REGIONAL DEVELOPMENT IN MOROCCO:
POLICIES AND FINANCIAL FLOWS

by

LEILA ZLAQUI

Submitted to the Department of
Urban Studies and Planning
in Partial Fulfillment of
the Requirements of the Degree of
Masters in City Planning

at the
Massachusetts Institute of Technology

May 1987

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ABSTRACT

Since the early 1970's the Moroccan government has implemented a set of policies aimed at developing lagging regions and reducing regional disparities. These policies involve institutional as well as economic and financial vehicles for the promotion of lagging regions economies.

Despite their variety, these policies were unable to influence the financial servicing patterns in favor of the less developed regions and counteract the tendency towards spatial concentration.

The analysis of the financing patterns of the major public, private, and international financial institutions shows that whenever the financial rate of return on investment is considered a main criterion, capital flows in priority into developed regions.

The evaluation of the policies reveals two major issues. First, the theoretical principles underlying the policies adopted are based on assumptions that do not hold true in the context of developing countries. Second, even when some of the critical variables for regional development were identified, the measures undertaken to deal with them were not the most adequate to solve the problems involved.

Thesis Supervisor: Biswapriya Sanyal
Assistant Professor of Urban Studies and Planning
ACKNOWLEDGEMENTS

To Ali, Rabia, and all the others...

I would like to express my thanks to Bish Sanyal and Ralph Gakenheimer for their advice, support, and understanding.
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LIST OF ACRONYMS

BNDE : BANQUE NATIONALE POUR LE DEVELOPPEMENT ECONOMIQUE
      National Bank For Economic Development

CIH : CREDIT IMMOBILIER ET HOTELIER
      Lending Institution For Housing And Tourism

CNCA : CAISSE NATIONALE POUR LE CREDIT AGRICOLE
       Lending Institution For Agriculture

FDCLG : FONDS DE DEVELOPPEMENT DES COLLECTIVITES LOCALES ET DE LEUR GROUPEMENT.
       Local Government Development Fund

FEC : FONDS D'EQUIPEMENT COMMUNAL
      Communal Infrastructure Fund

FSDR : FONDS SPECIAL DE DEVELOPPEMENT REGIONAL
       Special Regional Development Fund

ODI : OFFICE DU DEVELOPPEMENT INDUSTRIEL
      Office For Industrial Development

WB : WORLD BANK

ABBREVIATIONS

DH : Moroccan Dirham

N.a : Non Available

Non Regional. : Non Regionalized

Oth. Regions : Other Regions
<table>
<thead>
<tr>
<th>Year</th>
<th>Rate (US $ to DH)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>5.00</td>
</tr>
<tr>
<td>1975</td>
<td>4.14</td>
</tr>
<tr>
<td>1976</td>
<td>4.43</td>
</tr>
<tr>
<td>1977</td>
<td>4.40</td>
</tr>
<tr>
<td>1978</td>
<td>4.30</td>
</tr>
<tr>
<td>1979</td>
<td>4.00</td>
</tr>
<tr>
<td>1980</td>
<td>3.70</td>
</tr>
<tr>
<td>1981</td>
<td>4.25</td>
</tr>
<tr>
<td>1982</td>
<td>5.30</td>
</tr>
<tr>
<td>1983</td>
<td>6.10</td>
</tr>
<tr>
<td>1984</td>
<td>6.99</td>
</tr>
<tr>
<td>1985</td>
<td>9.50</td>
</tr>
</tbody>
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¹. Picked randomly for each of the years indicated.
1. INTRODUCTION

In Morocco, as in many developing countries, regional disparities are the result of historical, political and social factors. These factors led to the current distribution of national resources and income, and the regional differences in access to production factors and markets. The goal to reduce regional disparities and develop lagging regions is important for equity and crucial for social stability.

Since the early 70's, the Moroccan government has paid careful attention to regional issues. A set of policies were implemented through the five year plans in order to reduce regional disparities. These policies involve institutional as well as economic and financial vehicles for the promotion of lagging regions economies.

The purpose of this thesis is to evaluate those policies and the financial flows in Morocco, and thereby investigate the effectiveness of the policy tools used to direct financial flows towards the lagging regions.

The approach involves two main steps. First the regional development policies and the financial flows patterns are explored. Then theoretical explanations for the discrepancies observed are discussed. I have also tried to identify the critical variables that regional development policies should take into account in the context of developing countries, and examined how they were dealt with in the case of Morocco.
The central hypothesis is that because regional policies are based on assumptions that do not hold in the context of developing countries, despite their variety these policies are not able to influence the financing servicing patterns in favor of the less developed regions and counteract the tendency towards spatial concentration.

My analysis combines both empirical data and theoretical literature. I have used the empirical findings as a support for the theoretical search, whose conclusions frame the policy recommendations.

The results of the Moroccan regional development experience are evaluated through (i) the analysis of the policies implemented throughout the several development plans, and (ii) the analysis of the financial servicing patterns of major public and mixed Moroccan financial institutions, and World Bank lending activities in Morocco.
2. REGIONAL DEVELOPMENT FRAMEWORK

This chapter reviews the historical trends that have shaped the spatial distributions of economic activities, as well as the political events that have led to the adoption of policies aimed at a more even spatial distribution of activities and income. This historical and political background is important to our understanding of the nature and the limitations of the policy tools adopted by the Moroccan authorities.

2.1 Before Independence

The regional problems of Morocco are a heritage of precolonial, colonial and post colonial economies and geopolitics each showing maladjustments and poor adaptation from one stage to the next.

In precolonial times sharp contrasts already existed between the different regions of Morocco, as well as between the urban and rural areas. The pattern of towns was the result of the central place that Morocco occupied as a point of intersection between the Arabic and European commercial spheres. The most important cities (Fes, Meknes and Marrakech) were located on an inland road network on which camels and beasts of burden were relied on as a means of transport. This type of communication induced a semi autonomous urban system in which the urban linkages necessary for control by the monarchy and for trade were
loose, and permitted considerable provincial autonomy. In addition, the urban network was characterized by a hierarchy of urban and village market centers, complemented by the system of weekly markets (souk). The country was thus endowed with a well-balanced urban hierarchy characterized by a dominantly inland location of towns. The precolonial spatial pattern however, presented an important particularity: the mountains with limited agricultural resources were inhabited by sedentary rural communities and were over populated; while the plains, with important agricultural potential were inhabited by nomadic pastoral communities and were poorly populated. Various factors caused this contrast: epidemics, wars and invasions, but also the prevalent tax system in the accessible plains which formed the territory controlled by the Sultan (De Mas 1978).

**FIGURE 1: Morocco**

---

*Source: DE MAS P. 1978*
Under the forty years of French domination, the most important change was the shift of the urban concentration to the Atlantic coast with the selection of Rabat as the governmental center, Casablanca as the economical center, and the construction of the new ports of Kenitra and Mohammedia. The rail and road network were designed to drain the resources from the colony to the metropolis. They radiated like a half web out of Casablanca over the country.

By itself the logic of the colonial system was leading to the development of the industries near the recently created ports. First economic activities were not oriented towards the development of the internal market, but towards the exports of raw materials as well as finished or intermediate products. Second most industries depended upon imports; and finally, the local market was essentially composed of the European population living on the Atlantic Coast: the farmers in the fertile agricultural plains; and the administrative and political apparatus in the two main cities of Rabat and Casablanca (Kaioua A. 1984).

The precolonial spatial peculiarities (high density population in poor mountainous regions, low density in the rich plains) which existed in Morocco did not change during the colonial period, but newer and greater disparities building up on the previous ones were induced. The plains were taken over by French settlers. Modern mechanized agriculture increased the yield and the value
added of these areas without leading to higher population densities. In the mountainous regions, with traditional agriculture, the imbalance between the size of the population and the agricultural potential worsened. This worsening was the result of the explosive growth of the population within the limited cultivable areas, without the possibility of using the plains already occupied by the French settlers as an outlet.

