

# BTI 2008 | Morocco Country Report

<b>Status Index</b>	1-10	<b>4.65</b>	# 86 of 125	
Democracy	1-10	4.40	# 79 of 125	➔
Market Economy	1-10	4.89	# 83 of 125	➔
<b>Management Index</b>	1-10	<b>4.60</b>	# 80 of 125	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	30.2	HDI	0.64	GDP p.c.	\$	4,052
Pop. growth <sup>1</sup>	% p.a.	1.1	HDI rank of 177	123	Gini Index		39.5
Life expectancy	years	70	UN Education Index	0.54	Poverty <sup>3</sup>	%	14.3
Urban population	%	58.7	Gender equality <sup>2</sup>	-	Aid per capita	\$	23.1

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

Morocco's political leadership has not orchestrated any major shift in its governance philosophy during the last two years. As a result, economic reforms have been pursued with some tangible results notably in the tourism sector. Major swings in GDP growth during the period under review illustrate how susceptible Morocco's economy is to fluctuations in rainfall. A drought in 2005 resulted in 1.7% GDP growth whereas exceptionally heavy rainfall in 2006 pushed it up to 7.3%. However, growth in the non-agricultural sector has accelerated to 5% of GDP. The budget deficit stood at 6% in 2005 and at 4.3% in 2006. Despite efforts to reduce personnel costs by initiating an early retirement plan for state employees, fiscal policy remains another concern. A new banking law was passed, giving more independence to the central bank in the conduct of monetary policy.

One positive legacy of the 1990s was the advent of a vocal business community. The 2006 election for the presidency of the most potent body representing Moroccan private businesses, the General Confederation of Moroccan enterprises (CGEM), marked a disturbing turning point, however. For the first time since the 1970s there was a single candidate and, in contrast to previous elections, there was no meaningful debate. Because critics from the former leadership of the CGEM had irked the regime, the latter orchestrated a regime-friendly candidate for the 2006 elections and, subsequently, the press reported on politically motivated tax audits against the former president of the confederation. The domestication of the hitherto-credible organization comes as the king continues to tighten his grip on the private sector. He owns the first privately held financial institution, controls 40% of the oil market, 70% of the sugar market and 60% of the milk market. He also controls 25% of the Casablanca stock market capitalization. In terms of political transformation, the months preceding the 2007 legislative elections signal the will of the monarchy to limit the Islamists'

electoral success. Already massively gerrymandered, the electoral map has been further manipulated to contain the influence of the Islamists' supporters. The Justice and Charity Organization (JCO) remains banned and hundreds of its members have been arrested on allegations that they organized illegal meetings. Moreover, Nadia Yassine has been prosecuted for voicing her preference for a republican over a monarchical system. The press has been repressed throughout a series of blatantly inequitable court cases. Women's associations began mobilizing after they learned that the judiciary was applying the new family law inadequately and human rights NGOs have become more vocal in their criticism of the Equity and Reconciliation Commission's failings. Corruption showed no sign of abating and no serious debate has taken place with respect to the necessity of constitutional reform.

## History and Characteristics of Transformation

In the years following its independence from France, Morocco underwent a power struggle between the nationalist movement and the monarchy. To fend off the anti-monarchy wave that swept through the Middle East and North Africa region, the Moroccan monarchy decided to rely on the patron-client system with rural notabilities as devised by the previous French administration. The monarchy chose the urban bourgeoisie as its second constituency, and foreign policy was built around the overarching goal of overriding the opposition. Leftist movements were the most strident components of this opposition, as the regime sided with the Western anti-Soviet front. These political choices prompted economic policies that can be credited with achieving their stated goal of preserving the monarchy and prompting many of the economic, social and political problems Morocco faces today.

Contrary to many other newly independent countries in the region, Morocco refrained from initiating massive industrialization programs financed by a transfer of wealth from the agricultural sector, corresponding to its objective of gaining the support of the major rural landowners. However, the Moroccan regime emulated other developing nations in resorting to tariff barriers to develop import substitution industries, while at the same time promoting national industries, which served to create a docile bourgeoisie. Import substitution schemes put the state apparatus at the center of the economy, as state officials were to engineer the country's industrial and commercial landscape.

These policies exacerbated social inequalities. First, harshly repressed riots in 1965 threatened the regime before two successive military coup attempts failed in 1971 and 1972. Hassan II reacted by adapting redistributive policies to appease the constituencies of the political opposition, and he raised the minimum wage level for workers and scholarships given to all students attending university. Simultaneously, he

initiated a so-called “Moroccanization” process, which consisted of redistributing land and businesses that were previously owned by foreigners and French ex-colonizers, mainly to the benefit of the military and the urban bourgeoisie. During this period, the regime expanded the parastatal sector. The financial cost of this economic reorientation was first borne by a surge of phosphate prices in the beginning of the 1970s before Morocco then resorted to foreign loans, which eventually led the country to heavily into debt.

After a massive public finance crisis in 1983, Morocco resorted to the borrowing from World Bank and the IMF. During the 1980s a combination of factors helped to smooth the typically harsh effects of the austerity measures implemented to restore macroeconomic stability. First and foremost, after a long period of drought, rainfalls were back to normal and at times even exceptional levels. Given the importance of the agricultural sector in the Moroccan economy, the end of the drought period brought a tremendous relief both economically and politically as half of the population lives in rural areas. Another stabilizing factor was an increase of immigrant workers remittances. To ease the pain on the poor urban population living in absolute poverty or on the verge of it, the Moroccan authorities let the informal economy thrive. On the political front, the regime used the Western Sahara issue that erupted in the middle of the 1970s to silence dissent and “cement” national unity. Alongside the macroeconomic stabilization program, Morocco embraced economic globalization, adhering to the GATT in 1987. Since then, the country has pursued a policy aimed at economic integration with the European Union that culminated in the conclusion of a Euro-Mediterranean association agreement in 1996.

