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Investment Policies in Morocco

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Morocco belongs to the group of the 17 heavily indebted middle-income countries. For a decade, it has been engaged in implementing a stabilization and structural adjustment program that has resulted in a reduction in macroeconomic disequilibria, but at the cost of a decline in investment rates and higher unemployment.[2] Moreover, the external debt burden, which was one of the main reasons for adopting the adjustment program, has not been lifted. Conversely, while overall debt more than doubled (from $9.7 billion in 1980 to $20.7 billion in 1987 and to $22 billion in 1988),[3] debt reschedulings have become the norm.

Morocco is a typical example of the paradoxical situation of many developing countries for which the decade of the 1980s has been a lost one as far as development is concerned. Morocco is also an illustration of the principle that growth is more rewarding than stagnation. However, since this principle was not accepted in time by the international community, many developing nations (including Morocco), which willingly or unwillingly committed themselves to rigorous adjustment, became locked into the vicious circle of debt.[4] The change in attitude in favor of growth (which has been in effect for the past few years with the Baker Plan and

[1]The views and opinions expressed in this paper are the author's and do not reflect the views of the Arab Monetary Fund.

[2]Bachir Hamdouch, "Adjustment and Development: The Case of Morocco," in *Adjustment Policies and Development Strategies in the Arab World*, ed. by Said El-Naggar (Washington: International Monetary Fund, 1987).

[3]World Bank, *World Debt Tables*, 1988–89 edition (Washington, 1988).

[4]From the limited resources available, funds were provided to ensure partial debt-service repayment at the expense of investment financing, which could have sustained growth and generated a surplus for debt repayment.

more recently with the debt-relief proposals that include particularly the Brady initiative) points clearly to a recognition both of the growth principle and of the concern for a reconciliation between the structural adjustment necessary and the equally necessary development-oriented growth in countries where basic needs are not always met, or where human living conditions are sometimes in jeopardy.[5]

These developments underline the importance of studying the issue of investment policies, an issue that lies at the heart of the problem. Indeed, it is a central theme in the crisis, in growth (and development), and in the debt issue. Moreover, while ill-considered or ill-adapted investment policies have contributed heavily to the crisis (particularly the debt crisis), and adequate investment policies are necessary, they alone may not be sufficient to resolve it.

This presentation makes a modest contribution to this debate by offering an analysis of the main features of investment policies in Morocco. The topic is vast and merits wider investigation, which was not possible given the time and scope of this seminar.

Impact of Macroeconomic Policies on Investment

Generally speaking, economic policy, in all its components, has a direct or indirect impact on investment. This point is certainly as true for general macroeconomic policy as for sectoral structural adjustment policies. Moroccan economic policies already in the 1960s and the 1970s had a strong impact on the volume and direction of investments. I shall briefly outline this impact to provide a perspective and to gain a better understanding of the policies pursued during the 1980s.

The Sixties and Seventies

The decade of the 1960s was marked by a moderate rate of growth and a modest rate of investment. This decade was specially distinguished by the stabilization plan of 1964, which produced a halt in growth and even led to a retreat in investment that extended

[5]See Statement by the Managing Director of the International Monetary Fund made before the Economic and Social Council of the United Nations (ECOSOC) on July 13, 1989, in *IMF Survey*, July 24, 1989 (Washington), pp. 26–28.

throughout the next two years (Table 1). Inflation seemed to have been successfully brought under control.

The sectors suffering most from the lack of capital accumulation included food crop production, industry, and social services (education, health, and housing). The distribution of gross fixed capital formation between the public and private sectors points to the predominance of the former, with 60–70 percent of the total (Table 2).

The pace of growth and investment during the 1970s was higher than in the preceding decade. Moreover, the mid-1970s were not marked by stabilization but by a strategy of accelerated economic growth. Table 3 shows the evolution in growth rates of gross domestic product (GDP), gross fixed capital formation (GFCF), and the cost of living index during this period.

The gross fixed capital formation growth rate was particularly high between 1974 and 1977 (34 percent in 1974 and 69 percent in 1975), raising the GFCF/GDP ratio from 13.9 percent in 1973 to 32.8 percent in 1977, with 6.4 percent and 19.6 percent, respectively, for the public sector alone.

Public investment became in effect the "engine of growth" during the period; its share in gross fixed capital formation was rising, particularly after 1973 (Table 4). Revision of the already ambitious objectives of the 1973–77 Plan as a result of the considerable increase in phosphate export receipts provided an opportunity for realizing finally the goal of rapid growth in which the state would assume a leadership role. Investments by the public sector and parastatal programs rose almost threefold, from DH 10.9 billion to DH 29.3 billion,[6] involving in particular the social services and the capital-intensive branches of the industrial sector. This policy, which was maintained even after the means of realizing the goal were no longer available, had considerable implications for the economy and made it necessary to adopt corrective policies in the next phase.

The Eighties: Impact of the General Adjustment Program

In July 1983, the Moroccan Government adopted a general adjustment program in agreement with the International Monetary

[6] World Bank, *Morocco: Economic and Social Development Report* (Washington: World Bank, 1981), p. 15.

Table 1. Developments in Gross Domestic Product, Gross Domestic Investment, and Cost of Living, 1960–69

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
GDP (at 1960 prices)[a]	909	888	993	1,048	1,061	1,081	1,066	1,136	1,276	1,287
Gross domestic investment (at 1960 prices)[a]	96	85	114	131	118	122	116	158	218	163
Cost of living index in Casablanca (1963 = 100)	88	90	95	100	104	108	107	106	106	109

Source: World Bank, *World Tables, 1976* (Baltimore: Johns Hopkins).
[a]In tens of millions of 1960 dirhams.

Table 2. Distribution of Gross Fixed Capital Formation Between Public and Private Sectors, 1965–68
(In tens of millions of dirhams)

	1965	1966	1967	1968
Public sector	—	92	115	140
State	*48*	*52*	*86*	*92*
Local communities	—	*12*	*13*	*14*
Public enterprises[a]	*31*	*26*	*16*	*34*
Private sector	—	61	74	57
Total	144	153	189	197

Source: World Bank mission report (August 1969), cited in A. Agourram and A. Belal, "Bilan de l'économie Marocaine depuis l'indépendance," in *Annuaire de l'Afrique du Nord*, 1969 (reproduced in A. Belal, "Impératifs du développement national" (Rabat: BESM, 1984), p. 79.
[a]Public enterprises not included elsewhere.

Fund to address general macroeconomic disequilibria. It was the first component in the structural adjustment program; the sectoral adjustment programs implemented with World Bank support were the second.

The two types of adjustment programs cut through the same areas of operation. Interest rate and exchange rate policies, which were the subject of both the general adjustment program and the sectoral adjustment programs in the financial, industrial, and foreign trade areas are an example. Such overlapping caused a coordination problem between various instruments of economic policy. The general adjustment program, as its title denotes, is general in scope; it outlines the measures to be taken and refers to the sectoral program for detailed information about the measures and their timing. This ensures a minimum degree of harmony, but has it been enough?[7]

What concerns us here is that the two types of adjustment program had an impact on investment. Let us start by discussing the impact of the general adjustment program.[8] Morocco has been implementing this program for more than six years and it still has a few years to completion. Adjustment had already been initiated, and the general adjustment program was in fact a "beefed-up"

[7]See discussion of this point in Hamdouch (cited in fn. 2).

[8]The impact of the sectoral adjustment program is discussed below.

Table 3. Evolution in Rates of Growth of Gross Domestic Product, Gross Fixed Capital Formation, and Cost of Living Index, 1970–78
(In percent)

	1970	1971	1972	1973	1974	1975	1976	1977	1978
GDP (at 1969 prices)	5.0	5.8	2.1	3.8	5.8	9.3	11.8	6.0	3.1
GFCF (at 1969 prices)	12.9	0.1	−11.0	−0.9	34.3	68.7	24.0	21.8	—
Cost of living index (1972/73 = 100)	—	—	—	105.0	122.0	132.0	143.0	161.0	176.0

Source: Secretary of State for Planning and Regional Development, reproduced in World Bank, *Morocco: Economic and Social Development Report* (Washington: World Bank, 1981).