The spanish colonization of the northern zone, Rif and Prerif, made this region an economically peripheral area cut off from the rest of the country which was under the French protectorate (De Mas 1978).

2.2. After Independence
The integration of the old Spanish zone into the former French protectorate at the independence of the country in 1956 immediately caused great hardship and substantial increases in the cost of living for the population. In 1958 and 1959, the region experienced massive social unrest.

The orientation of the first Moroccan five year plan --Plan Quinquennal 1960-1964-- was largely influenced by these events. The plan was characterized by: an effort to achieve economic independence from external influence; extreme control by the government of the key sectors of the economy in particular industry; reform of the political structure by way of Morocconization, modernization and democratization; and lessening of social and regional disparities.
In contrast with the later plans, maximum growth was not the only objective of the first version of the first five year plan. This plan was prepared in 1959 by a cabinet under the leadership of government officials who sympathized with the ideas of the progressive parties.

The economic policy conveyed by the plan, with its implication of less power for the King, encountered opposition from the King himself and the political parties. The cabinet was dissolved in May 1960, and a new version of the Plan was written between May and November 1960. The new version lacked the reform proposals that had characterized the previous one. Instead priority was given to industry; and the control by government of the different economic sectors was clearly limited. Agrarian reform, and social and regional inequalities received no attention.

The period of 1961-1964 started with the sudden death of King Mohamed V and the accession to the throne of his son Hassan II. The new King’s endeavour was focused on the authority of the monarch — aiming for a position of unlimited power (De Mas 1978).

The next two plans gave the priority respectively to the reorganization of the monetary situation, and to irrigated agriculture. The social and regional inequalities received no attention. The strategy of the sixties was that maximum economic growth would lead to a decrease in the income differences among social groups and regions. This strategy lamentably failed. As
indicated in the 1973-1977 plan, while the richest and the poorest 10% of the population consumed respectively 25% and 3.3% of the total consumption, by 1972 they consumed 37% and 1.2% respectively (Plan 1973-1977, p. 14 quoted in De Mas 1978).

The worsened economic situation at the beginning of the seventies culminated in the attempts on the King life in 1971 and 1972. This led to reforms in politics and planning. The King admitted that his policy which was aimed at improving the condition of the poor without hurting the rich, had failed. The new government he constituted dedicated itself to the realization of a fairer distribution of national income. Eighteen months later a program of national reform involving decisive measures regarding regional planning was formulated. The regional development program has been carried out since.

Despite the wide variety of institutional and policy tools it involves, the results of the fifteen years of Moroccan regional planning are much less conclusive than expected.

Currently the population is concentrated in the fertile and prosperous plains and coastal areas of the Northwest of the country. The most important urban and economic concentrations are on the coast, notably Rabat (seat of the government) and Casablanca (economic capital). The inland areas are marked by the older urban concentrations of Fes, Meknes and Marrakech.
2.3 Regional Disparities: Highlights

The northern and primarily coastal location of economic activities has severely affected development elsewhere. According to a 1984 World Bank study:\(^3\):

"manufacturing industry is heavily concentrated in the region of Casablanca in terms of number of firms (57%), output (69%), employment (64%), and exports (40%). The second important region is the Northwest (Tanger, Rabat) with 19% of the number of firms, 12% of output, 18% of employment, and 16% of exports. The region of Tensift (Marrakech and Safi) is also important in terms of output (9%) and exports (29%). The four other regions (South, Oriental, Center-North, and Center-South) have a negligible place in Moroccan manufacturing".

The following table summarizes these data.

<table>
<thead>
<tr>
<th>Regions</th>
<th>Firms %</th>
<th>Output %</th>
<th>Employment %</th>
<th>Exports %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Center</td>
<td>57</td>
<td>69</td>
<td>64</td>
<td>40</td>
</tr>
<tr>
<td>North West</td>
<td>19</td>
<td>12</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>Tensift</td>
<td>N.a</td>
<td>9</td>
<td>N.a</td>
<td>29</td>
</tr>
<tr>
<td>Oth.Regions</td>
<td>N.a</td>
<td>N.a</td>
<td>N.a</td>
<td>N.a</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

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\(^3\) World Bank: Morocco: Industrial Incentives and Export Promotion, 1984
Figures 2, 3, and 4 show the increasing concentration of Moroccan industrial activities as measured in terms of jobs, between 1967 and 1979.
Figure 2

Distribution of Industrial Activities 1967

Number of Jobs

Source: KAIDUA A. 1984

Source: D. M.O.N., R.G.M., n° 12, 1984
Figure 3

Distribution of Industrial Activities 1976

Source: KAIOUA A. 1984

©. Source: KAIOUA A. 1984
Figure 4

Distribution of Industrial Activities 1979

Source: KAIOUA A. 1984
3. REGIONAL DEVELOPMENT POLICIES

The regional development policies defined and implemented by Moroccan authorities throughout the 1973-77, the 1978-80 and 1981-86 development plans, are based upon three main principles: (i) administrative deconcentration, (ii) allocation of public financial resources for regional and local development, and (iii) industrial investment decentralization in relation to the creation of development poles.

3.1. Administrative Deconcentration and Regional Administration

The structure of local institutions in Morocco clearly reflects its antecedents in the French centralized state administrative tradition. There are basically two types of local institutions in Morocco: (i) institutions that represent, protect, and advance the interest of the central government at the regional, provincial and municipal levels, and (ii) local governments led by locally elected officials at the municipal level.

(i) In 1971, the Government created seven Economic Regions, grouping together several provinces generally around an urban development pole, as a "framework for economic action" (Law of June 16, 1961). The regional administration consists of the regional consultative assembly (regrouping member of the elected provincial assemblies and representatives of the
Chambers of Agriculture, Commerce, Craft, and Industry), the provincial governors (representatives appointed by the King in the provinces), and regional representatives of central administration departments. To date the region’s major role has been to provide inputs for economic planning through submission to the national government of investment proposals prepared by its consultative assembly.

FIGURE 5

Provincial Boundaries 1973 and Economic Regions

(ii) As part of the decentralization process, an important number of new provinces were created. Provinces and their chief executives, the Governors, constitute the main intermediary between the central and municipal levels of government. Governors are directly appointed by the King.

7. Source: DE MAS. 1978

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Administratively they are responsible to the Minister of Interior. Their primary function is to carry out the Ministry of Interior’s twin responsibilities: to maintain law and order, and to oversee the political, administrative and financial affairs of local governments. In 1963 elected provincial assemblies were formed and given (at least theoretically) more power and responsibilities. Each assembly approves the provincial budget (which is entirely financed by subsidies from the central government, prepared by the Governor, and may be imposed on the province by the Minister of Interior over the assembly’s objections).

(iii) In 1976, the adoption of the local authority chart (Charte Communale) established a directly elected municipal council in the communes, and was intended to increase the power and responsibilities of the local communities. Currently, at the municipal level, two parallel structures share responsibility for municipal affairs: the municipal council elected locally, and the pacha or the caid appointed by the central government and representing central interests.

3.2. Allocation of Financial Public Resources for Regional/Local Development

Local governments in Morocco depend to a large extent on the central government to finance (through transfers, grants, subsidies, and loans) a substantial share of their expenditures.
Despite the regionalization carried out through the new institutional framework which facilitated an increased involvement of the regions in the preparation of the plans, many difficulties were encountered regarding the methods and mechanisms necessary to achieve regionalization: information was not regionalized; the possible locations for projects were not always specified; the Secretariat for Planning found it extremely difficult to regionalize the investments of the different ministries. Because of the difficulties in allocating budgetary distribution by regions under the capital budget, the Government decided to establish/strengthen three channels of financing for regional development purposes.

