising and strengthening the Moroccan economy. The Bank's activities are guided by three complementary principles:

- to provide the beneficiary countries with the long-term funding needed to strengthen and develop economic infrastructure;
- support EU action to protect the environment in the Mediterranean with the support of the European Commission, which subsidises the long-term loans offered by the Bank;
- to support the development of the private sector by loans from the Bank's own resources or contributions from venture capital.

4.1.4. Other budget headings

In the period 1996-2006 Morocco received financing totalling approximately €15 million under horizontal EC budget lines, in particular Meda democracy, the environment, LIFE, the ECIP, the fight against AIDS, NGO cofinancing, and the fight against drugs, plus €10 million under the budget lines for the 5th and 6th Framework Research, Technology and Development Programmes, in which more than 160 Moroccan teams participated.

4.1.5. Lessons to be learned

This strategy paper follows on from the recommendations of the evaluation of the 2003 Morocco country strategy. While objectives have evolved following a more targeted formulation in the Action Plan, parties will seek to ensure the best possible balance between the resources mobilisable under the NIP and other resources (other budget lines, coordination with the aid of the Member States and other donors, etc.).

Past experience is also a guide to better targeting reform measures in relation to the objectives of the Association Agreement and the Action Plan. For example, 65% of the 2005 budget for the support programme for the implementation of the Association Agreement (P3A) went on twinnings, an approach which will continue under the new programme. The Commission offers an positive incentive for formulating and carrying out reforms. It also helps generate synergies and consensus between the various governmental authorities on the key guidelines.

In operational terms, programme implementation will move towards support for sectoral approaches where possible, turning away from ad hoc projects that are not in sync with national sectoral policies. This will improve the bilateral dialogue and the visibility of EC cooperation.

4.2. Member States

Member States' aid projects are very varied and take place in a number of priority sectors.

- **Germany:** the priority intervention sectors are: (1) the sustainable development of the economy, including vocational training; (2) environmental and natural resource protection, including renewable energy; (3) water and sewage treatment.
- **Austria** focuses on agricultural and environmental activities.

- **Belgium:** the sectors concerned are drinking water and sewage treatment, vocational training, agriculture, health, infrastructure and scientific research.
- **Spain** gives priority to the northern regions and to the sectors of health, basic social infrastructure, training, urban rehabilitation, agriculture and tourism.
- **France:** it is Morocco's principal EU trading partner and principal development aid donor. France's sectoral priorities are the modernisation of the public sector, development of the private sector, vocational training, social development and basic infrastructure.
- **Italy's** priorities are development of SMEs, job creation, development of infrastructure and basic social services.
- The **United Kingdom** concentrates aid on human rights, good governance and equality of the sexes.
- **Sweden** focuses on the strengthening of civil society and protection of human rights.
- **Finland** finances a support programme for Moroccan NGOs with the aim of promoting democracy, civil society, women's rights and human rights in general.

4.3. Other donors

The World Bank's strategy for Morocco covers poverty reduction in rural areas, the development of basic social services and the promotion of good governance. It also supports sectoral reforms in public administration, the business environment and agricultural policy. Recently the Bank made basic education an intervention priority.

Annual financing from the **Islamic Development Bank** (IDB) amounts to slightly more than a million euro; it is used for social development, the development of human resources, and agriculture.

The African Development Bank (ADB) began operations in Morocco in 1970. The Bank's net commitments in the country currently total €3.22 billion. The ADB is currently studying the possibility of continuing investment in the social sector (health), transport and the capital markets.

Various UN agencies are active in Morocco: Unicef, the UNDP, the WFP, the United Nations Fund for Population Activities (UNFPA), the FAO and the WHO.

Japan finances fisheries, drinking water and road construction.

Morocco has friendly (political and historical) relations with the United States. The US and Morocco signed a free-trade agreement in 2004 which entered into force in January 2006. The US is also an important aid donor, focusing on education, enterprise development and environmental management. Support under the "Millennium Challenge Account" is also being prepared. Morocco is the main US ally in the region. It is also described as a "major non-Nato ally".

4.4. Coordination of development cooperation

There are two, co-existing levels of coordination in Morocco: that of the Commission and the Member States, possibly in concert with the EIB, and that of the donor group.

EU level

Meetings of heads of mission and first advisers, plus regular meetings of the four adviser groups (economics and trade, cooperation, culture and JAI,) take place monthly. Each group is headed by a representative of the rotating EU Presidency, in close cooperation with the relevant member of the Delegation. Thematic groups (environment, housing, water, education, gender, health and, recently, NHDI) have also been set up to study a particular field in greater detail and advance progress. For most the first step was to produce common strategy papers, which were transmitted by the Presidency to the Moroccan authorities for coordination with the administrations concerned.

The donor group

The donors group is an initiative launched in 2002, which by 2003 had representatives from most of the donors active in the country: the World Bank, the International Finance corporation (IFC), the UNDP, USAID, the ADB, the IDB, the Commission, EU Member States, Canada and Japan. The group is structured around a number of working parties on specific topics:

1. governance (leader UNDP)
2. modernisation of the private sector (leader IFC)
3. effectiveness of aid - harmonisation of procedures" (leader World Bank)

The Moroccan government was officially notified and involved in the work of the groups; the groups have often expressed the wish to see the Moroccan administration playing an active role in coordination.

