

Project Name	Morocco-Telecommunications, Post and (@)... Information Technology Sector Adjustment Loan (TPI-SAL)
Region	Middle East and North Africa
Sector	Private Sector Development
Project ID	MAPE58128
Country Name	Kingdom of Morocco
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Country and Sector Background

1. Morocco has recently undergone major political liberalization. Following legislative elections on November 14, 1997, a Government backed by a seven-party center-left coalition and headed by Mr. Abderrahmane Youssoufi, the leading opposition figure, came into office. The new Government's economic program balances emphasis on the need for broad-based human and social development, reforms to improve public sector performance and to harness the potential for private-sector-led growth, and prudence in macroeconomic and fiscal management. The budget for the 1998/99 fiscal year (which provides for a deficit of 3.5 percent of GDP, compared with an estimated 3.7 percent of GDP for the 1997/98 fiscal year) confirms the importance that the Government attaches to fiscal discipline. The Government has also sought to reassure the domestic and international financial and business communities of its commitment to economic liberalism, and has shown continuity in taking forward the legislative agenda initiated by its predecessor--with good initial results. This is particularly true with respect to the telecommunications sector, as the Government has clearly indicated that it intends to pursue the important reforms initiated in recent years.

2. In the telecommunications sector, physical progress has been rapid during the last few years, with substantial modernization and expansion of the network resulting in higher service quality and efficiency. The network has been almost completely digitalized, telephone exchange capacity rose from 858,000 lines at the end of 1992 to 1,721,000 lines at the end of 1997, and the total number of main lines connected increased from 657,000 to 1,387,000 over the same period. The number of public phones has increased from 2,225 in 1992 to 26,500 at the end of 1997. In addition, more than 5,000 private "teleboutiques" and "telekiosques" are in operation today. While coverage remains very low in rural areas, some progress has been made there as well: Ninety percent of the 1,300 rural communities had at least one phone by the end of 1997.

3. Important legal, institutional and regulatory progress has been made as well. Law 24-96 on Post and Telecommunications, promulgated in August 1997, equips Morocco with a modern legal framework in the sector. It separates post from telecommunications, replacing the "Office National des Postes et Télécommunications" (ONPT) with two new entities: a joint-stock company, Itissalat Al-Maghrib (IAM), providing telecommunications services, and a public body, Barid Al-Maghrib (BAM), providing postal services. It enables the partial or total privatization of IAM, which is presently state-owned. The law also enables competition in all segments of the telecommunications market as well as in the market for express international courier services. In addition, the law creates an autonomous regulatory agency for telecommunications (ANRT), the first of its kind in Morocco in any sector, which is in charge of ensuring the proper application of the telecommunications legislation.

4. The liberalization of the telecommunications sector made possible by Law 24-96 remains however to be implemented in practice. At present, most telecommunications services are still provided, on a monopoly basis, by IAM. As a result, the range of services provided remains relatively limited, and while some tariff rebalancing has taken place, commercial users are still charged a substantial mark-up above costs. Also, even though performance indicators have improved in recent years, there remains scope for further efficiency gains. BAM, for its part, is still being reorganized as a distinct entity. The challenges which it faces include making better use of its vast network, developing new and profitable products, and maintaining its financial viability while ensuring that public service obligations are successfully met. Finally, the Government still has to devise and implement an adequate strategy in the area of information technology (IT).

The Proposed Credit

5. Objectives. The loan supports the recent creation of a modern legal and regulatory framework for the telecommunications, post, and IT sectors, and contributes to the development and implementation of further pro-competitive reforms. The loan aims at improving the competitiveness of the Moroccan economy and increasing the access of poor and remote households to communications services. In the telecommunications sector, the primary objective of the loan is to support Government efforts to effectively implement the reforms the new legal and regulatory framework now makes possible, with strong emphasis on increased competition, greater private participation and investment, and autonomous regulation. With respect to postal services, the operation seeks to increase the competitiveness of service provision, in particular through the promotion of private participation, and to ensure that public service obligations are adequately defined, financed, and met. Finally, the loan

supports the Government's development of a national IT strategy aimed at integrating Morocco into the global information society.