(i) The Communal Infrastructure Fund (Fonds d'Equipement Communal or FEC) created in 1959. It constitutes the only source of loans available to local governments for infrastructure and development projects. In the last decade FEC has grown rapidly, and its role and capacity to finance municipal development projects is being strengthened.

(ii) The Special Regional Development Fund (Fonds Special de Developpement Regional or FSDR) which was established in 1973 to finance by means of central subsidies and grants, infrastructure projects in the least developed regions. This fund is now being phased out.

(iii) The local Government Development Fund (Fonds de Developpement des Collectivites Locales et de leur Groupement or FDCLG) which was established in 1976 as part
of the decentralization reform. This Fund is a chief source of central subsidies and grants. It is administered by the Ministry of Interior, and the Government has recently entrusted the provinces with the local distribution of the funds.

3.3 Investment Decentralization and Regional Development Poles.

The goal of deconcentrating investments involved both public and private funding. In order to counterbalance the appeal of the Casablanca-Rabat-Kenitra axis, five cities were proposed in the 1973-77 development plan as future economic development poles: Oujda, Agadir, Marrakech, Fes and Tanger. In order to deconcentrate private investments, the 1973 investment code offered 10 years tax incentives for enterprises establishing themselves outside Casablanca. The exemption allowed was 100% for some provinces. However, according to the 1981-1986 Plan, the tendency to concentrate most of the industrial investments in and around Casablanca-Mohammedia is not declining. As a result, decentralization of private investment under the 1981-1986 development plan, was also being stimulated by (a) an effort to provide serviced land at a reasonable cost to entrepreneurs through the Office of Industrial Development (Office du Developpement Industriel, ODI), (b) employment premiums calculated on the basis of the number of jobs generated, and (c) assistance with personnel training for enterprises interested in locating in poor provinces.
In addition, the plan adopted new measures to move the rural development process away from the fringe of irrigated areas and deeper into the arid zones. These measures involve the amelioration and organization of livestock raising, the development of small and medium scale waterworks, the promotion of small and medium size enterprises, and so on. They mark a shift away from the large scale irrigation projects which had characterized agricultural policy in the 1960's and early 70's. Spatially they imply a shift toward the mountainous regions of rainfed agriculture and the arid zones.
4. EVALUATION

The set of policies implemented in Morocco integrates three essential and complementary components of a regional development program:

(a) Institutional changes -- aimed at transferring power, authority, and responsibility from the central, to the regional/local level. This transfer is properly supposed to be one of the conditions, and also one of the factor of regional development.

(b) Public social and infrastructure investment -- aimed at improving regional conditions (health, education, training, infrastructure), creating greater external economies and therefore increasing their potential for development.

(c) Tax and other incentives aimed at inducing private developers to invest in lagging regions.

In the following section we will review the impact of the policies; examine the distribution of industrial investment); and investigate the financial servicing patterns by looking at the spatial distribution of the activities of different financial institutions: public institutions in charge of the funding of development projects, national banks lending to private sector, international lending for development projects.

4.1. Institutional Aspects

The question of deconcentration versus decentralization is
the keystone for appreciating the impact of the institutional measures adopted in Morocco. Deconcentration in this context refers to the delegation of responsibilities to the regional echelons of a structure which remains in its entirety governed by the principle of a central authority which keeps the right to reassume at any time the responsibility it delegated. On the contrary, decentralization presumes the existence of an elected body with its own area of authority. The measures adopted in Morocco at the different levels of local government, are more of a deconcentration than a decentralization type.

The Economic Regions are principally a spatial framework for planning rather than an essential level in the administrative structure. The multiplication of the number of provinces and therefore of provincial governors is also a way of increasing the controlling power of the central authority. The consultative assemblies, elected body at the provincial level do not have any political or financial power. At the municipal level the elected council has to share the responsibilities for municipal affairs with the Pacha (appointed by the central government and representing central interests). Although these two hierarchies -- one modern, the other traditional -- are supposed to carry out different tasks, they often work together with some tension and conflicts.

Actually these features, i.e, the importance of the Governor's role and the extent of his supervisory authority, the weakness of the provincial consultative assemblies, and the
control exerted by the local executive authority (Pacha, Caid) over the municipal council, demonstrate the yet excessive centralization of the Moroccan administrative apparatus.

4.2. Regional Distribution of Large Projects Approved Through the Investment Code During the 1973-77 and 1978-80 Development Plans

The main objective of the regional development package was to stimulate industrial investment outside the coastal Casablanca Rabat Kenitra axis.

The following table indicates the regional distribution of large projects (involving amounts equal to or larger than 10 Million Dirham) that have been approved by the Office for Industrial Development (ODI), in application of the Investment Code between 1973 and 1980. These projects benefitted from state assistance.

<table>
<thead>
<tr>
<th>Regions</th>
<th>Amount (in M. DH)</th>
<th>%</th>
<th>Share Per Capita (in DH)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oriental</td>
<td>860.6</td>
<td>15%</td>
<td>583</td>
</tr>
<tr>
<td>Center</td>
<td>2327.2</td>
<td>39%</td>
<td>419</td>
</tr>
<tr>
<td>North-West</td>
<td>1538.3</td>
<td>26%</td>
<td>375</td>
</tr>
<tr>
<td>Tensift</td>
<td>905.1</td>
<td>15%</td>
<td>307</td>
</tr>
<tr>
<td>Center-North</td>
<td>156.8</td>
<td>3%</td>
<td>65</td>
</tr>
<tr>
<td>Center-South</td>
<td>73.1</td>
<td>1%</td>
<td>48</td>
</tr>
<tr>
<td>South</td>
<td>54.6</td>
<td>1%</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>5915.7</td>
<td>100%</td>
<td>290</td>
</tr>
</tbody>
</table>

Source: Computed from data drawn from "L'Espace Industriel Marocain de Kenitra a Casablanca", KAOUIA Abdelkader, 1984 p.133.

Despite the official discourse and the measures undertaken to
induce a decentralization of the productive apparatus, in absolute terms the investments approved by O.D.I., the Office for Industrial Development, were heavily concentrated in the Atlantic Coast, especially in the developed regions of Center (39%) and Northwest (26%). However, on a per capita basis the regions of Oriental and to a lesser extent Tensift turn out to have benefitted from a substantial share of investments during that period. Oriental has the highest share per capita, and Tensift's share is above the national average. In contrast, the three regions of Center-North, Center-South and South were completely neglected.
Location of Large Projects Having Benefitted From State Assistance between 1973 and 1980

Source: KAIQUA A. 1984
4.3. Distribution of Public Funds for Regional/Local Development

Though there is no systematic data on the regional distribution of public funds, some information is available on the grants made by the Special Regional Development Fund (FSDR) in 1978-1979 and those made by the Local Government Development Fund (FDCLG) in 1978-1980. The grants were made mainly to finance projects in sewage and sanitation, drinking water, public health, rural roads, electrification, and local staff training.

4.3.1. Special Regional Development Fund (FSDR)

Table 3 shows the distribution of grants made by Special Regional Development Fund in 1978 and 1979.

<table>
<thead>
<tr>
<th>Regions</th>
<th>Amount</th>
<th>%</th>
<th>Population</th>
<th>Share Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>South</td>
<td>222321000</td>
<td>32%</td>
<td>2424808</td>
<td>92</td>
</tr>
<tr>
<td>Oriental</td>
<td>67588000</td>
<td>10%</td>
<td>1475376</td>
<td>46</td>
</tr>
<tr>
<td>Center-South</td>
<td>60693000</td>
<td>9%</td>
<td>1512046</td>
<td>40</td>
</tr>
<tr>
<td>Tensift</td>
<td>69511000</td>
<td>10%</td>
<td>2944591</td>
<td>24</td>
</tr>
<tr>
<td>Center-North</td>
<td>42649000</td>
<td>6%</td>
<td>2397689</td>
<td>18</td>
</tr>
<tr>
<td>Center</td>
<td>79743000</td>
<td>12%</td>
<td>5559458</td>
<td>14</td>
</tr>
<tr>
<td>North-West</td>
<td>53590000</td>
<td>8%</td>
<td>4105387</td>
<td>13</td>
</tr>
<tr>
<td>Non-Regional</td>
<td>89569000</td>
<td>13%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>685664000</td>
<td>100%</td>
<td>20419555</td>
<td>34</td>
</tr>
</tbody>
</table>

On a per capita basis, Center and North-West, which are the two more developed regions of Morocco benefitted least from FSDR grants. Most of the funds were used to finance projects in poor regions such as South, Oriental and Center-South. South, which is one of the less developed regions, received the lion's share of the funding. The obvious explanation is that the region contains the Saharan territories, and the funding pattern is one of the response of Moroccan authorities to the claims for autonomy of the Polisario front.