The 1990s were characterized by a number of wide-ranging economic reforms and some important political developments. On the economic front, Morocco modernized the legal environment for the business sector. New laws were enacted in the banking sector and the financial markets, the tax system was overhauled to simplify and optimize tax collection, and a major privatization program was implemented. However, macroeconomic modernization fell short of dismantling the complex patronage system devised by the regime to domesticate the business community. Economic problems and the need to gain assistance from Western countries forced Hassan II to ease the iron grip he held on the political arena, particularly his negative human rights record. He reached out to the opposition, a process that in 1998 culminated in the formation of a new government, led by Abderahmane Youssoufi, the then-secretary general of the then main opposition party, the USFP. In hindsight, it is obvious that this move appeased and prevented the opposition from exploiting the negative social consequences of the economic reforms.

To avoid undesired policy outcomes, Hassan II proposed a constitutional reform in 1996 that led to the creation of a second chamber, which was subsequently passed. He seized the opportunity of the 1997 legislative elections to allow an Islamist movement to enter the official political arena for the first time, which in turn gave birth to the

Party of Justice and Development (PJD). At the same time, however, the regime conducted negotiations with another supposedly more popular but also less compromising Islamist movement, the Justice and Charity Movement (JCM), with the aim of convincing it to abandon some of its anti-monarchy positions. The negotiations were ultimately inconclusive. The 1990s were also marked by some improvements on the human rights front, with Hassan II establishing the Consultative Council on Human Rights in 1990 that granted a general amnesty to almost all the remaining political prisoners. In general, human rights violations, although they continued, became less frequent.

After Hassan II died in July 1999, his successor Mohammed VI made some political decisions that seemed to indicate his willingness to press ahead with the process of political liberalization. Two symbolic gestures in particular stand out, namely his release of the leader of the JCM, Abdeslam Yassine, from house arrest, and the fact that he allowed Abraham Serfaty, the previous king's Marxist arch-opponent, to return from exile. Undoubtedly, his most dramatic gesture was the firing of the former the minister of interior and Hassan II's most trusted advisor, Driss Basri. Subsequently, he established the Equity and Reconciliation Commission (IER), which was responsible for the identification of former victims and their subsequent compensation. In October 2003, Morocco passed a new family law that improved the legal framework of women's rights. In spite of these improvements, the first five years of Mohammed VI's reign were marked by human rights abuses, mainly linked to the anti-terror campaign following the 9/11 attacks and the terrorist bombings that occurred on 16 May 2003 in Casablanca. The independent press was repressed, and the question as to whether the 2002 legislative elections and the 2003 municipal elections were free and fair in doubt, as the detailed results have not yet been made public. Additionally, the PJD was forced to limit its participation.

## Transformation Status

### I. Democracy

#### 1 | Stateness

The state's monopoly on the use of force is established in the entire Moroccan territory, with the notable exceptions of the Western Sahara – where sovereignty is claimed by the Polisario front – and the Spanish enclaves in the North of Morocco, Ceuta and Melilia. Despite a sustained effort to eradicate the cannabis production, the Moroccan authorities are still struggling to sustain its fight against the drug mafia in the Rif mountains. Recent developments indicate the existence of linkages between the Moroccan cannabis mafia and the South American drug cartels and it should be pointed out that drug trafficking has been a source of finance for the terrorist attacks in Madrid in March 2004.

Monopoly on the use of force

In principle, all Moroccan citizens enjoy the same rights regardless of religious or ethnic background. Proselytizing is illegal, and a Moroccan citizen and Christian convert were recently sentenced to jail for proselytism. The Moroccan authorities clamped down on a number of Islamic groups accused of promoting a different brand of Islam than the official one. Members of the Justice and Charity movement have been prosecuted allegedly for organizing non-authorized public meetings. The motives behind this renewed wave of repression have less to do with the movement's interpretation of Islam, but their religiously and politically motivated rejection of the king's control of the religion.

State identity

Although Islam is the official state religion, Morocco has a hybrid legal system. Whereas the family code, which governs the laws pertaining to marriage, inheritance, and family matters, is based on Shari'ah (Islamic) law, other aspects of the legal system (such as the commercial code) remain marked by the inheritance of the French colonial period and remain secular. Officially, the king is the "commander of the faithful," meaning that Islam is the main pillar of the monarchy's legitimacy. The prerogatives that come with this status have been widely regarded as a bulwark against Islamic extremism. However, this status is being used to suppress the Islamist opposition that denounces jihadism and violence but dispute the spiritual authority of the monarchy.

No interference of religious dogmas

The administration's ability to extract and allocate state resources is hampered by the size of the informal economy. It is reckoned that 60% of the labor force operate in the informal sector, which, in turn, is estimated to represent as much as 40 - 50% of the Moroccan economy. Although recent reports indicate that more than 40% of cannabis crops have been eradicated, Morocco remains the biggest exporter of the drug. This implies that the illegal drug economy is still highly important and escapes the oversight of the state administration.