Table 4. Distribution of Gross Fixed Capital Formation Between Public and Private Sectors, 1970–77

	1970	1971	1972	1973	1974	1975	1976	1977
Public sector	54.5	49.5	52.2	45.8	68.6	62.7	61.3	59.8
State	*19.4*	*17.4*	*22.3*	*18.4*	*24.0*	*24.3*	*26.1*	*30.3*
Other public sector	*35.1*	*32.1*	*29.9*	*27.4*	*44.6*	*38.4*	*35.2*	*29.5*
Private sector	45.5	50.5	47.8	54.2	31.4	37.3	38.7	40.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GFCF (*in tens of millions of 1969 dirhams*)	274.0	274.0	244.0	242.0	325.0	548.0	680.0	828.0

Source: Calculations based on World Bank, *Morocco: Economic and Social Development Report* (Washington: World Bank, 1981), Table 2.11.

extension of the stabilization program undertaken under the Three-Year Plan (1978–80) and was followed by the adjustment program of 1980–83.

In a nutshell, the general adjustment program considered that the major economic constraint in Morocco was the external disequilibrium with its corollary, indebtedness. Its main objective therefore was the restoration of "sustainable" equilibrium in the current account of the balance of payments by 1988. For this purpose, it was necessary to reduce the treasury deficit and to control the growth of private consumption so that domestic absorption could grow at a lower rate than GDP. However, the retained growth rate was only 3 percent on average. Thus, the adjustment effort was to be mostly undertaken by controlling the growth of overall demand and by reducing the investment ratio from 20 percent in 1983 to 16 percent in 1988.

The instruments used to achieve the objectives of the general adjustment program consisted of a number of economic policy measures covering the following areas:

- Public finance: fiscal restraint and reduction of investment in plant and equipment.
- Monetary field: reduction of liquidity in the economy and mobilization of savings.
- External economic relations: liberalization of trade, exchange rate depreciation, and debt stabilization.
- Structural reforms: to be generally implemented under sectoral adjustment programs in cooperation with the World Bank.

Adjustment may be carried out in many different and interrelated ways. Tables 5 and 6 summarize how it was implemented in Morocco. Table 5 shows the evolution in the components of overall expenditure expressed as a percentage of GDP, as well as the evolution in the resource gap. It demonstrates that

- GDP growth has been modest and uneven, mainly owing to varying crop results;
- gross public spending declined sharply owing to reduced consumption (especially public consumption) and reduced investment. At the same time, savings rose and the resource gap was sharply reduced,

Table 5. Evolution in Gross National Expenditures and in Resource Gap, 1982–87

	1982	1983	1984	1985	1986	1987
1. GDP[a]	100.0	100.0	100.0	100.0	100.0	100.0
2. Overall consumption	90.0	87.6	88.7	85.9	85.3	85.5
Private	*68.6*	*67.8*	*70.5*	*68.5*	*67.9*	*68.0*
Public	*21.4*	*19.8*	*18.2*	*17.4*	*17.4*	*17.5*
3. Investment	23.3	20.9	21.8	22.9	20.3	19.1
4. Gross national expenditures[b]	113.3	108.5	110.5	108.8	105.6	104.6
5. Resource gap[c]	13.3	8.5	10.5	8.8	5.6	4.6
6. Gross domestic savings	10.0	12.4	11.3	14.1	14.7	14.5
7. Exports of goods and services[d]	20.5	22.4	25.7	27.0	24.5	25.3
8. Imports of goods and services[d]	33.8	31.7	36.2	35.8	30.1	29.9
9. GDP/Real growth rate	6.8	2.3	2.1	4.4	5.8	1.0
10. Cost of living change	10.5	6.2	12.5	7.7	8.8	2.8

Source: Calculations based on Ministry of Planning, *National Accounts*, reproduced in reports of Bank of Morocco.

[a]Data from the previous national accounts series (base year 1969) are retained to ensure comparability with data of previous years and with earlier reports and studies, especially those prepared by the World Bank (the new series uses 1980 as a base year and goes back only to 1980).

[b]Item 4 = items 2 + 3.

[c]Item 5 = items 1 − 4 = 6 − 3 = 7 − 8.

[d]Nonfactor goods and services.

Table 6. Evolution in Revenues and Expenditures of Treasury and Financing of Deficit, 1982–87
(as percentage of GDP)[a]

	1982	1983[b]	1984	1985	1986	1987
Current revenues	24.3	22.3	22.4	22.4	21.7	23.4
Expenditures	36.6	30.8	29.2	28.6	30.6	28.1
Current expenditures	22.7	22.8	22.3	22.5	22.1	21.3
Administrative expenses	*16.1*	*17.3*	*16.0*	*15.1*	*15.2*	*15.6*
Consumer price subsidies	*3.2*	*1.7*	*2.1*	*2.3*	*1.1*	*0.5*
Interest on public debt	*3.5*	*3.8*	*4.2*	*5.2*	*5.7*	*5.1*
Capital expenditures	13.9	8.0	6.9	6.1	8.5	6.9
Budget deficit	12.3	8.5	6.8	6.2	8.9	4.7
Change in arrears	2.3	—	−0.3	−2.7	3.4	−0.8
Financing requirement of Treasury	10.0	8.5	7.1	8.9	5.5	5.6
Net financing	10.0	8.5	7.1	8.9	5.5	5.6
External	10.4	4.5	6.4	4.6	−2.1	−0.4
Domestic	−0.4	4.0	0.7	4.3	7.6	6.0
Monetary financing	*−1.1*	*6.2*	*0.8*	*2.9*	*4.8*	*1.8*
Domestic borrowings	*0.7*	*0.2*	*−0.1*	*1.4*	*2.8*	*4.2*
Provision for authorized expenses		−2.4				

Source: Calculations based on annual reports of Bank of Morocco.
[a]See fn. a in Table 5.
[b]For 1983 onward, after debt rescheduling.

- in foreign trade, the reduced resource gap was due to increased exports rather than to lower imports; and
- inflation rates dropped.

Table 6 shows how adjustment was undertaken in public finance; it illustrates the evolution in the revenues and expenditures of the Treasury and the financing of the deficit, expressed as a percentage of GDP. It indicates that

- The financing requirement of the Treasury, expressed as a percentage of GDP, was reduced by almost half;
- the reduction in the financing requirement resulted not from any increase in the current revenues of the Government but rather from a sharp reduction in public expenditures, especially expenditures from the capital budget, which were cut by half; more than four fifths of this reduction was the result of reduced investment spending;

- current expenditures were not high, but their structure changed considerably, indicating a sharp reduction in consumer subsidies and a sizable increase in interest payments on public debt, especially on domestic debt;
- sources of financing the treasury deficit changed: until 1984, most of the financing was from external sources, while in 1986 and 1987 it came entirely from domestic sources;
- in domestic financing, borrowing grew in volume in 1987 and replaced financing from monetary sources; and
- by 1988, the sources of financing had changed, which was in effect a step backward: external financing again provided 31 percent of the financing requirement of the Government Treasury with monetary sources providing the rest.[9]

This partial adjustment of public finances was thus essentially undertaken at the expense of a sharp reduction in investment expenditures and was followed by a transformation in the structure of public expenditures in favor of current expenditures. Changes also occurred in the structure of current expenditures, and the financing of the treasury deficit gave rise to a problem of the effects of crowding out.

It is a valid question whether financing the needs of the Government Treasury on an increasing scale from domestic resources in past years had been done at the expense of private investment. In other words, had there been a crowding-out effect? This question becomes somewhat important when discussing the implications of macroeconomic policies for investment and investment policies. It serves no purpose to take back with one hand what was given with the other.

But the question is not easy to answer. It requires a more profound analysis and a special investigation that is not within the scope of this undertaking. However, some elements of the answer may be advanced, which could be developed in the course of the discussion or in other later investigations.