5. THE EU'S STRATEGIC RESPONSE

5.1. General principles and objectives

The overall objectives of EU cooperation with Morocco are laid down in the context of the **Euro-Mediterranean Partnership and the Neighbourhood Policy**. The EU-Morocco Neighbourhood Action Plan adopted in 2005 aims to deepen bilateral relations in the political, security, economic, social, scientific and cultural fields.

This cooperation strategy must be consistent with other EU policies. In particular, it takes account of the Declaration of the Fourth WTO Ministerial Conference in Doha of November 2001 ("the Doha Agenda"), the common commercial policy, issues falling within the EC's Justice and Home Affairs remit, the need to promote better governance, the promotion and improved protection of human rights, the democratisation process under way in the country, and the environmental initiatives agreed at the 2002 UN Summit on Sustainable Development in Johannesburg.

More specifically, for the period 2007-2013 the EU's cooperation strategy must be consistent with the priorities arising from implementation of the Association Agreement and the Action Plan. The implementation of the Action Plan requires a speeding-up of structural reform and support for legislative and regulatory modernisation.

In addition, the EU's strategy takes account of factors which relate strictly to Moroccan domestic policy. Indeed, Morocco is anticipating donors' contributions to the financing of its

policies and reforms, while the priorities to be financed by the EU must be consistent with those proposed and decided by the Moroccan government.

5.2. Specific cooperation priorities and objectives for 2007-2013

The EU 's cooperation strategy in Morocco must satisfy the above objectives, while adjusting to the most urgent Moroccan needs.

In this context, the EU and Morocco have established the following five priorities for financial cooperation:

- the development of social policies
- economic modernisation;
- institutional support
- good governance and human rights
- environmental protection

In order to avoid duplications of effort and ensure that actions are complementary, the CSP and the NIP have been drafted in close coordination with the representations of the Member States on the spot.

A - Development of social policies

Despite major developmental and social efforts, Morocco still suffers from serious social deficits which are reflected in access to education, illiteracy, access to healthcare, poverty, unemployment, underemployment, informal employment and quality of social services.

Since the country is opening up its economy and will therefore be coping with greater competitive pressure, the objective of EC cooperation is to support the country's efforts to achieve the MDGs and the objectives of the NHDI, strengthen its social nets and improve the quality of education, health and social welfare.

The NHDI puts poverty alleviation and marginalisation at the heart of political debate in Morocco, and offers a great opportunity to boost the efforts of local authorities, in particular "communes" and grassroots associations, to tackle these serious social scourges. It should be stressed that the NHDI is a powerful tool for improving local governance in the country, in particular as regards local development and management of basic social services. Questions have been raised about the "project" (sometimes even "microproject") approach chosen for the implementation of the NHDI, especially concerning the institutional anchoring of the interventions, the NHDI's consistency with other social sectoral policies and the way it is structured in relation to other measures on the ground. Indicators concerning the sustainability and continuity of operations financed under the initiative will be needed.

In education, a lack of basic skills, in particular reading and writing, has very negative effects on the possibilities for learning - including training - and the exercise of civil and social rights. This state of affairs is a major obstacle to the country's economic and social development and demonstrates the need to continue investment in the sector.

In the communication to Parliament and to the Council on the programme to update the Barcelona process by 2010, adopted on 12 April 2005, the Commission placed education

among the priorities of the partnership and committed itself to increasing significantly the support granted to the sector.

The EU's strategy on education and literacy is to support the government's efforts by focusing on women and the rural and peri-urban population; it also aims to support reforms designed to improve the quality of the primary and secondary school system and the level of achievement in basic education and secondary education, in particular that of girls. This strategy will finally encourage the government's efforts to decentralise the management of education policy and literacy campaigns. Cooperation in this sector can be strengthened because the ENP offers the possibility of projects and exchanges between students, including participation in Tempus and in Erasmus Mundus. The possibilities of enhanced cultural cooperation will also be examined.

The health sector is characterised by persistent inequalities in access to healthcare, problems with the quality of the care offered, health financing, human-resource management and drugs. The objective of cooperation will be to support the current reforms of social protection (sickness insurance in particular) and improve access to the health system and the quality of care. EC cooperation will also continue to provide support for the major decentralisation/devolution reforms of the sector, and thereby to aid the improvement of healthcare supply. Support is also proposed for the implementation of international agreements on public health.

B - Economic modernisation

Morocco is facing major economic challenges. The objective is to increase the growth rate so as to generate jobs, which alone can reduce poverty, social inequalities and unemployment, in particular in regions where there is a high level of migration. This objective must be compatible with the authorities' strategy to continue the consolidation of the macroeconomic framework and domestic investment.

Morocco is engaged in a market-opening process which intensifies the competitive pressure on its economy. The implementation of the free-trade agreements with the EU, the US and the countries of the Agadir Agreement, plus the negotiations that have started with the EU on the liberalisation of trade in services and the right of establishment and on agricultural products, mean that the economy must become more competitive. What is more, the economy remains dominated by just a few sectors (textiles, mining, agriculture), something that increases its vulnerability. An improvement in the investment and business/innovation climate is important for promoting the start-up and development of new companies in growth sectors.

