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Country Development Strategy Statement

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Morocco



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USAID/MOROCCO FY 1986 CDSS

TABLE OF CONTENTS

	<u>PAGE</u>
I. <u>OVERVIEW</u>	1
II. <u>MACRO - ECONOMIC TRENDS</u>	5
A. Gross Domestic Production and Overall Economic Performance	
B. Current Balance of Payments Status	
C. Foreign Debt/Rescheduling	
D. IMF Standby Arrangement - Terms and Performance	
E. GOM Austerity Program - Impact on Development Ministries	
F. Near-Term Prospects for the Moroccan Economy	
III. <u>CURRENT USAID STRATEGY AND PROGRAM (FY 1984-85 CDSS)</u>	38
A. The "Key Sectors" Approach	
1. Agriculture	
2. Population	
3. Energy	
4. Other	
B. Relationship to Agency and Regional Strategies	
IV. <u>REVISED USAID/MOROCCO PROGRAM FOCUS</u>	46
A. Recent Developments and the Proposed Mission	
B. Near-Term Program Assistance	
1. Justification	
2. P.L. 480 Title I	
3. ESF	
4. Housing Guaranty Programs Response	
C. Long-Term Development Assistance: Core Program	
1. Agriculture	
2. Population	
3. Energy	
4. Possible New DA Program Initiative	
a. Urban Development	
b. Natural Resources Development and Management	
V. <u>POLICY DIALOGUE WITH GOM</u>	79
VI. <u>MISSION PROGRAM MANAGEMENT</u>	84
VII. <u>PROPOSED ASSISTANCE PLANNING AND STAFFING LEVELS</u>	88

I. OVERVIEW

While this document is formally an "update" to the FY 1985 CDSS prepared a year ago, readers will quickly perceive that it constitutes a substantial modification of the program strategy articulated at that time. The previous strategy was developed and approved at a time when Morocco was characterized by a reasonably stable socio-economic environment and its Government was operating under a Five-Year Plan that appeared sensible and capable of being fulfilled. At the beginning of 1984, however, these conditions no longer exist. Morocco is confronted with a new array of circumstances. The Government of Morocco (GOM) is now struggling to determine how best to implement a major austerity and structural adjustment program, to do so in a way which permits it to and digest the serious social/political ramifications such a program portends. Elections of a new Government are pending, and a GOM budget for 1984, just coming off the presses, will express the Government's priorities within severely constrained national resources. All of these conditions impact upon the scope and direction of USAID's programs in Morocco.

From the ferment of the past year, and looking to the implications for the Moroccan economy over the next three to four years, several conclusions can be drawn:

- The economy faces major adjustment problems, and must undergo significant restructuring before further growth can be sustained;

- The Government has thus far dealt with the economic situation responsibly, and in collaboration with the IMF and IBRD has designed a program which is capable of leading to eventual financial and economic viability;

- In the near term Morocco's capacity to "stay-the-course" with an economic adjustment program will depend heavily on the availability of external concessional financing.

These factors are well illustrated in Section II below which discusses the macro-economic environment and current trends. The conclusions drawn from these findings with respect to our AID strategy for the period through at least FY 86 are described in Sections III and IV. Basically, USAID/Morocco proposes a "two-track" assistance effort of (a) near-term balance of payments support, coupled with (b) a continued portfolio of projects which focuses on longer-term institutional, technological and human resource constraints to equitable growth. The first track--drawing principally upon ESF and P.L. 480 Title I resources-- would be implemented in concert with other donors in the context of a new IBRD- led Consultative Group, which the USG has actively supported. The second track would draw largely, but not exclusively, upon Development Assistance (DA) funds and would continue to concentrate upon problems in the three key sectors of agriculture, population and energy.

USAID believes the programmatic core of the Mission's portfolio in these three sectors, as articulated in last year's CDSS, is still largely viable. The most significant changes have occurred in the agriculture sector where, for reasons noted in Section IV, we are accentuating the positive elements of the current portfolio and reassessing the nature and timing of our next project effort. The effort in population/family planning appears to be on track and remarkably successful under the circumstances. Programmatic adjustments in this sector will be relatively minor and focused on more private sector involvement and the extension of delivery programs into urban areas. In energy, we are about to undertake two major bilateral projects whose fundamental approaches were explored by predecessor projects funded by A.I.D's Science and Technology Bureau. The risk is perhaps greater here, but the potential return is also greater. Finally, for a number of reasons described in Section IV.A, we are proposing the exploration and possible

development of our portfolio for 1985-86 in two "new directions", which are responsive to emerging needs and priorities as expressed by GOM officials and AID/W.

The first of these falls under the general rubric of "urban development," in recognition of the significant changes in spatial distribution of the Moroccan population and the shift in economic activity that accompanies this process. The second is a cluster of potential activities which can best be described by the term "natural resource development and management." It includes activities in Weather Modification (FY 84), and possible new efforts in Coastal Fisheries Development (FY 85) and Forestry Development (FY 86). These new directions are grounded firmly in well-defined need and clearly-expressed GOM priority, but will require substantial delineation in the months ahead. Equally important, the viability of these new initiatives will depend on further clarification of the Government's actual investment priorities and project financing capacity over the period in question.

A special brief discussion is provided in Section V on the substantial advances made in the policy dialogue area over the past year. Section VI reports on the progress made on the intent expressed in the FY 85 CDSS to alter our portfolio and management focus in significant ways, including: (i) to move away from the prior emphasis on social service and human resource activities (which tended to be weakly supported on the Moroccan side); (ii) to develop a capacity to deal with the broader economic and policy dimensions of the Moroccan economy; and (iii) to strengthen Mission management processes such as project monitoring, financial controls and evaluation. These shifts have been largely accomplished, and they have in turn necessitated substantial alterations in the organizational structure and staffing of the USAID.

Last, but far from least, Section VII presents our proposed assistance planning levels and staffing needs for the CDSS period. This section illustrates the case made in the text for a substantial near term increases in program resources (ESF, P.L. 480 Title I) to meet urgent balance of payments needs, and modest increments in development assistance to address the long-term fundamental needs of Morocco's poor.

II. MACRO-ECONOMIC TRENDS

Over the past decade, Morocco has greatly accelerated the pace of its investment program for social and economic development and now finds itself in serious short-term difficulties which have been aggravated by successive years of drought, world-wide recession which reduced its growth in export earnings (especially for phosphates), and an expensive conflict in the Sahara. These recent external difficulties have brought the short-term liquidity problem to a head sooner and much more acutely than would have been the case in their absence. Nevertheless, even without them Morocco would eventually have had to face up to the consequences of the imbalance between the long-term nature of its investments in education and social infrastructure and its short-term requirements for income generating investments and a more competitive domestic industrial base. However, the external factors cited brought about significant increases in budget and trade deficits which in turn caused a rapid draw-down of Morocco's international reserves.

Faced with a severe and rapidly deteriorating payments imbalance in early 1983, the GOM moved quickly to cut back imports by increasing licensing restrictions and raising the advance deposit on imports. At the same time, the GOM was negotiating in earnest with the IMF for a Stand-By Arrangement to see it through 1983-84. In requesting this arrangement, the GOM recognized the imbalances and distortions which existed in its economic structure and did not attempt to lay all the blame for its current economic difficulties on exogenous factors. The GOM agreed to implement a long list of reforms discussed in Section D below which will open up the economy to the world market and increase reliance on market forces in determining domestic resource allocation. The agreement also set forth conditions for new international

borrowing, domestic credit, exchange rate policy, central government budget deficits and new hiring. These conditions are all designed to reduce demand (primarily, but not exclusively public demand) and restore balance in external payments and public finance.

In addition to the IMF Stand-By Arrangement, the GOM rescheduled its debt for payments due from Oct. 1, 1983 to Dec. 31, 1984. Eighty-five percent of the principal and interest is to be paid back after a four year grace period in the ensuing four years. Negotiations are still underway with the commercial banks for the rescheduling of private debt.

Finally, but not the least of the steps taken this past year, the GOM requested the IMF to chair a meeting of all its major donors in Paris to present the severity of the remaining financial imbalance and to ask for additional resources to support its economic adjustment program. This meeting took place in early December and resulted in a series of pledges from the donor community to help Morocco meet its financing gap. The acute economic problem facing the GOM is to adhere to a stringent program of adjustment without bringing about an economic depression. In order to restrain demand, all the growth targets have necessarily been revised downward, but there remain substantial requirements for financing of the relatively modest public investment program. In addition, Morocco must retain the confidence of the commercial banker whose optimism has been tempered by the inability of many LDC's to meet their repayment schedules in recent years. This is necessary to finance investment in the new or expanding export-oriented activities. Thus, the basic problem facing Morocco is to acquire the financing to maintain a minimal level of investment, and hence growth, while it weathers its financial crisis.

The Paris donors meeting estimated Morocco's financing gap at about \$530 million in 1984 after taking into account expected or planned assistance levels. This is a large amount of additional resources, particularly when the world oil market is soft and Morocco cannot rely as heavily as it has in the past on Saudi assistance. These resources are not what is needed to finance an ambitious development plan; they are what is required to maintain a modest level of investment selected to keep the overall level of per capita income from declining in 1984. Growth in per capita income is considered at this point to be a luxury which can only be indulged in once the country has weathered one more tough transition year. The need is acute for additional external resources this year to get Morocco through a very difficult period and in the future to support the growth of a more open, liberal economy.

The rest of this section presents the economic situation in greater detail. It will discuss recent trends in production, trade and finance with particular emphasis on the debt rescheduling, and the IMF Stand-By Arrangement and GOM adherence to its conditions. Conclusions will then be drawn about the economy's resilience, the conditions necessary for continued success under the Stand-By Arrangement and the prospects for the resumption of growth in 1985.

A. Gross Domestic Product and Overall Economic Performance

Morocco has built a diversified economy on a favorable resource base, which resulted in a respectable 2.5 per cent annual growth rate in real per capita gross national product from 1960 to 1980. Per capita GNP had reached \$900 by 1980, falling to \$870 during the drought year of 1981. The substantial rise in the value of the dollar in 1982 hides the 5.6% real growth obtained in terms of dirhams and the IBRD estimate of per capita GNP stands at \$820 for 1982.

The phosphate boom starting in 1974, raised expectations and encouraged the GOM to embark upon an ambitious program of social and economic development entailing greatly increased levels of public investment and consumption. Unfortunately, the boom was short-lived. Since its decline, it has proven hard to stop the momentum of spending levels in the GOM's development investment programs.

Morocco's economic difficulties then began with the deterioration of export performance of both phosphates and agricultural products in 1975 and 1976. Combined with the GOM's investment programs and an oil import bill which grew at an alarming rate (currently over \$1 billion per annum), this drop in exports resulted in rapidly increasing trade and budget deficits. Not until 1978 did the GOM restrict domestic spending significantly in response. In the meantime, and up until recently, the GOM chose to rely on external commercial and concessional loans and some grants to keep up the pace of its ambitious programs.

The 1981 drought caused a fall in real income and an increase in food imports which exacerbated the external payments gap. The resumption of growth in 1982 stimulated imports to grow faster than exports, especially given the weak world demand for phosphate. (See Section B below.)

Morocco has run up a large foreign debt in the pursuit of long-term development goals and an inward-looking, import-substitution investment strategy. The long-term focus of past public investment resulted in projects with low or greatly delayed returns on the capital invested.

Import-substitution projects have not always been a wise use of resources and have often required substantial tariff barriers to remain financially viable. Against this backdrop of an economy with a large number of price distortions

and inappropriate structures, the GOM has agreed with the IMF to observe a moratorium on commercial borrowing for the last quarter of 1983, to adhere to a ceiling on commercial borrowing in 1984 and to put in place a series of price increases, a dirham devaluation, and other austerity measures which would tend to bring both trade and the central government budget into balance by the late 1980's. As of this time, the GOM appears to be doing reasonably well in promoting exports, restraining imports and staying on track with respect to budgetary limits and personnel ceilings. The GOM has also taken the highly unpopular step of imposing price increases (reducing subsidies) on a wide range of consumer goods. The net result of these measures has been encouraging to the major donors and creditors, but the cost of the adjustment process in terms of unemployment and lower real incomes for the majority of Moroccans will not be negligible. In public and official discourse, the King and GOM ministries are treading very carefully over ground they perceive to be politically ever more treacherous. The acquiescence of the Moroccan people in further price increases, however necessary or justifiable on grounds of economic efficiency, may have already been carried to its practical limit. The recent (Jan. 1984) announcement of rises in petroleum products, for example, was a precipitant of the demonstrations which took place in a number of Moroccan cities and caused the loss of many lives.

In January, the country carried out a special census study through the Ministry of Interior to determine the relative economic well-being of its citizens, particularly at the lower income end of the spectrum. The purpose of this study is to guide the GOM in establishing a system to insulate the poor from price increases on flour, cooking oil and sugar (and perhaps some

other goods as well) while the middle and upper classes pay the "prix fort" or unsubsidized price for each of these heavily subsidized items. Eligibility for subsidized items is likely to become a hot political issue in Morocco, if such a system ultimately goes into effect.

Morocco's GDP increased in 1982 by 5.6 per cent in real terms largely due to the improved performance in agriculture, although this, in turn, was somewhat distorted by the slump in reference-year 1981. The agriculture sector (including forestry and fishing) rebounded strongly in 1982, increasing in value by 19 percent in constant 1969 dirhams, and accounting for 18.1 percent of GDP compared to only 14.9 percent in the 1981 drought year. The contribution of mining declined as phosphate prices fell a little further. The most significant increases in activity outside agriculture were in public administration, energy, building and public works, and commerce. Industrial and handicraft output fell in real terms. Nonetheless, overall real output grew substantially and the increase in agricultural output represented 35 percent of that real growth.

Although final figures are not in for 1983, preliminary indications point to a lack of growth due to the severe restrictions placed on both imports and new borrowing and also due to a reversal in the relatively good agricultural performance of the previous year. The production of cereals declined by 27 percent.

Table 1

CEREALS PRODUCTION
(000's of metric tons)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Durum Wheat	1,331	610	1,406	1,238
Bread Wheat	480	282	777	731
Barley	2,210	1,039	2,334	1,227
Corn	333	90	247	261
Other Cereals	93	60	106	113
TOTAL	4,447	2,081	4,908	3,574

When the effect of the reduction in agricultural production is added to the effects of the demand-restraining measures such as the mid-year price increases and limits on borrowing, the figures for 1983 are likely to confirm our current qualitative impression of no real growth overall in the economy this past year.

Real GDP per capita has grown very slowly since 1977 as Table 4 shows. Using the 1982 national census results of a resident population of 20.4 million in 1982 and the 2.6% intercensal annual growth rate of the resident population 1/, we obtain the figures shown at the bottom of the table. From 1977 to 1982, GDP has grown at a 2.93% annual rate, only slightly above the annual population growth rate. Consequently, per capita GDP increased by a mere 0.34% per annum. (At this rate, per capita output would double in 190 years.) This contrasts with the 2.5% annual per capita growth obtained from 1960-1980.