Basic  
administration

## 2 | Political Participation

Morocco held legislative and municipal elections in 2002 and 2003, respectively. These were the first elections organized under the rule of the new king, Mohammed VI. Although deemed freer than previous elections held under Hassan II's rule, they cannot be described as transparent and fair. For instance, the internet-based system designed to ensure the transparency of the 2002 legislative elections was disconnected on the eve of the election day. Moreover, five years later, the authorities have still not yet published the detailed results for the election. In addition, the government limited the number of Islamist candidacies allowed to compete for office. In 2002, the PJD limited its own participation to only 30% of the districts, while in 2003 the ministry of interior forced it to run in only 18% of the districts. In contrast, the banned Justice and Charity Organization (JCO) was obviously unable to run in these elections. There is no sign that the JCO will be authorized to participate in the 2007 legislative elections. Furthermore, the new redistricting devised by the Ministry of Interior has been criticized on the grounds of gross gerrymandering – an accusation already made for the 2002 and 2003 elections.

Free and fair  
elections

Although the Moroccan constitution provides for a bicameral system where the lower house is directly elected by Moroccan citizens, it severely limits the legislative prerogatives of the elected body, as the king can veto any law and can pass laws without the parliament's consent. Additionally, the monarch directly controls key ministries and through the Ministry of Interior manages the electoral process. The security apparatus does not answer to the parliament, its heads are appointed by the king and the defense and security budget are not discussed by the parliament. In 2002, Mohammed VI replaced Prime Minister Abderrahmane Yousoufi with the technocrat and rather apolitical Driss Jettou. The prerogatives of the government and the parliament have been further eroded by the increasing number of royal commissions answerable only to the royal cabinet, whereas at the local level, the elected municipal councils are constantly overruled by the representatives of the ministry of interior.

Effective power  
to govern

Reaching out to the civil society is branded as one of the hallmarks of Mohammed VI's reign, although the civil society's room for maneuver already

Association /  
assembly rights

improved during the 1990s under Hassan II. Worries that the monarchy-backed Mohammed V foundation (M5) was crowding out legitimate grassroots NGOs turned out to be true as it became the de facto transmission belt with respect to channeling funding to the civil society. As a result of its annual fundraising campaign, called the National Solidarity Campaign, most of the usual donors feel obliged to donate their money to the monarchy-backed foundation. Recently, the M5 foundation refused to finance a highly respected grassroots NGO headed by Abdallah Zaazaa, and it can be assumed that this is due to the progressive, democratic ideas of the NGO's chairperson. Islamist NGOs, especially those related to the JCO, are also harassed by the authorities. While the JCO is still banned, some previously banned minor Islamist and leftist groups have been authorized. In the final analysis, however, only those are tolerated that are deemed to be "friendly."

In spite of repeated commitments to freedom of expression, the regime retains and occasionally uses legal levers to repress dissenting media and political actors. The Moroccan authorities maintain three main issue areas taboo to discussion: Islam, the monarchy, and territorial integrity. In August 2005, the government prosecuted Nadia Yassine, an Islamist activist, for having declared her preference for a republican system over a monarchical one. The editor of a weekly newspaper that published her interview was also prosecuted. According to Human Rights Watch, the Ministry of Interior staged managed demonstrations against an independent weekly magazine in February 2006, as it was accused of having reprinted the Mohammed cartoons that first appeared in Denmark. In December 2006, the government banned and prosecuted another weekly magazine for the publication of a story supposedly insulting Islam and the monarchy. In 2006, Reporters Without Borders condemned the subservience of the judiciary, which in numerous cases fined independent publishers. During the period under investigation, the state monopoly on the audiovisual sector ended. Despite this, however, it was mainly media groups known for their editorial alignment with the regime that were licensed, and as a result, this liberalization has not yielded any diversity of opinion in the audiovisual sector.

Freedom of  
expression

### 3 | Rule of Law

Although the separation of powers is mentioned in the constitution, it is effectively nullified by other constitutional provisions. As a result, virtually all power is concentrated in the hands of the monarchy and there is no functioning system of checks and balances. Appeals from some political parties and the civil society in favor of a constitutional reform have so far been ignored by the regime.

Separation of  
powers

Although institutionally differentiated, the judiciary is subservient to the monarchy and its governing bodies are all dominated by the king's appointees. It

Independent  
judiciary

is occasionally exploited to clampdown on dissenting voices. Understaffed and under-equipped, the judicial system has been denounced by many national and international NGOs as being corrupt. New cases related to terrorism have been adjudicated during the period under observation with the same lack of respect to the defense's rights which characterized the cases following the Casablanca bombing on 16 May 2003.

As measured by Transparency International's Corruption Perception Index, Morocco's standing on corruption did not improve during the period of review. Moroccan laws provide for the punishment of corruption among public office holders, and the cases brought to justice have been highly politicized. After his enthronement, Mohammed VI initiated a slew of investigations into economic crimes committed during his father's reign. At first, these prosecutions improved the king's reputation. As soon as these cases started to implicate powerful civil servants or other individuals linked to the monarchy, however, the courts balked and delayed the cases. With some of the cases going on their seventh year in court, not a single one has reached its judicial conclusion.