4.3.2. Local Authority Development Fund (FDCLG)

The following table indicates the regional distribution of FDCLG grants from 1978 to 1980:

<table>
<thead>
<tr>
<th>Regions</th>
<th>Amount</th>
<th>%</th>
<th>Population</th>
<th>Share Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oriental</td>
<td>72250000</td>
<td>7%</td>
<td>1475376</td>
<td>49</td>
</tr>
<tr>
<td>South</td>
<td>103649000</td>
<td>9%</td>
<td>2424808</td>
<td>43</td>
</tr>
<tr>
<td>North-West</td>
<td>173580000</td>
<td>16%</td>
<td>4105387</td>
<td>42</td>
</tr>
<tr>
<td>Center</td>
<td>204152000</td>
<td>19%</td>
<td>5559658</td>
<td>37</td>
</tr>
<tr>
<td>Center-North</td>
<td>89668000</td>
<td>8%</td>
<td>2397689</td>
<td>37</td>
</tr>
<tr>
<td>Tensift</td>
<td>106437000</td>
<td>10%</td>
<td>2944591</td>
<td>36</td>
</tr>
<tr>
<td>Center-South</td>
<td>54992000</td>
<td>5%</td>
<td>1512046</td>
<td>36</td>
</tr>
<tr>
<td>Non Regional</td>
<td>293552000</td>
<td>27%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1098300000</td>
<td>100%</td>
<td>20419555</td>
<td>54</td>
</tr>
</tbody>
</table>

Source: Computed from data drawn from Projet de Developpement Economique et Social (Rabat: Avril 1981, Volume I, p.66), Royaume
The funding pattern of FDCLG displays much less variance than FSDR. And even though lagging regions such as Oriental and South benefitted from the highest per capita allocation, the developed provinces of Northwest and Center were attributed a substantial share of the funds.

4.3.3. Communal Supply Fund (FEC)

Financing patterns of Communal Supply Fund are appreciated through the regional distribution of FEC financed projects under the 1983 World Bank loan "Mor-2272" aimed at strengthening FEC and expanding its activities.

**TABLE 5**

Distribution of FEC Projects Financed Under 1983 World Bank Loan Mor-2272 (in DH)

<table>
<thead>
<tr>
<th>Regions</th>
<th>Amount</th>
<th>%</th>
<th>Population</th>
<th>Share Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>North-West</td>
<td>64125000</td>
<td>34%</td>
<td>4105387</td>
<td>16</td>
</tr>
<tr>
<td>Center-North</td>
<td>31625000</td>
<td>17%</td>
<td>2397689</td>
<td>13</td>
</tr>
<tr>
<td>Center</td>
<td>57513750</td>
<td>30%</td>
<td>5559658</td>
<td>10</td>
</tr>
<tr>
<td>South</td>
<td>17812500</td>
<td>9%</td>
<td>2424808</td>
<td>7</td>
</tr>
<tr>
<td>Oriental</td>
<td>10812500</td>
<td>6%</td>
<td>1475376</td>
<td>7</td>
</tr>
<tr>
<td>Tensift</td>
<td>7000000</td>
<td>4%</td>
<td>2944591</td>
<td>2</td>
</tr>
<tr>
<td>Center-South</td>
<td>2167500</td>
<td>1%</td>
<td>1512046</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>191076250</td>
<td>100%</td>
<td>20419555</td>
<td>9</td>
</tr>
</tbody>
</table>

The regional distribution of the lending activities of Communal Supply Fund differ substantially from the distribution patterns of FSDR and FCDLG. The main borrowers are the regions of Casablanca (Center, 30%) and Rabat (North-West, 34%). The highest ratios of DH per capita are to be found in those two regions and in Center-North. All other undeveloped areas benefit from a negligible amount of FEC lending. Actually, Center, North-West and center-North are the coastal areas of Morocco (Atlantic and Mediterranean sides). They contain the most important municipalities of the country; precisely those which have the managerial and technical capabilities to propose fundable projects to a lending institution (FEC), and which can be considered as secure borrowers.

4.4. Regional Distribution of World Bank Funded Projects From 1962 to 1985

This part of the analysis does not bear on all World Bank lending to Morocco. It excludes most lines of credit projects. The purpose is to distinguish between regular operation projects, i.e., projects whose location was decided prior to Bank approval of the loan, and lines of credit for which the location of subprojects is unknown at the time of approval. In the case of lines of credits, the loan is typically made to a major Moroccan financial institution which is then in charge of lending to Moroccan private entrepreneurs. All subprojects are submitted for World Bank approval before funding. The analysis of the lending
patterns of the Moroccan financial institutions which manage Bank lines of credit projects is undertaken in the next section of this chapter. Regular projects analyzed represent 52% of Bank lending to Morocco, and lines of credit 48% (1,560 million of 1984 $ of which 618 in Agriculture and 922 in Industrial Development Finance projects). Regarding World Bank line of credit projects which are financed by Moroccan financial institutions we assume that the regional distribution of the lending activities of the latter do not depend on the source of the funds they are managing. Therefore World Bank expenditures in Agriculture and Industry, which are in majority made through line of credits projects, are considered as having the same patterns of distribution as the Moroccan institutions managing those funds.

<table>
<thead>
<tr>
<th>Region</th>
<th>Project Costs</th>
<th>%</th>
<th>Population</th>
<th>Share Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>North West</td>
<td>977</td>
<td>24%</td>
<td>4.105387</td>
<td>238</td>
</tr>
<tr>
<td>Oriental</td>
<td>302</td>
<td>7%</td>
<td>1.475376</td>
<td>205</td>
</tr>
<tr>
<td>Center South</td>
<td>256</td>
<td>6%</td>
<td>1.512046</td>
<td>169</td>
</tr>
<tr>
<td>Tensift</td>
<td>376</td>
<td>9%</td>
<td>2.944591</td>
<td>128</td>
</tr>
<tr>
<td>Center</td>
<td>657</td>
<td>16%</td>
<td>5.559658</td>
<td>118</td>
</tr>
<tr>
<td>Center North</td>
<td>263</td>
<td>6%</td>
<td>2.397689</td>
<td>110</td>
</tr>
<tr>
<td>South</td>
<td>243</td>
<td>6%</td>
<td>2.424808</td>
<td>100</td>
</tr>
<tr>
<td>Subtotal</td>
<td>3074</td>
<td>75%</td>
<td>20.419555</td>
<td>151</td>
</tr>
<tr>
<td>National Impact</td>
<td>659</td>
<td>16%</td>
<td>20.419555</td>
<td>32</td>
</tr>
<tr>
<td>Not Allocated</td>
<td>391</td>
<td>9%</td>
<td>20.419555</td>
<td>19</td>
</tr>
<tr>
<td>Total</td>
<td>4124</td>
<td>100%</td>
<td>20.419555</td>
<td>268</td>
</tr>
</tbody>
</table>

Though the developed regions of Northwest and Center received on aggregate terms the largest share of Bank expenditures, on a per capita basis, with the exception of Northwest which has the highest ratio, the distribution turns out to be more in favor of lagging regions such as Oriental, Center South and Tensift.

