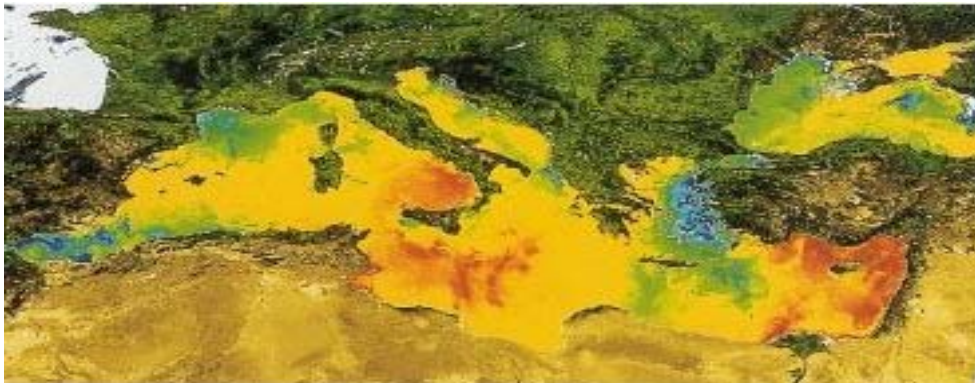




## **EURO-MED PARTNERSHIP**

### **MOROCCO**

**National Indicative programme  
2005-2006**



## **I. SUMMARY**

### **1. INTRODUCTION**

In political terms, the noteworthy developments are the continuation of the democratisation process, transparent and democratic general elections in September 2002 and an increase in the number of female members of parliament. The Islamist PJD party scored a resounding success and became the country's third political party.

The terrorist attacks of 16 May 2003 in Casablanca, in which 42 people were killed, shook the country but did not jeopardise its democratisation process. The government is acting on two fronts - security and social and economic affairs. With respect to security, the parliament immediately approved a law to combat terrorism which had been under discussion since the end of 2002. As regards social and economic matters, the government has taken initiatives such as the launch of a social housing scheme with a view to curbing the spread of shanty towns.

Generally speaking, as far as human rights are concerned, the situation is better than in many other countries of the region. Recent events have nonetheless prompted some concern, following allegations of torture and restrictions on freedom of speech. The review of the *mudawana* (the family code) submitted by the government has been welcomed by the Moroccan population and the international community as one of the most progressive legal reforms in the Arab world.

Economic performance has been relatively good since 2001. The growth rate was 4.5% in 2002, compared with 6.5% in 2001. Following abundant rainfall, forecasts for 2003 have been revised and are now set at 6.5%. However, despite the government's efforts to diversify the economic base, the growth rate is still too closely related to agri-climatic conditions and is not strong enough to produce a lasting reduction in unemployment.

The vicious circle of weak growth, unemployment, poverty and migration has not been broken.

Macroeconomic trends are positive but remain weakened by the public finances situation, particularly by the size of the public deficit. Despite a certain improvement in the situation in 2002 (4.9% of GDP), Morocco must now tackle the structural causes of its fragile public finances. These include in particular the public service wage bill and an overly narrow tax base.

The social situation is worrying. The unemployment rate in cities is over 20%, (notably among the young and females) poverty has been on the rise since the 1990s and there are still marked disparities in access to basic services (water, electricity, housing, education and health). These disparities are even more notable when female access to these services (particularly education) are considered.

The new government resulting from the elections, which came into office in November 2002, is setting a priority on economic upgrading, education and job creation, reforms and modernisation of agriculture, and the social sector. New initiatives have been launched in the latter area, notably involving housing and a proximity policy based on high-profile measures in the field.

### **2. GUIDELINES OF THE 2002-2006 COUNTRY STRATEGY PAPER AND THE**

## **2002-2004 NATIONAL INDICATIVE PROGRAMME**

The medium-term issues identified in the 2001 Country Strategy Paper (CSP) were the sluggish economic growth, social challenges, the fragile agricultural sector, the lack of efficiency of the public sector, the business environment and the competitiveness of SMEs. These issues remain valid today.

The response strategy set out in the CSP focuses on implementing the Association Agreement and breaking out of the circle of weak growth, unemployment, poverty and migration. The CSP thus provides for assistance in two components: an economic and trade component (50% of the budget), and a social, cultural and human component (50% of the budget). The 2002-2004 National Indicative Programme (NIP) puts this strategy into practice through five priorities:

- Reform of public administration, backed by an SAF (EUR 79 million).
- Trade development, involving transport sector reforms (EUR 96 million), business upgrading (EUR 61 million) and support for the implementation of the Association Agreement (EUR 5 million).
- Human resources development, with a vocational training programme (EUR 50 million) and participation in the TEMPUS programme (EUR 8 million).
- Migration management, including border control management (EUR 40 million), institutional support for the movement of persons (EUR 5 million) and the development of the northern provinces (EUR 42 million).
- Environmental protection via the Arganier project (EUR 6 million) and interest rate subsidies on EIB loans (EUR 30 million).

The take-up rate of funds is good. All the programmes for 2002-2003 are under way and the appraisal of programmes planned for 2004 is in hand.

### **3. MID-TERM REVIEW**

#### **3.1 Preamble**

The CSPs are designed to be instruments for guiding, managing and reviewing Community assistance programmes. They are essential management tools for ensuring that the Community's external aid reflects its policy priorities and objectives. The first generation of CSPs for the MED region were finalised in December 2001.

With a view to achieving steady improvement in the quality of these instruments, the Council adopted conclusions on the implementation of the common framework for CSPs in March 2003. In these conclusions, the Council calls on the Commission to undertake a mid-term review (MTR) of every CSP in line with existing rules, and sets the major guidelines for reviewing CSPs. It identified the following four parameters as basic points of reference for the review: (i) new developments in the country, (ii) new Community policy objectives and commitments, (iii) results and performance, and (v) lessons drawn and potential room for improvement.

As far as the MED region is concerned, the overall conclusion is that there is no need for an in-depth review, since the 2002-2006 CSPs have a fairly general content and were adopted recently. The minor changes in the CSPs relate to sectors that had already been identified and that match the new Community policy objectives and commitments referred to above. As the MTR coincides with the 2005-2006 programming exercise, the decision was taken to

implement the CSP adjustments via the 2005-2006 NIPs.

### 3.2 Developments

There have been no significant changes in the economic situation since 2001. The economic performance has been relatively good. Following on from a rate of 6.5% in 2001, growth reached 4.5% in 2002 and forecasts for 2003 are similar. However, the growth rate is still not sufficient to produce a lasting reduction in unemployment. Furthermore, in 2003 Morocco will enter the crucial phase in the implementation of the Association Agreement (dismantling of tariffs on locally produced industrial goods). Vigorous reform measures will be necessary to improve the competitiveness of Moroccan enterprises. The macroeconomic situation is stable, except for the budget deficit which is still giving cause for serious concern despite the improvement registered in 2002 (4.9% of GDP).

On the political front, the new government resulting from the elections, which took office in November 2002, is setting a priority on economic modernisation and job creation, governance and the social sector (basic education and literacy, housing, employment, women's rights). The rise of the fundamentalist movement has prompted the government to implement an outreach policy (high-profile measures in the field, to complement the longer-term projects undertaken at national level).

Other points worth noting:

- Improvement of political relations with Algeria.
- Request for an "advanced status" in relations with the EU.
- Problems and delays in the agricultural aspects of the negotiations on a free trade area. Agricultural reform is increasingly becoming a priority of the government and of the King himself.
- Three consecutive years of drought have contributed to increasing poverty in rural areas and have prompted the government to set a new priority on water policy.

These points do not call into question the CSP strategy which, overall, remains appropriate. The strategy will have to follow the economic reforms. The social problems stemming from economic transition, and the specific problems of the agricultural sector, will also need to be taken into account.

### 3.3 New Community policy objectives and commitments

A number of policy orientations were adopted by the Commission during the period 2002-2003. These will have a major impact on our relations with the Mediterranean partners in the near future. Significantly, the communication on the **wider Europe and the new neighbourhood policy** establishes a new framework for relations with the southern Mediterranean rim. The communication points out the increasing interdependence between the EU and its neighbouring partners with respect to stability, security and sustainable development. In the course of the coming decade, the Union should therefore aim to develop an area of prosperity and a friendly neighbourhood - a "ring of friends" - with whom the EU enjoys close, peaceful and cooperative relations. In return for concrete progress in the observance of shared values and effective implementation of political, economic and institutional reforms, the Union should offer its neighbours the prospect of participating in the internal market. This should be combined with the prospect of further integration and liberalisation to promote the free movement of persons, goods, services and capital (the four freedoms). For the period up to 2006, Southern Mediterranean countries will be invited to

participate actively in neighbourhood programmes, currently being developed, with the aim of strengthening the impact of cross-border and trans-national cooperation with the Mediterranean countries of the Union.

The other policy orientations relate to the Doha summit and trade, justice and home affairs issues, promoting better governance, human rights and democratisation in the MED region, and the environmental initiatives agreed at the Johannesburg summit on sustainable development.

The launch of the new WTO round - the **Doha agenda** - provides both for further opening of markets and the definition of additional rules, backed up by a commitment to increase material assistance for developing countries with a view to capacity-building. The main objective of the new round is to support the developing countries' efforts to integrate into the world trade system in a way that will help them to combat poverty.

The conclusions of the Council meetings in Tampere (1999), Santa Maria Da Feira (2000) and Seville (2002) shape a common policy on integrating **justice and home affairs** issues into the EU's external policy. The action plan adopted in Valencia (2002), along with the Barcelona declaration, provides additional guidelines for closer cooperation in the MED region in three main areas: migration, reforming the judiciary and combating crime.