Prosecution of  
office abuse

Civil rights and equality before the law are constitutionally guaranteed. Citizens are not prosecuted for choosing a different faith, though the law forbids proselytizing. While regime has generally taken a tolerant stance on this issue, there are cases where citizens were prosecuted after being accused of proselytism. Mohammed VI has followed up on his father's initiative of compensating victims of human rights abuses. He created the Equity and Reconciliation Commission to establish the truth, assign responsibility and the proper level of compensation for the victims. The commission handed over its report in January 2006 but elicited mixed reactions among human rights advocates and even outright disappointment among the most credible human rights NGOs in Morocco. On the positive side, the commission ordered the compensation of around 9800 victims, and recommended constitutional reforms to prevent the repetition of past abuses. However, the commission refused to publicize the identities of human rights abusers and prevented the victims invited to testify on television from doing so. It also refused to cooperate with an ongoing investigation in France on the high profile case of Mehdi Benbarka, an opponent to Hassan II, who was abducted in 1965 in Paris, although it acknowledged guarding vital information on the case. The commission eventually diminished its moral authority when it tried to absolve the Moroccan authorities from the accusation of gross human rights abuses in the wake of the terrorist attacks in 2003, but surprisingly in its final report criticized some institutions in the security apparatus for their lack of cooperation.

Civil rights

#### 4 | Stability of Democratic Institutions

The Moroccan system is not really a constitutional monarchy but rather a monarchy with a constitution. In other words, the constitution serves only to sanction the status of the monarchy. The parliament, which is supposed to be elected through fair and transparent elections, exerts minimal power and the judiciary's lack of independence is institutionalized. Yet, the potential for a real democratization process does exist. Morocco has a plural political landscape and civil society has grown vocal in its demands for political liberalization, as illustrated by some political groups and the vast majority of the population.

Performance of democratic institutions

The main player in Moroccan politics, the monarchy, has displayed its adherence to democratic principles. However, its lack of engagement in favor of the institutional changes that would trigger and thus substantiate a genuine democratization process undermines its credibility. Mohammed VI still maintains the military hierarchy promoted by his father during the darkest days of the repression. He refuses to alter the institutional structure of government that makes the judiciary dependent on the executive. This resistance rests also on the reluctance of some progressive parts of the society to support a true democratic process as it may bring the Islamists into power. The monarchy did not show any sign of allowing a process of constitutional reform leading to democratization to take place. As for the Islamists, the two main movements, the PJD and the JCO, have repeatedly endorsed democratic principles but their sincerity has yet to be tested.

Commitment to democratic institutions

#### 5 | Political and Social Integration

Morocco has known party pluralism since the first years of independence. The regime has fragmented the political landscape by fabricating political parties, which it allows to gain parliamentary seats in rigged elections. Although it is true that political parties were weakened due to the lack of internal democratic governance, the monarchy's strategy helped to further discredit them in the eyes of Moroccan citizens. The 2002 legislative election resulted in a highly fragmented political arena, and there are currently 22 political parties represented in the lower chamber of the parliament. The Laasko/Taagepera Index stands at a staggering 10.3, indicating a high level of fragmentation. However, the rise in prominence of the PJD and the effort by the left to reduce the degree of balkanization might indicate a trend toward consolidation provided the next election scheduled for September 2007 are fair and transparent. The relevance of political parties will remain tied to a constitutional reform that will yield much more prerogatives to the parliament than it has now. A poll commissioned by the Moroccan branch of an American NGO, the International Republican Institute, in

Party system

October 2005 has found that 70% of Moroccans view their political parties as lacking strong leadership.

Since the mid-1990s, Morocco has experienced a veritable awakening of the civil society. In particular, the business community has organized itself more efficiently and dares to confront the government on many issues. It is no coincidence that the awakening of civil society coincided with the period when the regime began to open up in political terms. Its realization of the need to reach out to new constituencies other than its usual clients in order to confront the country's economic and social ills induced the revitalization of the civil society. However, the regime always intended to co-opt these new actors. Probably the most significant development during the period under review is the heavy-handed tactics of the regime to influence the election of the business union's president. Analysts saw in the single candidacy and ultimate election of a businessman close to the monarchy a clear sign of the domestication of the business union. Beyond that, the studied period was also characterized by the mobilization of and subsequently organized protests by citizens demonstrating against the high cost of running water and electricity.

Interest groups

In a poll conducted by the Pew Research Center 2003, that analyzed Moroccans' attachment to democracy, found that 63% of Moroccans favor a Western-style democracy. In addition, two recent polls conducted by the International Republican Institute in late 2005 and at the beginning of 2006 found that the real level of abstention to the elections remains around 50% and that this disaffection is related to disillusionment with the political system.

Consent to democratic norms

The multiplication of peaceful demonstrations, even in the furthest corners of the kingdom, shows a great degree of will on the part of Moroccan citizens to peacefully advance their interests. There is little information about the density of the Islamist NGOs networks although they are believed to be the most important ones. The majority of the over-30,000 NGOs are mostly located in the urban areas, two thirds of which are clustered around Rabat and Casablanca.

Associational activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

Morocco ranks 123rd in the UNDP's Human Development Index. According to data compiled by the UNDP dating back to a survey conducted 1998-99, more than two thirds of Moroccan citizens live below the poverty line. This same data shows that the Gini index for Morocco stands at 39.5%. The wealth gap is still very pronounced between the urban and rural areas. Only 43.2% of citizens living in rural areas are connected to the national electricity grid, and only 18.1% have access to running water. Public expenditures on health care account for only 2% of GDP and it is estimated that more than two-thirds of cancer cases are not treated at all. In September 2005, the Compulsory Sickness Insurance system came into force and is supposed to cover 18% of the population. The scheme is not fully implemented yet due to various disagreements among its actors, but irrespective of that, the size of the informal sector renders such schemes limited in scope by definition.