The quality and adaptability of the labour force are also major factors in the competitiveness of a country and Morocco has to be able to offer the human skills that industry will need, especially in the new sectors that companies wish to encourage. The EC will continue to aid the improvement of vocational training.

Agriculture remains a crucial sector of the country's economy, and is particularly in need of reform. The EC's objective is to support efforts to modernise the sector and improve its competitiveness, in particular by raising product quality.

Infrastructure is also fundamental for the competitiveness of the economy; it opens up more remote areas of the country and thereby facilitates the marketing of products and trade, and

reduces business costs. It also improves the quality of life and helps satisfy basic needs. The EC will continue to provide aid for transport infrastructure, in particular roads, with the aim of developing the trans-Maghreb corridor and interconnections with Moroccan ports, and for the energy sector, in particular Morocco's gradual integration into the Euro-Mediterranean electricity and gas markets, a lessening of its heavy reliance on external energy, the diversification of energy supplies thanks to the development of renewable sources, and controlling energy demand.

To sum up, the EC's objective is to provide support for the authorities' efforts to diversify the sources of growth (Emergence plan), improve the competitiveness of existing businesses and continue reform of the legislative and regulatory frameworks for investment. Support may also be directly targeted on certain companies. Lastly, if appropriate, a "Trade Need Assessment" (TNA) could be started in good time to determine the needs for trade-related assistance.

C - Institutional support

Under the Neighbourhood Action Plan Morocco has embarked on a major effort to align itself on the legislation and standards of the EU. This should enable it to gradually exploit the possibilities offered by the Neighbourhood Policy, and in particular progress beyond the existing relations towards a significant degree of integration; this includes allowing Morocco to participate in the internal market and taking part gradually in EU programmes. This will require a great effort by Morocco to create the necessary legislative and institutional conditions. This ambition is reflected in Morocco's request for "advanced status" with the EU which would be "more than association, less than accession".

The adoption of European and international rules and standards in industry and agriculture (health and plant health standards) will help make the Moroccan economy more competitive and able to cope with international competition on its domestic market while also conquering new external markets.

In addition, it is now proven that the quality of institutions is key to the success of development programmes. Lastly, the institutional support programmes set up under Meda have highlighted the importance of providing high-level technical assistance to Moroccan institutions, in particular through twinning (including research and higher education bodies).

In this context, the EC's objective is to continue providing support for the Moroccan institutions responsible for implementing reforms under the Action Plan.

D - Support for good governance and human rights

A few years ago the government embarked on an wide-ranging reform of the justice system, which is of importance both for consolidating the rule of law and democratisation and for economic and social development. The EC has already provided support for this programme and intends to continue its support, in particular for new components, such as the prison system and the training of court staff.

Continued progress in good governance and the consolidation of human rights requires constant support from the EC, in particular for organisations responsible for protecting human rights (advisory committee on human rights, etc.).

Cooperation on security/justice and home affairs, including migration could be studied in greater detail when both partners consider it appropriate. Concerning drugs, the Neighbourhood Action Plan and the EU Drugs Action Plan (2005-2008) provide a framework for tackling this problem and show the EU's commitment to Morocco in this field.

E - Environmental protection

At the Barcelona Euro-Mediterranean summit in November 2005 the partners pledged collectively to "endorse a feasible timetable to de-pollute the Mediterranean Sea by 2020". Regional and national efforts, supported by all the actors concerned, will be needed to achieve this objective of reducing pollution levels. The EC's response strategy for Morocco should support national and regional measures that help to achieve the objectives of the environmental initiative Horizon 2020, which embraces all the main sources of pollution, including industrial emissions, urban waste and, above all, urban wastewater. In addition to regulatory convergence and general reform of the way the environment is administered, investment projects financed by international financial institutions may be encouraged by aid for preparation and investment (such as interest-rate subsidies).

Besides this regional objective, the EC will also intervene to help deal with problems more specific to Morocco, such as the fight against desertification, the protection of areas under threat (e.g. oases), the protection of water resources, the fight against pollution, waste management, etc.

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The period covered by the strategy paper, 2007 to 2013, will be broken into two implementation phases, which will mean two programming exercises; the first for 2007-2010 and the second for 2011-2013. Whether the strategy paper's priorities, which have been agreed with the Moroccan authorities, receive support under the first or second programming exercise will depend on the relative urgency of needs in various sectors.

The EC will use a variety of instruments to implement cooperation programmes and projects, and in particular sectoral support facilities. The use of this instrument, which takes the form of direct budget aid, is subject to the continuation of efforts to restore public finances and modernise their management. This means that the process of controlling public deficits must continue, as must the modernisation of tools for the management of public finances in the areas of budget planning and execution, control and auditing (both internal and external) to ensure that public spending is efficient and complies with the rules.

5.3. Complementarity and consistency with the regional strategy paper and other external relations instruments

From 2007 Community assistance will be provided through some new instruments. The European Neighbourhood and Partnership Instrument (ENPI), which has national, regional, crossborder and thematic components, will be the main financial instrument available to Morocco. The introduction of these new external assistance instruments will substantially increase flexibility. New forms of cooperation, such as TAIEX, study-grant programmes and twinnings, and the participation of Morocco in Community programmes and Community agencies, should play an essential role in implementation bilateral cooperation.