The analysis of the distribution of World Bank expenditures within the regions shows different patterns depending on the nature of the investment sector. Investment in the directly productive sectors are concentrated spatially; in the infrastructure sector investment it is more dispersed; and it is in the social sectors that investment is most evenly distributed:

"While in the richest regions (North-West and Center), expenditures have been dispersed between the different provinces, in poorest regions, the trend has been to concentrate them in one province usually coinciding with the province designated by the Moroccan authorities to play the role of development pole. Social sector investments are the most evenly distributed among regions and provinces among the regions; educational projects have benefitted 27 provinces, and urban projects 23. Infrastructure investments, with the exception of power projects which benefitted 24 provinces, are more concentrated. Highway projects benefitted 12 provinces and water supply 10. Agricultural and to a larger extent industrial investments
whose location is necessarily related with the resources and the quality of economic environment of the provinces are much less dispersed. Agricultural investments have been made in 15 provinces and , IDF (Industrial Development Finance) in 4 provinces."

4.5. Regional Distribution of the Lending Activities of Three Major Moroccan Financial Institutions

4.5.1. Banque Nationale pour le Developpement Economique, BNDE

The National Bank for Economic Development (BNDE) was created in 1959. The following table shows the regional distribution of BNDE interventions since its creation to 1979.

<table>
<thead>
<tr>
<th>Region</th>
<th>Designation</th>
<th>Amount ('000 DH)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Center</td>
<td>Casablanca &amp; Mohammedia</td>
<td>3671303</td>
<td>54%</td>
</tr>
<tr>
<td>North West</td>
<td>Rabat</td>
<td>401533</td>
<td>6%</td>
</tr>
<tr>
<td>Center South</td>
<td>Meknes</td>
<td>236631</td>
<td>4%</td>
</tr>
<tr>
<td>Center North</td>
<td>Fes</td>
<td>226715</td>
<td>3%</td>
</tr>
<tr>
<td>North West</td>
<td>Tahla</td>
<td>108415</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>Tetouan</td>
<td>65849</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td>Tanger</td>
<td>364878</td>
<td>5%</td>
</tr>
<tr>
<td>Oriental</td>
<td>Oriental</td>
<td>224834</td>
<td>3%</td>
</tr>
<tr>
<td>Tensift</td>
<td>Marrakech</td>
<td>179932</td>
<td>3%</td>
</tr>
<tr>
<td>South</td>
<td>Agadir</td>
<td>168468</td>
<td>2%</td>
</tr>
<tr>
<td>Oth.Regions</td>
<td></td>
<td>1095109</td>
<td>16%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>6743568</td>
<td>100%</td>
</tr>
</tbody>
</table>


As shown in the table, more than 50% of BNDE lending was in favor of companies whose headquarters were located in Casablanca-Mohamadia. Though the activities of many of them and especially those in the fishing and maritime transport sectors, span the whole country, the weight of Casablanca in BNDE's lending remains
very important (about 60%). All other regions occupied a negligible place in BNDE's activities.

After 1979, the distribution of agreements did not evolve toward a lessening of the concentration of economic activities.

<table>
<thead>
<tr>
<th>Region</th>
<th>1980 %</th>
<th>1981 %</th>
<th>1982 %</th>
<th>1984 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>South</td>
<td>14</td>
<td>3</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Tensift</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Center</td>
<td>49</td>
<td>79</td>
<td>59</td>
<td>67</td>
</tr>
<tr>
<td>North West</td>
<td>26</td>
<td>9</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>Center North</td>
<td>5</td>
<td>3</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Oriental</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Center South</td>
<td>2</td>
<td>2</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


On the contrary, Casablanca's region has seen its share of BNDE's lending increase, reaching 79% in 1981 and 67% in 1984.

Two other regions were allocated decent proportions of BNDE's lending: North-West which is the region ranked second with regard to the concentration of economic activities in Morocco, and South which is for political considerations the object of massive investment.

4.5.2. Caisse Nationale Pour Le Credit Agricole CNCA

In a 1982 document "Credit Agricole, Bilan et Perspectives. Octobre 1982", CNCA, the National Bank for Agricultural Credit
made an evaluation of its activities, and presented an overview of future prospects. The following table indicates the regional distribution of CNCA's real and potential customers. Potential customers are identified by CNCA according to its lending criteria.

<table>
<thead>
<tr>
<th>Region</th>
<th>Real %</th>
<th>Potential %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Center</td>
<td>33%</td>
<td>27%</td>
</tr>
<tr>
<td>Tensift</td>
<td>21%</td>
<td>13%</td>
</tr>
<tr>
<td>North-West</td>
<td>15%</td>
<td>19%</td>
</tr>
<tr>
<td>Center North</td>
<td>12%</td>
<td>17%</td>
</tr>
<tr>
<td>Center South</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>Oriental</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>South</td>
<td>3%</td>
<td>12%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Credit Agricole Bilan et Perspective, October 1982 Annex 1 Table 9.

The regions of Center and Tensift are those which benefitted most from CNCA lending (benefits are measured according to the number of lenders and not the volume of lending). These two regions include more than 50% of the real customers; the five other regions share less than 50% of the customers.

The distribution of potential customers, which can be considered as CNCA's objectives for the future, shows that Region Center will remain the major beneficiary of the institution's lending, followed by North West where CNCA intends to quadruple
the number of its customers (see Table 2 in Annex). South and Oriental, despite the substantial projected increase of the number of their customers, will remain among the less benefitting regions (see Table 2 in Annex). The prospective distribution of CNCA customers does not meet the 1981-1986 Development Plan's concern to shift the rural development process away from the fringe of irrigated areas and deeper into the mountainous regions and the arid zones.

4.5.3. Credit Immobilier et Hotelier CIH

CIH lends to the housing and hotel sectors. Table 10 indicates the regional distribution of CIH lending for housing construction from 1978 to 1984.

### TABLE 10
Regional Distribution of CIH Lending To Housing From 1978 to 1984

<table>
<thead>
<tr>
<th>Location</th>
<th>1978 %</th>
<th>1979 %</th>
<th>1980 %</th>
<th>1981 %</th>
<th>1982 %</th>
<th>1983 %</th>
<th>1984 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Casablanca</td>
<td>39%</td>
<td>45%</td>
<td>45%</td>
<td>46%</td>
<td>42%</td>
<td>45%</td>
<td>47%</td>
</tr>
<tr>
<td>Rabat</td>
<td>36%</td>
<td>24%</td>
<td>30%</td>
<td>21%</td>
<td>28%</td>
<td>17%</td>
<td>N.a.</td>
</tr>
<tr>
<td>Fes</td>
<td>13%</td>
<td>N.a.</td>
<td>N.a.</td>
<td>12%</td>
<td>9%</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Marrakech</td>
<td>7%</td>
<td>N.a.</td>
<td>N.a.</td>
<td>9%</td>
<td>8%</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>Marrakech</td>
<td>10%</td>
<td>N.a.</td>
<td>N.a.</td>
<td>10%</td>
<td>8%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Agadir</td>
<td>N.a.</td>
<td>N.a.</td>
<td>N.a.</td>
<td>8%</td>
<td>8%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Tanger</td>
<td>N.a.</td>
<td>N.a.</td>
<td>N.a.</td>
<td>N.a.</td>
<td>3%</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
<td>100%</td>
<td>0%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

Source: CIH Yearly Reports 1978, 79, 81, 82, 83, 84.

The figures mentioned in CIH annual reports clearly show the predominance of Casablanca and to a lesser extent of Rabat. These two cities benefitted from more than two thirds of the
institution's lending to housing every year. The remaining third is shared between the rest of the country's biggest cities (Fes, Marrakech, Agadir, and Tanger).