**Better governance, promotion of democracy and respect for human rights** are core objectives of the EU's external policy. In accordance with the conclusions of the UNDP's Arab human development report, the Commission recently adopted a communication on "Reinvigorating EU Actions on Human Rights and Democratisation with Mediterranean Partners". The document's purpose is to maximise the effectiveness of the instruments available to the EU and its Mediterranean partners in the field of human rights and democracy. The communication sets out working guidelines for promoting human rights and fundamental freedoms in cooperation with the Mediterranean partners. It puts forward ten practical recommendations for improving political dialogue between the EU and its Mediterranean partners, and the EU's financial cooperation on issues relating to human rights. The implementation of the recommendations will be helped by ensuring complementarity at three levels: between political dialogue and financial assistance, between the MEDA programme and the assistance provided under the European initiative for democracy and human rights (EIDHR), and lastly between the national and regional levels.

A general commitment to **sustainable development** was renewed at the Johannesburg summit with the adoption of a pragmatic and ambitious programme, featuring clear and quantifiable objectives that demonstrate the growing importance of **environmental issues** in achieving the Millennium Development Goals. The key sectors for EU action are water and energy. Accordingly, in Johannesburg the EU launched a partnership in each of these two areas. The EU water initiative ("Water for Life") coordinates existing financing mechanisms with particular emphasis on three parameters: supply, sanitation and integrated resource management. The practical follow-up relating to the Mediterranean countries is currently being undertaken within the framework of the existing financial instrument (i.e. MEDA) but other developments, including assistance for transboundary basins in Africa, are expected to be monitored more closely in the near future.

**In conclusion, some minor adjustments to the CSP are recommended. The response strategy and focal areas as a whole are still relevant.**

### **3.4 Results, weaknesses, lessons and improvements sought**

An evaluation of the country strategy was undertaken in 2002. The report indicated that the CSP and programming were strongly relevant to the Moroccan priorities and the EU's strategic objectives. It recommended pursuing support for reforms (notably in the areas of taxation and education) and diversified upgrading of the economy. Recommendations that could require adjustments to the CSP include taking better account of the social impact of economic reforms on fragile population groups, upgrading agriculture, consolidating governance and human rights and democracy and women's rights.

## **4. PROGRESS IN IMPLEMENTING THE ASSOCIATION AGREEMENT**

The agreement with Morocco was signed in February 1996 and entered into force on 1 March 2000. Since March 2003, tariff dismantling has been applied for the first time to imported goods which are also produced locally, thus opening up Moroccan industry to international competition.

At its meeting of 24 February 2003, the Association Council decided to create six new sub-committees in the following areas: 1) the internal market; 2) industry, trade and services; 3) transport, environment and energy; 4) research and innovation; 5) agriculture and fisheries; and 6) justice and security.

These sub-committees complement the forums created under the Association Agreement itself: the Working Group on Migration and Social Affairs, the Customs Cooperation Committee and economic dialogue. A new sub-committee on human rights, democratisation and governance will be set up in the near future.

Most of the groups and committees have already met. The next meetings are scheduled for the first three months in 2004. These committees allow the identification of areas in which cooperation will subsequently be expanded under the neighbourhood policy. Morocco will be one of the policy's test countries. We should also mention the signature of an agreement on scientific and technical cooperation and an agreement on further liberalisation of trade in agricultural products. Negotiations are under way to sign an agreement on the readmission of illegally residing persons and negotiations on liberalising trade in services and processed agricultural products are due to begin shortly. All of these agreements provide for flanking measures.

## **5. PRIORITIES OF THE 2005-2006 NIP**

### **5.1 Strategic guidelines**

**The total amount for this programming exercise is EUR 275 million.**

An evaluation of the country strategy was undertaken in 2002. It indicated that the CSP and programming were strongly relevant to the Moroccan priorities and the EU's strategic objectives. The evaluation recommended continuing support for reforms and the diversified upgrading of the economy. Other conclusions relating to programming include taking account of the social impact of economic reforms on fragile population groups, upgrading the agricultural sector, achieving greater involvement of civil society and associations in the MEDA cooperation, strengthening governance and human rights and promoting women's rights.

A mid-term review of the CSP was carried out in 2003. Given that the CSP is quite recent, the review concluded that the response strategy and priorities are still relevant. The new EU policy orientations, such as the new neighbourhood policy, the Commission communication on human rights and democratisation in the MED region, the Doha agenda and the commitments made in Johannesburg, along with the social dimension of economic reforms with respect to vulnerable population groups, have been taken into account.

The 2005-2006 NIP, together with the programme to support the implementation of the Association Agreement, will be able to cover possible measures for starting the implementation of action plans within the framework of the European Neighbourhood Policy.

As the mid-term review coincides with the 2005-2006 programming exercise, the decision was taken to put the CSP adjustments into practice via the 2005-2006 NIPs. The priorities identified when the CSPs' mid-term review exercise was defined are therefore reflected in the NIP.

In line with the existing CSP, the priorities under the current programming are as follows:

## **5.2 Economic and trade component (36% of the budget)**

- *Trade development/economic environment of businesses/upgrading*

In addition to the Moroccan fund for upgrading businesses (*Fonds marocain de mise à niveau des entreprises* - FOMAN) established under the 2002-2004 NIP, Morocco must put more emphasis on creating an economic environment which will help it to participate in the Union's single market.

The strategy relating to the new neighbourhood policy holds the prospect of sharing in the four freedoms: the free movement of goods, services, capital and persons. Modernisation and harmonisation of Morocco's legal and regulatory framework are indispensable pre-requisites for achieving these objectives, and also contribute to facilitating trade. The follow-up of the Doha process will increasingly be carried out by means of specific trade-related technical support measures within the framework of a programme to support the Association Agreement.

The liberalisation and development of services - including financial services - should be stepped up, along with governance of the financial system. The State must generate sources of finance to replace customs duties without distorting or curbing business competitiveness. Lastly, the gradual liberalisation of agriculture requires upgrading the agricultural sector, without neglecting smallholdings whose survival depends on investment in modernisation.

## **5.3 Social component, improving the living conditions of disadvantaged population groups, combating poverty (47% of the budget)**

- *Improving the living conditions of disadvantaged population groups*

The Community strategy will concentrate on the rehabilitation of slums. The immediate consequence of the Casablanca attacks was to focus attention on the population's living conditions. There is an urgent need to muster all necessary efforts in order to improve these living conditions (housing, production activities, basic social infrastructure, etc.), in particular around the cities.

Our action in rural areas will also continue with the launch of the second phase of the integrated rural development programme in the Central Middle Atlas Mountains.

- *Migration management*

The development of the northern provinces - a region with a high rate of emigration - is part and parcel of the EU policy's integrated approach on migration. Security aspects (border control management) and support for legal migration (movement of persons) were implemented in 2003.

Further to the conclusions of the study carried out to identify activities for promoting the social and economic development of the northern provinces, measures under this 2005-2006 NIP will concentrate on improving basic infrastructure. This effort will be presented in the summary table as action to combat poverty.

- *Optimising human resources*

This priority emanates from the 2002 and 2003 UNDP reports which highlight the importance of the optimisation of education for sustainable development in Arab countries. Taking into account the important role of higher education, it is proposed to extend the implementation of the Tempus programme to 2005 and 2006.

#### **5.4 Other components (17%)**

- *Environmental protection*

The priority will focus on drinking water supply for the population of rural areas and on water sanitation. The programming will thus contribute to the follow-up of the Johannesburg conference and, in particular, to implementing the EU water initiative.

Interest rate subsidies for sanitation will complement the assistance provided by the EIB.

- *Human rights and democratisation in the MED region*

The communication on "Reinvigorating EU Actions on Human Rights and Democratisation with Mediterranean Partners" puts forward practical measures to achieve greater and more effective mainstreaming of issues relating to human rights and democracy at all levels in the political dialogue with the MEDA partners. The proposed measures include developing national and regional action plans in support of human rights and democracy with MEDA partners which are willing to engage in this exercise. Under the communication (Recommendation No. 7), an additional allocation will be set aside for countries which adopt national action plans on human rights in 2004. This allocation will allow partners that are making progress in this area to benefit from additional funds that are not necessarily related to human rights and democratisation projects. The additional facility will be granted in 2005, as part of the review of the 2006 programming exercise.

The human rights and democratisation communication increased the attention given to this area during the 2005-2006 programming. The forthcoming establishment of a new sub-committee on human rights, democratisation and governance under the Association Agreement again demonstrates the Moroccan government's serious and sincere commitment to the political reform and democratisation process now under way.

Furthermore, this communication calls for the human rights dimension to be enhanced in the CSPs, and in particular for further mainstreaming of the promotion of good governance, human rights and democracy in the MEDA programme, beginning with the 2005-2006 exercise.

Also, given that a large majority of Mediterranean countries already have a component devoted to human rights and good governance in their programming, it would be not only desirable but also necessary to give a clear sign of political support to the Moroccan government in the form of assistance for the drafting of the National Action Plan on human

rights.

Several potential partners are under consideration for the implementation of this assistance. On the government side, the most suitable bodies could be the *Conseil consultatif des droits de l'homme* (Advisory Council on Human Rights) or the *Centre d'information-documentation et formation des droits de l'homme* (Centre for Documentation, Information and Training on Human Rights). Several NGOs have been identified and are already operating in Morocco. They include in particular the Moroccan Human Rights Association, the Forum for Truth and Justice, the Moroccan Human Rights Organisation and Transparency Maroc.