1/ The total population, including migrants, is growing at 2.8% per year.

Over the long term, the share of agriculture in the GDP will decline as the economy diversifies further, but agriculture still employs 52% of the work force. The changes in shares of the different sectors in the GDP are shown below:

Table 2
SHARE OF GDP AT MARKET PRICES
(Percentage)

	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1990*</u>
Agriculture	29.1	19.2	18.1	15.7
Industry	23.5	27.2	32.3	31.3
Services	47.4	53.6	49.6	53.0

Table 3

GROSS DOMESTIC PRODUCT AND GDP PER CAPITA, 1977-1982

(Billions of current dirhams)

<u>ACTIVITY</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Agriculture, Forestry and Fishing	8.2	10.4	11.1	12.7	11.4	16.0
Mining	2.1	2.1	2.8	3.4	4.2	3.9
Energy and Utilities	1.2	1.3	2.2	2.4	2.7	3.2
Industry and Handicrafts	8.2	9.4	10.4	12.0	13.4	14.2
Construction and Public Works	4.7	4.5	4.9	4.9	5.4	6.2
Transportation and Communications	2.2	2.5	2.6	3.1	3.4	3.7
Commerce	10.9	11.3	12.2	13.4	15.0	16.8
Hotels, Restaurants, Insurance and Banking, Services	6.7	7.6	8.5	9.7	11.2	12.7
Public Administration	5.6	6.1	7.3	8.6	10.0	11.8
TOTAL GDP	49.8	55.2	62.0	70.2	76.7	88.5
Growth rate (%/yr.)	-	10.8	12.5	13.1	9.0	15.4
Population (millions)	17.9	18.4	18.9	19.4	19.9	20.4
Per Capita GDP (thousands of dirhams)	2.8	3.0	3.3	3.6	3.9	4.3*

Source: Ministry of Plan and most recent IBRD population estimate.

Table 4

GROSS DOMESTIC PRODUCT AND GDP PER CAPITA, 1977-1982

(Billions of constant dirhams, 1969 base)

<u>Activity</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Agriculture, Forestry and Fishing	3.5	4.1	4.1	4.3	3.3	4.0
Mining	.9	.9	1.0	.9	.9	.9
Energy and Utilities	1.0	1.0	1.6	1.3	1.4	1.5
Industry and Handicrafts	4.9	5.2	5.3	5.5	5.5	5.4
Construction and Public Works	2.1	1.7	1.6	1.5	1.4	1.5
Transportation and Communications	1.3	1.5	1.5	1.6	1.6	1.7
Commerce	7.6	7.2	7.3	7.7	7.6	7.8
Hotels, Restaurants, Insurance and Banking, Services	3.9	4.0	4.1	4.3	4.5	4.6
Public Administration	3.7	4.0	4.5	5.0	5.5	6.2
TOTAL GDP	28.9	29.6	31.0	32.1	31.7	33.5
Growth Rate (%/yr.)	-	2.2	4.8	3.6	-1.3	5.6
Population (millions)	17.9	18.4	18.9	19.4	19.9	20.4
Per Capita (GDP (thousands of dirhams))	1.62	1.61	1.64	1.66	1.59	1.64

Source: Ministry of Plan and most recent IBRD population estimate.

As Table below clearly shows for 1982, the deficit on current account increased in 1982, requiring increased public borrowing and recourse to the IMF to finance the larger deficit. The final figures are not available for 1983, but it appears that Morocco has succeeded in turning around the deterioration in its trade balance.

B. Balance of Payments/Terms of Trade

Table 5

BALANCE OF PAYMENTS

(billion of Dirhams)

	<u>1981</u>			<u>1982</u>		
	<u>Rec.</u>	<u>Exp.</u>	<u>Bal.</u>	<u>Rec.</u>	<u>Exp.</u>	<u>Bal.</u>
A. Goods & Services (of which:	16.1	31.3	-15.2	18.0	35.3	-17.3
Merchandise FOB)	(11.8)	(19.9)	(-8.1)	(12.3)	(23.0)	(-10.7)
B. Transfer Payments	6.2	.7	5.5	5.6	.7	5.9
<u>Current Account (A&B)</u>	22.3	32.0	-9.7	24.6	36.0	-11.4
C. Non-Monetary Capital	12.9	4.6	8.3	13.5	3.8	9.7
(of which: Private	(2.8)	(1.5)	(1.3)	(2.3)	(.4)	(1.9)
Public)	(10.1)	(3.1)	(7.0)	(11.2)	(3.4)	(7.8)
D. IMF	.9	-	.9	2.9	-	2.9
TOTAL	36.1	36.6	- .5	41.0	39.8	1.2

Source: Office de Change

The balance of trade improved in 1983 after having deteriorated badly in 1981 and 1982. Growth in exports was accompanied by a reduction in imports during the first ten months of 1983 and export coverage of imports recovered to its 1980 level of over 57%. The deterioration overall in 1982 had masked a significant and highly positive growth in exports of finished and semi-finished manufactures which continued into 1983.

Table 6
Balance of Trade
(billions of Dirhams)

<u>Year</u>	<u>Exports</u>	<u>Imports</u>	<u>Balance of Trade</u>	<u>Exports as % of Imports</u>
1979	7.6	14.3	- 6.7	53.2
1980	9.6	16.8	- 7.1	57.4
1981	12.0	22.5	-10.5	53.5
1982	12.4	26.0	-13.6	47.9
1983*	14.5	25.1	-10.6	57.7

* Mission estimate for 1983 based on ten-month data.

The projections in Table 7 of Morocco's balance of payments for this year and the next four years are estimates prepared by the IMF. The figures for 1983 and 1984 take into account the debt rescheduling, including a projected private debt rescheduling. 1985-87 figures are unrevised, but they will not be significantly different in any case since the debt rescheduling provided for a four-year grace period for 85% of all public debt. The table shows that even with reasonably good performance in promoting exports, restraining import growth, reducing the net import of services, and attracting a growing level of private transfers (mostly migrant workers' remittances), the residual gap for financing will continue to grow through 1986.

Table 7

Balance of Payments: Projections

(millions of SDR's)

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Exports, f.o.b.	1,822	2,150	2,460	2,765	3,105
Imports, f.o.b.	-3,005	-3,130	-3,310	-3,565	-3,810
Net Services	-984	-898	-775	-685	-520
Private Transfers	853	900	950	1,000	1,050
Current Account	-1,314	-978	-675	-485	-175
Non monetary Capital (net)	282	-318	-560	-1,185	-845
(of which: amortization)	(-1,084)	(-1,108)	(-1,035)	(-1,610)	(-1,295)
<u>Overall Deficit</u>	<u>-1,032</u>	<u>-1,296</u>	<u>-1,235</u>	<u>-1,670</u>	<u>-1,020</u>
Replenishment of Reserves (-increase)	-	-255	-	-	-
<u>Financing Requirement</u>	<u>1,032</u>	<u>1,551</u>	<u>1,235</u>	<u>1,670</u>	<u>1,020</u>
Less: Recourse to IMF (net)	151	123	-	-	-
Less: Debt Relief	714	1,097	-	-	-
Plus: Interest on New Financing	15	201	130	225	330
<u>Residual Gap</u>	<u>182</u>	<u>532</u>	<u>1,365</u>	<u>1,895</u>	<u>1,350</u>

Source: IMF Stand-By Arrangement

As part of the process of opening up its economy to the world market, the GOM has negotiated with the IBRD to obtain a \$150 million Industrial and Trade Policy Adjustment Loan to finance the cost of some imports over the next year and a half. The import bill is likely to increase more rapidly once the GOM fulfills the conditions precedent to disbursement of the second tranche of the loan. These conditions are the reduction of the maximum customs duty on imports to 60% of the c.i.f. price, the elimination of obligatory controls and charges imposed by the Export Office, the elimination of export licensing requirements for a large number of exports, and the reduction of goods subject to import licensing (identical to the IMF performance target for 1984).

Given the shrinking levels of private commercial international lending over the past year, Morocco has had to look increasingly to public concessional lenders to maintain adequate flows of resources into a more tightly managed investment program. As the lead donor, the IBRD has increased its assistance levels and increased the share of non-project assistance in its portfolio. Other donors have also increased their assistance levels and have sought non-project and/or quick-disbursing forms of assistance to help Morocco meet its large financing gap.

C. Foreign Debt/Rescheduling and Concessional Assistance to meet the Gap

Foreign debt has grown to unusually high and probably unsustainable levels in recent years. Table 8 below shows total disbursed debt growing by more than a billion dollars a year from 1980-82 and reaching a level equal to 72 percent of the GDP. This is an unusually high level of indebtedness relative to the size of the economy. The major debtor countries such as Brazil and Mexico have external debts valued at 30 to 40 percent of their GDP's. Also the debt service ratio is uncomfortably high, the debt service now equalling more than two-fifths of the value of exports of goods, services and private transfers. Even more disturbing is the projected profile of the debt and the debt service. The total debt will not stop growing until 1985 under assumptions of minimally necessary new financing and even then it will still equal 70 percent of GDP in 1987. Furthermore, the debt service ratio is projected to rise to 56 percent of the value of all exports and private transfers by 1986 even under favorable assumptions about export growth.

Table 8

EXTERNAL DEBT SERVICE*

(In billions of SDRs)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Debt Service (including IMF repurchases)	1.0	1.2	1.2	1.5	1.8	1.9	2.5	2.0
Minimum additional service on new financing	-	-	-	-	.1	.1	.2	.4
Debt Service Ratio**	28	33	35	42	47	46	56	45
TOTAL	1.0	1.2	1.2	1.5	1.9	2.0	2.7	2.4
Total Disbursed Debt (end of year)	7.3	8.5	9.9	10.9	11.7	13.4	13.0	13.3
Total debt as a % of GDP	55	64	72	82	84	80	75	70

*Prior to rescheduling.

** percent of exports of goods, services and private transfers.

Source: IMF Stand-By Arrangement

The rescheduling has reduced the immediate repayment burden, but it has shifted (by four years) the debt service burdens of 1983 and 1984 out to 1987 and 1988. There is still a significant amount of debt repayment due in 1985 and 1986 which may also require rescheduling.

Simply to prevent the debt and debt service burden from becoming worse than the dismal projections found in Table 8 has required and will continue to require a major effort from the GOM in reforming economic policies and applying politically unpopular remedies. To help it get through this very difficult period of economic adjustment, the GOM has sought assistance from the donor community and from the IMF.

In October, 1983 Morocco obtained a \$315 million Stand-By Arrangement from the IMF in exchange for commitments to reduce its budget deficit (inter alia by raising prices on subsidized consumer goods and drastically reducing central government hiring) and to adopt an export promotion orientation, including continuing to let the value of the dirham depreciate. With this IMF seal of approval to the GOM's economic plan, the public creditors agreed in October of 1983 to the terms Morocco was seeking on its public debt restructuring. These terms are a rescheduling of 85% of the medium and long-term debt payments due between Oct. 1, 1983 and Dec. 31, 1984 to repayment after a four-year grace period within the following four years (1988-1991). In December, the USG and GOM signed a bilateral umbrella agreement which provides the basis for the rescheduling of all U.S. agencies' debt. Private creditors (the "London Club") also met in Nov.-Dec. and agreed to maintain short-term lines of credit at existing (disbursed) levels and to reschedule the principal on medium and long-term debt. Given the success of the IMF and the public creditors in negotiating settlements the private creditors will probably follow suit very soon.

The above success notwithstanding, there still remains a sizeable gap in the balance of payments as shown in Table 7 above. The financing of this remaining substantial gap (about \$180 million in 1983 and \$530 million in 1984) was the subject of a donor meeting in Paris in early November. The meeting resulted in pledges of an additional \$500 million in assistance.

France led the way with a pledge of an extra \$175 million, the IBRD pledged \$150 million more, the Saudis promised another \$100 million and the U.S. another \$32 million (a previously uncounted \$17 million HIG and a possible \$15 million PL-480 Title I supplement). Other previously uncounted aid flows were Japan, \$24 million; Canada, \$20 million and Italy, \$6 million.

The results of the Paris meeting went beyond many observers' prior expectations. In fact, with the recent signing of a U.S. blended-credit program to assure adequate wheat imports on concessional terms, the residual financing gap is considered to be filled for 1984. As the first semester of activity unfolds and the effects of trade liberalization and other measures begin to be felt (and measured), the GOM will begin the process of seeking assistance to meet the large residual financing needs of 1985 and 1986.

D. The IMF Standby Arrangement/Terms and Performance

In September, 1983 the GOM and the IMF reached agreement on a program to reduce the country's resource gap through curtailment of both public and private consumption. The program has been designed in accordance with a medium-term scenario which gradually reduces the requirements for external borrowing over a five-year period, 1983-87. Targets were set to be consistent with moderate real GDP growth per capita of about 2.0 to 2.5 per cent in 1985-87, following two no-growth years in 1983 and 1984. The program calls for annual increases of 6.6 per cent in the value of exports and only 1.0 percent per year in the value of imports.

The targets and principal policy changes to be achieved during the Stand-By Arrangement are presented in Table 9 along with a comparison of how the GOM is faring in relation to these performance markers.

Table 9

Measures of Performance

<u>Performance Targets</u>	<u>1983</u>		<u>1984</u>
	<u>Target</u>	<u>Actual</u>	<u>Target</u>
A. Current Account Deficit			
(millions of SDRs)	1,200	N/A	890
(as a % of GDP)	(8.9)	N/A	(6.6)
B. Overall Balance of Payments deficit			
(millions of SDRs)	612	N/A	1,225
(as a % of GDP)	(4.5)	N/A	(9.1)
C. Inflation (CPI)	10.1%	12.5%	11.0%
<u>Policy Measures</u>			
A. Prices			
1. Price Increases (%) for subsidized goods			
Consumer goods	17-67	17-67	-
Fertilizer	47	25-45	-
Petroleum Products	4-8	4-14	-
Public Utilities	To be determined		-
2. Liberalization of controlled prices	phased introduction	-	phased introduction
B. Public Finances			
1. Budget deficit as % of GDP	8.7	N/A	6.0
2. Limit on new hires*	25,000	N/A	10,000
3. New Taxes as % of GDP	1.0	1.0	-

<u>Performance Targets</u>	<u>1983</u>		<u>1984</u>
	<u>Target</u>	<u>Actual</u>	<u>Target</u>
4. Reduction in budgeted expenditure (% of GDP)	6.3	6.6	
Current	(1.3)	(1.5)	
Capital	(5.0)	(5.1)	
C. Monetary Policy			
1. Domestic bank lending			
(% increase)	20.0	19.7 <u>1/</u>	10.7
2. Money supply	16.6	17.2 <u>1/</u>	9.6
3. Interest rate	some increases		greater role for markets
D. Trade			
1. Exchange rate	maintain flexible rate		maintained maintain flexible rate
2. Restrictions	Liberal List "A" to equal 30% of total value of imports by 1/84		N/A Liberal List "A" to equal 42% of total value of imports by 7/84
3. Advance import deposit (% of value)	10% by 1/84	10%	zero by 7/84
E. Foreign borrowing	unspecified ceilings on new medium term (1-5 yr.) GOM borrowing and ceiling on short-term external debt.		