Financing the government treasury deficit can produce a crowding-out effect in three ways: first, by reserving to the Treasury the lion's share in money creation. Credit control mechanisms, especially credit containment policies (credit ceilings), tended to restrict credit distribution in favor of the Treasury. This fact was

[9]Bank of Morocco, *Annual Report, 1988*, Table A40.

evident in 1983 and 1986 and also in 1988. In 1983, claims on the Treasury grew by 28.1 percent, compared with 11.5 percent for credit to the rest of the economy, with the Treasury capturing 72.5 percent of domestic credit, leaving only 27.5 percent to the rest of the economy. In 1986, the corresponding rates were 22.2 percent against 8.6 percent and 73 percent against 27 percent. In 1988, they were 17.2 percent against 9.2 percent and 68.6 percent against 31.4 percent. During these three years, claims on the Treasury represented more than half of the money supply counterparts, with a record of 53.2 percent in 1983.[10] The credits above the ceiling (uncontained credits), such as investor credits and export credits, have developed in recent years and reached 18 percent of total credit in the economy in 1988.[11] Without these, credit distribution between the Treasury and the rest of the economy would have been more unbalanced. They served to mitigate the crowding-out effect, and they constituted some type of safety valve.[12]

Second, the Treasury can exert a crowding-out effect by capturing private savings; savings here could be either voluntary or compulsory. In the area of voluntary savings, the Government in recent years has launched a program of borrowing on attractive terms (higher interest rates and tax breaks), where participation was limited to the nonbank private sector. Considerable funds were raised through this channel in 1986 and 1987, representing 2.8 percent and 4.2 percent of GDP, respectively (Table 6). As for compulsory savings, these related to treasury arrears in payments to its suppliers, whether public or private enterprises. In 1986, government arrears grew by a figure equivalent to 3.4 percent of GDP (Table 6).

Third, the crowding-out effect can be exercised through the interest rate—a higher interest rate can be a disincentive to investment. The increase in real interest rates that occurred in Morocco in recent years was due to three main factors The first was the desire, within the framework of the adjustment program, to encourage savings by offering positive real interest rates through

[10]Ibid.

[11]Ibid.

[12]Consideration is now being given to eliminating credit containment and to introducing other control techniques such as statutory reserves. See statements by the Minister of the Economy, *La Vie Economique* (Casablanca), September 1989.

raising nominal rates. The second was the rewarding rates offered on public borrowings, while the third related to the reduction of inflation rates.

A situation emerged where real interest rates on medium-term credits, which were zero or even slightly negative in 1981–82, exceeded 11 percent in 1987.[13] Such rates have the effect of increasing the cost of capital and may discourage investment, especially in capital-intensive branches of the industrial sector, which is what actually happened in 1987, particularly following the removal early in that year of the 2 percent discount on interest rates offered on credit to the industrial sector.[14]

The risk of a crowding-out effect is usually higher in the presence of multiple exclusion factors, as was the case in both 1986 and 1987. In 1986, a combination of crowding-out effects resulted from the capture by the Treasury of credits and savings, and in 1987 from public borrowings and higher real interest rates. Therefore, the monetary authorities had to reduce interest rates in 1987. This move was firmly established and widened in scope in 1988. It touched particularly on medium- and long-term credits, where interest rates fell by 1.5–2 points.[15]

Assessment of the results of the crowding-out effects and countereffects is not easy, especially when account is taken of other factors that influence investment, including economic conditions at home and abroad, expectations of economic transactors, the sectoral adjustment programs, and the financial and fiscal incentives to investors (investment codes). Account must also be taken of the use by the Government of captured credit or savings, which gives an idea of the total effect on the economy: consumption versus savings and in which sectors. We have clearly seen that the Government's propensity to invest declined during the 1980s. Finally, the element of timing should be taken into account, as the

[13]See nominal interest rates and inflation rates in the reports of Bank of Morocco.

[14]Public investments declined in 1987 by 20.6 percent in the chemical and parachemical sector, 15.8 percent in mechanical and metallurgical industries, and 13.8 percent in the agro-foodstuff industries, which led to a 9.5 percent decline in investments in the manufacturing sector as a whole. See Ministry of Trade and Industry, "Situation des industries de transformation." Fiscal Year 1987 (Rabat, December 1988), p. 11.

[15]Report of Bank of Morocco, 1987 and 1988, Table A57.

direction and magnitude of the implications of these effects and countereffects may vary in the short, medium, and long term.

The Eighties: Impact of the Sectoral Adjustment Programs

The intention here is not to present an analysis of the different sectoral adjustment programs undertaken by Morocco but rather to see to what degree they have had an impact on investment.

The results of the sectoral adjustment programs have been mixed in terms of their respective impact on investment. The impact of the adjustment program in the area of pricing has been diffused and unclear.

As for the adjustment program in the financial sector, the increase in real interest rates stimulated savings, which rose from a ratio of 11.3 percent of GDP in 1984 to 14.1 percent in 1985. But this movement soon lost momentum, and the ratio of savings stagnated at about 14.5 percent in both 1986 and 1987.[16] Furthermore, the Treasury, as mentioned above, dug deeply into savings in recent years (producing a crowding-out effect). Adding to this the rapid increase in real interest rates, which led to the higher cost of capital, it seems improbable that the interest rate policy could have had a net positive impact on investment.[17]

It is too early to judge the impact of the adjustment program on private investment in agriculture. Its impact on public investment was, however, more direct and clear cut, as we shall see in the following section.

Owing to the magnitude of private capital in industry and the renewed importance of industrial exports in the structural adjustment policy as a whole, the impact of the industrial adjustment program on investment and the direction of investment assumes particular significance. The annual survey of the Ministry of Trade and Industry enables us to trace developments in the manufacturing sector. Table 7, reproduced from the survey, shows the average annual growth rates for exports, investment, and manufacturing by sector for 1984–87. It shows that only the textile and leather sector achieved the highest rates of growth in respect of both

[16]Calculations based on reports of Bank of Morocco.

[17]On the relationship between interest rates and investment, see Jacques J. Polak, *IMF Survey*, July 24, 1989, p. 237.

Table 7. Growth Rates in Exports, Investment, and Industrial Production by Sector, 1984–87

Sector	Exports	Rank	Investment	Rank	Production	Rank
Agro-foodstuffs	25.0	2	12.5	5	14.5	3
Textiles and leather	30.5	1	28.1	1	13.4	4
Chemicals and parachemicals	1.1	5	23.5	2	9.0	5
Mechanical and metallurgical industries	14.8	4	23.2	3	19.7	1
Electrical and electronic industries	19.6	3	16.1	4	16.4	2
Total	14.6		20.4		13.1	

Source: Ministry of Trade and Industry, "Situation des industries de transformation," Fiscal Year 1987 (Rabat, December 1988).

exports and investment. The agro-foodstuffs sector occupies second place in terms of export growth, but comes only in fifth place in terms of investment growth, while the situation is just the opposite in the chemical and parachemical industries. The two remaining sectors are in an intermediate situation, which would seem to indicate that, except for the textile and leather industries, the most dynamic sectors in terms of exports are not so dynamic in terms of investment (and production) and vice versa.

The textile industry is fairly significant; alone it represented 35 percent of industrial exports and 19 percent of total investments during 1984–87, and more than 64 percent of the exports of finished goods in 1987.[18] Industrial exports have thus strengthened in recent years, but this situation gave rise to a problem of export concentration by product and also by destination.[19]

The adjustment program in the industrial sector—which envisaged the promotion of export-led industrial growth—is yet to

[18]*La Vie Economique* (Casablanca), March 18, 1988; Office des changes, Division des études et de la balance des paiements, *Statistiques des échanges extérieurs du Maroc*.

[19]In 1987, 75 percent of textile exports consisted of ready-made clothing; 85 percent of these were imported by countries of the European Economic Community (75 percent by France). Having exceeded its quota under the Multifiber Agreement, Morocco had to suspend "voluntarily" its exports of trousers to France in the summer of 1988. See *La Vie Economique* (Casablanca), July 29, September 16, October 16, and December 2, 1988.

have a significant and widespread impact on investment in industry. (However, a deeper investigation of the branches and sub-branches might reveal some activity that could augur well for the future.)

Public Investment Policy

Public investments have played—and are still required to play—an important role in Morocco's economic development. They represented over 60 percent of total investment during the 1960s and 1970s. Public investment policies underwent changes in the past three decades and were also influenced by the structural adjustment program.

Evolutions in Policy

The direction of government choices in the areas of public investment can be discerned from an analysis of the successive Moroccan development plans. Table 8 shows the distribution by sector of capital expenditures effected by the Treasury. The figures indicate that certain elements of policy have remained constant and others have undergone change.