CIH's hotel expenditures (see Table 1 in Annex) were more diversified than its expenditures in housing. The review of these expenditures from 1978 to 1984 shows a clear predominance of Marrakech (33%), followed by Casablanca and Center region (29%), and then by Agadir and South region (25%). Fes and Tanger are minor borrowers with 11 and 2% respectively.

4.5.4. Conclusion on the empirical findings

Table 13 summarizes for each institution its status; the nature of its financing service; and ranked from 1 (highest) to 3 (lowest), the three regions that benefitted most of its investments expenditures. We recall that the regions of Center, North West, and to a lesser extent Tensift are those which most concentrate economic activities. Although the table does not include information on absolute amounts, relative proportion and per capita share of investments, it allows us to sketch a global picture of the distribution patterns, and to summarize the partial conclusions drawn for each individual financial institution.
<table>
<thead>
<tr>
<th>Public</th>
<th>Mixed</th>
<th>Int'l</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSDR FDCL</td>
<td>BNDE CNCA CIH.H CIH.T WBf</td>
<td></td>
</tr>
<tr>
<td>Center</td>
<td>3 1 1 1 2</td>
<td>1</td>
</tr>
<tr>
<td>North West</td>
<td></td>
<td>2 3 2 1</td>
</tr>
<tr>
<td>Tensift</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South</td>
<td>1 2</td>
<td>3 3</td>
</tr>
<tr>
<td>Oriental</td>
<td>2 1</td>
<td>2</td>
</tr>
<tr>
<td>Center North</td>
<td>2</td>
<td>3 3</td>
</tr>
<tr>
<td>Center South</td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

By drawing a line after Tensift to separate developed from lagging regions, we can see that FSDR, FDCL, and World Bank regular operations have primarily funded lagging regions, where all others have invested in priority in lagging region. In the following section we will explore some clues to the distribution patterns.

The financing pattern of the three public institutions analyzed varies depending on the nature of the service they provide. FSDR and FDCLG which finance development projects by means of subsidies and grants, to a varying degree both give the priority to lagging regions. FEC whose role is to finance municipal development projects by means of loans, concentrate its

*a* Mixed institutions are partly private, partly public. They manage funds from diverse sources including World Bank lines of credit

*b* CIH lending for housing.

*c* CIH lending for tourism.

*d* World Bank regular operations.
activities in the two most developed regions of North West and Center, but also in the less developed Center North.

All the other Moroccan financial institutions analyzed are lending institutions and direct their activities in priority towards the more developed regions of the country.

The distribution of World Bank regular operations expenditures varies depending on the investment sector. They are evenly distributed between the regions for the so called social sectors (urban, education...), and more concentrated in the case of projects in the directly productive sectors where the pattern is assimilated to the distribution of lending activities of the Moroccan financial institutions.

Two parameters seem to determine the financing pattern in terms of spatial distribution:

-- The nature of the financing service: grants versus loans,
-- The nature of the investment sector: social versus directly productive sector.

Contrary to what might have been expected, the source of the funds, i.e., public institutions, national banks, international agency, is not a main determinant of the distribution pattern.

Actually the fact that grants, subsidies and expenditures in the social sectors display such a different distribution pattern than lending and expenditures in the directly productive sectors suggests the following observation: Despite the complete variety of policy tools used, whenever the financial rate of return on investments is taken into account as a main criterium, capital
flows primarily into developed regions.

The conclusions of this evaluation leads to elicit the following questions: Why does the Moroccan regional development program have so little effect on the investments and financial flows patterns?

--Were wrong policies followed? In other world, was it wrong to assume that regional development could be achieved by administrative decentralization, redistribution of public financial resources through new channels, and by giving incentives to private investment in lagging regions?

--Or, were the measures adopted to implement these policies wrong? Why administrative deconcentration (delegation of power, authority, responsibilities) instead of administrative decentralization (transfer of power, authority..)? Why not undertake fiscal decentralization instead of creating or strengthening new channels to allocate financial public resources from the central to the regional/local level. Could the public resources used (or those foregone through tax exemptions) to direct investment from the developed to the lagging regions have been better used in programs aimed at the generation of local resources for development?

--What were the effects of each one of these choices on the results of the program?

In order to answer these questions it is necessary to consider the political and economical conditions of Morocco, as
well as the theoretical and conceptual framework of regional development policies from which the Moroccan experience draws.
5. REGIONAL DEVELOPMENT IN THIRD WORLD COUNTRIES: THEORIES AND REALITIES.

5.1. Theoretical Background

The objective of this section is to sketch the assumptions underlying neoclassical location theories, identify the reasons why these assumptions may not hold true in general, and the reasons why they do not hold true particularly in the context of developing countries.

Regional differences in availability of production factors or access to production factors and to markets are at the origin of interregional disparities.

According to neoclassical economic theory, core regions are characterized by a scarcity of natural resources and of labor, while peripheral areas suffer from a scarcity of capital and technology. The determinant conceptual element is that factor returns will be high in areas of scarcity and low in areas of abundance. Consequently, core regions which are characterized by a scarcity of natural resources and of labor should have a high return on labor and natural resources, whereas peripheral regions should have high return on capital and technology.

The main assumptions underlying the theory are:

-- Complete mobility and homogeneity of production factors (except physical capital: buildings, land...),

-- Decreasing marginal returns; it has been argued that
agglomeration economies might be offset by higher per capita absorption costs, congestion costs, and communication diseconomies (Richardson, 1969),

--Perfect knowledge on the part of producers and buyers and complete predictability,
--Inexhaustible entrepreneurship and technical skills,
--Fully developed transportation network.

Under these assumptions, natural resources and labor should flow from peripheral areas to core regions, while capital and technology will flow from core regions to peripheral regions. The process would increase factor supply in areas of scarcity and reduce it in areas of abundance eventually leading to an equalization of factor prices over space (Richardson, 1969).

5.2. General Limitations of Neoclassical Location Theory.

It appears that not all production factors tend towards spatial equilibrium of supply and demand. The tendency towards spatial equilibrium is counteracted by:

--Different degrees of factors mobility
--Heterogeneity of factors
--Increasing factor returns at the core due to the unequal spatial distribution of external economies and scale economies.

Labor is not homogeneous, and though in aggregate terms labor moves from low wage areas to high wage areas, in reality this migration is highly selective and its effects often lead to further polarization rather than equalization. Migrants from
peripheral to core areas usually come from the more mobile and productive population strata (the potential high wage earners). As a result migration, which reduces aggregate labor supply, also reduces the average wage level at the periphery rather than increasing it (as would neoclassical theory imply). Furthermore, migration, because of the selective character mentioned above, diminishes the production potential of peripheral areas (Stohr W., Tolding F. 1978).

Capital flows, too, do not tend towards regional equilibrium. Empirical studies (Stohr W., Tolding F. 1978) have shown that capital flows from peripheral areas (where capital is "scarce" and capital cost is high) to core regions (where capital is "abundant" and capital cost is relatively low). The main reason for such a pattern is the higher productivity of capital in core regions due to a comparative advantage in scale and external economies that do not seem to be often offset by high per capita absorption costs, congestion costs or communication diseconomies.

5.3. Policy Implications

The implications in terms of policies are that the major instruments of regional development in market and mixed economies aim to change these disequilibrating flows. Because in most market economies, migration is outside of direct policy control, major policy tools have concentrated on inverting flows of capital, and on creating greater external economies in peripheral
areas through public infrastructure investment. The Moroccan experience draws from that stream of thought.

5.4. Specific Conditions in the Context of Developing Countries
We have already seen the general limitations to complete mobility and homogeneity of production factors, and decreasing marginal returns. We will now examine the reasons why the remaining assumptions do not hold true in the context of developing countries.

These assumptions are:

-- Fully developed transportation network,
-- Perfect knowledge and predictability,
-- Inexhaustible entrepreneurship and technical skills.