* plus no replacement of retirees (about 8,000 persons per year).

1/ USAID staff estimates on the basis of Dec. '82 to Oct. '83 financial data.

Morocco has abided strictly by the terms of the Stand-By Arrangement thus far, in spite of the political difficulties of doing so. While we do not yet have the balance of payments statistics for 1983 to judge performance overall, it is clear from the trade statistics that some basic improvements have been achieved already, as discussed above. Morocco did not quite meet the 10.1% target for consumer price inflation as prices of the representative 210 commodities in the lower income worker's basket increased by 12.5% in 1983. With respect to the policy measures agreed to under the Stand-By the GOM has had an impeccable record to date. The price increases of July, 1983 met the range of increases negotiated for consumer goods and the fertilizer subsidy was reduced to 16.4% on average. The petroleum products' prices were increased on target in August and then again as the new year began. These last increases almost fully compensated for the rise in the value of the dollar (which brought about the rise in dirham costs of petroleum products) and they were announced only a few days after promises were made not to raise the prices of basic necessities. Data on the actual expenditures under the 1983 budget and hiring by the GOM in 1983 are not yet available, however the targets for reduction of planned expenditures were met with the release of the revised budget for 1983 last July. Finally, the GOM has continued to maintain a flexible exchange rate system as negotiated with the IMF and it has met the trade liberalization targets, namely reducing the advance import deposit from 15% to 10% of the value of the imported good, and we understand the GOM will shortly announce the transfer of a large number of items back to the list

which requires no import licensing and attendant charges. This is a noteworthy performance for a country which is under increasing pressure from its population to bring about improvements in the quality of life, improvements which have been lacking in a material sense for the past five or six years.

E. GOM Austerity Program - Impact on "Development Ministries"

General budget revenues were slightly greater than the operating budget expenditures for the last time in 1979. Since then through 1982 revenues have grown by about 13.2 % per year while the operating budget has grown at a faster rate of 15.8% per year. However, at a 23.1% annual rate, growth in the public debt service has been even more rapid, eliminating any near-term hope of easily bringing the total operating budget back into line with tax revenues. The investment budget grew by 11% per year between 1979 and 1982, and had been set to grow at an extremely rapid pace until the realities of adjusting to an untenable debt financing crisis forced a major retrenchment in this part of the budget for 1983 and 1984. The growth in foreign lending, now reversed, helped finance the GOM's ambitious development plans through 1981. The GOM also "financed" a portion of its deficit in 1982 by slowing down payments to its suppliers and contractors. The IMF projected this temporary device would be dispensed with during the 1983 budget exercise.

Table 10

CENTRAL GOVERNMENT BUDGET

(Actual Receipts and Expenditures in billions of Dirhams)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1983*</u>	<u>1984</u>
General Revenues	15.2	17.8	20.5	23.0	23.5	23.4
Less: Operating Budget	13.6	15.8	17.2	20.1	18.8	19.0
Less: Public Debt	3.0	4.5	4.6	5.7	5.7	9.4
Operating Budget Surplus or Deficit	-1.4	-2.5	-1.3	-2.8	-1.0	-5.0
Less: Investment Budget	8.6	9.6	12.5	18.7	13.6	10.2
General Budget Surplus or Deficit	-10.0	-12.1	-13.8	-21.5	-14.6	-15.2

* Planned expenditures and revenues of the revised 1983 budget

Table 11

FINANCING THE GENERAL BUDGET DEFICIT

(billions of dirhams)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1983*</u>	<u>1984</u>
Annexed Budget and Special Treasury Accounts (net)	1.0	-.7	1.3	-1.2	-1.2	-1.2
Reserved Funds Loans	.3	-.1	2.0	N/A	N/A	N/A
-Domestic	1.6	1.9	1.9	1.6	1.6	.7
-Foreign	5.0	8.5	7.6	13.2	8.0	7.3
Exceptional Revenues	-	-	-	-	-	.1
Recourse to IMF Facilities	.8	.8	2.9	N/A	N/A	N/A
Advances from the Bank of Morocco	1.2	1.6	-1.3	N/A	N/A	N/A
Postal Checking and Treasury Deposits	.1	.1	-.6	N/A	N/A	N/A
TOTAL	10.0	12.1	13.8	13.6	8.4	6.9
Additional Financing Required	-	-	-	7.9	6.2	8.3

* Planned expenditures and revenues from the revised 1983 budget adopted in July, 1983 ("Loi des Finances rectificative").

Source: Ministry of Finance - Treasury Operations Division

Prior to coming to a formal agreement with the IMF, the GOM revised its 1983 budget law downward, reducing the overly ambitious investment levels to bring them into line with more realistic prospects for borrowing. These reductions were part of the negotiated package of conditions for the IMF Stand-By Arrangement signed in the Fall. The revised 1983 budget is more in line with the trends of actual expenditures in past years as well. The reductions in budgeted expenditures were deepest in the investment budget (-27.5%), none for debt repayments and only -6.4% for the operating budget. The GOM deferred many investment projects, shifting them back to 1985 for which a 113% increase was scheduled. The investment projects which have been retained are higher priority and are being carefully examined for their costs and likely benefits. On the revenue side, the GOM reduced its planned external borrowing by 39% and increased certain taxes to raise another 512 million dirhams.

Among the ministries with which AID works most closely, the Ministry of Health fared best with only a 6.3 percent reduction in its investment budget for 1983. The Ministry of Agriculture and Agrarian Reform absorbed budget cuts which were equal to the overall average in both its operating and investment budgets.

The severity of the overall cut required in the investment budget for 1983 led the GOM to declare a policy of no new project starts. They have also requested donors to minimize or eliminate the counterpart local financing requirement in dirhams except for in-kind contributions such as land, office space and personnel. These problems may also affect on-going projects and the restrictions on government hiring may also affect the ability of the GOM to contribute adequate project counterpart personnel. USAID is seeking to manage this very tight project budget situation in part by an agreement with the Ministry of Finance to build into our Project Agreements detailed annual budgets for their contribution. However, the severity of the current restrictions (which are required to manage the debt financing crisis) push us toward a more flexible approach in project design and toward a higher proportion of non-project or program assistance in our portfolio.

Table 12

1983 BUDGET REDUCTIONS OF SELECTED MINISTRIES

(in percent)

<u>Ministry</u>	<u>Operating Budget</u>	<u>Investment Budget</u>
Finance	16.2	47.2
Plan	3.5	40.9
Agriculture	7.2	28.0
Health	2.2	6.3
Energy and Mines	1.2	18.2
Education	2.3	24.3
Social Affairs	2.2	50.0
Housing	3.0	42.0
Overall	6.4	27.5

Source: USAID staff calculations; Ministry of Finance data.

The 1984 budget released in late January is an austerity budget. The increase in the operating budget is less than one per cent. This compression in real terms is to be achieved through a reduction in common (overhead) expenses of 17% to compensate for a 6% increase in personnel expenditures and an 8% increase in materials and supplies. The investment budget is reduced by 25% from planned 1983 levels and it is almost 19% lower than actual investment expenditures in 1982. Virtually the entire increase in public spending for 1984 is due to the 65% increase in payments on the public debt. Debt repayments alone now account for nearly a third of the operating budget and almost a quarter of all planned public expenditure.

On the revenue side, the 1984 budget shows a real decline in ordinary revenues due primarily to a 10.5 percent drop in customs revenues which is only partially offset by 2.3 percent increases in direct and indirect taxes. These projections reflect the planned reductions in tariff rates under the IBRD's Industrial and Trade Policy Adjustment Loan and the expected year of no growth overall in per capita incomes. The budget also projects a lower level of external borrowing to finance its larger deficit. This is in recognition of the need to conform to projected borrowing ceilings under the IMF Stand-By Arrangement.

F. Near-Term Prospects for the Moroccan Economy.

If Morocco does not suffer any major new economic setbacks, and if the Moroccan people accept another year of no real increases in income, then Morocco may be truly on the way to a sustainable economic recovery. In spite of the improvements in performance mentioned in the text above, there remain a number of disquieting factors which could thwart the economic adjustment process. These include the continued high ratio of debt service to exports, potential for failing to meet the targets for export promotion and the enormous difficulty of holding to the public expenditure targets (particularly the reduction of consumer goods' subsidies) in the face of ever rising public expectations for a better quality of life. Another key assumption is the availability of high levels of foreign concessional credits which are necessary to maintain a reasonable level of imports of consumer and investment goods.

The IMF Stand-By Arrangement assumes a sustained 6.6% annual real increase in export earnings through 1987 while holding import growth to only 1.0% per year. These are ambitious targets and even if such performance is achieved, the ratio of the debt service to exports would continue to rise from levels of 33 and 34 percent in 1981 and 1982 to 46 and 56 percent in 1985 and 1986 as shown in the table below.

Table 13

PROJECTED ECONOMIC PERFORMANCE

(billions of U.S. \$)

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Debt Service <u>1/</u>	1.5	1.8	1.9	2.6	2.3
Exports and private transfer payments	3.4	3.8	4.2	4.7	5.2
Debt service ratio <u>2/</u> (%) (row 1/row 2)	42	47	46	56	45
Disbursed debt(end-yr)	10.4	11.1	12.8	12.4	12.7
Gross Domestic Product	12.8	12.8	14.5	16.1	17.8
Disbursed debt/GDP <u>2/</u>	82	84	80	75	70

Source: IMF Stand-By Arrangement

1/ prior to rescheduling of debt for 1983-84

2/ percentages are calculated from exact data, not from the rounded figures in the table. The ratio of debt to GDP is based on average GDP for adjacent years.

In 1984, no growth is expected in real per capita income as the adjustment process places further strains on the economy. There is still hope for a good crop year but only if the rains return in late January and early February, and persist through the growing season. Without a good crop in 1984, the adjustment process will be further jeopardized by the pressures this will put on real incomes already compressed by austerity measures, inflation, and the rapidly rising costs of imported goods.

Beyond 1984, Morocco's economic future will depend to a significant degree upon the attitudes of investors, including potential foreign investors. 1983 will probably show a pause in investment activity as investors take a wait and see approach to the current crisis. Decisions may turn on how well the GOM puts its fiscal house in order, how seriously its export promotion policy will be applied and conditions of social and political stability. A low level of investment may continue in 1984, depending upon how smoothly the adjustment process evolves and whether investors believe the GOM's greater orientation toward the world market (and liberalized trade policy) will be maintained. The ability of the GOM to maintain an open economy will also be affected by protectionist measures which might be adopted by its European trading partners. Of particular concern to Morocco in this regard is the expected entry of its major competitors for the European market, Spain and Portugal, into the Common Market.

To rekindle growth the country must improve its incentive structures, open its economy up to competition with the world market, promote the private sector's role particularly in export-oriented activities, attract foreign investment and choose carefully among public sector investment projects to improve the rate of return. Adherence to the IMF program will move the Moroccan economy closer to balance in its external payments and its internal budgeting. Another crucial determinant will be the ability of the Government to induce continued high levels of concessional donor assistance. However, Morocco must also increase the role of markets in allocating resources and improve public project selection to bring about economic growth or the deficits in balance of payments and GOM budgets will persist in spite of adherence to a severe austerity program.

To illustrate this point, consider the effect on output of the capital invested in recent years. From 1960-1975, the incremental capital-output ratio (ICOR) was in the acceptable range of 3.0-3.1. This meant that another three million dirhams of capital formation resulted in additional annual output of goods and services valued at one million dirhams. The ICOR rose slightly to 4.1 during 1975-1980, deteriorating rapidly in the latter half of this period to 6.1. The ICOR is projected to be 15.6 in 1980-85, recovering to 3.9 in 1985-90. Having fallen so far in making productive use of capital investment, Morocco must make a major effort to increase the effectiveness of investment. The growth in the relative importance of public sector capital expenditures (from 31% of gross investment in 1970 to 55% in 1980) at the same time that the productivity of investment was declining suggests that uneconomic public sector investment patterns were a major contributor to the lack of growth in output. (See Table 14)

Table 14
SELECTED INDICATORS

(% of GDP)

	<u>1960</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1982</u>
Gross National Savings	11.0	14.8	19.3	14.6	-
Gross Investment	10.3	18.5	25.4	22.6	-
(of which: Public					
Capital Expenditure)	(3.8)	(5.7)	(12.2)	(12.4)	(14.1)
Foreign Financing	-	1.3	3.7	5.6	7.0
Ordinary Public					
Revenues	16.5	16.1	23.3	21.6	23.1
Public Current					
Expenditures	15.6	14.5	20.2	21.8	23.0

Source: IBRD

As shown in table 14, between 1970 and 1975 public sector investment grew more rapidly than national savings and investment overall. The expansion of public revenues and public current expenditures was also faster than growth in GDP overall. An imbalance was created between short-run productive investment which grew only slowly and faster growing, long-term investment by government in social infrastructure, thereby lowering the overall return on investment. Since the GOM borrowed ever more heavily to finance its program of expansion and increased indebtedness without a commensurate increase in productive capacity, the GOM must now reorder its priorities and pay close attention to increasing the yield on investment in the short run. It can accomplish this both by a more judicious selection of public sector projects and by conferring greater responsibility for economic decision-making on the private sector.

III. USAID STRATEGY AND PROGRAM TO DATE (FY 1984-85 CDSS)

A. The "Key Sectors" Approach: The FY 1985 CDSS for Morocco, updated by the FY 85 ABS Action Plan and the FY 85 Congressional Presentation, set forth the precepts of the Mission's current strategic focus and outlined the operational program supporting it. In sum, the program addresses three key sectors in which the constraints to development have been relatively well-defined and which appear susceptible to being reduced significantly in the medium to long term through a combination of U.S. technical assistance, training, commodities and food aid. These sectors are Agriculture, Population/Health, and Energy. Overall goals in these sectors are respectively: (1) to increase Morocco's agricultural production in the rainfed areas; (2) to reduce substantially the high rate of population growth; and (3) to accelerate the development of domestic resources of conventional and renewable energy and to rationalize energy policies and investments.