The ENPI regional programme for the southern partners will help achieve the objectives described in this strategy since some of the regional or subregional activities may offer value-added or be complementary to bilateral operations. Political reform will be supported by bilateral aid, while regional activities will include aid for the creation of regional networks, platforms for civil-society organisations and media networks. The cultural dialogue will be conducted at regional level, led by the Anne Lindh Foundation. Cooperation on justice and security is a shared priority of the EU and a number of southern partners. Regional activities will include judicial cooperation on crossborder issues, organised crime networks, trafficking in human beings, and the exchange of the best practice. Regional actions in the transport and energy sectors will focus on transnational activities (South-South and Nord-Nord connections), while bilateral aid can focus on the convergence of policies with those of neighbouring Mediterranean countries and the EU, speeding up reforms and opening up markets, developing investment in infrastructure, promoting energy management and support for renewable energy, and technical assistance to the national structures concerned. Regional cooperation on the environment will include collaboration with the European Environment Agency. Moroccan border regions will be eligible to take part in ENPI crossborder cooperation. Crossborder cooperation will complement Action Plan priorities and involve the regional and local authorities. Crossborder cooperation will tackle common problems identified by EU Member States and partner countries sharing a land border or a short sea crossing or bordering the same sea.

Two new instruments are available on top of bilateral, crossborder and regional allocations. The ENPI crosscutting programme will embrace activities that are implemented in uniform manner for all the neighbouring countries. This programme will finance TEMPUS activities and the new study-grant programme, and TAIEX activities. There are six new thematic programmes: democracy and human rights (ex-EIDHR) has its own legal basis, the five other programmes come under the development cooperation instrument. Of these programmes "migration and asylum" (ex-Aeneas) and "human and social development - investing in people" may be of particular interest to Morocco and usefully underpin bilateral cooperation (the other programmes, environment, non-state actors and food security, could also have an impact). Thematic activities will be launched only if they offer clear value-added.

Interest-rate subsidies can act as a lever for financing from international financial institutions in the fields of the environment, energy and transport. Whenever interest-rate subsidies are under consideration their relevance will be evaluated on a case-by-case basis and appropriate measures taken to avoid any sizeable distortions of the market. Regarding the environment, the relevant sectors include water management, waste management and industrial pollution. Account will also be taken of the pollution control initiative for the Mediterranean, Horizon 2020. Possible areas in the energy sector are renewable energy resources and energy efficiency. Energy infrastructure/network investments should, in principle, be commercial operations, but in exceptional circumstances where specific EU interests are involved (e.g. security of energy supply) and it appears difficult to get a project started, interest rate subsidies might also be considered for particular investment projects. For transport, interest-rate subsidies would be used so as to catalyse funds for critical infrastructure, in particular border crossing points on the priority corridors. Conditions must be attached to interest-rate subsidies to avoid unintended effects.

Annex 1 - Reference data

Population	30.31 million	(2005)
Life expectancy	Men: 67 years Women: 71 years	(2003)
Adult literacy rate (% of persons over 15)	Men: 63.3 Women: 38,3	(2003)
Total labour force (millions) % women in total labour force	11.4 million 27.1%	 (2005)
% unemployment	10.8%	(2005)
Human development index (UNDP)	0.64 of 1 (rank 123rd)	(2006)
GNP	MAD 165 billion	(2005) €MAD=11
Foreign direct investment (FDI)	MAD 26 billion	(2005)
Exports/EU	€ 776 550 000	(2004)
Imports/EU	€ 474 611 000	(2004)
Morocco/EU total Exports Imports	€15 251 161 000 MAD 87.9 billion MAD 157.9 billion	 (2004)
National budget	MAD 130 500 billion	(2006)
MEDA I	€56 million	
MEDA II	€77 million	

Annex 2 - Morocco's environment profile

1) State of the environment

The major environmental issues concerning Morocco are water quality, waste management, coastal pollution, nature conservation and desertification.

As regards **air quality**, atmospheric pollution is causing increasing concern in urban and industrial areas, e.g. Casablanca and Rabat.

As regards **water quality**, Morocco's water resources are gradually running out as a result of population growth, inefficient irrigation (agriculture accounts for a major part of total water consumption), irregular rainfall and sedimentation of reservoirs. The main causes of water pollution are run-off from solid waste landfill sites, the discharge of urban waste-water, industrial effluent and agricultural activities. Action is needed to overcome the lack of hygiene-related projects.

Waste management, especially prevention, collection, treatment, recovery and permanent storage, is a major challenge. Large quantities of solid waste, including industrial waste, end up on landfill sites. Limited amounts of waste are recycled.

In the area of **nature conservation**, Morocco's rich biodiversity is under considerable pressure. The disappearance of biodiversity is related to deforestation and soil degradation. Coastal ecosystems are deteriorating on account of pollution, unplanned construction and poorly regulated tourist activities. Oasis, mountain and forest ecosystems are also under pressure.

The biggest challenges in tackling **industrial pollution** are promoting savings in the use of natural resources and reducing liquid, solid and gaseous emissions by Moroccan industry, in particular SMEs, in sectors such as tourism, craft industries (e.g. tanneries and oil mills), textiles and the agri-food industry.