The policy constants consisted of the priority or preferential treatment accorded to two sectors: agriculture and infrastructure. By virtue of its priority status, agriculture received the lion's share of public investments during the 1960s and 1970s. Midway through the period, the share of capital expenditures in agriculture from the state budget reached 43 percent (see Table 8). In real terms, investment was even higher, since two thirds of government capital expenditures in the agricultural sector went into construction of barrages ("barrages policy") and irrigation works, including in particular construction of large hydraulic systems. This concentration of capital expenditure was made at the expense of rainfed farming—which produces the essential food crops—and of small and medium-sized hydraulic systems.

The favorable treatment accorded to infrastructure is illustrated by the fact that it has regularly received about one fifth of government investment expenditures. It indicates a preference for the strategy of growth by "an excess in infrastructure" (A.O. Hirschman).

Table 8. Evolution in Sectoral Distribution of Public Capital Expenditures, 1965–80
(In percent)

	1965–67	1968–72	1973–77	1978–80
Agriculture and barrages	27.4	42.9	24.3	26.7
of which: Barrages	(4.4)	(16.1)	(6.5)	(9.3)
Irrigation	(14.7)	(13.2)	(8.9)	(10.4)
Other productive sectors	28.2	18.6	15.7	11.8
Infrastructure	21.8	21.5	19.6	19.6
Education and training	22.5	17.0	11.6	17.6
Social services and housing			8.1	5.9
Regional development			9.9	11.5
Administrative and unclassified expenditures			10.8	6.8
Total	100.0	100.0	100.0	100.0
Total investment[a] (millions of current dirhams)	2,132	5,478	17,923	15,960
Average annual capital expenditures (millions of 1981 dirhams)[b]	2,146	3,320	6,489	6,467

Sources: Economic and Social Development Plans and World Bank estimates.
[a]Includes capital transfers but excludes defense expenditure and debt service.
[b]Constant dirhams are derived by deflating current dirhams by the implicit deflator of the gross fixed capital formation in the national accounts (growth of the deflator in 1981 is estimated at 10 percent).

The policy changes covered two main areas: the productive sectors other than agriculture, and the socioadministrative sectors. The other productive sectors (manufacturing, mining, and energy) saw their share in capital expenditures falling sharply and continually during the period: from over 28 percent in 1965–67 to less than 12 percent in 1978–80 (Table 8). It should be observed, however, that investment in these sectors grew through public enterprises that have their own budgets and that grew in size and importance, particularly during the 1973–77 period.[20] Several projects were undertaken, generally in capital-intensive activities such as phosphate and cement production, sugar plants, and oil refineries.

[20]Public enterprises received capital transfers amounting to 40 percent of government capital expenditures in 1973–77. These transfers financed about one third of capital investments by these enterprises.

Conversely, the socioadministrative sectors (education and training, housing, health, regional development, and administrative services) saw their share in government capital expenditures rise sharply in the 1970s. Their share jumped from 17 percent in 1968–72 to 40 percent in 1973–77 and to 42 percent in 1978–80 (Table 8). It has thus grown 2.5 times during the period. But this sharp increase was at the expense of the productive sectors (including agriculture), whose share in capital expenditures from the government budget was cut by more than half: over 60 percent in the early 1970s and 40 percent or less during the rest of the decade.

The trends during that period included an acceleration in public investment, illustrated by a tripling in less than ten years of the annual average investments expressed in constant dirhams (DH 2.1 billion in 1965–67 and DH 6.5 billion in 1973–77). A massive concentration of investment in capital-intensive projects with questionable profitability also occurred. Some of these projects were long term and others were of undetermined duration. Moreover, the sectoral distribution of investments tended to assume a less productive character. The contribution of investments to growth was poor; faster growth rates could have been expected, considering the increased level of investment, particularly in the mid-1970s.

As a result, the incremental capital-output ratio in the economy increased rapidly from 2.6 in 1965–72 to 6.7 in 1979–82.[21] Private capital also turned to import-substitution, capital-intensive industries, in the presence of often excessive protection and sharp distortions in the regime of incentives.

There was massive recourse to external borrowings to finance both government and public enterprise investments after a fall in phosphate receipts. Accordingly, public investment was responsible for the debt crisis in that the projects implemented were not generally export oriented, which would have ensured the availability of the foreign exchange necessary for debt-service payments—except for phosphate and its by-products.[22]

[21]World Bank, *World Development Report, 1985* (Washington: World Bank, 1985), p. 52.

[22]World price fluctuations, however, contribure to the uncerrainty of this commodity.

Adjustment

The policy of public investment has been undergoing adjustment since 1978, but the adjustment effort became more rigorous in 1983. To mitigate the deficit in public finances and its implications for current payments, public investments were reduced as of 1978. Projects already started were stopped, and others considered to be priority projects were continued. Despite the cuts, annual capital expenditures from the Treasury during 1978–80 were kept at the same level as those for 1973–77. Moreover, the 1981–85 Plan had practically doubled the volume of investment in constant dirhams (DH 12.3 billion, against DH 6.5 billion annually during the 1978–80 period).

Although an improvement did take place in the basic equilibria, the imbalances remained serious, and external debt indicators became even more alarming. There was accordingly no justification for this new surge toward expansion, which may be explained by the oscillation between adjustment and growth that marked Moroccan economic policies at the turn of the 1980s.

The debt crisis had set in. Adjustment became imperative, and the bulk of the fiscal adjustment effort was to focus on the capital budget, particularly as large appropriations totaling DH 75 billion had remained unexpended in the first four years of the Plan. The general adjustment program limited the volume of appropriations committable in the last year of the Plan to 20 percent of the total, and it was decided that the investments should be programmed on the basis of compatibility with the foreseeable resources and on the principle that their financing should not aggravate the debt profile.

Sectoral investment programs were reviewed with World Bank assistance. The key words in the process were efficiency and resource economy. The principles were to improve stock capital efficiency by ensuring maintenance and institutional restructuring or reform; to establish priorities in project implementation, since all projects cannot be implemented simultaneously, given the scarcity of financing and limited absorption capacity; and to improve the Government's "capacity to invest" using the basic techniques of planning, budgeting, and project monitoring.

The criteria were adequate economic and financial profitability, shorter gestation periods, and lower recurrent expenses; an emphasis on labor-intensive projects (less capital-intensive projects);

a net positive effect on the balance of payments; and the availability of financing.

The 1988–92 Plan is guided by this spirit. It assigns the private sector "a crucial role in realizing the objectives of the 'Orientation Plan'. This sector is to be encouraged, especially in the areas where it is called upon to intensify its investment."[23]

Private Investment Policy

The special place reserved to the private sector in the 1988–92 Plan—this sector is called upon to make up 60 percent of industrial investments—reflects a continuation of the attitude toward private capital in Moroccan economic policies since the early 1960s. Such policies have evolved over time but always in a direction favorable to private investment, until 1988, which saw an end to the escalation of incentives to private initiative.

This preferential treatment is targeted both to the Moroccan private sector and to foreign capital, with some minor variations. The foreign investor is entitled to repatriate income from investment and the invested capital itself. This advantage was recently extended to Moroccans residing abroad as an incentive to them to invest in Morocco. The clause in the investment codes of 1973 limiting incentives to Moroccan enterprises no longer appears in the investment codes of the 1980s.

The Investment Codes

Incentives to private investors are numerous and are generally listed in the investment codes, which are sets of fiscal and financial measures designed to encourage private investment. Individual sectors of economic activity are covered by a set of related measures, or codes of investment.

The earliest code, dating back to 1958, provided for various measures to stimulate investment in the industrial sector, including partial or total exemption from payment of customs duties on imports of new materials and equipment, tax breaks, and guarantees for the repatriation of profits and of foreign capital under certain conditions. The results, however, were disappointing.

[23]"Plan d'orientation pour le développement économique et social, 1988–92."

A second code on industrial investment was therefore adopted in 1960 that maintained the incentives of the former code and added new ones, which included the possibility of constituting funds exempted from taxes on profits to acquire new equipment, the allocation of an equipment allowance (equivalent to 15 or 20 percent of the total amount of the investment), and relaxation of conditions attached to the repatriation guarantee, which became virtually automatic. The average value of the advantages accorded under this code represented approximately 14 percent of the realized investment. The 1960 code was generally well received. Private investors, however, did not respond either in terms of volume or behavior to the expectations of the Moroccan authorities.