- **FEMIP**

As part of the Barcelona Process, the EIB has strengthened its financial partnership with the Mediterranean Partner Countries (MPCs) through the creation of a specialised instrument, the Facility for Euro-Mediterranean Investment and Partnership (FEMIP - October 2002). At the end of 2003, it was decided to reinforce the FEMIP, by adding new financial instruments and changing some organisational features in order to increase activities aimed at the private sector and cooperation with Partner Countries.

Under FEMIP the annual volume of EIB lending in all partner countries will gradually increase from €1.4 to €2 billion. These resources are to support a much-broadened activity range, with priority going to private sector development. Also of prime importance are environment and human capital projects and those either of mutual interest to the EU and Mediterranean Partner Countries or designed to foster South-South cooperation. Own-resources financing will be supplemented upstream and downstream by EU budgetary resources for technical assistance. These will help with the preparation and implementation of investment projects. In addition, the EIB will continue to make extensive use of risk capital resources for private sector development.

The sectoral priorities and planned programmes for 2005/2006, along with the associated budgets, are detailed on the last page.

## **II. PRESENTATION OF PROJECTS**

### **1. TRADE DEVELOPMENT/ECONOMIC ENVIRONMENT/ UPGRADING**

#### **1.1 Tax reforms**

##### **a) Context and grounds**

Consolidating public finances and bringing the structural causes of the deficit under control are the pressing issues Morocco must address in order to establish the right conditions for renewed economic growth. The 2003 finance law is based on a budget deficit of 5.9% of GDP (not including privatisations). This deficit had previously even reached 9% in 2000 and 7% in 2001. On the expenditure side, reform of the public administration should, in particular, reduce the wage bill in public spending.

On the revenue side, the tax system's efficiency must be increased to compensate for the losses in customs receipts - estimated at 0.4% of GDP per annum - resulting from tariff dismantling. Tax revenue has dropped from 24.1% of GDP in 2000 to 22.2% in 2002. Customs duties aside, this negative trend is the result of falling revenue from indirect taxes (VAT in particular), a contraction of the tax base of direct taxes caused by numerous

exemptions, too narrow a basis of assessment and an unsatisfactory collection rate, and a complex VAT system involving multiple rates (five in all: 20%, 14%, 10%, 7% and 0%) and, again, many exemptions.

In addition, Morocco has a complex and rather opaque local tax system. It is managed by two separate authorities (the Ministry of Finance and the Ministry of the Interior). Management and recovery procedures are unwieldy and less than efficient, and the quantitative performance is poor.

In 2001, the IMF carried out a detailed analysis of the modernisation needs of the Moroccan tax system and its administration. On the basis of this study, the government is preparing a medium-term reform programme which will tackle the various taxation systems (direct, indirect and local).

## **b) Objectives**

The programme aims to establish a modern and consistent tax system with a broader tax base, simplified tax arrangements, fewer exemptions and an efficient tax administration. The end objective is to make up for the losses in receipts from external trade taxes through internal taxation and to stabilise – or even increase – tax revenue with respect to GDP. This must be achieved without generating distortion in the market or undermining the competitiveness of Moroccan enterprises.

## **c) Expected results**

- Review and reduction of exemptions from VAT, corporate tax and income tax, including in particular those benefiting the agriculture and fisheries sectors.
- Establishment of a general tax code.
- Recasting of the VAT system and procedures with a view to simplifying and reducing the number of rates, taking account of the most efficient international practices.
- Review of scales and simplification of the income tax system.
- Broadening of the direct and indirect tax bases by combating fraud and tax evasion, and by taking the informal sector into account.
- Simplification of the local taxation system as a whole (sector managed by the Ministry of Finance and the Ministry of the Interior).
- Development and implementation of a strategy to modernise recovery provisions for national and local taxes. Transfer of recovery responsibilities to the Directorate for Taxation.
- Easier tax collection procedures for users.
- Increased information about taxation.
- Particular attention to gender issues will be given to this reform in view of the large number of females working in the agricultural and informal sectors.

## **d) Brief description of the programme**

The programme could take the form of a sectoral adjustment facility. It will generate multiplier effects with the "Reform of Public Administration" SAF of the 2004 NIP, which will focus on increasing spending efficiency and decreasing the wage bill in the public service.

Beneficiary institution: Ministry of Finance. A detailed programme and a timetable of reforms will be agreed with the Moroccan government. The programme will be implemented in close collaboration with the IMF and the World Bank.

**e) Performance indicators**

- Stabilisation/increase in the ratio of tax revenue to GDP.
- Real increase in the number of taxpayers.
- Increased recovery of taxes due.
- Availability of tax data; reduction in the number of complaints from taxpayers.

**f) Specific conditions**

- Adoption of a coherent strategy by the government.
- Continuation of the overall consolidation of public finances.

**g) Indicative budget/commitment year**

EUR 80 million in 2006.

**1.2 Technical support programme for the implementation of the Association Agreement and the European Neighbourhood Policy (P3A II)**

**a) Context and grounds**

Under the Association Agreement, in addition to tariff dismantling and the lifting of restrictions on exchanges of goods, Morocco has entered into commitments with respect to trade in services and various trade-related areas such as payments for current transactions, direct investment, the right of establishment, competition and state aids, property law, public procurement contracts and standards and certification.

In order to implement these provisions as a whole, it is necessary to upgrade the legislative and regulatory framework and strengthen the institutions responsible for implementation.

Furthermore, the Association Agreement provides for strengthened economic cooperation in a host of areas. At its meeting on 24 February 2003, the Association Council decided to create six new sub-committees in the following fields: the internal market; industry, trade and services; transport, environment and energy; research and innovation; agriculture and fisheries; and justice and security. These committee meetings will require a huge follow-up effort, supported by specialised technical analyses, studies, etc.

As regards South-South trade, Morocco has signed on 25 February, 2004 a free trade agreement with Tunisia, Egypt and Jordan within the framework of the Agadir initiative. Morocco has also signed a number of regional free trade agreements (with EFTA, GAFTA, AMU) and international (USA). A significant effort must be made to ensure that these agreements are consistent with one another, compatible with the Association Agreement and properly implemented.

The new round of world trade liberalisation which started with the Doha conference in 2001 also requires specific follow-up in order to facilitate the country's integration into the world markets. Trade-related technical assistance will be able to support this process.

The new European Neighbourhood Policy concept provides for the possibility of integrating neighbouring countries into the single market under the rule "everything but the institutions". The prospect of participation in the four freedoms (free movement of goods, services, capital and, eventually, persons) will require Morocco to make a significant effort in order to create the right legislative and institutional conditions. This ambition is reflected in Morocco's

request for an "advanced status" in its relations with the EU, which would be "more than association and less than accession".

The purpose of this programme is to help Morocco fulfil the commitments resulting from this set of international integration agreements, take advantage of the strategic prospects and the potential they offer, and support its opening-up policy and its efforts to promote South-South integration at sub-regional level. The programme builds on a previous programme launched in 2002, whose initial budget (EUR 5 million) turned out to be insufficient.

Upgrading the legislative and institutional framework is part of the action programme adopted at the Euro-Mediterranean conference of foreign ministers held in Valencia in 2002. The programme is in line with the communication on the Euro-Mediterranean partnership and the single market.

#### **b) Objectives**

- To bring the legislative and statutory framework closer in line with that of the EU and strengthen the institutional framework so as to ensure effective implementation in the framework of the European Neighbourhood Policy.
- To ensure full implementation of the Association Agreement.
- To support the conclusion and implementation of regional free trade agreements with other Mediterranean countries.

#### **c) Expected results**

The programme will adopt a "demand-led" approach. The needs will be identified by the planning workshops. Outcomes will involve the following areas in particular:

- The legal and regulatory trade framework; customs cooperation; implementation of the rules of origin required for pan-Euro-Mediterranean cumulation.
- Preparation for further liberalisation of capital movements.
- Support for the liberalisation of services.
- Upgrading of internal market regulations, in particular legislation relating to competition, official aid, industrial standards, consumer protection, industrial and intellectual property, transparency of public procurement, right of establishment and investment.
- Coordination of the economic cooperation provided for under the Association Agreement.
- Implementation of cooperation in the field of human rights and justice and security (notably judicial reform, family law) dialogue on migration; fight against money laundering and the financing of terrorism; implementation of the terrorism act; fight against drugs and organised crime.
- Strengthening of strategic capabilities, in particular as regards the statistical system (breakdown by gender) and support for carrying out sectoral analyses and policies.
- Acceleration of reforms in the transport and energy sectors. For the energy sector, the reform of the electricity sector is of particular importance, similarly, the promotion of a more efficient management of energy demand and harmonisation of rules and standards with those of the European Union. With regard to the transport sector the undertaken reforms must continue in particular in the maritime, air and road sectors; and the harmonisation of rules and standards between the Moroccan ones and those of the EU must be encouraged.
- Support for the implementation of the agreement on scientific and technological cooperation concluded between Morocco and the EU in 2003.

#### **d) Description of the programme**

The programme is intended for the public sector. The beneficiaries will be the ministries and public bodies involved in implementing the Association Agreement. It will be coordinated by the Ministry for Foreign Affairs.

The programme will set up an operational fund, designed as a instrument for responding to problems that may arise during the implementation of the agreements. The arrangements must be flexible enough to allow high-quality expertise to be brought in at short notice. The support will consist of short- and medium-term technical assistance, studies, twinning of public departments, training courses, the participation in seminars, the organisation of conferences, and the provision of equipment.