The **marine environment** is suffering as a result of industrial, urban and tourist development, and maritime transport which cause shoreline erosion, water pollution and the deterioration of coastal biodiversity.

In the area of land use, erosion affects more than 70% of arable land. Land degradation is also caused by over-grazing, deforestation and poor farming practices. The silting-up of dams as a result of soil erosion is also a major problem. Desertification caused, for example, by the aridity of the climate and the overuse of natural resources, poses a significant challenge.

The **cross-border environmental issues** affecting Morocco include the pollution of Mediterranean and Atlantic coastal waters. The pollution of beaches in these coastal regions affects public health, marine ecosystems and fishing.

Regarding **global environmental issues**, in particular climate change, Morocco acceded to the Kyoto Protocol in 2002 and must therefore implement the appropriate legislation and,

where necessary, also bring in policies and practical measures for reducing emissions of greenhouse gases, especially in the energy sector and heavy industry.

2) **Environmental policy**

Morocco adopted a national strategy of environmental protection and sustainable development in 1995 which sets out medium-term (2005) and long-term (2020) objectives for the quality of the environment and promotes the mainstreaming of environmental issues into economic and social development policies.

Morocco adopted a National Environmental Action Plan (PANE) to put the 1995 national strategy into effect. Its priorities are the protection and sustainable management of water, soil and natural resources, the protection of air quality and promotion of renewable energies, the prevention of major natural and man-made disasters, the improvement of the urban environment, environmental management and the media.

Morocco also adopted a number of sectoral plans and programmes focusing, for example, on desertification and integrated water management and monitoring of groundwater and surface water. National strategies are being prepared in the areas of waste management, industrial pollution and nature conservation.

3) **Environmental legislation and its implementation**

An Environmental Protection Act was adopted in 2003.

As regards **horizontal legislation**, an act on environmental impact assessment (EIA) was adopted in 2003. Implementing legislation is being drafted. The number of projects submitted for EIA is on the increase; however assessments are carried out on a voluntary basis in the absence of a clear legislative framework. There is no specific legislation on public access to environmental data. However, the National Environment Observatory (ONE) is responsible for collecting and processing environmental data and offers a public access internet site. The ONE has developed an Environmental Information and Data System (SIDE). The first report on the state of the environment in Morocco was published in 2002.

In the area of **air quality**, legislation on atmospheric pollution control was adopted in 2003. The process of preparing the implementing regulations has begun, notably as regards air quality control networks and stationary source emission standards. Programmes are in place on improving air quality.

The existing legal framework for **water quality** is mainly governed by the Water Code adopted in 1995. The code contains a number of measures on the protection and conservation of water resources, waste-water discharge and the reuse of treated waste-water. The latest legislative instruments concern groundwater and surface water pollution. A water quality control programme has been established for surface water and groundwater.

A legislative text on **waste management** has recently been adopted. A waste-processing strategy is currently being prepared. The level of private sector participation in solid waste management is relatively high, particularly as regards collection and disposal in larger towns.

A ministerial committee on solid waste management has been set up at national level to facilitate and manage private sector participation at provincial and local level.

In the **nature conservation** field, a national strategy and action plan are in preparation on preserving diversity. In particular, 10 national parks have been created and a number of sites of biological interest.

In the area of **land use**, a national action plan for tackling desertification has been prepared. Its aim is to establish a significant link with poverty alleviation and rural development.

Regarding **industrial pollution**, the current legislation on industrial plant is currently being studied with a view to developing a licensing system. An industrial pollution strategy is being prepared. The industrial pollution control fund, FODEP, was set up to encourage environmental management within companies. A "Cleaner Production Centre" is responsible for promoting eco-efficiency, particularly in SMEs.

Broadly speaking, a legislative framework is in place for environmental protection and related subsectors but implementing texts need to be drawn up, particularly with regard to environmental impact assessment. Morocco is experiencing difficulties with implementation and enforcement as a result of its inadequate administrative infrastructure and underfunding.

4) Administrative capacity

The Ministry of Land Management, Water and the Environment was created in 1995. The Ministry of Health is responsible for water quality and providing information to the relevant authorities and the general public. The National Drinking Water Office (ONEP) is responsible for drinking-water quality. Inter-ministerial coordination in the water sector falls under the Ministry of Land Management, Water and the Environment. A National Environmental Council was set up in 1980 with an advisory role, aimed at coordinating the various environmental protection policies. "Environmental units" were set up in a number of ministries involved in environmental issues (agriculture, industry, transport) to facilitate policy coordination.

There are 16 regional inspectorates under the aegis of the Ministry of Land Management, Water and the Environment, each of which includes an environmental inspection department. All communal services, including solid waste management, are managed by the municipalities in towns comprising more than one municipality. The environmental inspection budget is currently centralised but a specific budget is planned for regional inspection in 2006.

Watershed agencies were set up to assess, plan and manage water resources in their respective abstraction areas, but are underfunded.

Under the 2003 nature conservation act, a national environmental fund was set up. However, it is still not operational as the appropriate implementing decrees have not been introduced. Meanwhile a wide-ranging debate on the value of such a fund has started.