1. Agriculture: The public agricultural investment priorities of the GOM over the past decade have heavily favored the establishment of irrigated areas to produce vegetables and other produce for domestic and foreign consumption. However, in the 1981-85 Five Year Plan, the GOM expressed its intent to shift this priority onto the rainfed sector, upon which over 50% of the rural population depends and where the principal components of the Moroccan diet--cereals--are produced. As recently as 1964, Morocco was a net exporter of grains. However, production has declined rapidly on a per capita basis and Morocco food imports have climbed accordingly. Cereal imports in Morocco in 1982 totaled approximately two million metric tons, double the amount imported only six years earlier. Drought conditions continued for the third straight year in rainfed areas during 1983, and the average annual per capita growth rate in the agriculture sector continued to be negative. Nevertheless, with normal rainfall,

Morocco's extensive rainfed agricultural regions could produce much higher yields of grains basic to the Moroccan diet. Production in arid and semi-arid zones is constrained by a formidable combination of outdated technology, inadequate access to inputs and credit, weak institutional capabilities in research, data gathering/analysis and investment planning, and an agricultural extension system in disarray. A.I.D.'s rainfed strategy combines Development Assistance with P.L. 480, Title I resources in a program to encourage increased attention and investment flows to rainfed agricultural zones. An essential element of the strategy calls for a continuing dialogue with the GOM to establish rational policies, reorganize and strengthen institutional structures, and commit the resources necessary for improving production and marketing in rainfed agriculture.

Current A.I.D. projects address the following program objectives: (1) to adapt existing technologies and develop new technologies in improved cereal varieties, seed preparation/production, weed control, soil tillage, small farm mechanization, pest management and forage uses (Dryland Applied Agricultural Research); (2) to assist the GOM (through the National Institute for Agricultural Research) to establish a National Aridoculture Research Center serving as the nucleus of an integrated network of research stations in rainfed areas (Dryland Applied Agricultural Research); (3) to strengthen the capability of GOM agricultural institutions to cooperatively carry out programs of applied technical and behavioral research to address constraints to small farmer production in rainfed areas (Dryland Applied Agriculture Research; Agronomic Institute Project); (4) to strengthen the capacity of the Ministry of Agriculture to gather and analyze basic data, as well as to more effectively plan and monitor investments in the agricultural sector (Planning, Economics and Statistics for Agriculture); (5) to strengthen the capability of the National Agronomic and Veterinary Institute (INAV) to

train middle and high level personnel for professional roles in the agricultural sector (Agronomic Institute Project), and (6) to strengthen the range management personnel and programs of the Ministry of Agriculture in rainfed areas (Range Management Improvement).

2. Population: Morocco's current high rate of population growth (2.8% year) makes the achievement of all development objectives problematic. The chronic and growing food deficit, for example, is a direct consequence of Morocco's explosive population growth. The A.I.D./GOM population strategy seeks to reduce the birth rate in Morocco through the extension of family planning and primary health care services to Morocco's most populous provinces and urban centers. Basic to this strategy are project interventions to strengthen the managerial capacity of the Ministry of Public Health to furnish family planning and primary health care services on a nationwide scale. Family planning education and commodity distribution are combined with the delivery of primary health interventions (ORT, breastfeeding promotion, immunizations, etc.) to optimize the utility and attractiveness of the A.I.D.-financed program, in a country where cultural barriers to birth control are formidable. The program is being carried out with UNFPA support, and combines the upgrading of services provided in fixed health facilities with the progressive establishment of a highly mobile, paramedical home delivery service (VDMS).

3. Energy: Morocco's energy requirements are even a greater foreign exchange burden than food imports. More than 40% of Morocco's annual foreign exchange earnings are spent on energy imports. The oil bill for 1982 alone exceeded one billion dollars. A.I.D.'s strategy is to minimize the economic dislocations caused by this heavy dependence on imported fossil fuels by strengthening a high level energy policy analysis and planning unit in the Ministry of Energy and Mines, while accelerating the development of domestic

conventional and renewable energy sources. These activities are being undertaken in tandem with complementary efforts by the World Bank. Mission projects in implementation (or final planning stages) create a GOM capacity to develop Morocco's renewable energy resources (mini-hydro power, solar, wind and biomass), and provide financial management and technical assistance, training and a limited amount of equipment to the Ministry of Energy and Mines and the National Petroleum Exploration and Production Company (ONAREP).

4. Other: In addition to the three key sectors in which the Mission has concentrated its program efforts, there are several other areas in which the USAID/Morocco remains involved at a lesser level of activity. These areas are either cross-sectoral in nature or have a particular importance attached to them individually by the GOM. They include: (1) general participant training of Moroccans in priority managerial and technical disciplines (Sector Support Training Project); (2) assistance to the Ministry of Housing to effectively implement A.I.D. - sponsored Housing Guaranty programs in slum upgrading and core housing construction; (3) institutional development efforts in vocational training and social service delivery (Social Services Training Project), and (4) direct food and nutrition support through the P.L. 480 Title II Program. The latter two activities are in a phase-out (or "phase-over") mode, with USAID efforts focused on a transfer to GOM institutions of full responsibility for the provision of the services and commodities now provided by the A.I.D. programs. The Housing Guaranty (HG) programs currently being implemented will be a continuing focus of effort (with RHUDO assistance), and may be expanded as a component of a larger urban development program, if HG program implementation performance by the Housing Ministry improves. General participant training of Moroccans in the U.S. in disciplines of relevance to the country's economic and social development will

remain a high priority to the Government and to the Mission, and may, in fact, be increased in magnitude. It has a direct reinforcing effect upon USAID institutional development efforts in the key sectors, and provides the Mission with an important "entrée" in its continuing policy dialogue with the GOM.

B. Relationship to Agency and Regional Strategies.

1. A.I.D. Strategy: USAID/Morocco's FY 1985 CDSS (January 1983) was organized around the "four pillars" of the Agency's fundamental development strategy priorities: Policy Dialogue, Institutional Development, Research/Technology Transfer and Private Sector Development. That document provided a thorough discussion of the manner in which the Mission's program promotes activities in each of these priority areas. The relationship of the Mission's "key sectors" approach to those priorities remains essentially the same, so few major additions to that discussion are considered necessary here. The following matrix provides a succinct summary of the extent to which activities within the Mission's portfolio incorporate one or several of these priorities, and it can be elaborated, as appropriate, at the CDSS review. A more thorough discussion of developments in the Mission's policy dialogue with the GOM is provided in Section V below.

AGENCY PRIORITIES: "THE FOUR PILLARS"

MISSION SECTORAL STRATEGY FOCUS	POLICY DIALOGUE	INSTITUTIONAL DEVELOPMENT	RESEARCH & TECHNOLOGY TRANSFER	PRIVATE SECTOR DEVELOPMENT
<u>AGRICULTURE</u>	<ul style="list-style-type: none"> -Dryland Applied Agricultural Research (Rainfed sector data analysis & planning) -Planning, Economics and Statistics for Agriculture (Agri.investment planning & evaluation; studies of pricing policies and market incentives) 	<ul style="list-style-type: none"> -Dryland Applied Agricultural Research (INRA's Arido-culture Center) -Planning, Economics and Statistics for Agriculture (MARA's Div. for Planning & Economic Analysis) -Agronomic Institute(INAV) -Range Management Improvement (MARA's Div. of Livestock) 	<ul style="list-style-type: none"> -Dryland Applied Agricultural Research -Planning, Economics and Statistics for Agriculture -Agronomic Institute -Range Management Improvement 	<ul style="list-style-type: none"> - Marine Fisheries Project (planned)
<u>POPULATION/HEALTH</u>	<ul style="list-style-type: none"> -Family Planning Support II (FP and RAPID presentation to Cabinet and Prime Minister; sector planning in MOPH) 	<ul style="list-style-type: none"> -Family Planning Support II (MOPH/VDMS) -Health Mgmt. Improvement (MOPH Logistical Support Systems, Ministry - wide) 	<ul style="list-style-type: none"> -Family Planning Support II -Health Mgmt. Improvement 	<ul style="list-style-type: none"> - Family Planning Support II (initial steps toward a commercial retail sales program, and self-financing of FP services).
<u>ENERGY</u>	<ul style="list-style-type: none"> -Energy Planning Assistance (National policy and planning analysis). -Conventional Energy Management (Investment decision-making) 	<ul style="list-style-type: none"> -Renewable Energy Development (CDER) -Energy Planning Assistance (Min. Of Energy and Mines Planning Unit) -Conventional Energy Mgmt. (ONAREP) 	<ul style="list-style-type: none"> -Renewable Energy Development -Energy Planning Assistance -Conventional Energy Mgmt. 	<ul style="list-style-type: none"> Renewable Energy Dev. (Small Project Fund) Energy Planning Assistance (Investment Plan) Conventional Energy Mgt (Foreign Investment Stimulation)
<u>OTHER DA PROJECTS</u> (Human Resources Development and Participant Training)	<ul style="list-style-type: none"> -Statistical Services (through analysis and interpretation of national census data and follow-up surveys) -Social & Economic Research 	<ul style="list-style-type: none"> -Sector Support Training -Social Services Training (Min. of Social Affairs, National Training Center) -Statistical Services (Min. of Plan Div. of Statistics) -Social & Economic Research with CNCPRST (Center for Planning & Coordination of Scientific Research) 	<ul style="list-style-type: none"> -Statistical Services -Social & Economic Research -Sector Support Training 	<ul style="list-style-type: none"> -Sector Support Training (for private sector personnel)
<u>HOUSING PROGRAM</u>	<ul style="list-style-type: none"> -HG002 (Cost recovery policies in housing development, squatter settlement policies; structural standards) 	<ul style="list-style-type: none"> -Low Cost Housing OPC and HG-002 (Ministry of Housing & Regional Planning Div. of Housing) 	<ul style="list-style-type: none"> -Low Cost Housing 	<ul style="list-style-type: none"> -HG-002 (private investment in low-cost housing)
<u>P.L. 480 TITLE I</u>	<ul style="list-style-type: none"> -Self-Help measures address grain storage and dist. policies, studies of cereals pricing policies and market structure, and requires round table discussion of findings 	<ul style="list-style-type: none"> -Use of local currency generations to support investment programs of several Divisions of Min. of Agriculture. 	<ul style="list-style-type: none"> -Extensive use of local currency generations to support rainfed sector research programs. 	<ul style="list-style-type: none"> -Self-help measures require studies of market structures and pricing policy disincentives to private production.

With respect to the Agency's research priorities, USAID/Morocco is focusing on two of the four suggested themes: agriculture and fuelwood. As has been noted above, a major focus of our strategy is applied agriculture research in dryland agriculture which provides a livelihood for the majority of the rural population in Morocco. Agricultural research is also carried out extensively under the Agronomic Institute project. In fuelwood, USAID is planning to undertake additional study in the process of preparing a Forestry Development project in FY 1985-86 (See Section IVB.4). This would complement our existing renewable energy project in research and development of biomass energy sources. Although the Mission is actively promoting family planning and better management of health services, it is appropriate to maintain a low profile in contraceptive research, given sensitivities here. With respect to biomedical research on tropical diseases, the near-total absence of such diseases in Morocco renders such research inappropriate. The Mission is also supporting a local institution's research into problems of urbanization in preparation for a possible expansion of USAID efforts in this priority area.

2. Near East Bureau Strategy. With respect to the Near East Bureau Strategy, the regional strategic planning exercise and document were completed subsequent to the FY 1985 CDSS, so the latter document does not reflect it directly. Nonetheless, the three key sectors in which USAID/Morocco has chosen to concentrate its resources are among the seven top priority development problems identified for the Near East Region in the 1980s. In the aggregate regional list of priority development problems, population growth was identified as the top priority, while agricultural productivity and energy supply were ranked sixth and seventh respectively. Regional priority rankings contained in the Bureau document were arrived at on a composite basis, and do not purport to reflect the relative priorities of each problem in any

particular country. Based on the analysis carried out in preparation of CDSS documents for FYs 1984, 1985 and 1986, the Mission views the relative priorities of agriculture and energy in Morocco to be far higher than the Bureau ranked them for the region as a whole.

The Mission believes that NE Bureau strategy document has drawn attention to an increasingly severe development problem or theme which this and all Missions in the region must begin to address. This is the accelerating process of urbanization with its concomitant complex of economic and social problems. "Urbanization" was ranked second in priority for the region as a whole, and (as described in Section IV.B.4. below) USAID/Morocco is assessing the feasibility of incorporating this area of focus into its strategy and program portfolio. Accordingly, the Mission will undertake an analysis of the nature and extent of urbanization-related problems phenomena in Morocco through several studies in FY 84-85, and depending on the outcome of these studies, interventions in this sector could begin in FY 1986. USAID/Morocco will not be starting from square one in this area, as it has been financing for the past several years a technical assistance project providing advisers to the GOM's Ministry of Housing and Regional Planning, in conjunction with a A.I.D-sponsored Housing Guaranty Program. The Morocco HG Program will be implemented and perhaps expanded with the assistance of a new RHUDO officer to be located in Rabat, while additional studies of Morocco's urban sector are carried out.

IV. REVISED USAID PROGRAM FOCUS

A. Recent Developments and the Proposed Mission Response

Since the FY 1985 CDSS was prepared several developments have occurred which cause us to take fresh stock of the program described in Section III above, and to fashion a revised course of action. The most significant of these developments has been the rapid deterioration of Morocco's international financial position, described in Section II above. First the balance of payments deficits proposed for the next few years, even assuming the success of the IMF Stand-By arrangement and the debt rescheduling exercise, make it imperative that those who care about Morocco's stability and growth must respond to the need for fast-flowing, flexible assistance to finance the payments gap.

Secondly, the rigorous fiscal austerity measures taken by the GOM have seriously reduced the near-term capacity of its institutions to carry out ongoing development investment programs, much less consider new ones. The operational and development budgets of all GOM ministries and agencies underwent major reductions in 1983, and were cut to the nub prior to initial approval for 1984. For example, the Ministry of Agriculture's development budget was cut 28% during 1983, and reduced another 14% for 1984. The Ministries of Plan, Health, Energy, Social Affairs and Housing (all USAID counterparts) all received cuts ranging between 20%-50% of their planned development budgets for 1984. Operational budgets were also reduced, and a partial hiring freeze imposed. Discussions with GOM officials and with other donors have made it apparent that the capacity of the GOM to undertake and support new development projects will be severely restricted for the foreseeable future. In fact, the GOM has engaged the IBRD in the renegotiation of a number of project loans to reduce the local cost contribution required of the GOM in original loan agreements. The Minister of

Economic Affairs has requested a similar review of existing A.I.D projects, and has informed the Mission that new projects must take into account a near-total incapacity of the GOM to contribute from its development budget.

Thirdly, it must be pointed out that the extent of organizational and institutional difficulties in GOM counterpart agencies goes well beyond recent cutbacks in financial and human resources. Again, as an example, the Mission understands, better than it did a year ago, the extent of the institutional shortcomings in its primary implementing agency, the Ministry of Agriculture. Expectations for a resolution of the fragmentation evidenced in this Ministry's Departments of Research, Planning and Extension have not been met. This Ministry continues to experience serious internal problems, particularly in regard to central coordination of its increasingly compartmentalized divisions and services. A proposal for a thorough restructuring and reform of the agricultural extension system which has the support of many high-level officials, has long been "under consideration", but has not yet been implemented. This disarray has been a central factor in USAID/Morocco's decision not to move forward with the rainfed agriculture cereals production project, discussed at length in the FY 1985 CDSS.