In most developing countries, the configuration of transport network is an inheritance of colonial times. Transport network was not designed to achieve national development requirements, but instead to drain resources from the colony to the metropolis. As a result rather than being a lattice covering the whole national territory, transport network typically converges towards great port cities. In addition, after independence, transport and communication investment is made in priority between major urban centers, and to a lesser extent between core regions and (respective) peripheries. Very little investment in transport infrastructure is made to connect peripheral areas to each other. These investment patterns do not facilitate a mobility of production factors in favor of remote and lagging...
Information which is a central assumption in neoclassical location theory, is not evenly available either. The more remote a region is, the less is known about its production potentials, cost and timing of operation, local customs, chemical and physical properties of local material and so on. Also, the more remote a region is, the less likely it is that relevant information on investment opportunities and management decisions will reach it.

This constitutes a critical issue in developing countries where political and economic conditions change rapidly and often unpredictably. Ministries are reorganized, regulations are changed, costs and availability of funds fluctuate, relative factor price vary suddenly... Relevant information about these matters is not channeled in a democratic and systematic way, but through personal contact, rumor and so on.

Thus, whereas information is vitally needed because of the rapidity and frequency of changing situations, the sources and modes of information are unperiodic, unpredictable, and require cultivation of sources and personal contacts. Getting information as well as solving problems requires intangible and delicate negotiations which are conducted through personal, face-to-face contacts, and lead to a tremendous pressure towards spatial concentration.

Finally, entrepreneurship and technical skills are not inexhaustible and evenly available. Universities are often
located in major centers. Managers and technicians for a multitude of obvious personal reasons prefer to live in major cities. Inducements to get them to less developed areas are likely to be expensive because of the compensation necessary to make up for the advantages given up, and not so successful in this sense that it may attract only second raters.

None of the assumptions underlying classical location theory hold in the context of developing countries. Factor flows do not follow the expected pattern and do not lead to an equalization of factor prices overtime. Actually because of the uncertainties attached to the investment decision, higher return is required to justify investment in underdeveloped regions. These uncertainties add to the certainty of having poorer communications, slower deliveries, incompetence, absence of supporting services... The uncertainties add to the risks and the certainties add to the costs. Both lead towards spatial concentration, and location in developed regions. There ought to be large and clear advantage to justify location outside of developed centers (Alonso W. 1975)
5.5. Business and Tax Incentives: Empirical Findings

This section is an attempt to synthesize the main criticisms that have been formulated against business and tax incentives (tax exemption or alleviation) as a tool for local or regional development, as well as to investigate the major trends in terms of alternative policies. The following argument draws from the U.S. literature on the topic; however, the points retained are those relevant to the context of Third World countries.

There are three main sets of criticism regarding Business and Tax incentives:

-- They have little effect on the location decision of firms.

-- They have a big opportunity cost in terms of foregone tax revenues and alternative use of these revenues by the public sector.

-- They have little impact on employment and growth.

5.5.1. Effect of tax incentives on the location decision of firms.

Many surveys conducted on firms either expanding their facilities or moving to a new location show that state and local taxes or the availability of subsidized credits are not considered as important factors in the location decision process (Harrison B. & Kanter S. 1978). In most cases access to markets, labor costs, and the availability of physical space were the
paramount location consideration (Harrison B. Kanter S. 1978). Different sets of interviews showed that the availability of these incentives did not induce business behavior that would not have occurred otherwise. The incentives, therefore functioned as a windfall for the companies more than anything else.

Tax incentives are ineffective precisely because state and local taxes are, themselves, relatively unimportant as location determinants (Vaughan J.R. 1980).

The reason why they have such little effect is that they constitute a cost side policy and they do not affect revenues. Since uncertainty is usually greater with respect to expected revenues than costs, exclusively cost side policies are insufficient to induce investment activity that would not have taken place in the absence of the incentive. Furthermore, given the relative scale of the base against which the incentives are applied, their effect on the cost side is limited. The question is: How important are state and local taxes as a percentage of the typical firm's cost of doing business? If this ratio is very small, then the application of even a large rate of subsidy to such a small base is unlikely to yield significant savings to most firms. In the empirical literature, state and local taxes are consistently estimated at from 0.5 to 3 percent of value added and from 2 to 5 percent of sales (Harrison B. & Kanter S. 1978).

5.5.2. Opportunity cost of Tax incentives.
Though tax incentives have very little effect on reducing each individual firm's cost of doing business, and in influencing location decisions, they nevertheless represent in aggregate terms a heavy cost for the state.

Tax incentives force the state to forego the tax revenue which would have been collected in the absence of the policy. These foregone revenues have other productive uses, and it is the goods and services which those foregone revenues could have purchased or provided that constitute the real opportunity cost of the incentive. Moreover as these foregone tax revenues could have financed new state spending having a positive multiplier effect which is also foregone, then the net multiplier effect of the tax incentives is negative.

5.5.3. Impact on employment and growth.

Various statistical tests conducted at different periods of time, and in different places have led to the following conclusions (all quoted in Harrison B. Kanter S. 1978):

-- There was no significant relationship between growth in manufacturing employment and per capita state and local tax collections among all the states (Bloom 1955).

-- There was no significant relationship between state and local taxes and employment growth in the Michigan economy from 1947 to 1953 (Thompson and Mattila 1959).

-- The rank ordering of eleven states in 1971 according to the burden of state and local taxation on ten specific
industries showed that there was no systematic correlation between this rank ordering and the state unemployment rates.

5.5.4. Trends in terms of alternative policies

Business and tax incentives aim at growth and job generation. In the U.S., twothird of all new jobs are generated by small firms (those with twenty and fewer employees). It is the smaller corporations despite their higher failure rates, that are seeking out most new opportunities, while the large ones are mainly redistributing their operations (D. Birch 1979). A growing body of literature suggests that small businesses are not only the major source of new jobs, but are also a major source of technical innovation and tend to be quite profitable (Daniels B. 1980).

Recent evaluations of government intervention to create economic development stress the following points: first the limited importance of large business in the development process; second the limited ability of capital to ensure economic growth; third the limited availability of capital to small enterprises; and fourth the limited ability of states and local development efforts to encourage economic growth in a context of national and international events (Daniels B. 1980).

Consequently well thought out economic development policies must attempt to build on the comparative economic advantage of a region to stimulate a diverse growing national economy. Public policies that attempt to stimulate economic growth should target
small businesses because of their profitability and their large capacity to generate jobs and to innovate. Public policies should not exclusively focus on capital; many other market factors—such as land, labor, energy, management, raw materials, and markets for the product—must be made appropriately available to a business before that capital can improve its viability (Daniels B. 1980).

It is widely recognized however, that there are many problems involved in helping small businesses. Firms in that sector are small, independent, and volatile. They are the most difficult to identify and to work with, and there is no experience in identifying them and assisting them in large numbers. It is precisely their dynamism and their vitality which are at the origin of their big generation power, that make them a difficult partner for the development administrator.

However these problems are not thought to be unsolvable. The trend in terms of policy recommendation is to adopt indirect approaches; to rely on existing networks of institutions rather than building large new ones (Daniels B. 1980); to build ongoing institutional capacity within the communities themselves to act on their own behalf rather than to be "acted on"; to promote the planning and financing of community based enterprises—owned wholly by local government or in partnership with socially controlled private business (Barry Stein quoted by B. Harrison and S. Kanter 1978).
6. CONCLUSION

The ultimate objective of the Moroccan regional development program was to promote regional development by changing capital flows in favor of lagging regions. The policy tools used to achieve this goal were public investment in health, education and infrastructure; incentives to induce private investment in peripheral areas; and administrative deconcentration.

These policy tools address some of the variables identified as being critical to regional development in developing countries. These variables were agglomeration and external economies; transport network; entrepreneurship and technical and managerial skills; and eventually information, perfect knowledge and predictability.

Public investment in infrastructure has probably helped to improve transport communications within and between regions; it has probably helped to create in some areas higher levels of external economies, but none of the peripheral areas of Morocco can yet be considered as competitive in that regard as the two developed regions of Center and North-West.