Socioeconomic  
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	36,093	43,813	50,031	<b>51,621</b>
Growth of GDP	%	3.2	5.5	4.2	<b>1.7</b>
Inflation (CPI)	%	2.8	1.2	1.5	<b>1</b>
Unemployment	%	11.6	11.9	-	-
Foreign direct investment	% of GDP	0.2	5.3	1.6	<b>3.0</b>
Export growth	%	6.5	-1.6	5	<b>9.8</b>
Import growth	%	7	-0.6	10	<b>5.7</b>
Current account balance	\$ mn.	1476.9	1581.8	969.6	<b>1109.9</b>
Public debt	\$ mn.	14,783.9	15,164.3	14,862.8	<b>13,112.8</b>
External debt	\$ mn.	18,398.6	18,909.9	17,640.4	<b>16,845.5</b>
External debt service	% of GNI	10.5	10	6.1	<b>5.3</b>

		2002	2003	2004	2005
Cash surplus or deficit	% of GDP	-5.5	-4.8	-4.3	<b>-5.6</b>
Tax Revenue	% of GDP	22.3	22.3	22.6	<b>24.7</b>
Government consumption	% of GDP	20.1	21.0	21.0	<b>22.8</b>
Public expnd. on edu.	% of GDP	6.5	6.4	6.3	<b>6.8</b>
Public expnd. on health	% of GDP	1.6	1.7	1.8	-
R&D expenditure	% of GDP	0.6	-	-	-
Military expenditure	% of GDP	4.3	4.2	4.5	<b>4.5</b>

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

## 7 | Organization of the Market and Competition

Morocco has embraced the principle of a market-based economy and economic liberalization policies have been implemented since the beginning of the 1980s. Repatriation of profits and currency convertibility are ensured for foreign investors, yet Moroccan nationals cannot freely invest outside Morocco but need an authorization from the ministry of finance to do so. Freedom of pricing is ensured except for products that are considered sensitive, such as bread. The sprawling informal sector and widespread corruption significantly distorts market mechanisms. The monarchy's control of the judiciary and the heavy involvement of the king in the private sector are two major reasons for the partiality of the state. According to the World Bank, the informal sector employs 45% of the non-agricultural work force and represents more than 36% of the GDP.

Market-based competition

The Moroccan regime's oft-repeated statement that adherence to a free market economy is contradicted by an apparent laxity in fighting cartels and monopolies. This is particularly true when it comes to the king's businesses as two of them won the most prominent cases of business disputes in 2006. Formed in 2002 and in charge of enforcing an anti-trust law that was passed in 2001, the Council of Competition met only once and adjudicated its first case in 2006. Moreover, the government reversed its decision to liberalize the tobacco sector when it extended the monopoly on tobacco in favor of the Spanish-French Altadis group until 2010.

Anti-monopoly policy

Despite its commitment to free trade, Morocco has negotiated a gradual dismantling of its tariff barriers in order to allow its local industries to gradually adapt to world competition. Morocco's weighted average tariff rate was 14.5% in

Liberalization of foreign trade

2005. Foreign trade in 2005 reached \$32.5 billion, or 60% of GDP. In 2004, it signed a free trade agreement with the United States.

The Moroccan banking system has announced was to begin adapting the Basel II standards at the beginning of 2007. According to the central bank, Moroccan banks have lowered their pending claims to 14%. Although this still high, this ratio has been decreasing during the last years. The Moroccan financial system remains at the mercy of nepotism and cronyism, however, and the stock market watchdog has refrained from investigating cases of blatant insider trading when the king's companies or individuals close to the regime were involved.

Banking system

## 8 | Currency and Price Stability

The Moroccan government has pursued a macroeconomic policy directed at stabilization with some consistency. Inflation was kept to 1.5% and 1.8% in 2004 and 2005, respectively. A new banking act was enacted in 2006 with the aim of giving greater autonomy to the central bank. This legislation confers responsibility on the Bank for defining the price stability target in consultation with the Ministry of Finance and for determining the quantitative objectives and instruments of monetary policy. The central bank's credibility has been somewhat enhanced by a change of leadership. However, the past excesses and the failure of the central bank to properly monitor the banking sector were mainly due to the rampant cronyism resulting from the absolutist nature of the Moroccan regime. The World Bank has recently renewed its advice to devalue the dirham, whose value is pegged to the currencies of the main trading partners. While this pegging system has undoubtedly generated stability, it is accused of having led to an overvalued dirham and hence to a stifling export sector.

Anti-inflation /  
forex policy

Excluding privatization receipts, the budget deficit reached 5.9% of GDP in 2005 and public debt has increased to 71% of GDP compared to 66% in 2004. The worsening of the indebtedness ratios were a consequence of poor rainfalls, which in turn led to a poor GDP growth of 1.7% compared to 4.2% in 2004. The situation improved markedly in 2006, as the agricultural sector performed exceptionally well due to heavy rainfalls. Consequently, GDP growth has reached 7.4% and public debt decreased to 69% of GDP, while the budget deficit decreased to 4.1%. These levels remain unhealthy in view of the exceptionality of the growth in 2006 and the volatility of the GDP growth in general. In order to reduce structural public expenses, Morocco has implemented an early retirement scheme for state employees. Moreover, macroeconomic stability has been pursued and seems to be bearing fruits in the guise of a slight increase in the non-agriculture sector's growth.