6. Description. The proposed TPI-SAL would be quick disbursing and would provide budgetary support to the Government. The proposed credit would be of Euro 85.21 million (US\$101 million equivalent) with the standard amortization term, grace period, and interest rate for a fixed rate Deutsche Mark single-currency loan. It would be disbursed in two tranches linked to the implementation of reform measures specified for each tranche. The proceeds of the loan would be used to finance the foreign exchange costs of general imports, except for a small negative list of ineligible goods. The operation would support the adoption of reform measures in six specific areas:

(a) Telecommunications liberalization. The loan would support: (i) the selection of a second GSM operator; (ii) the opening of the VSAT market to new entrants; and (iii) the adoption of the measures required to enable owners of alternative telecommunications networks to lease the capacity of their networks to telecommunications operators.

(b) Telecommunications regulation. The loan would be aimed at strengthening the autonomy and capacity of the regulatory agency and at ensuring the adoption of transparent regulatory procedures.

(c) Privatization of the incumbent telecommunications operator. The loan would support the elaboration, by the Government, of a privatization strategy for IAM and the hiring of financial advisors in charge of assisting the Government in the preparation and implementation of the transaction.

(d) Access to telecommunications services. The loan would support the launch of a pilot project aimed at competitively selecting private operators in charge of meeting public service obligations in rural areas.

(e) Postal services. The loan would support the launch of a study aimed at increasing private provision of postal services in rural areas.

(f) Information technology. The loan would support the elaboration, by the Government, of a strategy aimed at: (i) facilitating electronic commerce; (ii) modernizing the administration; (iii) promoting the development of IT-based activities; and (iv) promoting access to IT by Moroccan enterprises.

7. Implementation. The main implementing agencies are mentioned above. ANRT, in particular, is responsible for preparing, submitting to the Government, and implementing the package of liberalization measures supported by the present loan in the telecommunications sector. The privatization strategy of IAM will be prepared by the Ministry of Privatization. The State Secretariat for Post and Information Technology, for its part, will play a key role in implementing the measures supported under areas (e) and (f) of the loan. Each of these institutions has designated several key staff to work on the reforms to be implemented within the framework of the loan.

8. Sustainability. Several factors would help ensure the sustainability of the above reforms. First, the measures supported by the present operation are fully in line with current international trends, as many countries at various

stages of development are moving toward a fully private, competitive telecommunications sector. Second, the Government has demonstrated its commitment to pursue the reform effort, and the envisaged measures are expected to yield substantial fiscal gains: telecommunications revenues are expected to rise due to market enlargement and service diversification, additional license fees will be raised, and a more competitive telecommunications sector will have a positive impact on economic activity in general. Third, substantial technical assistance has been mobilized under the present operation to make sure that the full rationale for the proposed reforms is presented to all interested parties and to ensure adequate implementation of the most complex measures.

9. Environmental Aspects. This is a category "C" project. The proposed operation has no direct or significant environmental impact.

10. Program Objectives and Poverty Category. As the loan supports a package of measures designed, for the main part, to increase the efficiency of the telecommunications, post, and IT sector through the establishment of an environment conducive to new entry and enhanced competition, it falls mainly within the category of Private Sector Development. It also contributes to Poverty Reduction through a program of targeted interventions aimed at facilitating the access of poor and remote households to telecommunications, postal and IT services.

11. Participation. ANRT, the telecommunications regulator in charge of implementing the reform program in the telecommunications sector, is consulting broadly with local as well as foreign operators and investors. It has also set up an advisory body composed of recognized experts, which it consults on policy reforms. Finally, it is designing regulatory processes which provide for the consultation of all interested parties. The Secrétariat d'Etat Chargé de la Poste et des Technologies de l'Information, for its part, is in the process of establishing partnerships with private industry to cope with the computer issues arising from passage to the year 2000 and to promote the development of and access to IT.

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Note: This is information on an evolving project. Certain activities and/or components may not be included in the final project.

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