A study fund will be established as part of the programme to deliver the expertise required in the relevant areas for implementing the agreements and for developing sectoral strategies.

The programme will be implemented in close coordination with the regional programmes for the Euro-Med market, innovation/technology/quality and support for the Agadir initiative.

**e) Performance indicators**

For each area identified: completion of studies; adoption of new laws and regulations; effectiveness of laws and regulations; accession to international agreements and adoption of the relevant standards.

**f) Specific conditions**

Continuation of Morocco's policy of opening up to the outside and of alignment with the EU.

**g) Indicative budget/commitment year**

EUR 15 million in 2005.

**1.3 Support for professional associations (PAAP II)**

**a) Context and grounds**

The process of upgrading enterprises must be bolstered with measures of a collective nature which would not be open to individual enterprises (except for the largest among them). Opening up external trade cannot succeed without the support of an energetic network of associations that can make enterprises - and SMEs in particular - realise the need to carry out structural reform and strengthen their competitiveness.

The situation regarding Moroccan professional associations (PAs) is very diverse. While some PAs are relatively well structured and active, many of them are not very representative, lack resources, and can therefore not really be said to be operational. This state of affairs has led to a vicious circle: since they cannot provide their members with useful services, the PAs often merely fulfil a minimal role consisting of defending sectoral interests. This restricts their appeal, in particular for SMEs; membership therefore tends to be low, and members make only a minimal contribution to running and financing the association. Most PAs do not have permanent staff and depend on the voluntary work of their members.

The first phase of the PAAP programme, which started in 1999, proved increasingly

successful and was able to help 34 PAs and federations of associations to implement their action plans. Since the full programme budget was committed, many applications could not be accepted.

Nonetheless, the PAAP acquired a high profile in Morocco and prompted a change in attitudes on the part of administration officials, who now increasingly value the role of PAs as partners in economic development. The PAAP has launched a study on the Moroccan PA sector, which will lead to the shaping of a general strategy for the professional association sector and an overall action plan for ensuring its development.

However, many associations still need structural support and assistance with becoming organisations that deliver services to their members. Moreover, PAs will be able to play a more important role as information multipliers by providing enterprises and other interested parties with information on the Association Agreement. Experience has shown that Moroccan SMEs are still insufficiently aware of and informed about the challenges of the agreement. The prospect of Morocco becoming more closely integrated into the single market as part of the Wider Europe strategy entails that the PAs must also be strengthened in sectors other than the industrial sector, and in particular in services and agriculture.

#### **b) Objectives**

The second phase of this programme will build on the achievements made thus far and will finance applications from new associations and federations which were unable to receive support during the first phase. The specific objectives are as follows:

- To strengthen the operational capability of PAs in delivering services to their members.
- To establish the conditions for their continued development by improving their representative nature and increasing the resources generated by the services provided.
- To contribute to the implementation of a government policy that favours the development of PAs.
- To strengthen the involvement of Moroccan PAs at international level.

#### **c) Expected results**

- Drafting of development strategies for the PAs and participating federations.
- Financing of the action plans of some thirty PAs and federations in other sectors, including services and agriculture.
- Improvements in information of and awareness-raising among enterprises about specific issues related to the Association Agreement and the prospects offered by the Wider Europe concept.
- Strengthening of the policy to promote associations and of dialogue with the government.
- Establishment of partnerships and twinnings with PAs and participating federations.
- Strengthening of sub-regional activities, in particular with PAs in the Maghreb countries.

#### **d) Brief description of the programme**

The operational partner of the programme will be the General Confederation of Moroccan Enterprises (*Confédération générale des entreprises marocaines* - CGEM). The beneficiaries will be the Moroccan PAs and federations of PAs appointed according to eligibility criteria which have yet to be decided. The programme support will consist of technical assistance, studies, training courses and seminars, provision of equipment and, in some cases, part-financing of the salary costs of permanent staff recruited to implement the PA action plans.

**e) Performance indicators**

Increase in the number of active members and in their financial contributions to PAs; reduction in the number of economic sectors and regions not yet covered by PAs; increase in the participation of SMEs in the upgrading exercise.

**f) Specific conditions: n.a.**

**g) Indicative budget/commitment year**

EUR 5 million in 2005.

**2. IMPROVING THE LIVING CONDITIONS OF DISADVANTAGED POPULATION GROUPS / COMBATING POVERTY / OPTIMISATION OF HUMAN RESOURCES**

**2.1 Slums**

**a) Context and grounds**

The spread of poverty in Morocco is a cause for serious concern. In 1998-1999, 5.3 million people (i.e. 19% of the population) were living in poverty, compared with 3.4 million in 1990-1991. The poverty rate is higher in rural areas than in cities. However, cities are where poverty is spreading at the fastest rate (99% between 1990 and 1999, compared with 43% in rural areas).

This data shows that poverty is becoming an urban phenomenon, partly because many poor people are leaving rural areas for the cities, thus leading to a deterioration of living conditions in urban areas.

Population pressure and rural depopulation fuelled by repeated droughts contributed to Morocco's rapid urbanisation between 1960 and 1994. The rate jumped from 29% to 57% and is expected to reach 62.8% in 2004. While the total population more than doubled over that period, the urban population increased fourfold (from 3.4 million to 13.4 million inhabitants). Meanwhile, the rural population increased only by 55% (from 8.2 million to 12.7 million inhabitants). The most noteworthy point today is therefore that Morocco's population, which used to be predominantly rural, has become predominantly urban.

The rapid and uncontrolled urban sprawl and the strong rise in the urban population, owing both to internal growth and rural depopulation, have caused a number of problems:

- Increased demand for housing, which cannot be met. There is a severe shortage in the housing sector today, with new demand outstripping the current rate of housing production. The total shortage of housing and amenities today is estimated to be 1.24 million units. The consequence is an increase in under-equipped and substandard housing, at a rate of 25.000 units per year.
- Spread of substandard housing in urban areas: 780.915 households live in slums. This figure includes both the 518.787 households living in substandard districts and the 262.128 living in shanty towns or makeshift housing.

The aim of government action in the housing sector is to double the current production rate in order to bring the total forecast shortage down to 900.000 units by 2007 and 570.000 by 2012.

In the medium term, the purpose will be to raise the yearly production of social housing to 100.000 units (instead of the current 50.000) by delivering equipped or semi-equipped individual housing plots and completed or semi-completed housing units, and by restructuring sprawling districts.

The proposed measures come under the programme of slum-clearance measures (*Programme d'actions de résorption de l'habitat insalubre - PARHI*) and are intended to provide, within ten years, decent accommodation for some 630,000 households currently living in substandard districts or shanty towns.

The objective is therefore to improve the housing conditions of 80% of the 780.000 households registered in September 2001.

This objective is to be achieved through a radical reform of how housing is produced. The programme will use instruments affecting both supply and demand initiated by the government with financial support from the WB. The priorities of this reform involve the upfront aid system, home-buyers' saving schemes, guarantee funds, land-use policy, urban planning policy, the reform of public bodies under government authority, the reform of property taxation, the market for rented accommodation, and development of the PARHI programme. The purpose of the reforms is to boost the housing sector as a whole, eliminate the current obstacles and deadlocks, and increase the impact of public-sector investment on social housing.

The proposed programme meets the objectives of the MEDA programme: i) supporting social and economic development; ii) combating poverty; and iii) curbing existing regional disparities.

The strong points which led the programme to be selected include the following: the incorporation of reforms into the 2004 financial act; the increase in the rate of tax on cement from MAD 0.05/kg to MAD 0.10/kg with a view to providing the housing solidarity fund with an annual budget of MAD 1 billion and thus bolster supply; the decision to build at least 100.000 housing units per year over a period of ten years; the launch of the national programme for preventing and clearing slums, which provides for stepping up the production of social housing and restructuring substandard districts; the allocation of 4.000 ha of estate lands and 2.700 ha of common land; the provisions taken for the sale of equipped plots to property developers at preferential prices with a view to building social housing under open and transparent competition procedures; the measures taken to bring substandard districts in line with town planning and property regulations; the adoption of a series of measures relating to the establishment of three guarantee funds to cover risks resulting from loans granted to public-sector officials and workers, private-sector employees and persons with low or irregular incomes; the establishment of a second fund for the securitisation of property loans; the broadening of the scope of microcredit to include housing; the experience of the EC and the expertise of the public bodies under the authority of the Ministry for Housing and Urban Planning with respect to social housing programmes; and the existence of projects and programmes for the rehabilitation and development of social housing.

## **b) Objectives**

The overall objective of the project is to improve the living conditions of people living in shanty towns and substandard housing.

The specific objective is to contribute to clearing shanty towns and substandard housing and

to improve access to social amenities.

**c) Expected results**

- The PARHI programme will be operational and efficient.
- Slum districts will be rehabilitated.
- Associations of local inhabitants of slum districts will be established and coordinated.
- Housing units will be built.
- Basic social, administrative and leisure facilities will be completed.
- The situation of the most vulnerable sectors of the population (among which are included abandoned mothers or mothers expelled from their homes with their children) will be improved.
- The urban environment will be improved.
- The reform of the sector will be strengthened.
- National and regional public-sector enterprises and bodies under the authority of the Ministry for Housing and Urban Planning (ANHI, SNEC, ATTACHAROUK, CGI, ALEM, ERACS, etc.) will be restructured, reorganised and strengthened.

**d) Description of the programme**

The Community financing is intended to contribute to the following measures:

- Slum clearing by means of measures targeting shanty towns, under-equipped and substandard districts (illegal housing) and decayed housing.
- Rehousing.
- Off-site developments.
- Institutional support and flanking measures such as awareness-raising, training, assistance with project coordination, studies, etc.