Macrostability

## 9 | Private Property

Property rights are well-defined and the acquisition of property is regulated. The persistent corruption of the judiciary and its lack of independence pose serious threats to entrepreneurs and citizens in general who are not close to the regime or refuse to use corruption.

Property rights

Morocco has been implementing an ambitious privatization program since the mid-nineties. It further liberalized the telecom sector in 2006 and the state reduced its stake in Maroc Telecom, but the king's holding company, ONA, managed to acquire a landline license. In general, the privatization policy has become a mere instrument to generate income for the treasury, though it is still hoped that privatization operations may result in increased competition that will eventually benefit consumers.

Private  
enterprise

## 10 | Welfare Regime

Morocco has a compulsory social security system. Its services are very limited and do not cover the informal sector, which is deemed to employ 45% of the non-agricultural workforce. According to the Moroccan Authorities, a new compulsory sickness insurance should cover 18% of the population, but health care represents only 2% of GDP. Although the state subsidizes oil, bread and other basic foods, the system is wasteful in that it does not target those most in need of the subsidies. Migration to urban areas has an adverse effect on family solidarity as the latter's erosion is not being replaced by other solidarity schemes, hence social tensions arise mainly in the growing bidonvilles; the population living in the urban areas is relatively growing and reached 55%.

Social safety nets

The weakness of state-provided services creates a large chasm between those who can afford private healthcare and private education and those who cannot. Citizens in the rural areas are disadvantaged. The illiteracy rate in the urban areas stands at 29.4% whereas it jumps to 60.5% in the rural areas. Men are also more likely to be literate than women – the illiteracy rate for men is 30.8%, whereas it is 54.7% for women. A little less of the whole population is believed to live below or at the verge of poverty. Despite all of this, some positive signs can be observed. In 2005, the percentage of Moroccans connected to the national electricity grid and running water had risen to 43.2% and 18% respectively, as compared to 9.7% and 4% respectively in 1994.

Equal opportunity

## 11 | Economic Performance

After a difficult year in 2005 with a poor growth rate of 1.7% due to drought, the end of the agreement on clothing and textiles (ACT) and a dramatic rise in energy costs, the Moroccan economy re-emerged in 2006 with a GDP growth of 7.3%, attributable mainly to exceptional rainfalls. Signs of overheating emerged and inflation rose from 1% in 2005 to 2.5% in 2006. According to the Moroccan authorities, unemployment fell from 11% to 7.8% in 2006, while investment has steadily risen to reach more than 25% of GDP. More importantly, in the last three years, the non-agricultural GDP rose from a yearly average of 3.5% to around 4.5 to 5%. This is good news for the Moroccan economy as it might herald the end of its dependence on rainfalls. Despite these positive developments, the extent to which the Moroccan economy can achieve a sustainable level of growth remains to be seen.

Output strength

## 12 | Sustainability

According to the Moroccan authorities, between 90% and 93% of Morocco is affected by aridity and other forms of drought. Some 22,000 hectares of arable land disappears due to desertification every year in Morocco, according to official figures. Morocco received a score of 64.1 (with 100 being the perfect score) from the Environmental Performance Index compiled by the Yale Center for Environmental Law and Policy at the Center for International Earth Science Information Network at Columbia University, having lost points mainly of its significant shortcomings on the water indicator. Voices from inside the government have complained about the lack of concern as the tourism industry developed without taking into account the need the (limited) water supplies of cities like Marrakech and Agadir. Moroccan authorities seem to pay little more lip service to the preservation of the environment, while economic development remains the overriding goal.

Environmental policy

Morocco devoted 6.3% of its GDP in 2002 – 2004 to education but only a mere 0.6% of GDP was invested in research and development. Despite its relatively high expenditures on education, resources are misallocated for political reasons, as the educational public sector has constituted all bargaining chip between the regime and its (former) socialist opposition.

Education policy / R&D

# Transformation Management

## I. Level of Difficulty

Constraints on the political leadership's governance capacity are real, particularly as the levels of poverty and illiteracy are high. This is the result of the lack of investment in human resources over a span of many decades. Although Morocco did not suffer from major disease pandemics, the deficiencies of its healthcare system and the destitution of a major portion of its population have a very negative impact on the ability of the Moroccan citizens to rise above the basic needs. Recent events, however, have demonstrated that even in the poorest area of the country, Moroccans are able to mobilize peacefully and demonstrate for their rights.

Structural constraints

Civil society flourished during the mid-nineties when the regime was opening up. According to some studies, there are around 30,000 registered NGOs in Morocco – albeit not all active – which cover a wide variety of subjects. Human rights, women's rights, children's rights, and microfinance are among the many areas where civil society has taken the lead and sometimes even established internationally recognized NGOs. In a recent development, NGOs have taken the lead in spearheading a consumerist movement that began with the demonstrations against the rise of water tariffs. Despite the crowding out effect of regime-backed NGOs, grassroots civil society movements have developed and gained a powerful and credible voice in Morocco.