The third code on industrial investment (1973) accorded more advantages than its predecessor, making the granting of advantages virtually automatic. The advantages were modeled according to the levels of regional development, with the aim of decentralizing industrial growth. The code provided for the possibility of combining its advantages with those granted under the industrial export promotion code.

In reality, the 1973 code comprised six such codes for investments in industry, handicraft industries, mining, maritime transport, tourism, and promotion of industrial and handicraft exports. For the establishment of large-scale enterprises (investments of more than DH 30 million) or investment in specific sectors (automobile assembly lines, tire-making, edible oil production, sugar or oil refining, flour-milling, etc.), the Government, under contractual agreements with prospective investors, may grant even more advantageous conditions than those prescribed in the code. The 1973 code was favorably received in foreign business circles.

This code did not prevent the promulgation in 1983 of a fourth industrial investment code that contained more liberal provisions, including wider tax benefits, more business opportunities, interest rebates, substantial incentives for job creation activities, and, most important, the removal of the stipulation that only Moroccan companies could benefit from these advantages. This provision allowed fully owned foreign companies to enjoy the advantages provided for in the code, particularly the guarantee of unlimited automatic transfer of dividends, capital, and capital gains in the event of liquidation.

Does this not mean that private investment, and more particularly foreign investment, was becoming less sensitive to the financial stimulants? In any case, investment codes were promulgated, at times with excessive incentives, for the other sectors: agriculture in 1969 (the agricultural tax was removed in 1984 until the year 2000); export firms in 1977; real estate in 1980 (a 15-year tax holiday);[24] tourism investments in 1983; maritime transport investments in 1984; real estate promoters in 1985; and mining investments in 1986.

The trend in granting investors further advantages was reversed in 1988. Under pressure of budgetary imbalances that were becoming more difficult to reduce further, the Government revised the investment codes (with the exception of the code on agricultural investment), reducing the advantages and limiting in particular the exemption from the tax on business profits and on corporations (where the tax exemption period was cut from 10 or 15 years to 5 years with the level of exemption reduced to 50 percent).[25]

Other Incentives

Several other incentives were granted to encourage private investors. Of the six types of incentives, two were sharply reduced because of the structural adjustment program, though they were the most important. The first related to the various subsidies in the agricultural sector, which were gradually eliminated under the sectoral adjustment program for agriculture. The second related to the tariff and quantitative protection of the industrial sector. Although this protection may have been justified for "infant industries," it was often granted on a case-by-case basis and sometimes depending on the identity of the investor. Such protection was often excessive and was maintained even after the enterprise had grown out of "infancy." Under the sectoral adjustment program for industry and foreign trade, this protection was reduced and became more orderly.

The third related to the sets of measures ("regimes") applied at customs, including exemptions (or suspensions) of customs duties,

[24]A. Akesbi, "Paradis fiscal pour les promoteurs" (Tax holiday for promoters), *Liberation*, No. 302, March 6, 1981.

[25]For further details, see *La Vie Economique* (Casablanca), February 12, 1988.

in addition to those advantages extended under the investment codes to encourage export industries in particular. This classical list of incentives consisted of bonded warehouse storage, temporary entry, temporary importation, temporary export for foreign processing, temporary exportation, transit, drawback, and customs clearance at domicile.[26]

The fourth advantage consisted of the establishment by the state of "industrial parks" to be made available to investors at moderate cost, while the fifth related to the incentives accorded under the selective credit policy, including lower interest rates and/or the provision of credit.

The sixth consisted of incentives to remittances of Moroccans working abroad, including exchange premiums and interest on checking accounts held in Moroccan banks. These incentives were later canceled. However, because of a drop of almost 20 percent in 1988 in this primary source of foreign exchange in Morocco,[27] various measures were adopted, including relaxing foreign exchange controls and extending the same repatriation guarantees that were formerly granted to foreign capital invested in Morocco to housing loans and credits for small and medium-scale industries.[28] A bank (Bank Al-Amal) was established to finance investment projects in Morocco of nationals working abroad, especially in industry. The acquisition of housing has always been the principal investment of Moroccan expatriate workers.[29] With the onset of reverse migration—particularly from Europe—investment in small and medium-scale industries was an attractive proposition, considering that the funds in question were considerable and presented a twofold advantage as sources of foreign exchange and of investment financing. Assistance in this area was to be provided by the government agencies responsible for the encouragement of investments.

[26]For more details, see ODI (Industrial Development Office), *Guide de l'investisseur* (Investor's Guide), August 1989.

[27]DH 10.7 billion in 1988 compared with DH 13.3 billion in 1987 ($1.3 billion and $1.7 billion, respectively).

[28]*La Vie Economique* (Casablanca), June 24, 1988.

[29]Bachir Hamdouch, "Réflexions sur les effets de l'émigration des travailleurs marocains à l'étranger," *Revue de l'INSEA*, No. 7, January 1984; Bachir Hamdouch and others, "Migration Internationale au Maroc," INSEA-UQAM, Rabat, 1981.

Role of Investment Promotion Agencies

Encouragement of private investment by the Government and public agencies is carried out through the management of incentives granted under the investment codes and the provision of services to facilitate project implementation, including capital participations or setting up entire projects.

Administration of Incentives

The administration of incentives passed through three main phases. The Investment Commission was set up in 1958 to select projects eligible for benefits under the investment code. This interministerial body was coordinated by the Ministry of Economy until its dissolution. It met whenever it received a project application from the technical ministry concerned.[30]

As the granting of advantages under the 1973 investment code became automatic, the *raison d'être* of the Investment Commission no longer existed. Consequently, each technical ministry dealt with project applications under its respective jurisdiction merely to ensure that they met the requirements of the applicable regulations. If so, the ministry would issue an "in order visa" and notify the Ministry of Economy accordingly. Once an application was so approved, the investor had to apply to a financing agency: the National Economic Development Bank (BNDE) or a commercial bank.

Thus viewed, the procedure seemed simple and swift. In reality, it was long and cumbersome owing to the numerous departments through which the project had to pass at both the local and central levels (to illustrate the lengthy character of the procedure, an investment project application had to be submitted in 17 copies).

Thus the idea of a single focal point was born. It had been envisaged in the 1973–77 Development Plan, but had not been accepted for several reasons, the most important of which was that it would have cast doubts on the way in which the administration conducted its business. It may also have meant adding an extra agency instead of replacing the existing ones. Questions were also raised about the power that such an authority would

[30]A similar formula was applicable for a Contracts Commission.

have vis-à-vis the other departments and about its eventual effectiveness. It was suggested that the investors themselves, or their accredited representatives, could best deal with their own affairs and would be quicker to get through. In fact, the single authority system did operate in Morocco for some time in the form of a "Welcome Center" for investors, but it had no power whatsoever.

A major development in the field of private investment was a Royal Letter addressed to the Prime Minister, in June 1989, denouncing the "slowness" and "multiplicity of administrative procedures." It concluded

> Consequently we have to put an end to this situation. Henceforth, every properly-constituted application of an investment project shall be deemed as having obtained the approval of the Administration if the latter fails to take any action thereon *within two months* from the date of its submission. In case of rejection, the decision of the Administration must be duly explained. This decision shall take effect immediately and shall appear forthwith in the provisions of all our investment codes, where it must be inserted.[31]

Steps for the enforcement of this decision are under way. Attempts are being made to establish an administrative structure to handle private investment matters, which would be characterized by a simplified procedure, transparency, and speed. It is also intended to establish "an investment follow-up committee" at the provincial level.[32] The 1988–92 Plan envisages measures aimed at streamlining administrative procedures and incorporates the notion of "a sole interlocutor at the local level."

Investment Services Agencies

Two bodies play an important part in private investment promotion,[33] namely, the Industrial Development Office, a public agency, and the National Economic Development Bank, a semipublic body. Their actions are on the whole complementary.

[31] *Le Matin du Sahara* (Casablanca), August 25, 1989 (author's italics).

[32] Circular letter from the Prime Minister in *Le Matin du Sahara* (Casablanca), August 25, 1989. See also the letter from the Minister of the Interior to the governors on the same issue.