The programme will provide for consultation and coordination with other initiatives, and will perhaps even benefit from cofinancing from other donors. Particular care will be taken to ensure ongoing monitoring and evaluation.

The beneficiary of the Community financing is the State Secretariat for Housing and Urban Planning, and the public-sector bodies responsible for implementing the programme "Towns without slums" (*Villes sans bidonvilles*) under the ministry's authority.

The Community contribution will be used to increase investment in the sector. The increase in public-sector financing of the sector will have to be at least comparable to the Community contribution. The Community resources will be used for specific items under the national budget or the budget of implementing agencies such as the ANHI.

The success of this type of programme will depend in particular on achieving significant flexibility in its implementation and a degree of local autonomy in identifying and financing the measures.

**e) Performance indicators**

Combating slums:

- Agreements concluded between property developers and the State and between local

authorities and the State for the building of social housing.

- Slum clearance operations.
- Operations to restructure illegal housing.
- Rehousing operations.
- Off-site development operations.
- Operations to rehabilitate run-down areas.

Institutional strengthening:

- General audit of bodies under the authority of the government (*organismes sous tutelle* - OSTs).
- Strategic modernisation plan of the Ministry for Housing.
- Sound management pact.
- Handbooks on accounting and general procedures.
- Activities and tasks of the bodies under the authority of the government.
- Geographical redeployment of the bodies under the authority of the government.
- Upgrading of the bodies under the authority of the government.

Sector reforms:

- Improvement in the quality of the reform programme's management systems.
- Adoption of documents relating to the sectoral policy, the overall strategic framework, the medium-term sectoral expenditure framework and the annual budget, and coordination between stakeholders in the sector.

#### **f) Specific conditions**

The specific conditions governing the implementation of this programme are as follows:

As regards **combating slums**:

- Continuing the restructuring programmes and measures to adjust the supply of land and housing to the actual economic resources of the population.
- Allocation of State land to social housing schemes in order to counter the activities of illegal plot sellers.
- Physical containment of sprawling illegal districts by means of structuring axes (green belt, monitoring posts) equipped with the necessary means of control and intervention.
- Updating and regular evaluation of urban planning documents.
- Review of legal instruments relating to prosecution for urban planning offences, in consultation with the various parties involved.

With respect to the **institutions**:

- Establishment of structured coordination between the various national institutions taking part in the programme.
- Financial rehabilitation of the bodies under the authority of the government, adjustment of their articles of association, concentration of their activities on their basic tasks and increase in their management and intervention capabilities.
- Recomposition, restructuring and consolidation of the public-sector bodies under the authority of the Ministry for Housing and Urban Planning; these bodies will be upgraded in order to streamline resources and optimise assistance.

With respect to **reforms**:

- Implementation of the reforms.

#### **g) Budget**

The Community contribution amounts to approximately EUR 90 million to be committed in 2003.

## **2.2 Participatory rural development in the Central Middle Atlas (Khenifra Project - 2nd phase)**

### **a) Context and grounds**

The intervention area, located in the mountainous region of the Central Middle Atlas (Khenifra province) has to a large extent missed out on the country's economic and social development. Its social and economic indicators are clearly below the national average. The area is currently suffering from three sources of imbalance which are compounding its exclusion: over-exploited natural resources, autarchic agricultural production systems which generate only low wages, and poorly developed socioeconomic services. This situation is causing an accelerated deterioration of natural resources, unemployment - in particular among young people - and emigration of the poorest inhabitants. Bad years and periods of drought further increase the trend towards emigration.

The project is part of the Commission's strategy for Morocco and provides for the following priorities: i) achieving a better social balance and combating poverty, rural depopulation and emigration; ii) sustainable management of the environment and natural resources; iii) strengthening the place of women in society.

These three objectives have also been included in the government's policy and in the rural development strategy drawn up for the period up to 2020, whose main objective is to create the best possible conditions for boosting economic growth and well-being by correcting imbalances and developing the potential of rural areas.

The project beneficiaries are the inhabitants of the assistance area, i.e. 91.813 people living in 282 *douars*.

Under the financing agreement of the project on participatory rural development in the Central Middle Atlas (*Développement rural participatif dans le Moyen Atlas Central*) signed on 8 November 2001 (Financing Agreement No. MAR/IB/2000/2069), the Community contribution is to be committed in two phases: EUR 9 million for the first phase and EUR 6 million for the second. The commitment for the second phase should take place during the third year of implementation of the project, after an evaluation mission.

The first phase of the project (currently under way) is proving to be increasingly popular among the beneficiaries. The measures forecast for the first phase have been planned and the foundations have been laid for a rapid and efficient implementation of the second phase.

Under the financing agreement, the first phase will be completed in September 2005. It should be possible to complete all the measures planned by then.

The financing of the second phase will enable the project to continue these measures, in response to increasing demand from the population and in line with the commitments made in the project's initial Financing Agreement.

A final decision will be taken on the financing of the second phase and on a possible reorientation of the project on the basis of audit and evaluation missions (to be carried out

during the first quarter of 2003).

## **b) Objectives**

Overall objectives:

- To contribute to a better social balance and to combating poverty, rural depopulation and emigration.
- To contribute to the sustainable management of natural resources, to combating erosion and to curbing the effects of drought.
- To contribute to promoting the role of women in rural areas.

Specific objective:

- To improve the living conditions of rural inhabitants in 12 rural municipalities of the province of Khenifra by: i) increasing their income and ii) ensuring rational, participatory and integrated management of natural resources.

## **c) Expected results**

- The rural population will be firmly involved in managing natural resources and developing the project area.
- The capacities of the province's agricultural and forestry services with respect to participatory planning, implementation and follow-up will be strengthened.
- The agricultural production systems will be improved and their productivity increased.
- Livestock systems will be improved and their productivity increased.
- Forests will be protected and managed with the help of the population.
- Basic socioeconomic infrastructure will be set up.
- Income-generating microprojects will be conducted, primarily by women, and a viable local microcredit institution will be established.

## **d) Performance indicators**

The performance indicators will provide for assessment of the following points:

With respect to the specific objective:

- The level and sources of household income and expenditure.
- The trend in agricultural production in the project area.
- The preparation and implementation, with the involvement of rural communities, of plans for the management and development of local lands in 282 *douars* and of nine plans for concerted forest management (approximately 78,000 ha).

With respect to results:

- Number of operational farmers' organisations.
- Planning, management and monitoring tools established and number of officials from the agricultural and forestry services trained.
- Agricultural areas developed and exploited, rate of increase in the yield of the main crops.
- Number of functional groupings of livestock farmers, number of livestock farmers, rate of increase in animal production (milk and meat).
- Forest area managed by the forestry service together with the population, quantity and quality of forest infrastructure established (tracks, forest huts, etc.).
- Kilometres of rural tracks and number of sources and wells created.

- Number of microprojects financed, number of beneficiaries (men and women), rate of reimbursement of loans, rate of financing of costs by product sales.

**e) Brief description of the programme**

The second phase of this project will build on the first phase (currently being implemented). The project has six main components:

- **Capacity-building:** technical assistance, training, studies and support missions, awareness-raising/information/training measures, support for monitoring and evaluation.
- **Agricultural development and exploitation:** participatory planning, anti-erosion and land facilities, rehabilitation of small irrigated areas, fruit tree cultivation, technical support for farmers (males and females), promotion of farmer organisations.
- **Improvement of livestock systems:** training and technical support for livestock farmers (males and females), equipment for groupings, animal health, refurbishment of farm buildings for cows, sheep and goats.
- **Participatory forest management:** drafting of concerted forest management plans, completion of management facilities and infrastructure, support for wood energy savings, exploitation of non-wood forest products, support for the development of ecotourism.
- **Socioeconomic infrastructure and facilities:** tracks, creation of pastoral water points and wells, establishment and equipping of women's centres.
- **Microcredit:** feasibility study, technical assistance and training, credit line.

At central level, the High Commissariat for Water and Forests and for Combating Desertification (*Haut commissariat aux eaux et forêts et à la lutte contre la désertification*) is the project's authorising authority. It is responsible in particular for committing, disbursing and authorising expenditure.

At local level, the project relies on the administrative authorities of the province of Khenifra - in particular the Provincial Water and Forests Service (*Service provincial des eaux et forêts - SPEF*), the Provincial Directorate for Agriculture (*Direction provinciale de l'agriculture - DPA*) and the works centres (*centres de travaux*).

The Khenifra SPEF is the project's deputy authorising authority.

A project management unit has been set up within the SPEF to provide assistance with management and coordination tasks. It benefits from technical assistance at local and international level.

A national monitoring committee bringing together the representatives of the relevant ministerial departments and the European Commission has been set up to monitor the project. Assistance on the ground is carried out on the basis of participatory planning with the rural communities. The action plans thus identified are incorporated into annual operational plans (programme estimates) established by the project management unit together with the province's technical services involved in the project.

**f) Specific conditions**

The specific conditions for implementing the Community financing are the same as those set for the first phase. In particular, these included:

- Establishing appropriate financial procedures so as to give the deputy authorising authority some leeway in managing the advance account.
- Concluding an agreement between the deputy authorising authority (the SPEF), the DPA and the works centres, setting out the nature of activities that they will be entrusted with under the project and the tasks and responsibilities of each partner in implementing the project.
- Appointing an official responsible for monitoring the project within the Directorate for Forest Development (*Direction du développement forestier*) of the Ministry for Water and Forests.
- Strengthening human resources and the operating budget of the bodies responsible for implementing the project, in line with the needs identified.
- Keeping the management unit of the Oued Srou project in place in Khenifra and having its operating costs financed by the Ministry for Water and Forests up to the start of the new project.
- Providing the premises required to run the project.
- Establishing structured coordination between the various national institutions taking part in the programme.
- Opting for the participatory approach to implementing the project.