Civil society traditions

There are no meaningful religious or ethnic cleavages in Morocco. Despite the involvement of Moroccan citizens in international terrorism and the 16 May 2003 bombings, the supporters of violent jihadism are at best a tiny minority with no major social backing. As for ethnicity, most of the Amazigh militants have initiated a peaceful debate to restore the Amazigh culture. The king founded an institute dedicated to the Amazigh culture that is being heavily criticized for its lack of impact. There is nonetheless a real social divide between the rich and poor, which has the potential to lead to increasing social conflict.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

During the period under consideration, the Moroccan political leadership (i.e., the monarchy) has pursued the same strategy that was adopted during earlier years of Mohammed VI's reign. While officially endorsing democratic principles and a market economy, the regime did not address constitutional reform, which remains the most central issue to attain these objectives. Moreover, it repressed the more vocal actors in favor to a true democratization process. Political movements that contest the status of the monarchy remained banned and the independent press is regularly harassed. The monarchy's approach of "economic and societal change first" is problematic for two reasons. On the one hand, social and economic modernization can hardly be achieved without a greater degree of accountability on the part of the political leadership. On the other hand, if economic and social development are the main priorities, the regime needs to measure these changes by setting clear milestones that eventually trigger political reform.

Prioritization

Some progress has been made on the economic and social front as the Moroccan economy has become slightly less dependent on rainfalls and the illiteracy rate has slightly decreased. A law was passed in 2003 to provide women more rights, a commission was set up to address past human rights abuses, and the king appears to be very active in promoting investment and economic activity. However, all these developments are proceeding either slowly or inefficiently. For instance, women's rights associations have recently complained that the progressive spirit that was visible in 2003 has vanished due to a corrupt and retrograde judiciary. Likewise, the business community increasingly resents the king's involvement as a central player in the private sector as competition in the market place is skewed.

Implementation

The political leadership adapts and corrects its mistakes only to the extent that such modifications will not diminish its own power. The main issue of contention is still the absence of a clear commitment to building institutions that will ensure a proper separation of powers, independence of the judiciary, and that will hold the political leadership accountable. The preparations of the 2007 legislative election show that the regime has no intention of direct intervention through rigged ballots, however, gross gerrymandering and control of the media indicates that the monarchy still intends to "manage" the upcoming election as it did in 2002.

Policy learning

## 15 | Resource Efficiency

Despite the resources invested, the public sector is inefficient due to the distortion of governance mechanisms. The subsidy system is also costly and inefficient because it does not target the most vulnerable groups. In 2004, the government initiated a new policy encouraging early retirement for workers in the public service. The wage bill stood at a staggering 13.5% of GDP in 2005, consuming an important portion of the state budget and depriving the government of (scarce) resources that could otherwise have been directed toward much-needed infrastructure projects, or simply to help easing the public debt burden and re-deploy these resources differently.

Efficient use of assets

The appointment of a technocrat not affiliated to a political party, Driss Jettou, as prime minister in place of Abderahmane Youssoufi in 2002 was welcomed on the grounds that it would give the government new impetus, as Youssoufi was criticized for his lack of decisiveness. Although some improvements were made, it soon became clear that Jettou faced resistance from the king's close advisers, to the extent that it impeded major policy items such as the tax reform. In support of the prime minister, the then head of the business union, Hassan Chami, gave an interview castigating the lack of transparency in governance at the highest level of the political leadership.

Policy coordination

The fight against corruption is probably one of the biggest failures of Mohammed VI's reign. Since he ascended to the throne in 1999, Morocco reversed its positive progression in the Transparency Corruption Perception Index. Having dropped to a score of 3.2 in 2004, it has been unable to improve its standing ever since. This negative evolution is the result of the tolerance toward the informal sector and the lack of enforcement of the legal mechanism to fight corruption. The press is constantly hampered in its efforts to investigate corruption stories involving high-ranking officials. Morocco is a signatory to the U.N. convention against corruption, but, according to a report by Transparency International issued in November 2006, does not seem to be willing to adhere to it. Although the country's penal codes – 241 and 256 – levy harsh punishment on civil servants found to be corrupt, corruption triumphs in the kingdom.

Anti-corruption policy

## 16 | Consensus-Building

After opposing the market liberalization reforms undertaken in the eighties, the socialist party (which represented the main opposition party at that time) has come to endorse the principles of a free market economy. Today, both the opposition, which is composed mainly of Islamists, as well as the majority of all relevant political actors, are in favor of them. However, even if all the political

Consensus on goals

players state their attachment to democratic principles, not all of them match their words with deeds. The monarchy is very reluctant to pursue reforms that will grant more prerogatives to political actors democratically elected. On that front, it found allies in the progressive camps, which are not unhappy with the delay in the implementation of true democratic mechanisms as they fear that the Islamists would win the elections with a landslide.

The situation has not changed in that regard during the last two years. The reformers do not call the shots and they are in no position to confront actors with veto powers, that is, those that are in power or allied with them. The monarchy has exclusive control and does not seem to be willing to hand over or even share power with elected representatives of the people. The security apparatus is still staffed with high-ranking and rather unaccountable officers that served under Hassan II during the darkest times of repression and which resist any attempt to democratize.

Anti-democratic veto actors

The main cleavage relates to the unresolved Western Sahara issue. Pro-Western Sahara independence demonstrations erupted in May 2005 and the regime responded with harsh repression. This is a sign that the monarchy is failing to win the trust of the Sahraouis living in Moroccan-controlled Western Sahara, such that they may be convinced to adhere to its new autonomy plan. Morocco has definitively rejected the idea of organizing a referendum of self-determination but instead it proposed an autonomy plan, the content of which was not known at the time of writing. Domestically, after six years of stagnation and after the democratic slogans of the regime were contradicted by its resistance to institutional changes, protests only recently erupted, as the regime failed to integrate the Justice and Charity Organization (JCO) into the official political arena. In addition to this, the Amazigh demand greater recognition of their culture.