Fourth, although rainfall in several coastal regions has increased somewhat this year most of Morocco is continuing to experience drought conditions which seriously jeopardize agricultural and hydroelectric energy production as well as industrial and domestic consumption. Rainfall levels in late 1983 and early 1984 are still well below the national average for the third consecutive year, and some agricultural regions have not had sufficient precipitation to permit planting this year. Water reservoir levels have fallen precariously (to an average of 10-15% of capacity) and groundwater tables are dropping. Major areas previously irrigated from rivers and reservoirs are undergoing well-drilling and deepening campaigns which approach

a "panic". This, of course, only exacerbates the groundwater problem. Furthermore, as a result of diminished reservoir capacity, hydroelectric facilities are currently generating only 3% of Morocco's power, where under normal circumstances they would provide about 15%. The difference must be made up through increased oil imports. The gravity of this situation has led to an evolving priority for the GOM in which USG assistance has been personally requested by the King. The Mission's proposed a new area of activity in natural resource development and management (see Section IV.B.4 below). The first project effort, weather modification, is designed primarily to enhance snowpack accumulation and subsequent water resources for agricultural and energy production as well as for consumption. Other potential projects in this area will also address critical problems of production and the need for new export earnings (e.g. rational exploitation of marine fisheries).

Finally, as noted above, there has been a recent acknowledgement by the GOM and within A.I.D. of urbanization trends as an area of increasing concern for Morocco, in the Near East Region and the developing world . This new concern is shared by USAID/Morocco, and the Mission is undertaking initial steps to review the problem.

In response to the new developments noted above, USAID proposes that the Morocco program assist the GOM both (a) to address problems of near-term economic adjustment through program assistance resources (P.L. 480 and ESF), and (b) to address its longer term development needs through modestly increasing project assistance (DA) directed to selective areas. These two "tracks" are described in Sections B and C. below. At the same time it should be recognized that whereas this distinction between "near-term and longer-term" serves our purposes as an organizing concept, it is an imperfect

representation of reality. In fact, the problems are closely interrelated and similarly, many of the program interventions to be described below impact upon both dimensions.

B. Near Term Program Assistance

1. Justification: The analysis in Section II demonstrates the need of the Moroccan economy for high levels of balance of payments assistance. Drawing from IMF data, the gaps remaining in external accounts for the years 1984 through 1986 (even after assuming successful conclusion of private and public debt-rescheduling) are \$530 million, \$1,365 million and \$1,895 million respectively. Private commercial borrowing to meet these needs is neither feasible nor financially desirable. Therefore, Morocco must look to its principal donors (IFI's, Saudi Arabia, France and U.S.) to carry the major share of this burden. The World Bank has indicated its willingness to aid in meeting Morocco's near-term balance of payments requirements, by providing its assistance in the form of program (sectoral) loans rather than project assistance.

In addition to the compelling strategic and political rationale that underlies the U.S. participation in this effort, there are a number of sound developmental reasons why it behooves the United States Government to increase U.S. aid to Morocco, and specifically in the form of program (non-project) assistance:

(a) First, in recognition of its special attractiveness to recipient governments, we often talk of using program-type assistance to obtain additional policy reform. However, it is also recognized that such assistance may be an appropriate response to reward reforms already taken and/or to facilitate important changes that Government's would like to undertake but which require additional external resources. The Moroccan situation fits that category. The GOM has taken the appropriate first steps;

program type assistance, in as substantial levels as possible, is a sine qua non of the government's ability to sustain the IMF/IBRD program of economic adjustment and reform over the coming years.

(b) Second, the retention of the levels of essential imports planned by the GOM is critical to its ability to maintain levels of domestic consumption in response to genuine needs as well as to avoid the social disruption that might accompany rigid import curtailment. Moreover, the planned imports of capital, raw materials, and spare parts are key to the expansion and utilization of industry, specifically including new export-oriented firms.

(c) Third, the provision of program assistance heightens the access of senior AID and Embassy personnel to key GOM economic leadership (as opposed to technical leadership who deal with us on DA project assistance). These people know the need for, and covet, non-project assistance. This is equally true with respect to our access to appropriate IMF and IBRD Staff. Such access enables us to stay abreast of significant developments on the broad macro-issues now taking place which form the environment for all development activities, as well as to reinforce, where appropriate, measures the Government is taking in conjunction with the IMF and IBRD. To a very substantial extent, opportunities for policy-dialogue at this level are expanded in proportion to available program resources. We have little doubt, for example, that the recent willingness of the Prime Minister to appoint his Minister of Economic Affairs as the coordinator for all relations with AID is an outgrowth of these assumptions about higher levels of such assistance. And to the extent that program assistance levels reach highly significant levels, the opportunities for seeking supplementary policy reform, particularly in key sectors, are substantially enhanced.

(d) Fourth, because the need for increased program assistance is well recognized by all other major donors, our provision of such assistance at higher levels will increase the weight of our views in the donor consultative group becoming operational this year. It will also increase our leverage with other donors to encourage larger contributions on their part. During and in the aftermath of the November 1983 sessions of the donor-group in Paris, the United States came under heavy pressure from the IFIs and Saudis to increase its levels of aid to Morocco. This has been somewhat relieved by the December commitment of an expansive USDA blended-credit program, but it is uncertain whether this program will continue and whether the consultative group will "count" such export credits in the future.

It has been argued that ESF-funded project-type aid is better suited to Morocco's needs, and that planned levels of ESF program assistance (currently programmed for \$15 million in 1985) are not sufficient to "make a dent" in the economy's requirements. The fact remains, however, that "every bit helps," and the GOM's strong desire for such assistance indicates their view that a \$15 million dent is far better than no dent at all. They are well aware that project-aid flows slowly over a number of years and largely back to the U.S. for high-priced contractors.

There are two additional compelling reasons why, after 1984, ESF should be provided in a rapidly disbursing program mode: (1) The GOM doesn't have local currency resources in its budget adequate to meet counterpart requirements of substantially increased project assistance, and (2) USAID/Morocco is barely staffed to manage the programmatic and administrative burden resulting from its current portfolio, and will need extra staff just to accomodate limited new project initiatives described above.

For the reasons noted above, USAID/Morocco strongly recommends high levels of PL 480 Title I and ESF program-type assistance in both 1985 and 1986. For both years, we propose levels of \$40 million in Title I and levels of \$40-50 million in ESF. The more specific purposes for which they would be programmed are noted below.

2. P.L. 480 Title I: P.L. 480 Title I has increased in recent years to its current "base-level" of \$25 million and this initiative has not only returned high political dividends but (in conjunction with CCC blended credits) has helped the USG to retain a dominant position in the Moroccan wheat-import-market. We have also been able to make increasing use of this resource for development purposes. First, by its nature, it has enabled the GOM to use foreign exchange previously spent for grains (mostly from France) for other essential imports. Second, it has enabled USAID to program the local currency proceeds into the rainfed agricultural sector and specifically to insure maintenance of necessary counterpart requirements for AID projects. The Government has also established a set of special accounting and reporting procedures which allow us to track the actual disbursement of such funds. Third, we have succeeded in reducing the number of self-help measures and focus them more specifically on our central policy concerns in the rainfed agriculture area. For example, in response to one FY 1983 Agreement Self-Help requirement, the GOM analyzed - for the first time - the distribution of Ministry of Agriculture expenditures between the irrigated and rainfed sub-sectors, a necessary pre-condition for establishing the basis for determining compliance with their own commitment in the Five Year Plan to place increased resources in the rainfed sector. Self-help measures in the new Title I program for 1984 shift the focus of our concern (in response to new realities explained in Section IV.B.1) to the implementation of a series of studies of the policy and pricing environment in the agricultural sector

which are being carried out in cooperation with the IBRD (one of which we will also help finance). We view these initiatives at the core of our policy dialogue strategy in this sector. In sum, we are satisfied that the policy and practice of using Title I resources for developmental purposes in conjunction with AID projects and programs are now well accepted by the GOM, and that such use of them could be continued on an expanded basis.

3. ESF: With respect to the proposed uses of ESF, we can only reiterate that the key need of the economy in the near-term time-frame is for balance of payments support. Such aid should be made available in as flexible and quick-flowing a way as possible. We thus have recommended to AID/W that a cash transfer be employed, tied to imports of goods needed to utilize Morocco's productive capacity. In light of the very high cost of U.S. goods resulting from the strength of the dollar and the weakness of the dirham, the Mission will analyze GOM import data to ascertain whether or not some form of broader geographic procurement approach should be recommended in order to avoid uneconomic use of limited funds and unwarranted distortions of trade patterns.

This ESF program assistance would not only provide some relief to the balance of payments crisis, but address developmental concerns as well. As mentioned above in the discussion of our agricultural program, we are currently exploring the idea of employing local currency generations from the 1985 assistance to provide resources to the National Agricultural Development Bank (CNCA), which has a nation-wide network of provincial and local branches. The CNCA is the recipient of several IBRD loans and, in recent discussions with AID, has demonstrated receptivity to new financing techniques which would relieve the burden of loan repayment for small farmers laboring under drought conditions. The targeting of new credit to small

farmers in rainfed areas would strongly complement our project efforts in the sector and make more palatable GOM efforts to reduce subsidies on inputs, which have caused increases in producer costs.

4. Housing Guaranty Programs: The provision of Housing Guaranties (HGs) may also be considered in the context of program assistance, since the rates are below commercial rates for LDC's, the maturities are very attractive, and a large portion of the dollars are made available for reimbursement of local currency expenses and are thus available for general commodity imports. The track-record of the Government in implementing our current \$17 million HG project has been less than noteworthy, however, and while we will continue to explore uses of this facility in conjunction with our urban strategy studies, we do not believe this should be counted upon as a significant resource transfer mechanism at this time.

C. Long-Term Development Assistance

Whereas the largest increment of assistance called for by this document are addressed to the near-term problems of the economy, the underlying problems of equity remain, and in fact will probably be worsened by the economic crisis. USAID strongly believes that we must not let the imperatives of the moment impair our focus on these more traditional AID concerns. Our reexamination of strategic priorities and the alternatives for shifts in program emphasis had led us to the conclusion that a core Da program focused on the three key sectors described in Section III above is still the best available use of DA resources in this country setting. The Mission will concentrate on more effective implementation of expanded project efforts in those areas where recent initiatives have proved promising. It also intends to progressively undertake some new DA-funded initiatives into other important areas during the CDSS period, based on factors such as those mentioned above and evolving GOM priorities and funding availabilities. This is not to

diminish the importance the Mission is placing on short-term program assistance (non-DA funded) to assist the GOM through this period of adjustment.

1. Agriculture: In late 1981, USAID developed a major new agricultural sector strategy which focused almost exclusively on one subsector--rainfed agriculture. This was incorporated into a total revision of the Agriculture Sector component of the FY 1984 CDSS, prepared in January 1982. USAID's commitment to rainfed agriculture was reiterated in the FY 85 CDSS prepared last year. It is now time to re-examine the basic premises underlying the strategy, A.I.D.'s experience in implementing it and the implications of recent developments in the Moroccan economy.

The assumptions upon which the original Rainfed Agriculture Strategy were based can be summarised as follows:

(a) that prior A.I.D., GOM and other donors investments were heavily focused on development of the irrigated sector in which economic returns were high (although decreasing), but which left untouched the vast majority of the rural population. The investment and operating budgets allocated by the GOM to irrigated (versus rainfed) agriculture were out of balance;

(b) that re-orienting our efforts to rainfed agriculture would contribute to broad-based, participatory development through increased output and farm incomes and improved quality of life for large number of the rural poor. Side benefits assumed were reduced income disparities within the agriculture sector (between small and large farmers) and between agriculture and urban sectors;

(c) that USAID would focus its attention within the rainfed sector primarily on cereals production since: (i) the United States has a great depth of transferable experience in dryland cereals production, and (ii) cereals imports were becoming an increasingly severe drain on Moroccan foreign exchange resources.

These premises resulted in USAID giving continued support to existing or modified projects in applied research, agricultural education and to rangeland management. In addition, USAID proposed: (a) to consider major new project initiatives to expand the Moroccan institutional capacity to deliver extension services and inputs (fertilizer, credit, improved seeds, marketing, farm machinery, etc.) to small farmers on rainfed lands in a timely, reliable and effective manner; and (b) to strengthen the GOM policy environment through the conduct of social and economic studies relative to cereals production.

These elements were seen as a cohesive, integrated long term (10 year) commitment by USAID and the GOM to the rainfed agriculture sector and, most importantly, to the GOM's implementation of the "Plan Cerealier", developed by the Ministry of Agriculture with FAO assistance. Considerable A.I.D resources, on the order of \$200 million (including ESF and P.L. 480, Title I generated funds), were envisioned to implement this strategy, with matching resources being provided by the GOM.

During the last two years, some progress has been made in implementing this strategy through the revision and extension of existing projects and the development of one new project. Over the past year the Mission has authorized (or is submitting for authorization) approximately \$55 million of DA funds to the following agricultural projects: (1) the Dryland Agriculture Applied Research Project is being extended for five years and expanded to accelerate the development of an applied research package that includes improved cereals varieties, appropriate small farm machinery, forage uses, weed control, select seed production, pest management, soil tillage and farm management; (2) the Agronomic Institute Project is being extended for five years to further expand efforts to strengthen the central agricultural educational institution in Morocco and to continue graduate level training and

research in those disciplines related to rainfed agriculture, and (3) the Planning, Economics and Statistics for Agriculture Project has just gotten underway and will vastly strengthen the Ministry of Agriculture's capabilities in data gathering and analysis, policy formation and program planning for the rainfed sector. USAID's fourth ongoing agriculture project, the Rangeland Management Project, is undergoing an intensive evaluation as of this writing, but it is already clear that substantial changes in focus and structure will be required to assure greater consistency with and contribution to the Mission's overall agricultural strategy.

It remains a fact that little, if any, progress has been made in implementing one essential component of the rainfed strategy -- the production/extension program. Nevertheless, important new understandings have resulted from the Mission's extensive efforts to study and design a production/extension component for the rainfed strategy. Equally importantly, the 1981 strategy has been reassessed in the light of 1984 economic realities. The most important considerations are:

(a) At this stage in the evolution of Morocco's agricultural research system, there does not yet exist a substantial, proven technological package that can be effectively extended to farmers in the rainfed sector. This is the fundamental reason why the Mission is making such a major investment in applied research and the development of Moroccan research capacity. There do exist some new technologies with respect to cultural practices of preparing the soil, applying fertilizer and controlling weed growth, and one or two new barley varieties. But the micro-economic analysis on increased marginal returns to the farmer remains in question as input prices rise. The assumption that such technology did exist or could be developed and transferred in a short period was overly optimistic.