The evaluation exercise provided for will allow these conditions to be adjusted if necessary in the light of experience gained during the first phase.

**g) Beneficiary institution**

High Commissariat for Water and Forests and for Combating Desertification.

**h) Other donors**

None.

**i) Indicative budget**

EUR 6 million in 2005.

**2.3 Development of the northern provinces (EUR 34 million)**

**a) Context and grounds**

The national road network paid for by the State is 57,226 km long, of which 32,086 (i.e. 56%) are surfaced. The breakdown of this network into national roads, regional roads and provincial roads is as follows:

Category	Surfaced (km)	Unsurfaced (km)	Total	%
National roads	9,552	1,736	11,288	20
Regional roads	8,520	1,632	10,152	18
Provincial roads	14,014	21,772	35,786	62
Total	32,086	25,140	57,226	100

The regional (north) road network (some 9.000 km, of which 5.647 km are surfaced) is still sparse. Its average density of 1.6 km per 1,000 inhabitants is well under the national average of 2.3 km per 1.000 inhabitants.

Northern Morocco had a population of 5.7 million in 1999, of which 52% were living in rural

areas (compared with 45% at national level). It is thus essentially a rural region, albeit with relatively developed urban areas on its edges. The western area, where Tangiers, Tetouan and Larache are located, accounts for 50% of the region's urban population, while 35% of this population live in the eastern area (notably in Oujda, Berkane and Nador).

The dominant characteristics of the northern region are its isolation from other regions and its internal compartmentalisation, which are due to the lack of proper regional planning. The transport infrastructure presents the typical features of an outlying region: considerable geographical dispersion for a relatively high population density.

The provinces of Al Hoceima, Chefchaouen, Nador and Tetouan have isolated rural areas, poor access to potential tourist sites and a lack of structuring road axes feeding into the national network and in particular the *Rocade méditerranéenne*, or Mediterranean road link (north-south trunk roads).

All of these roads form a fundamental frame for the economic and social development of the areas connected, while allowing a better geographical distribution of production activities and contributing to the creation of new projects.

One of the policy priorities of the Moroccan government is to reduce disparities in socioeconomic development among regions and between urban and rural areas.

This programme, following on from the current "Rural Roads and Tracks" (*Routes et pistes rurales* - RRP) project (building of a section on the RN8), would allow the RN8 to be completed. This would link Fès to the *Rocade méditerranéenne* (Community section) and to Al Hoceima via infrastructure that would encourage exchanges between these two regions (see attached diagram). Furthermore, an RRP II project would enhance the investment already made in the RN8 and leverage the social and economic impact of the *Rocade*.

This programme will be implemented respecting environmental norms and, with this in mind, an impact study will be carried out according to international standards.

## **b) Objectives**

The overall objective of the project is to improve living conditions by achieving a better regional balance and closer integration among provinces.

The specific objectives are as follows:

- To promote the social and economic development of the region.
- To break the isolation of rural areas.

## **c) Expected results**

The expected results of the project are:

- The completion of two road sections; the first - Bni Bounsar-Targuist - will link Fès to the RN2 while the second - Targuist-Bni Boufrah - will link the RN2 to the *Rocade méditerranéenne*, thus giving Fès access to this major road link.
- An increase in South-North traffic.

The aim will be to improve the existing roads, each of which is 30 km long, by:

- Improving their layout.

- Sizing the roadbed from 4 m to 10 m.
- Increasing the width of the existing carriageway to 7 m.
- Building and strengthening road foundations.
- Completing the necessary hydraulic works.
- Building the junctions.
- Dealing with the environment

**d) Performance indicators**

The following indicators will be used to check whether objectives are being achieved:

- Beneficiaries' rate of use of medical centres.
- Stabilisation of the rural population, thus avoiding depopulation.
- Enrolment rate in primary education (boys and girls).
- Price of basic products compared with the province capital.
- Supply of souks and increase in the number of visitors.
- Number of individual vehicles (private and public).
- Tourist activity in the areas involved.
- Traffic flows.

**f) Brief description of the programme**

The programme will comprise two main components: the works themselves and the supervision of the works.

Contracts will be awarded further to international open calls for tenders as regards works, and restricted calls for tenders as regards services.

The Ministry for Infrastructure and Transport - Directorate for Roads and Road Traffic (*Direction des routes et de la circulation routière* - DRCR) will be the project's authorising authority. The Regional Directorate for Infrastructure (*Direction régionale de l'équipement* - DRE) of Al Hoceima will be the deputy authorising authority of the project. It will be responsible for steering and coordinating the activities. A consultancy will be hired further to a call for tenders in order to supervise and control the works.

A DRCR official will be responsible for designing, programming, steering, monitoring and evaluating the project.

A consultancy will be entrusted with running the control and supervision unit. It may be assisted by expatriate experts for the purposes of carrying out support missions. The unit will be independent and distinct from the agents directly involved in the project. Its task will be to ensure the smooth running of operations and to train the staff of the Regional Directorate for Public Works (*Direction régionale des travaux publics* - DPTP) who will be responsible for supervising the works.

Administrative and financial auditing and technical evaluation missions will be carried out by independent consultants who will be responsible for controlling the technical and financial aspects of project implementation.

The definition, reconnaissance and implementation studies for the two sections will be carried out under the current RPR project, with Community financing.

This programme will open up access to the region and make the population less isolated by

giving them a link to the rest of the network. The roads provided for under the programme will make it possible to:

- Exploit the significant tourist potential of the northern area.
- Promote economic exchanges within the area and economic integration with the rest of the country.
- Establish tighter links and closer integration among inhabitants in areas such as culture, public administration, health and education by eliminating a major cause of rural depopulation.

**g) Beneficiary institution**

The beneficiary of the Community financing is the government of the Kingdom of Morocco, represented by the Ministry for Infrastructure and Transport. The Ministry will be the authorising authority of the project and will be responsible in particular for committing, disbursing and authorising expenditure. The regional directorate of Al Hoceima will be the deputy authorising authority and will be responsible for carrying out the activities planned in its area.

**h) Other donors**

The other donors in the region contribute to the national rural roads programme (*Programme national de routes rurales - PNRR*) and to the *Rocade méditerranéenne*.

**i) Indicative budget**

EUR 34 million in 2005.

## **2.4 TEMPUS Programme**

**a) Context and grounds**

Morocco is the second largest country in terms of allocated budget for this programme in 2003 and 2004 and also the fifth in absorption rates (87% for the cited two years). The candidates were judged to be of a high quality by a panel of academic experts. Given this proven success, the continuation of this programme in 2005 and 2006 is a priority.

**b) Specific objectives**

Contribute to the reform and development of higher education; understanding and dialogue of cultures.

**c) Expected results and performance indicators**

Support to the reform of higher education; development and modification of study programmes in the priority disciplines; reform and development of higher education structures and establishments as well as their management; develop the acquisition of necessary qualifications in the framework of economic reform (improvement of the link between industry and the educational system).

**d) Programme description**

Participation in the programme TEMPUS III *Joint European Projects*: communal training actions; reform measures and development of higher education; promotion of cooperation

between universities, industry and the institutions; development of the mobility of teachers, university administrative personnel and students; structural or complementary measures; individual grants to teachers, researchers, trainers, university administrators, higher ministerial civil servants, planners and other experts, financing visits in order to promote quality, development and restructuring of higher education.

**e) Indicative budget**

In view of the interest that the Tempus programme has generated up to now, an amount of 8M€ will be set aside.

### **3. ENVIRONMENTAL PROTECTION**

#### **3.1 Support for the water sector**

**a) Context and grounds**

Water resources are one of Morocco's primary concerns with respect to the environment. Approximately 90% of these resources are now exploited. Morocco has already reached the water scarcity threshold set by the UNDP at 1.000 m<sup>3</sup>/inhab./year. By 2020, the average will be 750 m<sup>3</sup>/inhab./year, and 35% of the population will be living below the "absolute scarcity" threshold of 500 m<sup>3</sup>/inhab./year.

Furthermore, resources have severely deteriorated owing to domestic, industrial and agricultural pollution. Only 5% of urban wastewater is processed. The cost of the deterioration of Morocco's water resources is estimated at 6% of GDP (i.e. EUR 1.5 billion) per year.

The adoption of the 1995 Water Act marked the start of a new national water policy. The act introduced several new principles: planning water use, managing water resources within the framework of river basins, applying "user-pays" and "polluter-pays" rules, and consulting all stakeholders in the sector.

The implementation of the Water Act was subsequently backed up by the sectoral reforms triggered by the sectoral adjustment facility (EUR 120 million, 2001). The cornerstone of these reforms was the establishment of seven basin authorities in 2002. These authorities are responsible for the integrated and concerted management of water resources at river basin level. They will base their action on integrated water resource development plans (*plans d'aménagement intégré des ressources en eau* - PAIRE) drawn up for each river basin. The authorities will also need to collect fees from users and redistribute them in the form of assistance for water-saving and pollution abatement measures.

At the same time, Morocco began to take action in the field of sanitation and water treatment. The water sectoral adjustment facility was used to support an annual allocation from the national State budget to subsidise investment in sanitation by municipalities. The role of implementing agency in the field of sanitation was given to the National Drinking Water Office (*Office national de l'eau potable* - ONEP), which will intervene on request from the municipalities.