Although public investment in education and training helped to make support staff skills available locally, the problems of entrepreneurship and high level managerial and technical skills can hardly be overcome because of the personal advantages associated with life in big cities.

Administrative deconcentration is supposed to address the
issue of information, knowledge and predictability. And actually an effective decentralization of administrative power and services, by transferring the power game at the local level -- even without changing its rules-- would lead to a substantial lessening of spatial concentration. However the policy tool adopted in Morocco, which is deconcentration or --delegation of responsibilities whereas power and decision making remain highly centralized-- cannot, in any case, achieve that goal.

We have already seen the limited ability of tax incentives to generate growth and employment, and to direct investment to peripheral areas. Besides the limitations inherent to the policy tool itself, centralization of administrative power, because it implies centralization of relevant information for business decision making and management, strongly affects the location decisions of firms. It pushes towards business location in developed regions and hampers all the measures undertaken to induce private investment in lagging regions.

As we can see from the above, the analysis of the Moroccan experience rises a set of different but interlinked issues. The policy objective which was to promote regional development by attracting external capital to the regions, framed the choice of policy tools. These latter were not aimed at developing the growth potentialities of the regions themselves. Such an objective would have required the definition in the framework of the national development strategy, of differentiated programs for the different regions, based on each region's potentialities and
comparative advantages. The policy tools were just aimed at attracting external capital into the regions and trying to fulfill within the regions the requirements of that foreign capital. The whole battery of efforts was seriously hampered by the excessive centralization of the Moroccan administrative apparatus.

Actually the policy tools adopted could, to a certain extent, address the critical variables for regional development in Third World Countries. They could improve the conditions of lagging regions, but they can hardly overcome capital flow trend. When left to its own initiative, capital flows to where the return is highest. And in most cases, return on investments is highest in core regions.

In the current context of national and international events (debt crisis, austerity programs), which require a most efficient utilization of scarce public and private resources, using public resources to try without much success to divert capital from the areas of high return to peripheral regions is a luxury that few developing countries can afford anymore.

However regional disparities are still a critical issue in many LDC’s and regional development is still a priority whose stake is no less than social and political stability.

The following section sketches the elements of an alternative regional development program, and presents the rationale behind the policy recommendations.
7. RECOMMENDATIONS

Regional development policies should aim at strengthening the local, economical, institutional and financial basis for development. These objectives involve strengthening local governments; retaining local capital by involving local elites in the development process; assisting small businesses.

-- Strengthening local governments

The goal of promoting lagging regions economies cannot be achieved without the support of strong local governments. They are those who are better informed as to the local conditions, potentials and needs of the regions. Their contributions to the programs definition and implementation is crucial.

Strengthening local governments involves decentralizing administrative power and services. It implies giving to local governments the prerogative to raise (through a fiscal decentralization) and to generate (through public or mixed economic projects) revenues at the local level. It also implies that local governments have to be endowed with the managerial and technical skills necessary for local programs definition implementation and management.

-- Retaining local capital and involving local elites in the development process

Local elites often have a tendency to reinvest their profits and to consume outside their regions when these latter are underdeveloped. Involving these elites in the development
process would change their investment and consumption patterns, and would make of them the local motor of the development process. In the long run they would constitute the necessary counterweight to centralizing trends and they would constitute a coalition to help increase local autonomy.

--- Assisting small businesses

Small businesses (in the formal as well as in the informal sector) are known for being innovative, and job and growth generators. As such they ought to be the first target of development policies. However they are also known for being independent, volatile, and for having large failure rates. Extensive studies are necessary to better know their modes of operation, their problems, their viability, their linkages and so on.

Choices will have to be made between blind assistance on a large scale, or selective assistance in the framework of national industrial development strategies.

Careful attention should be given to the modalities of assistance. In order to reduce the costs of the programs and to increase the chances of success, local governments and existing networks have to be the basis on which to build ongoing institutional capacity to define, implement, and finance programs for assisting small businesses. They are best located to assess the needs as well as to define, implement, monitor the performances, and when necessary,
adjust the programs.
## Annex 1

### TABLE 12

CNCA, Regional Distribution of Real and Potential Customers

*Detailed Table*

<table>
<thead>
<tr>
<th>Region</th>
<th>Rank</th>
<th>%</th>
<th>RC</th>
<th>%</th>
<th>PC</th>
<th>%</th>
</tr>
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<tr>
<td>Northwest</td>
<td>2</td>
<td>19%</td>
<td>206,300</td>
<td>3</td>
<td>53,300</td>
<td>15%</td>
</tr>
<tr>
<td>South</td>
<td>5</td>
<td>12%</td>
<td>124,500</td>
<td>7</td>
<td>12,200</td>
<td>3%</td>
</tr>
<tr>
<td>Center</td>
<td>1</td>
<td>27%</td>
<td>298,000</td>
<td>1</td>
<td>116,800</td>
<td>33%</td>
</tr>
<tr>
<td>South Center</td>
<td>6</td>
<td>8%</td>
<td>91,200</td>
<td>5</td>
<td>35,000</td>
<td>10%</td>
</tr>
<tr>
<td>Oriental</td>
<td>7</td>
<td>3%</td>
<td>143,600</td>
<td>6</td>
<td>74,400</td>
<td>21%</td>
</tr>
<tr>
<td>Tensift</td>
<td>4</td>
<td>13%</td>
<td>30,300</td>
<td>2</td>
<td>41,800</td>
<td>12%</td>
</tr>
<tr>
<td>North Center</td>
<td>3</td>
<td>17%</td>
<td>191,400</td>
<td>4</td>
<td>350,600</td>
<td>55%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4</td>
<td>100%</td>
<td>1,095,300</td>
<td>4</td>
<td>350,600</td>
<td>32%</td>
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*Source: Credit Agricole Bilan et Perspectives, October 1982, Annex 1 Table 9.*
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<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
</tr>
<tr>
<td>Agadir &amp; South</td>
<td>260,153</td>
<td>25%</td>
<td>29,080</td>
<td>24%</td>
<td>56,335</td>
<td>30%</td>
<td>84,000</td>
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<tr>
<td></td>
<td>7,799</td>
<td>12%</td>
<td>22,841</td>
<td>19%</td>
<td>15,783</td>
<td>11%</td>
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<tr>
<td>Casablanca &amp; Center</td>
<td>224,070</td>
<td>29%</td>
<td>60,795</td>
<td>51%</td>
<td>28,810</td>
<td>16%</td>
<td></td>
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<tr>
<td></td>
<td>61,700</td>
<td>35%</td>
<td>13,660</td>
<td>36%</td>
<td>39,810</td>
<td>37%</td>
<td></td>
</tr>
<tr>
<td>Marrakesh</td>
<td>343,099</td>
<td>21%</td>
<td>20,670</td>
<td>13%</td>
<td>28,070</td>
<td>16%</td>
<td></td>
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<tr>
<td></td>
<td>93,245</td>
<td>33%</td>
<td>61,700</td>
<td>33%</td>
<td>55,370</td>
<td>31%</td>
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<td>Fez &amp; Oriental</td>
<td>106,666</td>
<td>11%</td>
<td>1,245</td>
<td>1%</td>
<td>5,623</td>
<td>3%</td>
<td></td>
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<td></td>
<td>38,050</td>
<td>37%</td>
<td>4,425</td>
<td>4%</td>
<td>9,913</td>
<td>7%</td>
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<tr>
<td>TOTAL</td>
<td>970,641</td>
<td>100%</td>
<td>118,850</td>
<td>100%</td>
<td>182,013</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>243,770</td>
<td>100%</td>
<td>64,510</td>
<td>100%</td>
<td>119,967</td>
<td>100%</td>
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TABLE 13: Regional Distribution of CHL’s Hotel Lending (in thousand Dirhams)
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