(b) Moroccan agricultural extension delivery institutions are weak. This is recognized by the Ministry of Agriculture. A "Master Plan" for extension is being developed with outside consultants but will not see the light of day until at least the end of 1984. A well-founded proposal has been made to expand the role of the quasi-autonomous Regional Irrigation Office (ORMVAs)-- with their proven management and decision flexibility at the field level-- to the surrounding rainfed areas, but the institutional and political consequences of such a structural reform are not yet resolved. At the moment one can only affirm that the Ministry of Agriculture is contemplating a major extension service reorganization, with uncertain consequences for any new A.I.D-funded extension effort. The assumption that A.I.D could deliver meaningful project assistance to the development of an extension system reaching the hundreds of thousands of small dryland farmers - even on pilot basis - has proven optimistic under these circumstances. Such a project must await the both policy and institutional restructuring within the Ministry of Agriculture;

(c) The GOM has not been able to deliver on its own proposed redirection of resources to rainfed agriculture in a highly significant way. The momentum of the existing irrigation projects on the one hand, and the large cuts in the development and operating budgets of the Ministry of Agriculture on the other, have dramatically reduced the Ministry's options for a major reallocation of resources. Reports required under the P.L. 480 Title I agreement do show that a real, albeit slight, reallocation toward the rainfed sector has occurred, but the resources problem has restricted the initiative. The "Plan Cerealier" is still in limbo. It exists as a creation of the Ministry of Agriculture (with FAO assistance) but has not been formally endorsed by the Government primarily because of its considerable resource requirements. The current state of implementation of the Plan Cerealier is

made up mainly of multi-purpose, IBRD-financed integrated regional projects, most of which have been slowed by the failure of the GOM to provide budgeted counterpart funds at contemplated levels. The assumption that the GOM would significantly redirect resources to rainfed agriculture has yet to be realised, and it is clear that the GOM cannot take on major new projects which have demanding local currency requirements.

(d) Lastly, it now appears that the near exclusive emphasis on cereals in the rainfed strategy may have been exaggerated. The spatially variable drought of the last few years has demonstrated not only the importance of irrigated cereals production (and of production from the higher rainfall areas) but also the important interaction between cereals, forages and livestock. The latter are key components of farmer decision-making and risk-minimizing strategies. The importance of barley as an animal feed --either for forage or grain --appear not to have been fully appreciated. Moreover, the notion of substitution of domestic cereals production for imported soft wheat implied both an expansion of barley or durum wheat in the Moroccan diet, and increased competition with animal forage resources. In fact, bread (soft) wheat production in Morocco is very limited, being confined to irrigated areas and to large farms in the high rainfall areas. It is apparent that although the 1981 USAID Agriculture Sector Strategy talks to the importance of animal agriculture and its complex interactions with the rainfed agricultural system (especially upland and rangeland grazing resources), the full implications of these interactions have yet to be sufficiently addressed by USAID in its implementation of the rainfed strategy.

In this environment of limited resource availability, a certain level of institutional disarray, and doubts about some key assumptions underlying the Rainfed Sector Strategy, USAID's intention is not to abandon a primary focus on rainfed agriculture, but to selectively strengthen and expand

only those efforts believed to have a high probability of success (based on experience) and to be very cautious about embarking on new ventures.

Interestingly, the overriding financial constraints on the GOM has created a new opportunity for policy dialogue which USAID proposes to exploit vigorously. The economic crunch has created a new GOM awareness of the importance of both macro and micro policies to farmer decision-making, and there appears to be a new willingness to examine policy alternatives. Since investment and operating funds for the next few years are scarce, the GOM can not plan for significantly expanded public expenditure on increased agricultural production. The "silver lining" in the current economic crisis may be that the GOM is forced to explore policy changes rather than increased investment as a means to stimulate agricultural growth.

This favorable environment for the policy dialogue is being exploited by the Mission in a number of contexts. The Planning, Economics and Statistics Project provides for training and technical assistance in economics analysis and planning, as a means to improve policy formulation and decision making. This project is just getting underway, and its policy orientation will be emphasized through an initial project-funded effort to analyse the pricing and incentives system currently in operation in the agricultural sector, and engage decision-makers in a thorough discussion of the implication of the study. Secondly, the Self-Help measures of the FY 83 and 84 P.L. 480 Title I Agreements focus heavily on policy issues regarding (1) agricultural research and extension policy, (2) cereals production policy, and (3) current pricing and marketing policies and procedures. The recent USAID initiative to fund and co-sponsor with IBRD a study of the entire spectrum of policy instruments now bearing on the agriculture sector (e.g. subsidies, taxes, licensing, monopolies, pricing of public goods such as electricity and irrigation water, foreign exchange rate policy) is an extraordinary

opportunity for USAID to undertake meaningful policy dialogue in support of the rainfed strategy.

A second element of our revised agricultural strategy is to pursue initial discussions already carried out with the GOM's Ministry of Economic Affairs and the semi-autonomous National Agricultural Credit Bank (C.N.C.A.) on the potential nature and size of a agricultural credit program which would be directed at small farmers in dryland areas who have been seriously affected by the drought and by rising input prices (reduced subsidies). Many small farmers have become increasingly indebted to public agricultural credit institutions and to private lenders as a consequence of Morocco's drought. Small farmers borrow for seasonal cereals production (seed, fertilizer, etc) and for medium term investment in livestock (sheep and goats). Small, market oriented farmers are now reluctant to enter deeper into debt and consequently are not using improved seeds and fertilizers as much as previously --so that even if rainfall returns to normal cereals production may not rebound as much as it should. Unresolved indebtedness by small farmers, as a consequence of the drought, may also be accelerating the distortion in land ownership through eviction and foreclosure by usurious private credit sources --frequently larger landowners.

An ESF funded agricultural credit program would be directed at the C.N.C.A. to permit the Caisses Locales de Credit Agricole (Local Agricultural Credit Banks) to refinance their small farmers clients who have been adversely affected by drought and consequently stimulate the economic recovery of agriculture and protect the small farmer. Small farmer debt rescheduling is as badly needed as national debt rescheduling. The CNCA is a highly regarded credit institution and has borrowed repeatedly and successfully from sources such as IBRD, IFAD, ADB, etc. it has vigorously sought to reach small farmers (taxable income of less than 3,000 DH) and has expanded its clients in this group at an average rate of 18% per annum over the last decade. The C.N.C.A. has just signed a Fifth IBRD Loan for \$115

million. ESF grant funds would be used to increase capitalisation of C.N.C.A., probably through a revolving fund to allow it to reschedule short and medium term debt of small dryland farmers. Part of these funds could, if opportunity presents itself, also be dedicated to private agribusiness investment.

Examples of possible new project-level initiatives which will be considered in FY 84-85 for development in FY 85-86 include activities in livestock development (as part of a larger rainfed production/extension oriented effort), and activities which fall into the larger strategic rubric of "Natural Resources Development and Management." The natural resources oriented activities discussed at greater length below (Section IV.B.4) are closely related to the Mission's agricultural sector program. They include: (1) weather modification to increase water resources for agricultural, hydroelectric and industrial/domestic uses; (2) the development and rational exploitation of Morocco's marine fisheries resource off the Atlantic coast (which would entail major opportunities for private sector investment and the generation of additional export earnings); and (3) the development of Morocco's substantial but rapidly diminishing forest reserves, especially in watershed areas where deforestation and soil erosion have diminished reservoir capacity.

With respect to livestock development, any new project activity would form part of an integrated approach to increased production by farmers in rainfed areas, and would be based on the lessons learned by the Mission from its current Range Management Improvement project and the centrally-funded Small Ruminant CRSP with the Agronomic Institute. There is a clear need for a more efficient production and marketing system for livestock, and the Ministry of Agriculture is anxious for a broadened effort that addresses the food supply problems of Moroccan livestock, which provide income for more than 2 million farm families.

A final decision to develop new projects in agriculture or in the natural resources area will, of course, be based on a thorough review of GOM priorities, policies in these sectors, and evidence of the availability of adequate counterpart resources for the undertakings.

2. Population: The Mission's basic population/family planning strategy, as described above, has proven consistent with GOM priorities and, to date, has been remarkably successful. The Population/Family Planning Support, Phase II Project (FY 1978-84) has helped the GOM lay a solid foundation for a nation-wide family planning program in Morocco. An end-of-project evaluation conducted in December, 1983 reported that levels of contraceptive practice in Morocco generally had more than doubled during the project's life -- up from 12% of eligible women in 1978 to approximately 27% in 1983. Moreover, contraceptive practice in provinces covered by the A.I.D.-supported household-delivery program (the VDMS sub-project) was estimated to be over 40% of eligible users. These dramatic increases in family planning during this period were made possible in large part by the substantial expansion of the Ministry of Public Health (MOPH) delivery system for family planning services. This expansion included (1) MOPH authorization of 5000 paramedics in 1200 health facilities to distribute contraceptives -- a responsibility previously limited to physicians only in 300 facilities; (2) the training and equipping of 600 nurses to provide IUD-insertion services in 550 rural and urban dispensaries; and (3) the training; equipping of over 2000 VDMS workers to deliver integrated family planning, MCH, and nutrition services door-to-door in 13 of Morocco's largest provinces. This latter activity includes provision of oral rehydration therapy (ORT), promotion of breastfeeding and good weaning practices and vaccination immunization referral among its "package" of essential services.

A follow-on project, Population/Family Planning Support, Phase III (FY 1984-88) will build on this successful but limited activity, and will include a number of new elements designed to further extend the availability of family planning and primary health services. The new project will (1) extend the VDMS subproject to 18 of the country's most populous provinces; (2) add an "urban variant" of VDMS to serve dense urban concentrations in Casablanca, Rabat-Salé, and Tangier; (3) establish voluntary sterilization services in 30 provincial hospitals; (4) establish a natural family planning service and training program in Casablanca; and (5) launch a private-sector contraceptive sales program under the sponsorship of the Moroccan IPPF affiliate. Together, these additional programs are intended to extend the availability of safe, reliable FP/health services to approximately 70% of the Moroccan population by the end of FY 1988 -- up sharply from the 40% population coverage realized at the end of the Phase II project in FY 1984. Contraceptive practice by the end of the Phase III project is targetted at 35% nationwide, and in the 18 VDMS provinces and urban project areas.

In an effort to institutionalize the long-term political commitment of the GOM to a responsible population program, the Phase III project will also support a more vigorous role for the Ministry of Plan as analyst, interpreter and presenter of population data, and will assist that Ministry to incorporate these data into the larger GOM planning and policy-making process. Consideration will also be given to making further representations to the Prime Minister and relevant Cabinet members, after the forthcoming elections.

The current strategy in Population/Health foresees the termination of the Mission's Health Management Improvement Project in FY 1986, completing a program to strengthen the key administrative sub-systems (logistics, personnel, finance, information management) which support the overall MOPH service delivery program. Execution of the Ministry's family

planning and other programs will continue to benefit from the institutional innovations established by this project.

3. Energy: Morocco relies on foreign sources of energy for over 85% of its commercial fuel needs, and spends about 40% of its export earnings on imported crude oil. This level of reliance is economically precarious and potentially disruptive since Morocco's imported fuels must be purchased in increasingly scarce and higher-valued U.S. dollars. The weakness of the Moroccan currency exacerbates the basic problem of deteriorating terms of trade. For example, between January and June 1983, when international oil prices around the world were dropping and OPEC's solidarity on price floors weakening, domestic prices for petroleum products actually rose 14% in Morocco anyway due to dirham devaluation against the dollar, in which oil prices are denominated.

The Government is attempting to curb the growth of energy demand through recent price increases (January, 1984) and an active campaign to induce energy savings. It has also begun to implement a number of important energy development investments in an effort to expedite development of domestic energy supplies. Over the CDSS period, the GOM espouses three main policy objectives for the energy sector: (i) promotion of energy import-substitution; (ii) promotion of more efficient energy use; and (iii) rationalization of energy resource allocation and budgetary savings through a reduction in price subsidies for electricity. The GOM is pursuing these objectives through investment in on-shore resources (in conjunction with foreign donors) and the institution of policy and institutional reforms. The most important of these involve (i) rationalization of the process of selection and coordination of energy-related investments; (ii) streamlining of the management and organization of public sector energy enterprises; and (iii) improvements in the present pricing structures and in incentives for attracting foreign capital in the sector.

USAID/Morocco's strategy in developing an energy portfolio is to provide technical assistance and training which will accelerate and/or render more effective the GOM's energy development objectives. This "catalytic role" is appropriate in view of AID's limited resources and desire not to duplicate or inhibit private funding.

Translated into a project portfolio, the USAID energy program will be composed of three projects, described briefly in order of priority:

(a) Energy Planning Assistance: The project will assist the GOM to rationalize budgetary and investment priorities in the energy sector, and to improve its policy and planning processes. It will strengthen a policy analysis/planning unit in the Ministry of Energy and Mines and will demonstrate methodologies of energy policy analysis based on private market principles. The training component of the project will transfer and institutionalize the use of current analytical and econometric techniques. In short, the project intends to improve the capacity for GOM officials to make decisions on energy investments and conservation incentives. This project is the centerpiece of the USAID strategy since it provides advice directly to the decision-makers responsible for GOM energy policy, pricing structures, and investments.

(b) Conventional Energy Management and Training: The project's goal is to contribute to the alleviation of current balance of payments problems in Morocco by strengthening the capacity of the GOM to identify and produce fossil fuel resources in partnership with the private sector, and by accelerating the efficient development of the country's indigenous hydrocarbon resources. The project will strengthen the internal capabilities of the National Petroleum Exploration and Development Agency (ONAREP) to (1) apply cost-effective private sector management principles and techniques; (2) establish ties with private sector partners in petroleum investments; and (3)

explore, develop, and produce hydrocarbon resources. Technical assistance will be provided by nine resident advisors over a three-year period, supplemented by the intermittent short-term assignment of additional experts. Training will include graduate study, short courses, industry internships, seminars and conferences in the United States, as well as short courses and seminars in Morocco.

(c) Renewable Energy Development: The project is designed to provide the GOM a long-term institutional capability to analyze and develop renewable energy applications in Morocco, including solar, wind, mini-hydro and biomass. As these energy applications become more broadly competitive in the marketplace, Morocco will be able to avail itself of them rapidly and economically. The project is largely one of research, technology transfer and institutional development, and according to a recent outside evaluation, it is progressing far more successfully than similar AID-funded efforts in other developing countries.

4. Possible New DA Program Initiatives: As has been mentioned above, the GOM has informed USAID that the IMF program and related fiscal austerity measures will place stringent limits on the ability of any GOM institution to undertake development projects during the CDSS period. Indeed, the Minister of Economic Affairs has informed USAID/Morocco that all new projects must have virtually no development budget requirements, as GOM agencies will be unlikely to receive funding above their (reduced) operating budget levels. The personnel limitations placed on GOM agencies even make operating budget contributions (e.g., counterpart salaries) problematic. This section must be read with this problem in mind. The capacity of the Moroccan Government to undertake new DA funded projects is so extremely limited that it is possible that the Country Team may determine that exceptions to A.I.D.'s policy of requiring a 25% minimum counterpart contribution to all DA funded

projects are critical to the achievement of U.S. foreign policy objectives in Morocco. The IBRD has recently reduced its counterpart requirements for loans to Morocco.