The water sector is undoubtedly of strategic significance to the EU within the framework of the EU water initiative launched at the Johannesburg summit in 2002. Ensuring the supply and safety of water are one of the three pillars of the initiative.

The new water policy launched by the sector has not yet yielded the expected results on the ground. The national water plan has not led to the long-awaited planning of resources, and it is now going through a series of regional adjustments which are undermining its overall consistency. The basin authorities are not yet fully operational and their tasks and powers are still unclear. Responsibilities are scattered among the various authorities and institutions involved, and the development and pricing policies are either ill-defined or inappropriate.

This programme responds to a crucial need for infrastructure, makes Morocco's water policy more effective and builds on the EU's assistance policy.

**b) Objectives**

- To improve the access to basic infrastructure (water and sanitation) of disadvantaged population groups in rural areas.
- To dispose of wastewater by building sanitation facilities that are adapted to the environment (individual systems, semi-collective units or mini-networks). This will contribute to improving hygiene conditions for the population and to protecting water resources.
- To build infrastructure that will contribute to improving sanitation and water quality, supplying drinking water, saving irrigation water and combating floods.
- To protect and preserve existing resources.
- To make the most of available resources.
- To control demand.

**c) Expected results**

- Projects for improving sanitation, preserving water quality, saving irrigation water and combating floods.
- Improvement in the quality of life of the populations concerned, particularly women who are principally responsible for obtaining water.

**d) Description of the programme**

The programme will involve:

- Completing operations to save water, preserve resources and maintain infrastructure.
- Establishing drinking water supply systems.
- Establishing sanitation systems (individual, semi-collective or mini-networks).
- Building surface impoundment wastewater treatment plants.

During the programming, some consideration will also be given to the possibility of delivering this assistance in the form of institutional support.

**e) Performance indicators**

- Reduction in the time required to obtain water.
- Increase in the quantity of water used.
- Improvement in the quality of the water used, improvement in the population's hygiene conditions.
- Reduction of water wastage and efficiency improvements in the use of water resources.
- Increase in the pace of investment in sanitation and water treatment.

**f) Specific conditions**

- Satisfactory implementation of the ongoing water sectoral adjustment facility.
- Continuation of the policy of gradual adjustment of fees to the actual cost prices of the resource and services delivered.

**g) Indicative budget/commitment year**

EUR 30 million in 2005.

**h) Beneficiaries**

The beneficiary will be the Ministry for Regional Development, Water and the Environment (*ministère de l'Aménagement du Territoire, de l'Eau et de l'Environnement* - MATEE).

**3.2 EIB interest rate subsidies: water sanitation in Moroccan cities and solid waste management**

The interest rate subsidies granted in collaboration with the EIB will be used mainly in projects involving sanitation operations and the provision of basic services for areas which have a dense, relatively urban population and do not have the administrative status of municipalities.

*The comments and description below apply to both projects. Overall amount: EUR 10 million.*

**a) Context and grounds**

One of the priority objectives of the Euro-Mediterranean policy is to improve the population's quality of life. With this in mind, interest rate subsidies on Bank loans intended for investment which promotes environmental protection have been awarded from the Community budget (MEDA I and MEDA II).

In this connection, it is worth pointing out that the EIB supports sanitation projects in Moroccan cities (Marrakech, Settat, Meknes, Agadir and Oujda, EUR 113.5 million in cumulated loans), and that a project in favour of several medium-sized cities and Fès is expected to be signed in 2004 (EUR 40 million). Furthermore, we should add that in the field of industrial pollution, assistance for the depollution of the Mohammedia plant is under way.

Water resource management is an essential factor in Morocco's development. The Moroccan authorities have undertaken a major effort, which must be backed up by priority measures in urban centres which have insufficient wastewater collection and disposal facilities and virtually no treatment plants. The situation in these areas presents a grave threat for the quality of water resources and the health of the population. It is also an obstacle to investment in the tourist sector, which is important for the country's economic growth.

Furthermore, the treatment of solid waste is an increasingly important problem that has worsened owing to a lack of decision-making in recent years. The Moroccan government has now set a priority on establishing a legal framework (a law on waste management and disposal) and implementing the investment this framework will entail.

Continuing this support to improve the environment must remain one of the Bank's priority areas of assistance within the framework of the FEMIP in the years to come.

## **b) Specific objectives**

- *Liquid waste disposal in Moroccan cities*

The objective is to continue to provide urban centres with comprehensive and efficient sanitation infrastructure (collection of wastewater and rainwater and treatment before disposal or partial reuse). After having taken part in financing investment by large cities (see above), the Bank approached several "medium-sized" cities in order to examine the implementation of their water sanitation programme with them. In addition, a project for a second phase of investment in the cities of Agadir and Fès is planned.

- *Solid waste management*

As a consequence of increasing urbanisation, solid waste management is becoming an acute problem in Morocco. The increase in the number of open, uncontrolled waste dumps is presenting a serious risk for health, hygiene in suburban and urban areas and water quality. The Moroccan authorities plan to apply a legal framework that will streamline the treatment of solid waste, establish the organisational principles and open the services to the private sector. A large-scale programme for sanitary landfills - which will require adapted financing, including from the Bank - is expected to be implemented shortly.

## **c) Description of the operations**

The specific operations in the two sectors described above will be identified once the detailed examination of the investment projects planned for the next three years is completed.

There are three water sanitation projects planned: sanitation in medium-sized cities II; sanitation in Moroccan cities - Fès II; and sanitation in Moroccan cities - Agadir II:

- Regarding medium-sized cities and Fès, the MED Committee, at its meeting in Brussels on 25 July 2003, approved an interest rate subsidy of EUR 9 million (corresponding to a loan of EUR 40 million). Eight cities (Kenitra, El Jadida, Safi, Larache, Beni Mellal, Nador, Taza and Settat) have submitted an application for financing to the Bank. These applications are currently being examined. The organisational and technical situation with respect to water sanitation in these eight cities is very diverse. As a consequence, a first operation involving the two or three most advanced cities will be agreed in 2004. The other cities will benefit from a subsidised loan from the Bank at a later stage, in 2005-2006. That is the subject of this application.
- The same applies to Fès, which has submitted a heavy investment programme. The programme's first instalment will be signed in 2004 and the second in 2005-2006.
- The project "Sanitation in Moroccan cities - Agadir", for which a financing contract was signed on 21.12.1999, is now in its final phase. The Agadir authority has submitted to the Bank an investment programme relating to the northern part of the city, for which a new loan could be granted in 2005-2006.
- The overall financing amount of the Bank for these three projects should be in the region of EUR 70 million.
- As for the previous projects, the borrowers will be the sanitation authorities of the relevant cities.

Solid waste treatment:

- The overall financing amount of the Bank should be in the region of EUR 20 million.
- As the sector is new, the borrower will be identified in agreement with the relevant Moroccan supervisory authorities.

**d) Expected results**

- Contribution to a better environmental balance in urban and suburban areas.
- Optimisation of water resource management.
- Improvements in the population's living conditions.
- Reduction in the pollution of the river basins relevant to the selected cities.
- Reduction in the pollution resulting from solid waste disposal.
- Contribution to the modernisation of a basic public service. Establishing an adapted financing arrangement (in terms of rates, duration and deferred reimbursement) will enable the sanitation authorities to carry out the necessary large-scale investment while phasing in the adjustment of fees which will eventually have to cover the full cost of the service provided. This will contribute to the social acceptability of the principle that the user should make a financial contribution towards the management of environmental problems.

**e) Performance indicators**

These will essentially be based on pollution standards, the population covered and, in the case of solid waste, the control of open dumps.

**f) Risks**

Liquid waste disposal:

- As the financing covers several cities, there is a risk of faulty synchronisation (delays) in implementing the sanitation master plans and the resulting investment programmes.
- Lack of experience of the authorities in managing liquid waste disposal systems.

Solid waste treatment:

- Delays in establishing the legal and regulatory framework that is to govern activities in the sector.
- Possible complexity of the technical solutions to be implemented.
- Budgets required to complete the investment programmes.
- The management will in some cases have to be devolved to private-sector operators: legal and financial provisions governing the PPPs.

**g) Budget**

EUR 10 million in 2006.

**3. HUMAN RIGHTS**

**3.1 Programme to support the national plan for democracy and human rights**

**a) Context and grounds**

The Commission's communication of May 2003, "Reinvigorating EU actions on human rights and democratisation with Mediterranean partners", calls *inter alia* for the development of national action plans on democracy and human rights. Morocco has already made noteworthy progress in this area in recent years. The programme supports the government's will to build on the process already under way by providing assistance for the preparation and possible adoption and implementation of a national action plan. The programme will be led by the Centre for Documentation, Information and Training on Human Rights (*Centre de documentation, d'information et de formation en droits de l'homme* - CDIFDH), a national institution jointly established in 2000 by Morocco and the UN High Commissioner for Human Rights.

#### **b) Objectives**

To establish the principles of human rights and democratisation more firmly in Moroccan society by drawing up a national action plan in this area and putting it into practice.

#### **c) Expected results**

- A draft national action plan on democracy and human rights will be drawn up and a strategy will be formulated for its implementation. The carrying out of reforms in women's rights will attract particular scrutiny.
- Officials at various levels will be trained for their role in implementing the plan and will be made aware of its significance.
- Civil society representatives will be trained in monitoring the government's action relating to the plan.
- Ongoing dialogue mechanisms will be established between the Moroccan authorities and civil society representatives working in this area (including universities and members of parliament).
- A series of sectoral studies will be carried out.
- The authorities' and civil society's knowledge of the shortcomings and prospects by sector involved will be improved.
- The role of the CDIFDH, as institution promoting this initiative, will be strengthened and the links between the authorities and civil society will be tightened.