[33] A third body, the National Investment Company (SNI), could also have played an important role. This semipublic holding company should have activated the financial market in Casablanca. However, its activities were generally limited to the management of equity portfolios received at the time of its establishment.

The Industrial Development Office (ODI) is an industrial promotion agency that acts on its own behalf or in association with private national and/or foreign investors. Four types of interventions may be identified in the ODI effort:[34] (a) reception, information, and assistance in project implementation; (b) sectoral studies and assistance in project identification, pre-feasibility, and feasibility studies, upon the request of private industrial promoters; (c) technical assistance to small and medium-scale industries, ranging from project identification to enterprise management; and (d) equity participation in, or support for, the implementation of projects of national or regional interest, and pilot projects or projects with a high technological content. In companies other than its affiliates, the ODI maintains minority equity as a general rule, although its participation is usually higher than 20 percent to enable it to play an active part in the project. Once the project is launched, ODI may relinquish its equity to the private sector, thus freeing it to engage in other projects. The ODI group currently comprises some 30 industrial companies, 10 of which are affiliates.

The National Economic Development Bank acts mainly as an agency for financing private industrial projects. It has a secondary function as an organ of promotion and assistance. In nearly thirty years of activity, Bank interventions consisted of direct loans (62 percent), rediscounted medium-term credits (37 percent), and equity participation (1 percent).[35] Investments or financing operations with BNDE participation represented close to 30 percent of gross fixed capital formation in terms of plant and equipment in Morocco during that period.

Effectiveness of Private Investment Promotion Policies

The enactment of several investment codes in succession, with progressively more liberal provisions, calls into question the effectiveness of these codes and raises the issue of whether the results were adequate in relation to the advantages that were granted.[36]

[34]ODI, *Statement of General Policy, Review of Activities in the Last Ten Years,* and *Report on Activities,* 1987.

[35]BNDE, "Au service de l'entreprise" and *Annual Report, 1987.*

[36]A general feeling exists in Morocco that there was a degree of "inadequacy" between the advantages offered in the investment codes and the results. This was

Accordingly, I shall attempt an analysis of the results and the factors that have influenced investment decisions.

Results

First, little information is available on the investments approved within the framework of the investment codes. The only updated data available in sufficient detail concern the industrial sector. These investments, however, were those that the Ministry of Industry judged eligible for the advantages offered under the investment codes, but that were not necessarily implemented. No information is available to permit comparison between the investments approved and those that were actually implemented.[37]

In the 1970s, private investment followed the growth of public investment, though at a slower pace. Expressed as a percentage of GDP, it rose between 1970 and 1979 from 7 percent to approximately 13 percent (5 percent and 8 percent excluding investments in housing), while the ratio of overall investment rose from 15 percent to 33 percent during the same period.[38]

During this time, corporate investment in Morocco by the foreign private sector, which represented 5–6 percent of the gross fixed capital formation at the beginning of the decade, dropped sharply by almost one half since 1973 and was no more than 2–3 percent of gross fixed capital formation through the rest of the decade.[39] The effect of "Moroccanization" and the introduction, in the 1973 codes, of the clause that a company had to "Moroccan" to enjoy the advantages had become evident.

An analysis of the developments with regard to approved investments in the activities covered by the investment codes of 1973 (manufacturing, handicrafts, mining, fishing, and tourism) shows

referred to in the above-mentioned royal letter to the Prime Minister which reads in part: "As regards the advantages that have been thus approved, Morocco still remains far from obtaining all that it could legitimately and reasonably have expected" (*Le Matin du Sahara* (Casablanca), August 25, 1989).

[37]The rate of implementation would be about 80–85 percent according to sources at the Ministry of Trade and Industry.

[38]See World Bank, *Morocco: Economic and Social Development Report* (Washington: World Bank, 1981), p. 25.

[39]ODI, *Review of foreign private investments from 1968 to 1976*; BMCE, Bulletin No. 136, December 1978.

the same rapid growth. The total volume of approved investments multiplied 6.7 times (in current dirhams) between 1973 and 1977. Manufacturing alone represented 60 percent of the total. It should be pointed out that the volume of approved industrial investments stagnated in the early years of the decade.[40]

We have already seen that public investments were declining in the 1980s. Can the same be said of private investments? The volume of approved investments in the industrial sector (the only investments for which data are available) grew from 20 percent to 30 percent annually between 1984 and 1987,[41] with the exception of 1985, in which investments of public enterprises fell by 60 percent under the impact of the adjustment program. The strong growth in private investment was attributable to the new industrial investment code of 1983.

Table 9 shows the distribution of approved industrial investments by type of investor from 1984 to 1988. It shows a sharp drop in public enterprise investments, which represented a mere 2 percent of approved investments in 1988; the share of Moroccan private investments remained strong and stable, representing close to four fifths of total investments; and the share of foreign private investments was not negligible, representing close to one fifth of the total. The foreign element in equity of the manufacturing sector reached 14 percent in 1987.[42]

In brief, private investment grew rapidly following the enactment of the investment code of 1973 (except for foreign private investment). There was also an accelerated growth in private industrial investments approved after the adoption of the 1983 code.

Two indicators may be used to evaluate the effectiveness of the private investment promotion policy, namely, the degree of capital intensity in industrial projects and the geographic distribution of the investments. The results in the 1970s failed to achieve the objectives of the development policy as enunciated in the development plans, and were particularly negative when compared with

[40]World Bank, *Morocco: Economic and Social Development Report* (Washington: World Bank, 1981), Statistical Annex, p. 22.

[41]Realized industrial investments grew at an average rate of 20 percent between 1984 and 1987; see Table 9.

[42]Ministry of Trade and Industry, "Situation des industries de transformation," Fiscal Year 1987 (Rabat, December 1988), p. 15.

Table 9. Sources of Approved Investments in Industrial Sector, 1984–88
(In percent)

	1984	1985	1986	1987	1988
Public enterprises	10	4	3	8	2
Domestic private sector	73	80	72	76	78
Foreign private sector	17	16	25	16	20
Total	100	100	100	100	100
(In millions of dirhams)	2,780	2,830	3,550	4,690	5,780
Percentage change	22	1	25	32	23

Source: Ministry of Trade and Industry.

the objectives of the investment code of 1973 with respect to job creation and decentralization of productive activities. This outcome was partly due to the distortions in the regime of incentives. Investment for each job created in approved projects rose sharply: DH 54,000 in 1970, DH 77,000 in 1973–74, DH 89,000 in 1975, DH 144,000 in 1976, and DH 87,000 in 1977. Geographic concentration of industrial investment remained strong in the projects that were again approved in the late 1970s, as the region of Casablanca (Zones I and II) and the other major urban centers (Zone III) absorbed 94 percent of the investments in 1979 (see Table 10).

Has the situation improved following the revision of the industrial investment code in 1983 and the adoption of the sectoral adjustment program for industry and foreign trade? After a few years during which adverse influences (or habits) led to the concentration of industrial investment in the region of Casablanca, decentralization of investment progressed as of 1986 (Table 10). Meanwhile, the amount of investment for each job created tended to stabilize between DH 90,000 and DH 100,000: DH 99,000 in 1984, DH 92,000 in 1985, DH 101,000 in 1986, DH 86,000 in 1987, and DH 97,000 in 1988. Accounting for inflation, this result was an improvement in relation to the situation in the mid-1970s.

Factors Influencing Investment Decisions

Numerous factors influence investment decisions; some are economic in nature while others are not. They vary, and their relative weight also varies, according to the type of investment (national or foreign), the socioeconomic environment, and the regulatory

Table 10. Geographic Distribution of Industrial Investments Approved in 1979–88

	1979	1980–82	1983	1985	1986–88
Zones I and II[a]	55	37	52	50	43
Zone III[b]	39	45	39	36	35
Zone IV[c]	6	18	9	14	22
Total	100	100	100	100	100

Source: Ministry of Trade and Industry.
[a]Region of Casablanca.
[b]Other major urban centers.
[c]Rest of Morocco.

and administrative regimes under which the investment is to be made.

A number of these factors have already been described and their impact on investment identified, including the investment codes and other incentives, the general adjustment program with its impact on investment through credit and interest rate policies, the policy on financing of the treasury deficit, and the sectoral adjustment programs, with their impact on the correction of price distortions and on resource allocation.