The National Environmental Observatory (ONE) is responsible for collecting and processing environmental data and developed an Environmental Data and Information System in 1998.

However, the collection and coordination of the processing of environmental data poses a challenge.

The implementation and enforcement of environmental legislation, and the strengthening of administrative infrastructures at national, regional and local levels pose a major challenge to Morocco's strategic planning, particularly as regards coordination between the competent authorities.

5) Participation in regional and international processes

Morocco has ratified the relevant international and regional environmental conventions, except for the Protocol on Specially Protected Areas and Biodiversity and the new Emergencies Protocol of the Barcelona Convention.

At regional level, Morocco takes part in the **Council of Arab Environment Ministers, the Conference of African Environment Ministers and the Action Plan for the Mediterranean.**

In November 2005, the Euro-Mediterranean partners, including Morocco, collectively committed to “endorse a feasible timetable to depollute the Mediterranean Sea by 2020.” Achieving the objective of reducing pollution levels will require the implementation of regional and national measures by all the Mediterranean stakeholders. The key aim of the Horizon 2020 initiative is to tackle all the major sources of pollution including industrial emissions, municipal waste and urban waste water.

Morocco participates in the **Mediterranean component of the EU Water Initiative**, one of the regional components of the initiative launched at the 2002 world summit on sustainable development. The initiative aims to promote better water governance and coordination between key regional stakeholders.

In February 2006, a Network for Environmental Compliance and Enforcement (NECEMA) was established by Algeria, Libya, Mauritania, Morocco and Tunisia. Its objective is to promote good environmental governance in the region through the exchange of data and best practice.

At the **bilateral level**, cooperation agreements have been signed on environmental issues, notably with Tunisia, Libya and Egypt.

6) Key areas for action

Morocco faces numerous challenges in promoting environmental protection. The major environmental issues concerning Morocco are water quality, waste management, coastal pollution, nature conservation and desertification.

In the area of climate change, Morocco must implement the appropriate measures under the Kyoto Protocol to the United Nations Framework Convention on Climate Change. Morocco has a significant chance of taking advantage of the Protocol's flexible mechanisms.

Strategic planning and the implementation and enforcement of environmental legislation represent a crucial challenge to Morocco, together with coordination between the competent authorities.

The key environment sectors are identified in the environment section of the EU-Morocco Action Plan drawn up under the European Neighbourhood Policy. The Plan sets out a number of priorities for action in relation to environmental governance, specific activities, and international and regional cooperation on environmental issues. Progress towards the implementation of the Action Plan will also contribute to achieving the objectives of the Association Agreement.

Annex 3 – Donor matrix



Microsoft Excel
Worksheet

Annex 4 - Economic analysis

1. MACROECONOMIC DEVELOPMENTS

1.1. Developments in the real economy

A decline in agricultural output, high oil prices and the abolition of textile quotas led to a considerable slowing down of economic growth in 2005 (1.7%, down from 4.2% in 2004)¹¹. The primary sector contracted by 12.5% mainly because agricultural industries were adversely affected by bad weather. Manufacturing sector growth also slowed down whereas transport, communication and tourism were buoyant. Overall, non-agricultural growth reached 4%. The official unemployment rate remained high at 11%, with about 20% in urban centres.

1.2. Budgetary policy

The current fiscal situation with high deficits is not free of medium-term risks. However, the government is following a strategy of medium-term consolidation with a target deficit ratio of 3% of GDP. In October 2005 the Finance Minister presented the 2006 appropriation bill to the parliament with a target deficit of 3.2% of GDP (4.2% excluding privatisation revenues). This is based on a growth forecast of 5.4% of GDP, a target which cannot be achieved without a strong recovery by the agriculture sector. The central government deficit in 2005 amounted to 4.7% of GDP (6.2% excluding privatisation revenues). This result was influenced by lower economic growth, higher petroleum subsidies and extraordinary spending in relation to early civil service retirements.

1.3. Monetary and exchange rate policy

Despite high oil prices, inflation in 2005 decreased by half a percentage point thanks to an exchange rate peg and a prudent monetary policy against a background of a substantial slowing down of the economy. The monetary policy framework was improved by the entry into force of the new central bank statutes in 2006. The statutes define price stability as the primary objective of monetary policy and give the central bank more independence. The board of the Al-Maghrib Bank determines the intermediate targets and the operational framework of monetary policy under these terms. It also sets the interest rates applicable to banking operations, determines the monetary reserves and lays down the conditions for the issue of central bank debt instruments.

1.4. External sector developments

Morocco has enjoyed current account surpluses since 2001 thanks to tourism revenues and remittances from workers resident abroad (in 2004 these items accounted for 7.8% and 8.4% of GDP, respectively). However, the current account shifted from a surplus of 1.9% of GDP in 2004 to a deficit of 0.9% of GDP in 2005, mainly because of higher oil prices and stagnating exports. Textile exports suffered because of the end of the Multifibre Agreement in 2004, but less than expected. In contrast, remittances, tourism revenues and foreign direct investment were buoyant in 2005.

¹¹ Finance Ministry, Department of Studies and Financial Forecasting.