#### **d) Performance indicators**

- Draft national action plan.
- Sectoral studies drawn up by the programme.
- Published documents further to the training workshops.
- Comments by the human rights committees of the United Nations.
- Reports on the government's action produced by civil society representatives (local and international NGOs).

#### **f) Brief description of the programme**

The programme will comprise three phases and will last for three years.

Phase i):

- The CDIFDH will be provided with the staff and other resources needed to implement the programme.
- A series of studies will be carried out and sectoral meetings held (with the judiciary, the

education sector, the media, political parties, etc.). These will serve as basis to prepare the "analysis of the situation" provided for by the communication.

Phase ii):

- Theme-based workshops will be organised by sector. These will involve representatives from the administration and civil society and will establish the foundations for an action plan, together with an implementation strategy and performance indicators. This phase will end with a national conference to sum up and present the national action plan.

Phase iii):

- Training, dissemination and awareness-raising activities relating to the national action plan will be carried out for the officials who will possibly be responsible for the plan's implementation. Similar activities will also be carried out among civil society representatives to encourage efficient monitoring of the plan's implementation.

**g) Beneficiary institution**

The CDIFDH.

**h) Indicative budget**

EUR 2 million.

**4.2 Strengthening of Moroccan civil society organisations working for democracy and human rights.**

**a) Context and grounds**

Encouraging an active civil society is one of the priorities of the EU's policy in the Mediterranean region.

The Commission's communication of May 2003, "Reinvigorating EU actions on human rights and democratisation with Mediterranean partners", calls for a strengthening of the role of NGOs and other non-State actors in the field of democracy and human rights.

Morocco has a dynamic and diverse civil society. A number of organisations would be capable of acting as partners of the authorities, with which they are in regular contact. However, the NGOs need to assert their professionalism in order to increase their influence in the workings of the institutions. They also often lack financial resources.

**b) Objectives**

The overall objective of the project is to strengthen the action of Moroccan civil society organisations working for democracy and human rights.

**c) Expected results**

- The action of the civil society organisations will have an increased impact.
- Dialogue between civil society organisations will be stepped up, thus ensuring greater professionalism in the way issues are dealt with.
- The role of civil society organisations will be better and more widely understood.
- The technical and management abilities of the civil society organisations will be improved.

**d) Performance indicators**

- Number of concluded and effective projects.
- Number of applications received further to the call for proposals.
- Number and quality of training workshops organised.
- Number of civil society officials trained.

**f) Brief description of the programme**

The programme will comprise two components and will last for three years:

- Technical and financial support for measures designed and put forward by Moroccan civil society organisations with a view to strengthening democracy and the rule of law, and promoting human rights (for example: implementation of the Moudawana reform, information about the legal framework, civic education, legal assistance, access to justice, detention conditions, freedom of the media, fight against violence, etc.).
- Overall monitoring and horizontal support measures:
  - creation and updating of a database on civil society;
  - specific and general monitoring of measures in order to improve and disseminate information about the Moroccan civil society;
  - targeted training measures for civil society organisations;
  - information and communications measures.

**g) Beneficiary institution**

- Moroccan civil society institutions involved in defending human rights.
- The Ministry for Employment and Social Affairs.

**h) Indicative budget**

EUR 3 million.

**4. HORIZONTAL QUESTIONS**

As in previous programming exercises, the reduction of gender inequalities in all community projects will be the subject of particular scrutiny, particularly where women's rights are concerned, their integration into economic life and their access to social services.

**Table of commitments under the Moroccan NIP for 2005-2006**

STRATEGIC PRIORITY / PROGRAMME	EUR million	COMMITMENT		%
		2005	2006	
<b>ECONOMIC AND TRADE COMPONENT</b>	<b>100</b>			<b>36%</b>
<i>Trade development / economic environment / upgrading</i>				
– Tax reforms	80		80	
– Technical support programme for the implementation of the Association Agreement and the Wider Europe strategy (P3A II)	15	15		
– Support for professional associations (PAAP II)	5	5		
<b>SOCIAL COMPONENT</b>	<b>130</b>			<b>47%</b>
<i>Improving the living conditions of disadvantaged population groups / combating poverty</i>				
– Slums	90	90		
– Khenifra project	6	6		
– Development of the northern provinces	34	34		
<b>Other components</b>	<b>45</b>			<b>17%</b>
<i>Environmental protection</i>				<i>15%</i>
– Support for the water sector	30	30		
– EIB interest rate subsidies	10		10	
<i>Human rights</i>				
– Support for institutions	5	2		2%
– Support for NGOs		3		
<b><u>TOTAL programmed for 2005-2006</u></b>	<b>275</b>	<b>185</b>	<b>90</b>	<b>100%</b>

### **Indicators related to the Millennium Declaration**

<b>Indicators</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
1. Proportion of population below \$1 per day	n.a.	< 2 %	n.a.
2. Prevalence of underweight children (under five years of age)	n.a.	10 %	n.a.
3. Under-five mortality rate (per 1000 live births)	n.a.	62	n.a.
4. Net enrolment ratio in primary education (% of relevant age group)	n.a.	90 %	n.a.
5. Primary Completion Rate	n.a.	n.a.	n.a.
6. Ratio of girls to boys in primary, secondary and tertiary education	n.a.	n.a.	n.a.
7. Proportion of births attended by skilled health personnel	40%	n.a.	n.a.
8. Proportion of 1-year-old children immunised against measles	93%	n.a.	n.a.
9. HIV prevalence among 15-24 year old pregnant women	n.a.	n.a.	n.a.
10. Proportion of population with sustainable access to an improved water source	n.a.	82%	n.a.

**Economic situation****Morocco - Selected Economic Indicators, 1997-2002**

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	1997	1998	1999	2000	2001	2002
Real GDP growth (in %)	-2,2	6,8	-0,7	2,4	6,5	3,2
Unemployment rate	16,0	15,0	13,9	13,7	12,5	11,6
CPI inflation (avg; in %)	1,0	2,8	0,7	1,9	0,6	2,8
Broad money (M3, end of year; % change)	9,2	6,0	10,2	8,4	14,1	6,4
Consolidated government balance (% of GDP)	-3,4	-2,6	-4,5	-6,4	-5,7	-4,5
Current account balance (% of GDP)	-0,3	-0,4	-0,5	-1,4	4,8	2,9
Official net international reserves (end of year)						
In billions of US dollars	4,0	4,4	5,7	4,8	8,5	10,1
in months of imports	4,0	4,2	5,2	4,2	7,6	8,5
External debt (% of GDP) (end of year)	60,4	57,3	54,4	53,9	46,9	43,7
Debt service (in % of exports of GNFS)	32,5	29,7	27,6	24,0	23,8	23,0
Exchange rate (dinar/euro) (end of year)	10,7	10,8	10,1	9,9	10,2	10,7
Real effective exchange rate (1995=100) 1/	101,7	104,2	105,2	108,2	103,7	103,4
Population (million)	27,3	27,8	28,2	28,7	29,2	29,7
GDP per capita, in USD	1224	1289	1248	1217	1215	1300

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Source : IMF, various national sources.

1/ A negative sign implies a real depreciation and, therefore, a gain in international competitiveness.

***EC and Member States cooperation with MOROCCO - Planned disbursements for 2003  
(€M)***

Sectors	EC	B	D K	D	EL	E AE CI	F AFD SCA C	IR	I	L	NL	A	P	FI	S	U K	Total
Education	29,00	1,035		0,2 2		2,34	1,50		0,07								34,165
Health	3,00	0,740		1,1 3		3,07			0,93								8,870
Water supply + sanitation	16,00	7,604		0,5 0		1,92	22,0 0										48,024
Government + Civil Society	6,00					0,47			0,56								7,030
Transport + storage	16,00	2,876				0,47	6,50		12,4 0								38,246
Communications																	0,000
Banking + financial services	1,00					0,07			8,49								9,560
Business / Private sector	24,00			1,0 0		0,29			1,71								27,000
Energy						0,18	21,0 0										21,180
Agriculture, forestry, fishing	12,00	1,206		0,5 5		0,71	6,00		1,25								21,716
Industry, Mining + Construction						0,12			0,45								0,570
Trade + tourism						0,55			0,61								1,160
Environmental Protection	3,00			2,8 5		0,12											5,970
Gender		0,231		0,6 0		0,49											1,321
Commodity aid																	0,000
Budget support + SAP	25,00																25,000
Food aid																	0,000
Debt relief																	0,000
Emergency assistance																	0,000
Support to NGOs		0,075												0,2 0			0,275
Other	3,00	1,453		0,3 5		1,69	3,00		1,11								10,603
<b>Total</b>	<b>138,0 0</b>	<b>15,22 0</b>	<b>0,0 0</b>	<b>7,2 0</b>	<b>0,0 0</b>	<b>12,4 9</b>	<b>60,0 0</b>	<b>0,0 0</b>	<b>27,5 8</b>	<b>0,0 0</b>	<b>0,0 0</b>	<b>0,0 0</b>	<b>0,0 0</b>	<b>0,2 0</b>	<b>0,0 0</b>	<b>0,0 0</b>	<b>260,69 0</b>

*Since it is not always obvious what the DAC categories include, interested readers will need to consult the DAC statistical reporting directives found at the OECD/DAC web page for further information.*

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