Nevertheless, should the current situation improve sufficiently and the capability of the GOM to initiate new projects increase adequately in the coming years, the Mission is considering possible new initiatives in the following areas:

(a). Urban Development: The 1982 census estimates Morocco's urban population at 43% of the national total. This urban share indicates an average annual urban growth rate of 4.5% over the period since the last census (1971), triple the rural area growth rate over the same period. Most projections put the urban share at 56% by the year 2000, indicating an average annual urban growth rate of 4.7% over the next seventeen years. Rapid urban growth rates in Morocco have affected large, intermediate, and smaller urban centers. Unlike most countries in the region, Morocco's urban structure is relatively well-balanced. Although the two largest metropolitan areas (Casablanca and Rabat/Salé) together account for 36% of the urban population, at least nine other metropolitan areas had populations over 100,000 at the time of the 1982 census. Intermediate size cities (20,000 - 100,000) were the fastest growing areas during the seventies in Morocco. However the primary urban centers (population over 100,000) account for the largest absolute share of the increase in urban population and represent 72% of that population. Projections from World Bank data point to an increasing concentration of the urban population in Casablanca, Morocco's largest city, which by 2000 is expected to contain 46% of the total urban population.

These rapid increases in urban population, due primarily to migration from rural areas and high urban birth rates, will continue and probably accelerate. Rural migrants to cities in Morocco seek employment,

better health care, and educational opportunities not available to them in a rural or village setting. Indeed, the rural dweller's perception that he would be relatively better off in an urban area is supported by examination of social and economic indicators. However, because municipal services have not been able to keep pace with urban population growth, urban problems in Morocco are increasing rapidly. Social indicators, including unemployment, adult literacy rates, school enrollments, life expectancy, number of people per physician, and daily per capita calorie consumption, all illustrate a low quality of life for Morocco's urban dwellers. Urban areas, however, remain the major source of new employment in Morocco and accounted for 80% of GNP growth during the 1960's and 1970's. Some of the major challenges facing Morocco in view of the rapid pace of urbanization are: (i) to sustain a balanced growth of urban centers; (ii) to promote an adequate number of (and an appropriate mix of) employment opportunities in such centers and the agricultural areas around them; (iii) to expand and rationalize the process of urban shelter development, utility service and infrastructure provision; (iv) to ameliorate the adverse environmental impacts of urbanization.

The GOM has for sometime taken certain measures aimed at meeting the challenges of urbanization. It has undertaken incentive programs to promote labor-intensive industries in urban areas and developed plans to foster the growth of alternative population centers (to the currently dominant Casablanca-Rabat/Salé) through investment in social and physical infrastructure in small and medium size towns. It has also established a program to promote industrial decentralisation through tax incentives and the creation of "industrial parks". Finally, it has also adopted a policy of providing services and core housing units to squatter settlements through World Bank and A.I.D-financed housing projects.

USAID's involvement in the urban sector of Morocco has been limited to the following to date: (i) Housing Guaranty program and provision of technical assistance in support of programs to upgrade squatter settlements and produce affordable housing for low income groups; (ii) studies carried out on cost recovery mechanisms and other policy-related topics; (iii) support of limited social and economic research for use in the development of urban programs; (iv) industrial and commercial job training for women in Casablanca and Fes; and (v) population/MCH interventions in urban centers through the USAID family planning project.

In order to better understand the process and dimensions of urbanization in Morocco, its relationship to national economic growth, and the opportunities for effective A.I.D.-funded interventions in this priority area, the Mission intends to undertake a series of steps over the FY 84-85 period. Initially the Mission will collect and inventory all existing secondary materials on the subject. The Housing Office in AID/W financed Morocco Shelter Sector Assessments in 1978 and 1981. There are in addition a substantial number of studies prepared over the past few years under the sponsorship of the IBRD and the Ford Foundation, as well as domestic institutions including the GOM Ministry of Housing, the National University, and the Center for the Study of Land Use and Urbanism. Furthermore, the recently published 1982 census and the series of A.I.D.-assisted follow-up household surveys now underway will provide current data on urbanization trends.

Secondly, the Mission intends to undertake in FY 1984 an Urban Development Assessment, along the lines suggested in the outline/approach for such assessments prepared for the A.I.D. Office of Housing in February, 1983. This assessment would be undertaken with full GOM cooperation and involvement, part of the Mission's effort to assist the Ministry of Housing and Regional

Planning prepare its contribution to the next five-year plan (1986-90). This analysis will provide a picture of the gaps and complementarities among the GOM's urban development objectives, describe related economic and spatial sectoral policies, and existing operational urban programs. The assessment will identify present trends and attempt to determine whether there are key urban problems and opportunities which would warrant the adoption of an explicit, elaborated urban development strategy.

Given the relative decentralization and "balance" of urban growth in Morocco, and the broad hierarchy of "secondary" and "tertiary" cities, a key issue in the Mission's urban assessment would be which urban areas in the country (and which level of urban institutions and officials) should have priority. The Regional Housing Office in Tunis has agreed to assist the Mission in the coming months to prepare a full scope of work for the urban development assessment.

Finally, the Mission intends to further support local, institutional research on discrete problems resulting from the urbanization process through its Social and Economic Research Project. Several individual grants have already been made under this project for studies on urban phenomena, and the Mission intends to work closely with the Moroccan Center for the Planning and Coordination of Scientific and Technical Research (CNCPRST) to extend this effort to larger-scale, discrete issues or hypotheses with direct bearing on problems in the urbanization process.

In order to plan, coordinate and manage this effort, the Mission will designate an officer in its Office for Technical Projects as its Urban Development Officer. These early steps, should they prove fruitful, will create the need for additional USDH Staff in the urban development field.

(b). Natural Resource Development and Management: During the next few months, USAID/Morocco will undertake its first project in the area of natural resource management: Weather Modification. This project is

experimental and cross-sectoral in nature, with implications for Morocco's agricultural production, energy supply and urban services capabilities. In terms of the Near East Bureau's Regional Strategy, the project falls readily within the Water Scarcity and Utilization area of priority, ranked third in importance region-wide. Within the Moroccan context, the Mission views it as one of three possible natural resource-oriented activities which the GOM has indicated constitute high priorities in which they seek A.I.D. assistance in the near term. The other two are coastal fisheries development and reforestation. These three areas, though not necessarily integral to the Missions "core program" in the key sectors discussed above, are believed to form a basis for a natural resources development and management focus within an expanded development assistance program. These areas are described below:

(1). Weather Modification: Over the last three years Morocco has suffered an extremely serious drought, and rainfall levels are continuing well below average in 1984. Due to the length of the drought, reservoirs already reduced in storage capacity from rapid siltation from deforestation have been reduced further to 10-15% of their designed storage capacity. The economic impact of the drought, considered to be the worst in modern history, has been compounded by greatly increased demand for water resources caused by rapid population growth, increasing urbanization and industrialization and large investments in irrigation systems. Rationing between hydroelectric power generation, irrigation, industrial and domestic demands has been required in recent years. The balance of payments deficit has been exacerbated by increased imports of fossil fuels required to compensate for reduced hydroelectric generation and by declines in foreign exchange earnings from agricultural exports produced in irrigated areas.

In response to a request for assistance in weather modification made personally by His Majesty King Hassan II to the Ambassador of the United States, a team of four American scientists came to Morocco in late 1983 to prepare a Weather Modification Assessment. The assessment determined that although weather modification would not end the present drought it could help reduce the economic and social impacts of it as well as cushion future drought by increasing natural precipitation.

The assessment recommended a program of interventions which included the following elements: (a) development and implementation of a scientifically-based demonstration program of snowfall augmentation in the central High Atlas Mountains, with the objective of providing additional reservoir water from runoff; (b) testing on a controlled, experimental basis the technical and economic feasibility of rainfall augmentation in rainfed agriculture areas adjacent to the winter target area; (c) procurement of a variety of technical equipment necessary for the conduct of the recommended weather modification programs; (d) training of Moroccan personnel in the design, planning, management and evaluation of scientifically based programs of weather modification, and (e) the institution of "suspension criteria" to ensure avoidance of inadvertent outcomes such as floods or hailstorms.

Following review of the findings of the assessment the Government of Morocco requested as its first priority for A.I.D.'s development assistance a weather modification project with emphasis on the winter snowpack augmentation in the High Atlas Mountains. The Ambassador of the United States to Morocco requested that given the high priority of such assistance to the GOM, A.I.D. make every effort to provide a scientifically sound response to the King's request.

The Mission's weather modification project, although representing a political response to an urgent need of the Government of Morocco, broadly conforms with the objectives of current A.I.D priorities and the Bureau for Near East Strategy in that it focuses on the provision of assistance in the area of water resources management and utilization through the transfer of technology, institutional development and training. It also supports the current Mission strategy in that its successful implementation will result in increased availability of water for use in hydroelectric power generation and crop production. If successful, the growth in demand for energy imports will be slowed and agricultural production will increase, with concomitant benefits to Morocco's balance of payments. A major secondary benefit of the project will be significant improvements in the meteorological and climatological services provided by the Morocco's Meteorological Organization.

This program intervention will take place on a phased basis over a five year period (FY 84-88), with initial data gathering and procurement of equipment to commence in mid-FY 1984. Like the Mission's investment in the energy sector, the risks involved in this project effort are higher and the probability of a favorable return less certain than is the case with more traditional A.I.D projects. Nevertheless, as with the energy portfolio, the potential economic returns and the priority assigned by the GOM are of a high order.

(2) Coastal Fisheries Resource Development: A major portion of Morocco's natural resource base is its extensive marine fisheries zone. Morocco has 3,000 km of coast-line, which borders one of the world's major fishing grounds. This vast resource is being utilized by Morocco at less than 30 percent of its sustainable potential, due to a lack of fishing facilities (boats, processing factories, cold stores) and a lack of trained

people to develop and implement fisheries policies and programs. Further, technical personnel and skilled boat pilots and crew are scarce. Foreign fleets are exploiting the Moroccan resource by default.

Fish catch processing and marketing is largely carried out by private sector firms, and as a result, fisheries development offers a major opportunity for private sector-generated export earnings, as well as improved domestic protein nutrition. Several prevalent species are very competitive in price with red meat but little consumed in the interior due to a lack of storage and marketing infrastructure.

USAID is now formulating plans for the development of a project to strengthen the Moroccan capability to manage and rationally exploit this enormous resource. Technical assistance in key management areas such as stock assessment and aquaculture techniques are critical needs already identified and documented by the Ministry of Fisheries. Training of technical and skilled personnel in modern fishery catch, handling, storage and distribution methods also have been identified as important needs. USAID has already discussed these needs with the GOM's Ministry of Fisheries, and has offered to provide some training, both in the U.S. and Morocco, under the auspices of its Sector Support Training Project. Depending upon its further discussions with the Ministry, the Mission intends to field a PID team in the spring or summer of 1984, which may include expertise from the U.S. National Marine Fisheries Resource Centers, U.S. "sea-grant" universities and the private sector (in marketing, distribution and management). Such a team would investigate alternative possible designs for a cost-effective project that could impact in the relatively near-term on production and export levels. The project would also seek to assist the GOM to stimulate greater private foreign and domestic investment in the sector. Possibilities for institutional strengthening with the Ministry of Fisheries and its Marine Fisheries Institute

in Casablanca may also be considered. Technical assistance to equip Morocco with an expanded technological base for fisheries resource planning and development may be required. Finally, training in technical skills in all aspects of fish catch handling and storage would be likely to be included. If the GOM evidences a serious financial and human resource commitment to a project development effort, a rough target date for the obligation of a coastal fisheries project would be mid-FY 1985.

(3) Forestry Development: Morocco has about 5 million hectares of forest land which comprises about 8 percent of the country's land area. Nevertheless, Morocco's forests are insufficient to meet rapidly growing needs for fuelwood and wood fiber, and are quickly declining. About 50,000 ha of forest land are cleared each year, and with minimal GOM replantings, annual net losses of wood reserves are estimated to range up to 40,000 ha/yr. A rapidly expanding population has resulted in clearing of forests primarily for agricultural purposes and domestic and industrial consumption. Industrial wood imports cost Morocco about \$100 million annually of scarce foreign exchange. But the greatest threat to Morocco's forests is the growing demand for household energy. Firewood consumption is estimated at about a million cubic meters per year, about 60% of which is converted into charcoal. Charcoal prices have increased almost twice as rapidly as the average cost of living. These increases impact most severely on the poor, who depend on firewood and charcoal for food preparation and household heat.

The over-exploitation of Morocco's forests has also led to wide-spread soil degradation and damage to the country's water storage and use systems. Some 60 million cubic meters of soil are estimated to enter the country's rivers and reservoirs annually, significantly reducing the capacity and efficiency of existing irrigation, hydroelectric and potable water systems.

Reforestation and the improvement of forest protection and management systems is by nature a long term process and the Mission will only undertake a project effort when it is capable of assuming a commitment of net less than 8 years. Project activities would concentrate on both institution-building and active reforestation. Technical interventions would be designed to accelerate the steps from seed collection to forest harvest, including: (a) seed storage and distribution; (b) nursery improvement; (c) planting; and (d) species research. As institutional capabilities are strengthened and reforestation activities expanded, project activities would begin to focus upon forest management and rational exploitation of Morocco's wood resources, with an emphasis on fuelwood production to meet rapidly growing demand.

A USAID project would finance long and short term technical assistance, some long-term training and in-country training of local level Moroccan officials and technicians. The project will also provide for limited equipment and commodities for nursery improvement, reforestation and research. A large portion of local cost of reforestation campaigns would be borne by P.L. 480 Title I local currency generation. This natural resources project is integrally related to the A.I.D.'s priority strategies in renewable energy and agriculture. The increased production of fuelwood would complement A.I.D.'s existing project efforts in renewable energy, in which biomass efforts have been limited. Further, an integrated approach to the rainfed zones of Morocco must address the problems of watershed management and soil erosion/degradation through reforestation.

Although the Ministry of Agriculture has repeatedly stressed the priority of reforestation and sought to interest USAID, the Mission has not yet established a project development schedule. This is due

principally to doubts about the "absorptive capacity" for a new project of this nature on either side. Depending on a number of factors, the Mission views FY 1985 a year of possible project development in this area, with a tentative target date for obligation in FY 1986.

V. POLICY AND PROGRAM DIALOGUE

As discussed elsewhere in this document, the main-line "core-program" of AID in Morocco remains technical assistance and training in a few, key sectors. However, in addition USAID/Morocco has also sought to position itself to engage key GOM officials (or to enhance their mutual engagement) in deliberation of alternatives to current policy, resource-management, and institutional constraints. The increasing scale of the AID program, and in particular the increasing availability of program assistance, open new opportunities for such discussion.