These are the factors that eventually influence the competitiveness of the economy, and they assume particular importance when the investments focus on export-oriented activities and/or when the investor is foreign. The foreign investor will consider the comparative costs (or comparative profitability) that determine his decision to take his project to Morocco (and where to locate his project inside Morocco) or elsewhere. Also to be considered are the high costs of certain production factors in Morocco,[43] such as industrial fuel (owing to the "oil premium" imposed by the state), electric power (the rates of which are paradoxically higher for industry than for households), and the cost of transport services, banking, and insurance. Other factors relate to the general economic conditions and the long waiting period to acquire foreign exchange, which undermine the creditworthiness of Moroccan enterprises abroad, aggravate their financial burdens, and damage Morocco's image; finally there are the awkward administrative

[43]See cost of production factors in Morocco in ODI, Industrial Investors Guide.

delays that discourage foreign investors more than national investors.

Certain measures have been taken or are under way to remedy this situation, including measures to shorten the waiting period for the purchase of foreign exchange, as permitted by an improvement in the external account, to reduce the Government's domestic arrears, and to streamline administrative procedures in the investment field.

That the investment decision is influenced by many factors makes it difficult to attribute any variation in investment to a particular factor. It also raises the problem of the relative weights of individual factors in the investment decision. An attempt at such an analysis was made on the basis of a survey of industrial enterprises in Morocco.[44] The objective was to identify investment factors in the light of the incentives granted under the industrial investment code of 1973. The main conclusions of the analysis were

- The determining factors include the presence of a growing demand for familiar products on the market and a sufficient level of profitability.
- While appreciable incentives are offered under the investment codes (they represent 40–50 percent of gross operating revenues depending on geographical location), their absence would have completely jeopardized only one tenth of the total number of projects: 40 percent of the projects would have been completed on schedule and the remaining 50 percent would have required rescheduling either in start-up operations or in implementation phases.
- Customs protection constitutes a fundamental incentive (not included in the code).
- Those incentives provided in the code that intervene at the establishment phase (financing, interest rates, exemption from import tax on materials and equipment) influence the investment decision more significantly than those granted at the

[44]The sample comprised 74 enterprises and was considered by the authors to be sufficiently representative of the manufacturing industries. See B.H. Boulghasoul, "L'incitation à l'investissement industriel au Maroc," in *Politiques de sortie de crise et relations Nord-Sud*, text compiled and presented by Bachir Hamdouch (Rabat: SMER, 1989); B.H. Boulghasoul and A. Boujenoui, "Evaluation de l'impact de la politique d'incitation des investissements industriels au Maroc" (Rabat: INSEA, 1984).

operational stage (exemption from corporate income taxes and the accelerated depreciation).

- Exemption from the business tax is not a sufficient incentive for decentralization of investment.

Revision of the code thus became imperative, as did the restructuring of the entire regime of incentives, together with the system of administrative procedures just put in place. However, is this a sufficient incentive for private capital (domestic or foreign) to take the place of public investment in the promotion of growth?

Conclusion

For Morocco, the 1960s represented a decade marked by lack of investment. The transient increase in phosphate export earnings in the mid-1970s provided the opportunity to redress the investment shortage by a surge in public investments. The country therefore moved from a situation of too little investment to one of too much investment; the latter in respect of "the capacity to invest" in a rational manner. This resulted in serious waste and macroeconomic disequilibria. The 1980s has been a decade of economic policy adjustment and restructuring of the productive system.

Much has been done, but more remains to be done, including continued adjustment of the economic structures and steering investment back in the right direction. There has been a movement from one extreme to the other. The country has again moved from a situation of too much public investment to insufficient public investment. Public investment is irreplaceable, at least in some sectors, in a Third World country like Morocco. Moreover, if the complementarity that exists between public investment and private investment is not safeguarded, the risk of blocking private investment may arise. Finally, the stock of public capital is no longer maintained, or is insufficiently maintained, which again leads to loss of efficiency and to waste.

It is necessary therefore to revive investment and growth.[45] Structural adjustment is easier and faster under conditions of growth.

[45]The World Bank seems to share this viewpoint and is of the opinion that more importance should be attached to infrastructure. See Press Release and Statement by the President of the Bank during his visit to Morocco in July 1989 in *La Vie Economique* (Casablanca), July 23, 1989.

It rhymes better with growth than with stagnation, and so does social peace. Such a revival is also essential if another serious issue is to be addressed, namely, the distressing problem of external debt, which exercises a crowding-out effect not only on public investment but also on the country's overall investment, and which eats up most of its economic surplus. But this is another issue.

Comment

Abdelrazaq El Mossadeq

The paper on investment policies in Morocco presented by Mr. Hamdouch seems to me to be comprehensive. It contains a series of detailed information and reviews the progress of Moroccan economic policy in general and investment in particular.

Therefore, my comments will be restricted to pointing out certain facts, proposing a re-reading of the policies followed by the state, and analyzing the figures in a different way. I will limit myself to the industrial sector.

These comments will be centered on two main points of the paper: the adjustment program and investment policy.

Adjustment Program

Morocco, like most countries, has for several years been following adjustment programs. I could even say that adjustment is a matter of necessity or, if you wish, the continuous adaptation of the management of a country or a firm.

To me, a healthy economy is an economy in perpetual adjustment, continuously questioning its structure, adapting to market needs, taking into consideration new economic conditions, and above all, innovating. No market can be taken for granted, and no situation is immobile. The world changes and the power of the economy is to reach out and control these changes.

What is an adjustment program? It is nothing more than obvious reorientation of policies. In my understanding, an adjustment program should have as its major objective to equalize or at least to bring the economic profitability of any project closer to its financial profitability. In other words, the incentives policy, legal or illegal, should be neutral from one sector to another and from one activity to another. The administration should not intervene to guide an economic activity or to slant an investment choice. The rationalization of expenditures is the final objective and with it the elimination of waste and the optimal use of resources by directing them to profitable activities at the national level. An adjustment program should concern not only the productive sectors but also and above all the "administrative" sector.

I make these comments because, to my knowledge, only the industrial sector has started an adjustment program, which is still under way. All the adjustment measures that were taken have been in the industrial sector. Of course, certain sectors benefited from these measures (tourism, for example, with the currency devaluation), but these were not the decision makers' main concerns; they were induced benefits or, to use an economic term, external economies.

We cannot talk about the success or failure of an adjustment program that has not been implemented. We *can* say that the small achievements of the other sectors in comparison with the industrial sector show that an adjustment program with the same conditions has more chance for success than failure.

At this level, the statistics used in Mr. Hamdouch's paper show that the manufacturing industries sector achieved positive results. The annual rate of newly established enterprises has increased by 8 percent annually since 1985, industrial employment by 6 percent, turnover by 20 percent, and exports by 25 percent. Investments increased also by 20 percent, with a higher contribution by foreign investment (20–25 percent of the total) and a net decrease in public investment (less than 2 percent in 1988). The volume of production exported doubled between 1983 and 1988 to reach 25 percent. Moreover, about 213 investments approved in 1988 have part or all of their production targeted to foreign markets.

We note that the textile sector was the most dynamic in recent years, and on this subject two remarks can be made: the textile sector covers a wide area, including the clothing industry, spinning, weaving, finishing, dying, and hosiery. It is true that about one third of the investment in 1987–88 was allocated to the clothing industry, but even in this activity, which seems to be unappreciated by many because of its "banality," large investment opportunities remain open to investors.

The goal of an adjustment program, as stated earlier, is to direct the investments only to activities where conditions for success exist: infrastructure, markets, factor costs, qualified manpower, etc. Industry cannot be learned or enacted, it is the result of favorable conditions and of qualified and experienced people in management and in technical fields but also of people willing to take risks. We should avoid merging industries on a whim; those who did it are paying the price.

Investment Policy

The investment decision is the result of a long process of research and study and of a sequence of events that is just as long. If the implementation of an investment within a specific framework depends only on the decision maker, its success of course depends on the decision maker's choice and on his competence but also on the framework and on the external conditions in which the investment develops. Since the investment is the only means of consolidating, making profitable, and reinforcing the production capacity of a country, public authorities in different countries have always tried, each in their own way, to direct their policy toward realizing the maximum possible investment compatible with their information and resources, and to create a framework with the best conditions for the success of this investment.