The fall in exports to the EU in the first quarter of 2005 followed a strong increase in 2004, leaving the market share near its medium-term average. In general, the proximity to major EU markets provides Morocco with a competitive advantage in the international division of labour, especially in the textile sector. The country therefore has a strong trade potential, for instance with regard to the outsourcing strategies of European industries if labour qualification requirements are met.

2. TRADE LIBERALISATION AND ECONOMIC OPENING

The implementation of the Association Agreement with the EU is progressing normally and tariff dismantling is on schedule. Moreover, in 2006 the Pan-European (diagonal) Cumulation System for rules of origin will probably be extended to Morocco, allowing the country to take much more advantage from the Euro-Mediterranean free trade area. However, the exploitation of these sizable benefits depends on the completion of free trade agreements between Morocco and its Mediterranean partner countries. The King recently promulgated the Agadir Agreement for an additional free trade area between Morocco, Tunisia, Jordan and Egypt.

Morocco, Algeria and Tunisia have also agreed to improve bilateral relations and economic integration amongst the Maghreb countries. A conference on trade facilitation was held in Algiers in November 2005 and culminated in an agreement to set up working groups and follow-up meetings. The opening of the border between Morocco and Algeria would be a major step for trade and welfare gains in the region. There are also renewed efforts to revive the Arab Maghreb Union (AMU) which also includes Libya and Mauritania. Furthermore, negotiations on further liberalising agricultural and services trade within the Euro-Mediterranean area opened in 2006. Finally, the entry into force of the free trade arrangement with the USA was postponed until 2006.

3. BUSINESS ENVIRONMENT

3.1. Privatisation, enterprise restructuring and business environment

Privatisation is ongoing with strong annual revenues of between 2.3% and 2.9% of GDP since 2003. The authorities have made significant progress in improving the business environment in certain areas, notably in the telecommunications sector, which is flourishing. In other areas reforms have been initiated but many of them still need to be effectively implemented. Improving credit access for small and medium-sized enterprises, which represent the core of the Moroccan private sector, should be made a priority

The main structural constraints to credit access include problems related to property rights, contract enforcement, information systems in enterprises and the lack of financial management skills in the enterprise sector. Other major obstacles for private sector development include the tax administration (and the issue of licenses), labour market regulations (see below), investor protection, and barriers to cross-border trading such as complicated tariff structures and the lack of efficient port services.

3.2. Financial sector reforms

In 2005 the Banking Act was amended, strengthening the powers of the central bank which now has responsibility for granting licences to credit institutions, drawing up regulations for

the banking system and supervision. The Al-Maghrib Bank was also entrusted with the creation of a crisis prevention system and with managing the process of financial recovery for institutions in difficulty. In conjunction with the liberalisation of banking activity, the central bank has strengthened prudential rules by bringing them more in line with international standards. In addition to increasing the minimum capital for banks, the solvency ratio was raised to 8%. Moreover, limits on foreign currency risk were introduced, and new rules on accounting, internal controls, external audit, and money laundering were adopted.

3.3. Labour market reforms

The new labour code adopted in 2004 is expected to improve labour relations and flexibility in the labour market. The code emphasises equality and the combating of all forms of discrimination. It consolidates specific protection measures for women, and prohibits child labour under the age of 15. However, the code has yet not been fully implemented. Equal treatment of women in employment relations and combating illegal child labour remain major challenges.

4. PUBLIC INSTITUTIONS AND PUBLIC FINANCE MANAGEMENT

4.1. Fiscal and public administration reform

In 2006 the authorities intend to initiate a tax reform, in particular of VAT, and have published a tax expenditure report with the 2006 budget to raise awareness of the inefficiency of the tax system. The proliferation of tax exemptions (which represented almost 15% of total tax revenue in 2004) suggests an increasing tax burden on a narrow tax base. The VAT system, with five tax rates and widespread exemptions, is complicated and difficult to administer. The government has also extensively overhauled management of public finance and the budgetary process, including the phasing-in by 2007 of medium-term budget planning.

The government continues with its strategy of freezing net new recruitment to the civil service, and the implementation of modern resource management and remuneration systems in order to reduce the wage bill and make public administration more efficient. The 2005 early retirement programme for some 38 000 public employees will result in significant wage savings in the medium term. In general, government accountability, a reliable policy environment, the efficiency of government services and regulatory quality remain among the main challenges for policy reform.

5. SOCIAL DEVELOPMENT AND POVERTY

5.1. National poverty reduction strategy

Despite improvements, the fight against poverty remains an important challenge in Morocco. The improvement in per capita GNP in recent years (from USD 1 310 in 2003 to USD 1 520 in 2004) is unevenly spread across the population and insufficient to bring about significant improvements in living standards. In 2003, infant mortality was nine times higher in Morocco than in the EU. The main instrument and challenge for poverty reduction is to increase growth and productivity. Strategic reforms have recently been introduced which should lead to such productivity increases in the medium term (ref. 3 and 4).

There are several poverty reduction programmes in Morocco which are supported, inter alia, by the United Nations and the World Bank, and address related issues. However, there is evidence that better coordination and a greater focus on the need to increase productivity would improve the efficiency of some of them.