Rapidly changing developments on the macro-economic front are clearly the most significant determinants of Morocco's capability to maintain growth, particularly growth with a more equitable participation of its citizens. To date, neither the USG nor any other bilateral donor has participated in a serious way in the GOM's deliberations on macro economic policies. Apart from participation in an IBRD-led Consultative Group, we do not foresee any particular need for such a role, as this domain appears to be effectively structured by the IMF and IBRD. Nonetheless, USAID believes it is important to develop the capacity --in conjunction with Embassy/ECON staff-- to stay fully and currently informed on these issues and to make independent judgments. Such a capacity permits us to provide analysis and guidance for timely USG interventions directly related to macro issues (e.g. debt rescheduling; levels and types of program assistance); to assess the significance of changes which will directly affect the AID program (e.g. budget cuts, reductions in GOM staffing, changes in the exchange rate); and to reinforce with GOM officials selective policy measures which they are discussing with the IMF and IBRD.

We have already experienced a degree of success on one of the broad-gauged institutional concerns which, while not at the same level as the

policy measures under consideration with the IMF, does transcend the focus of individual AID projects and bears on the GOM's capacity to induce and employ external resources. That is the chronic problem the Government has experienced in coordinating external economic and technical assistance. Our strategy has been to encourage more effective mechanisms at three levels:

-USAID level: The Mission itself has been seriously plagued over the years by the absence of an authoritative point-of-contact within the Government. In response to AID representations on this issue, on December 15, 1983 the Prime Minister circulated to all Ministries his decision that the Ministry of Economic Affairs would serve in this capacity. Its small, highly-qualified staff is located in the Prime Minister's office, has a broad mandate, and is headed by one of the most able and respected officials in the GOM. The relationship has already proven invaluable to the Mission and is developing very well.

-Sector Level: We have suggested to the Minister of Economic Affairs that he consider organizing a series of operational meetings between senior GOM officials and various foreign donor representatives in Rabat which would focus on specific sectoral problems, developments, and opportunities for collaboration. Such collaboration now tends to occur only on an ad hoc basis.

-Consultative Group Level: At the broadest macro-level, the USG Delegation to the Morocco donors' meeting in Paris in November 1983 urged the GOM to agree to the establishment of a permanent Consultative Group of donors under the aegis of the IBRD. Prior to this meeting, USAID/Morocco had discussed this idea with key GOM officials and had made available to the Minister of Economic Affairs both an A.I.D and OECD analysis of the history of the use of such mechanisms. The GOM representative at Paris agreed to the

proposal, and the first meeting is scheduled for later this year. This mechanism will provide an additional forum for discussion of macro-economic issues, and thus further the process of policy dialogue.

It is at the sectoral level, however, that we expect to be able to make a greater contribution to the policy and institutional environment. USAID's involvement in matters which might be considered of "policy-significance" at the sectoral level takes place in many different forms and at different levels of significance. To the extent feasible, we seek to extract from the experience of each technical assistance project (often through broad-gauged evaluations) the lessons which bear on such issues, and to insure they are addressed by appropriate authorities. Moreover, a number of USAID program interventions are specifically tailored (a) to further policy dialogue and (b) to help establish a capacity within GOM structures to gather and analyze data to better understand the impact of current policies and to explore new policy formulations:

For illustrative purposes, in the first category we would note:

-The "Self-Help" section in the 1984 P.L. 480, Title I agreement requires the Government to undertake a study of the impacts of various pricing and marketing policy instruments on production in the agriculture sector and make recommendations for change. USAID will finance this study, which has benefited from IBRD sponsorship and technical input.

-The "Self-Help" section in the 1983 P.L. 480, Title I agreement included measures which have required the GOM to take stock of its real commitment to rainfed agriculture, as expressed in actual budgetary disbursements.

-USAID has supported and will support a number of colloquia, debates and seminars on such issues as: Family Planning and Social Economic Development (sponsored by the local IPP affiliate in January of 1984);

Alternative Pricing Structures for Natural Gas (sponsored by the Ministry of Energy in February 1984 with consultants from Bechtel); Research Priorities in Dryland Agriculture (sponsored by INRA in May 1983); etc...

Under the rubric of helping to develop institutional capacities to undertake policy analysis, we would cite the following examples:

-The recently approved (FY83) project for Planning, Economics and Statistics in Agriculture, which is designed to professionalize the analytical and planning and policy studies staff of the Minister of Agriculture via training, technical assistance, and the provision of computer technology;

-The new (FY84) project in Energy Planning Assistance which will establish of a planning unit at the level of the Minister of Energy, and will capitalize upon energy investment simulation software already designed with A.I.D. financing to help the Ministry make better informed choices among alternative investments in energy production, as well as to anticipate the effects of changes in prices and other variables;

-The Family Planning Support Projects, which have brought (and will continue to bring) to Cabinet-level discussions the most recent data on population growth and demographic trends, utilizing the RAPID presentation to illustrate long term impacts and the need for a strong population policy; and sponsored national colloquia on population issues involving representatives of government, political parties, unions religious groups and the private sector;

-The Statistical Services Project, which assisted the Ministry of Plan in carrying out the 1982 census and is now following-up with a series of policy-related efforts which will lead to a more explicit reflection of population-related measures in the next five-year plan;

Technical assistance related to the Housing Guaranty Programs have assisted the Ministry of Housing to develop models for financing low-cost

housing construction and settlement upgrading, and provided options for cost-recovery systems which such mechanisms require;

-The Sector Support Training Project, which provides directed graduate level training in the U.S. to middle and high level GOM officials who are (or will be) involved in policy decisions.

VI. MISSION PROGRAM MANAGEMENT

Since the preparation of the FY 1985 CDSS, USAID Morocco has undertaken a number of significant steps in internal staff/office reorganization and the improvement of Mission Management.

A. Structural Steps: The Education and Human Resources Division has been phased out in conjunction with the narrowing of the focus of the portfolio to the three key sectors described above, and responsibilities for the residual projects of that Division transferred to the Population/Health Division. The Program Office has been expanded both in staff size and role, with enlarged responsibilities for project design, monitoring and evaluation, economic analysis (macro and micro levels), and the further development of the P.L. 480 Title I and ESF programs. The Controller's Office has assumed new administrative functions, including the institution of a series of Mission Orders covering a wide variety of internal procedures, the establishment of a new project financial accountability system, and the establishment of a high-capability word and data processing system. Mission personnel, housing, staff training and security are also managed by the Office of the Controller.

The Mission continues to strengthen the capabilities of its technical divisions with extensive project development and management responsibilities. The Mission's contracting and procurement capability and procedures have also been substantially strengthened by the addition of a Regional Contracting Officer and the creation of a separate office utilizing FSN personnel for the procurement function. Finally, the placement of the Regional Legal Adviser within the Mission has provided an increased capability to deal with a wide variety of problems. On the whole, these changes have in strengthened of USAID/Morocco's capability to develop, implement and monitor an enlarged portfolio, notwithstanding ongoing gaps in overall staffing levels.

B. Functional Measures: One of the most important management improvements carried out in recent months has been the development of a regular Mission Portfolio Review process. The Mission has established a system of quarterly in-depth reviews of its entire project portfolio, assuring a more thorough analysis of the implementation status of projects than was possible under an ad hoc procedure. Project Officers are now able to focus the attention of the full Portfolio Review Committee (Director, Deputy Director, Program Officer, Controller, Regional Legal and Contract advisers) on the implementation status and problems of their project, through the preparation and presentation of a Quarterly Project Status Report (QPSR). The Controller's Office provides a detailed financial status summary for each project, comparing actual performance on obligation, expenditures and pipeline with planned levels from the previous quarter's report. These reports are prepared in a standard format on the WANG equipment to reduce paperwork and assure uniformity. The process permits the Mission to identify and respond to more readily specific implementation problems, but more importantly, to assess its overall portfolio performance and be better able to discuss program and policy needs with GOM counterparts at all levels.

The Mission has recently established, under the Controller's supervision, a series of Mission Orders which are intended to formalize policies and procedures on a wide-variety of subjects. Orders have been or are being prepared to cover office procedures, word/data processing procedures, procurement and contracting policies and procedures, personnel and hiring matters, security, delegations of authority, project proposal review and approval process, implementation document procedures, training and evaluation policies, etc.

The Mission has also concerned itself over the past year with carrying out an active project evaluation schedule and learning from this

process to improve the utility of project evaluations for the future. The Mission successfully conducted six of the seven project evaluations planned for FY 1983 (the seventh has just been completed) and carried out four additional (unscheduled) evaluations to achieve approximately 140% of the planned level. More importantly than this, the Mission has learned a great deal about the nature and composition of evaluation teams and the ways to manage and utilize them for optimal results.

In the near term future, the Mission will undertake to strengthen management of at least three areas: (1) its overall system for project design, review and approval; (2) the P.L. 480 Title I process; and (3) the approval; annual budgeting process for projects that feeds into the GOM's budgetary process. Although the project development process is functioning satisfactorily, the involvement of the Program, Controller's and Regional Legal Adviser's Offices should begin at an earlier stage on a more well-defined basis. The recent strengthening of these offices permits a significant refinement of the project development committee process in the Mission. With respect to P.L. 480 Title I, a major step forward is being taken through the FY 1984 agreement, which requires the establishment of the functional equivalent of a special account. However, the details of the financial tracking and reporting which this system will require of the Ministry of Finance remain to be fully established. Further, the process of ascertaining the annual GOM investment budget requirements must be carried out in a more thorough and timely fashion in all sectors, but especially in agriculture, if the P.L. 480 Program is to effectively assure adequate counterpart funding of those projects. The Mission is in the process of developing an annual budgeting process for projects with GOM counterparts which will provide a firmer estimate of the funding requirements needed each

fiscal year from the Mission's OYB and in the GOM's operating and investment budgets. This process will be established and overseen by the Program and Controller's Offices and carried out as part of the Mission Portfolio Review of the last quarter of each fiscal year. It will permit timely representations to be made to appropriate GOM ministries to assure adequate counterpart funding is provided in the national budget law that is drafted in November of each year.

VII. PROPOSED ASSISTANCE PLANNING AND STAFFING LEVELS

The foregoing lays out the programmatic and management bases for USAID/Morocco's proposed levels of assistance over the FY 1985-89 CDSS period. In sum, increasing assistance should be provided to Morocco through three possible mechanisms: Development Assistance, Economic Support Funds and P.L. 480 Title I. USAID proposes modest but constant increases above present levels in D.A. funding (incremental increases of \$2 million/year); substantial near-term increases in both ESF and Title I levels to address the urgent requirements of the GOM's BOP and internal financial crisis; and a phasing out of Title II levels over the FY 85-89 period. The following table sets forth these requirements:

PROPOSED ASSISTANCE PLANNING LEVELS (\$000)

CATEGORIES	FY 84	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 85-89
	OYB						TOTAL
ARDN	9,900	12,550	14,100	15,500	17,000	19,000	78,150
POP	4,970	3,650	4,200	4,300	4,000	4,000	20,150
EHR	3,000	2,800	2,200	2,200	2,500	2,500	12,200
SDA	1,130	2,000	2,500	3,000	3,500	3,500	14,500
TOTAL DA	19,000	21,000 <u>1/</u>	23,000	25,000	27,000	29,000	125,000
P.L. 480							
TITLE I	40,000 <u>2/</u>	40,000	40,000	40,000	40,000	40,000	200,000
TITLE II	9,600	9,500	5,200	3,620	1,820	-0-	20,140
TOTAL P.L. 480	49,600	49,500	45,200	43,620	41,820	40,000	220,140
ESF	7,000 <u>3/</u>	40,000	50,000	50,000	50,000	50,000	240,000
TOTAL USG ASSISTANCE <u>4/</u>	75,600	110,000	118,200	118,620	118,820	119,000	584,640

1/ Reflects original AAPL for FY 1985. Mission has been informed that this figure will be reduced by \$2 million to FY 84 level of \$19 million, but proposes herewith the restoration of that amount to its FY 85 OYB.

2/ FY 1984 Title I Agreement has been signed at level of \$25 million; Mission proposes herewith a minimum \$15 million supplemental authorization.

3/ Mission is also seeking a supplement of at least \$4 million ESF in FY 1984, to permit the full funding of the two ESF financed projects being obligated in FY 84.

4/ Does not include Housing Guaranty Program Assistance which is expected to be augmented over the CDSS period subject to the performance of the GOM Ministry of Housing under currently authorized HG programs.

Staffing Levels Required

Current USAID staffing levels (19 USDH; 20 FSNs) are inadequate to meet in a responsible fashion the challenges and opportunities provided by the changes described in this CDSS. In the last three years Morocco has moved from being a modest program in the process of phasing down to one of the fastest growing programs in AID's worldwide portfolio. From a program of \$16 million in FY 1980 (without Title II), we are now looking to a program of over \$100 million in 1985. Yet approved staffing levels have not reflected the changes in either scale or complexity of the program.

Dollar levels do not adequately describe workload or manpower requirements, nor does a simple tally of the number of projects; the intensity of Mission involvement is not expressed by such ratios. For example, an increasing amount of time is spent by USAID/Morocco staff on broader sector issues, on evaluation, on tighter contract-management and on seeking ways to integrate various assistance instruments. Perhaps a better index is the quality and utilization of current staff, but this does not lead itself to easy conclusions either. What we in USAID/Morocco are aware of - and this has been invariably noted by Washington visitors - is that everybody works both very hard and with a reasonably high degree of efficiency. Moreover, we believe we have made judicious use of TDY staff, local employees, PSCs and the like. In a word, there is little, if any, "slack" in the system to meet increasing workload requirements.

There are certain additional functions and responsibilities that can only (or best) be handled by direct-hire American employees, and where relief in FY 84-85 is imperative. These requirements tend to fall in the technical program area, and in the areas of program and management support. Principal among the former are immediate needs for two additional staff to handle the "new

development" cluster of natural resource projects described in Part III. On the management support side, our key needs lie in the areas of budget and finance, administrative management, and computer support. We have now only one DH American (the Controller) who is charged with the entirety of these responsibilities which include the installation of a new VS-90 WANG system (and related software, training, etc.), and the development and management of a Mission directive system, as well as oversight of the financial and accounting responsibilities for a rapidly increasing USAID program. These latter functions are compounded by the incumbent's co-lateral responsibilities as Controller for the AID program in Portugal. In short, there is an acute and immediate need for two American DH staff to provide relief in these areas. On the program support side, the principal two functional requirements - each of which may require full-time help - are for one person to manage the new program assistance activity proposed herein (especially if it takes the form of a commodity import program), and for the establishment of project-design specialist in the Program Office. The latter is considered important to the effective development, monitoring and evaluation of the new initiatives proposed in Section IV.C above.