Cleavage / conflict management

The political leadership accepts and even welcomes civil society's participation in the political debate to the extent that it remains within the confines of the official dogma. Vocal NGOs in favor of a true democratization process and those that question the monarchy's concentration of powers are shut out from the official media. NGOs operating in the social or economic arena on such issues as micro-credit, health, and poverty alleviations are however encouraged. NGOs close to the Islamist movements are closely monitored and sometimes harassed, especially those related to the JCO. The monarchy also uses the Mohammed V foundation to direct funds toward compliant NGOs. As a consequence, credible grassroots NGOs very often have difficulties to attract funding.

Civil society participation

In 1990 Hassan II set up the Advisory Council on Human Rights and initiated a compensation scheme for victims of human rights abuses. Subsequently, Mohammed VI built on his father's initiative by creating the Equity and

Reconciliation

Reconciliation Commission, which was charged with the authority to address human rights abuses that took place prior 1999. Although hailed as a unique initiative in the Arab world, the commission's work fell short of the demands of the domestic community of human rights NGOs with respect to current abuses against Islamists and Sahraouis, as well with regard to the naming of the perpetrators. For a start, according to the commission, its investigative work has been blocked by some "security department." This resistance, however, was not orchestrated by the royal palace, which means that either the monarchy was willing to reap the public relations benefits of the initiative without paying the political price of revealing its own implication, or that it cannot control its own security apparatus. Eventually, the commission decided to grant compensation to 9,779 victims and presented a list of recommendations that have yet to be followed-up by the regime.

## 17 | International Cooperation

Morocco's number one trading partner, the European Union, has recently expressed its satisfaction with the pace of reforms in the country and increased the annual aid package to €54 million, a 20% increase over the period from 1995 to 2006. Despite a poor showing on the political indicators criteria, Morocco was selected in 2005 as an eligible country to the U.S. administration-financed aid package, the so-called Millennium Challenge Account.

Effective use of support

The Moroccan regime's endorsement of international openness has translated into the adherence to a number of U.N. conventions. However, some of the elements are not enforced and Transparency International has recently accused the Moroccan regime of not enforcing the U.N. convention against corruption. Likewise, most probably under U.S. pressure, the Moroccan regime reneged on its initial pledge to ratify the Rome Statute establishing the International Criminal Court after it signed it in 2000. It has also been accused of stalling the peace process in the Western Sahara and the former U.N. special envoy James Baker has shown dissatisfaction with Morocco not coming up with credible proposals. In spite of the unresolved Western Sahara issue, Morocco remains a close ally of the European Union and the United States and has fully cooperated with the Bush administration's "war on terror." In that context, it should be noted that cases of extraordinary rendition of Moroccan nationals and non-nationals, who have been moved to secret Moroccan jails to be interrogated, have been documented by Human Rights Watch and Amnesty International.

Credibility

Morocco and Algeria failed to patch up their soured relationship during the period under review, as the main contentious point remains the Western Sahara conflict. Algeria supports the demands of the Polisario front of self-determination and rejected the Moroccan proposal of an enlarged autonomy

Regional cooperation

under Moroccan sovereignty. Morocco is increasingly marginalized in Africa and is not a member of the African Union due to the latter's recognition of the Sahraoui Arab and Democratic Republic back in the 1980s. In addition, Morocco's role has diminished substantially in the Israeli-Palestinian conflict as the political leadership focused mainly on economic and trade issues in its neighborly relations. Thus, in 2005, it signed the Agadir agreement with Tunisia, Egypt and Jordan, which came into effect in mid-2006, and which allows for the application of cumulative rules of origin among the four partners vis-à-vis the European Union.

## Strategic Outlook

Most actors seem loath to translate their democratic slogans into practical reforms. Democratizing Morocco means ultimately reducing the prerogative of the monarchy, and that appears to remain a taboo. The only way to ensure good governance is to devise mechanisms that hold the palace accountable to its actions and to give the parliament meaningful prerogatives. Reluctance on the part of the progressive parties, which constitute the left-wing of government, to press for a genuine democratic reform of the constitution stems from their fear of losing to the Islamists in free and fair elections. Parallel to the political left, a progressive civil society resents the Islamists' conservatism and thus prefers to deal with a politically authoritarian but socially liberal monarchy. However, the Islamists represented in parliament are reluctant to raise the issue of constitutional reform for fear of antagonizing the liberal elites that have hitherto allied themselves with the monarchy. Since democratization is the only path to truly accountable leadership, the parties need to agree on the set of individual and collective rights that should be embedded in the new constitution and would assuage the fears of the liberal elite. A national convention could achieve exactly that and the players involved should be much more vocal about demonstrating in favor of greater press freedoms. On the economic front, reformers need to speak out against the monarchy's rampant nepotism; its heavy involvement as a private player distorts market mechanisms and results in resource misallocation. The regulatory bodies, watchdogs and the judiciary are powerless against the king's companies, a state of affairs that discourages Moroccan entrepreneurs. For external actors, the time seems ripe to pressure the monarchy to live up to its slogans of democratization. The international community has a perfect opportunity to do that in the guise of the autonomy plan to be proposed by Morocco to solve the Western Sahara problem. The international community could provide incentive for political liberalization in Morocco by linking the autonomy plan's success to the incorporation of the newly autonomous region within a democratic framework.