6. KEY SECTORS OF THE ENVIRONMENT WHERE ACTION IS REQUIRED

Morocco is facing considerable challenges in the promotion of environmental protection. The key sectors include water quality, waste management, coastal pollution, nature conservation and desertification.

Administrative structures and the institutions responsible for the environment must be strengthened, particularly as regards strategic planning, and the implementation and enforcement of legislation.

The key environment sectors where action is required are identified in the section on the environment in the EU-Morocco Action Plan drawn up in the framework of the European Neighbourhood Policy. It sets out a number of priorities for action in relation to environmental governance, specific activities, and international and regional cooperation on environmental issues. Progress towards the realisation of the Action Plan's objectives will also contribute to realising those of the Association Agreement.

MOROCCO

Main economic indicators

	2001	2002	2003	2004	prel. 2005
Real sector					
Real GDP growth (% change)	6.3	3.2	5.5	4.2	1.8
Inflation CPI (period average)	1.8	0.6	-0.1	1.5	1.0
GDP nominal, in USD billion	33.9	36.1	43.8	50.0	..
GDP per capita, in USD	1220	1270	1520	1710	..
Social Indicators					
Unemployment	12.8	12.5	11.4	10.8	11.0
Literacy total (% of ages 15 and above)	..	50.7
Literacy female (% of ages 15 and above)	..	38.3
Under 5 mortality rate, %	..	4.3	3.9
Fiscal Sector					
Total revenues, % of GDP ¹	25.0	24.7	24.5	25.1	26.4
Total expenditure, % of GDP excl. Hassan II Fund	31.1	29.6	29.9	30.5	31.6
Central govt. balance, % of GDP	-5.6	-4.5	-4.9	-4.6	-6.2
Central govt. balance, % of GDP ²	-5.7	-4.7	-5.3	-4.9	..
Central govt. balance, % of GDP ³	0.4	-4.5	-2.5	-2.6	..
Total Government Debt, % of GDP	74.7	71.4	68.5	66.4	69.9
Monetary sector					
Private Sector Credit (% change)	4.0	3.8	8.3	8.6	9.1
Private Sector Credit as % of total credit	70.9	70.8	72.5	75.2	77.9
Broad money (M3), % yoy	14.2	6.3	8.6	7.6	5.8
Degree of Monetisation (M3/GDP, %)	85.5	87.7	90.1	93.7	94.3
External sector					
Current account balance, % of GDP	4.8	4.1	3.6	2.2	-0.9
Trade balance, % of GDP	-8.9	-8.5	-9.9	-13.0	-16.0
Foreign direct investment flows, % of GDP	8.0	1.3	5.3	1.6	2.5
Import cover (months)	8.2	9.1	10.4	10.0	8.6
External Vulnerability					
Total external debt, % of GDP	47.8	40.9	35.1	30.8	30.2
Debt Service Ratio ⁴	16.2	16.5	14.2	12.8	10.6
Gross reserves (USD billions, eop)	8.4	10.1	13.8	16.3	16.0
Reserves/M3	28.4	31.3	34.2	35.1	..
Financial sector					
Short-term interest rate ⁵	4.4	3.0	3.2	2.4	..
Exchange rate (per USD, avg.)	11.3	11.02	9.57	8.97	..
Exchange rate (per EUR, avg)	10.1	10.4	10.8	11.0	..
Real effective exchange rate (1992=100)	112.1	111.4	109.5	112.4	..

Sources: Bank Al-Maghrib, Ministry of Finance and Privatisation, IMF, World Bank, EIU.

¹ Includes tariffs earmarked for food subsidies and revenues of the road fund.

² Including Hassan II Fund.

³ Including Hassan II Fund and privatisation revenues.

⁴ Percentage of exports of goods, nonfactor services and MRE (Public and publicly guaranteed debt, excl. early amortization on account of debt swaps).

⁵ Avg. money market rate, %.

Annex 5 - Abbreviations and acronyms

AA	Association Agreement (with the European Union)
AFD	French Development Agency
MFA	Multifibre Agreement
ODA	Official Development Assistance
TA	Technical assistance
ADB	African Development Bank
EIB	European Investment Bank
CAS	Country assistance strategy (WB)
EC	European Commission
CSP	Country Strategy Paper
SAF	Structural adjustment facility
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
IMF	International Monetary Fund
GTZ	German Technical Cooperation Agency
EIDHR	European Initiative for Democracy and Human Rights
IER	Fairness and Reconciliation Commission
ENPI	European Neighbourhood and Partnership Instrument
NHDI	National Human Development Initiative
MENA	Middle East and North Africa
UN	United Nations
IOM	International Organisation for Migration
WTO	World Trade Organisation
NGO	Non-Governmental Organisation
P3A	Association Agreement support programme
2PA	Neighbourhood action plan support programme
AEP	Active Employment Programme
NAP	European Neighbourhood Policy Action Plan
ENP	European Neighbourhood Policy.
GDP	Gross domestic product
NIP	National Indicative Programme
SME	Small and medium-sized enterprises
NPL	Non-performing loans
UNDP	United Nations Development Programme
R&D	Research and development
M&E	Monitoring and evaluation
SWAP	Sector-wide approach
ICT	Information and communication technologies
AU	African Union
EU	European Union
AMU	Arab Maghreb Union
FTA	Free Trade Area