Much progress has been achieved in the science of economics. It now allows better control of data and a reduction in the margin of error. The investment codes adopted by many countries, and sometimes by many regions, have tried to improve the return on capital invested in industry by correcting the distortions caused by external conditions. These codes have also been used to improve the relative position of a country in international competition as it seeks to attract the maximum foreign capital.

However, the profitability of a project does not depend only on quantifiable factors. Nonquantifiable factors are often more critical when it comes to the choice of the investor. Among these factors are stability, continuity in economic policy, basic infrastructure, the existence of an industrial base, and administrative procedures.

Public authorities in Morocco have acted on two levels. I will try to explain this later by highlighting the role of the Government in overall industrial investment, and in the regionalization of industry in particular.

Since independence, Moroccan investment policy has been characterized by reliance on private initiative and by the ability of the private sector to contribute significantly to the economic growth of the country. This choice is not synonymous with a *laissez-aller* or *laissez-faire* approach. In fact, the state has always stepped in when necessary to control the growth appropriate for the development of the economy. Since the 1956–60 period, which was characterized by control of the economic decision centers and the establishment of investment, promotion, and financing institutions (Bank of Morocco, State Industrial Participation Institution (BEPI), the National Bank for Economic Development (BNDE), and the Caisse de Dépôt et de Gestion (CDG)), the state has been working hard to attract private investment, whether national or foreign, and to invest itself, if necessary.

The 1960 investment code sought to reassure private investors and to define the rights and obligations of these investors as well as those of the public sector. It is perhaps worthwhile mentioning that the public sector has no monopoly on investment. Almost all economic sectors are open to private promoters, except in those sectors where state intervention is necessary because of the nature of the sector or because it is under monopoly. Far from the privatization movement that is now in fashion, let us remember that sectors such as education and urban transportation have for a long time been "open" to private investors.

However, during 1956–60 the records show that foreign investment was zero, or even negative, and the national private sector was not yet prepared to assume its obligations because of lack of experience, maturity, and technical or financial means. In this situation the state has to show the way and to demonstrate in fact that it believes in industrial investment and in the positive contribution that foreign capital and technical know-how can make. This is the explanation behind the large state participation in industrial investment, either alone or in association with the private investor.

Let me mention the launching of the sugar plan (the first sugar plant was completed in 1963) and the phosphate plan envisaged as processing about a third of the country's phosphate production (with the completion of Maroc-Chimie in 1967). As for public investments in association with foreign investments, we can mention SAMIR (with the IRI), Berliet-Maroc (with Berliet), SOMACA (with Fiat and Simca), and General-Tire Maroc. The strong presence of the public sector in industrial investment in the 1960s led some people to call this period the decade of public investment.

The end of the 1960s and the beginning of the 1970s saw the emergence of private investment, and this situation pushed the public authorities to change the 1960 code that refers any project to an investment committee, and to replace it in 1973 with a more flexible code that refers to the committee only certain investments in sectors considered strategic or investments over a certain amount (30 million dirhams). At the same time, the BEPI was changed to the Industrial Development Office (ODI), which was given the responsibility of promoting industry in association with the private sector. Of course, the state continued to invest directly in the sugar plan, the phosphate plan, and even to implement new plans such as those for cement, the iron and steel industry, and dairy products.

ODI has been the determining element in public industrial investment but almost always in association with private investors in various sectors such as diesel engines, cement, spinning, machine tools, agro-industry, electrolysis, and the clothing industry. It can even be asserted that the two clothing units launched by ODI in 1976–77, because of their success after a difficult start, were a good model for many promoters looking for profitable investment opportunities. The 1970s can be considered without doubt the decade of private investment, as it represented more than half the value of the investments made during the period.

The end of the 1970s and the beginning of the 1980s were marked by the difficult financial situation at the international level. Industrial investment declined. The public sector limited its role to projects already under way (Loukkos sugar plant, Nador steel project, Maroc phosphate project) or, through ODI, to investments requiring low capital. The import-substitution policy reached its limits. All potential sectors were virtually covered and some industries even started to branch out into some smaller subsectors. Moreover, the financing capacity of the country was limited and it was necessary to encourage foreign capital. But the 1973 code may have been an obstacle to foreign investment in Morocco because, out of its concern to create a spirit of cooperation between the national and the foreign private sectors, it stipulated that for the investment to obtain benefits, more than half of the capital should be nationally owned.

The new 1983 code eliminated this condition. Henceforth, industrial investment was to enjoy the same benefits regardless of the origin of the capital. Since 1983, foreign capital has represented

20–25 percent of industrial investment, compared with less than 10 percent in previous years. The code also provided certain additional benefits for export activities. It should be recalled that the first export law and customs legislation were promulgated in 1973. But we think that the change in the structure of protection of national industry— with the goal of making export activities as profitable as activities directed toward the local market—has given a new dimension to the industrial sector and has stimulated exports. The results were shown above.

Before ending this section, it is useful to make two points that I believe are essential for Morocco's investment policy. First, industrial investment has never been subject to the approval of the authorities. Except for activities such as the refining of edible oils and automobile assembly plants, which are regulated by specific legislation, the authorities' prior approval is not required. The decision to invest is the responsibility only of the project promoter, who should take into account the general economic environment. Second, public investment in industry does not enjoy special status or special benefits. The role of the state investor in industry is limited to its part as shareholder. It is put under the same conditions as the private investor. Moreover, as stated above, the public sector does not have any monopoly in this matter.

The regionalization policy is another aspect of the investment policy in Morocco. We can say that the state has acted directly by establishing or encouraging the development of certain economic development zones. In this regard, we can name the Gharb zone for the processing of sugar cane and sugarbeet, the Mohammedia zone for the petrochemical industry (SAMIR, SNEP, and lubricant oils), the Safi zone for phosphate processing, the Agadir zone for the fishing industry, the Tadla zone for the processing of industrial production of cotton and beet, and the Nador zone for the steel industry.

ODI has been assigned the main task of contributing to the regionalization of industrial investment. Besides SNEP in Mohammedia, no other ODI investment has been carried out in the Casablanca region. ODI has also participated in decentralizing away from Casablanca certain industrial activities, such as the dairy industry, the mechanical industry, cement plants, yeast, ethyl alcohol, and textile industries. The various investment codes have provided for benefits first in the form of equipment bonuses and then in the form of tax exemptions enacted in inverse ratio to the economic development of the regions.

From the end of the 1970s, the state, moving away from direct investment in industry, changed its role by acting on three levels: technical assistance, the infrastructure necessary for industrial units, and financing. Small and medium-sized industry was put at center stage. It is considered to be the driving force of this policy or of any self-sustaining development policy, more equitable, better distributed, and seeking to ensure a large diffusion of the investment spirit and a taste for enterprise.

A technical assistance department to assist promoters of small and medium-sized industry was established at ODI in 1979. A department for small and medium-sized industry was also established at the Ministry of Industry. This body conceived and proposed various special benefits for this type of industry, and these proposals were taken into account in drafting the 1983 investment code. At the same time, the medium- and long-term financing of industrial investment, which had until then been a BNDE monopoly, was extended to various commercial banks, which were better located in the regions with their many branches. Better conditions were introduced, particularly in the amount of financing. Recently, new arrangements have been added to this favorable environment: credit facilities, venture capital, and the establishment of Bank Al-Amal. Moreover, the feasibility study for the establishment of industrial zones in Morocco was launched and began to be implemented in 1982. Several industrial zones are now established. The preparation of industrial zones has been decentralized and entrusted to a central body (the CDG) but also to regional establishments or to any other body selected by the local authorities interested in the establishment of a zone. This program has contributed largely to solving one of the major bottlenecks of industrial regionalization.

It is true that up to now the Casabanca region continues to attract a relatively significant part of investments. However, this part is declining considerably. The results of such a process, which is by nature long and complex, can only be perceived over a long period of time. Casabanca has over the last three years attracted only 43 percent of industrial investments, compared with 55 percent at the beginning of the 1980s and 75 percent in the mid-1970s. It is difficult to say that these results are only the consequence of the decisions listed above. They are also certainly due to natural evolution resulting from the significant increase in the price of industrial land in Casabanca, for example. But we can say, without doubt, that these decisions played a determining role in moving investment in the right direction.

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