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Country Development Strategy Statement

FY 1988

MOROCCO



February, 1986

Agency for International Development
Washington, D.C. 20523

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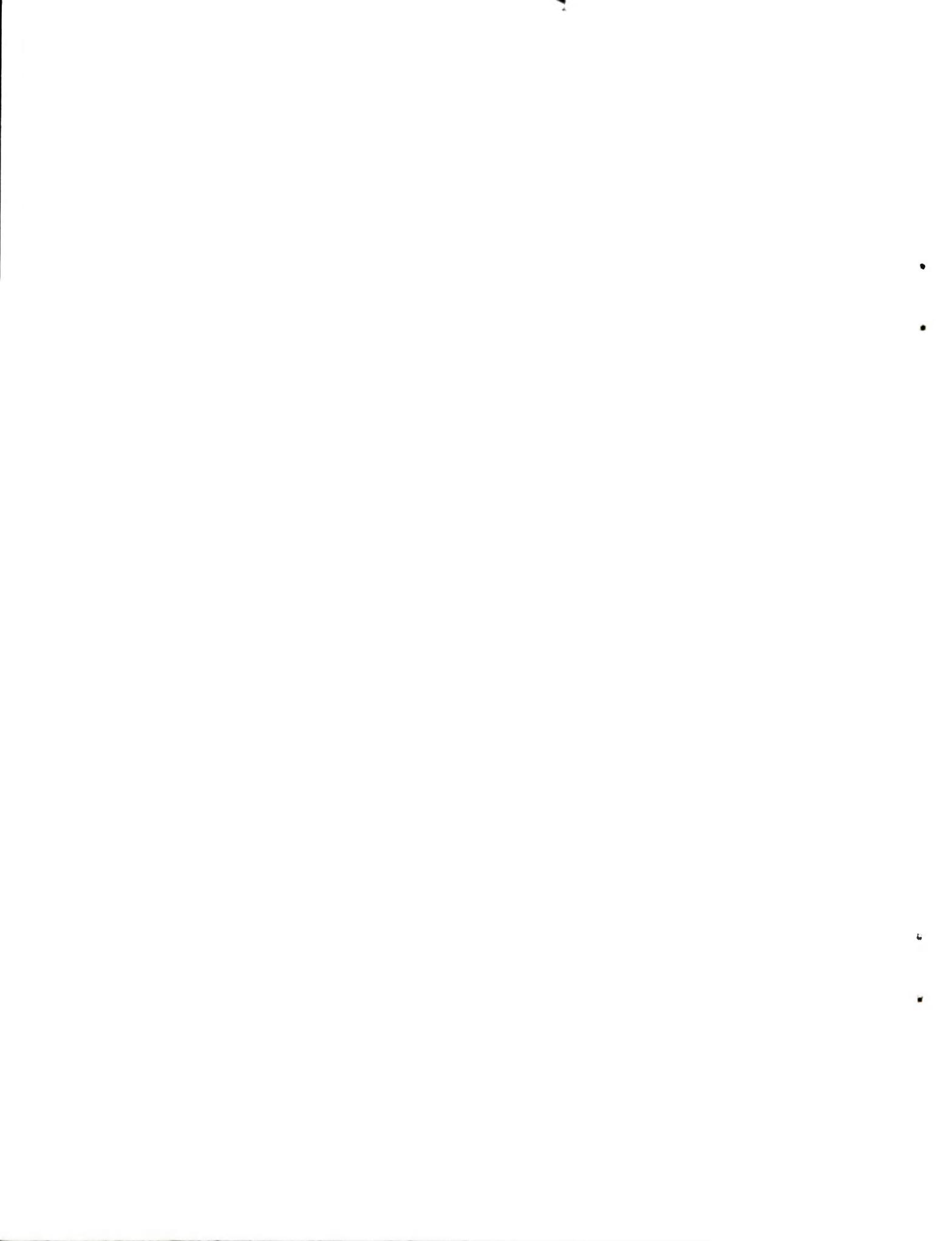
M O R O C C O

COUNTRY DEVELOPMENT STRATEGY STATEMENT

(FYs 1987-1991)

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MOROCCO CDSS (FY 1987 - 1991)

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GLOSSARY OF ACRONYMS IN CDSS

United States Government

AID - Agency for International Development
USAID Morocco - AID Field Mission in Morocco
CDSS - Country Development Strategy Statement (by USAID)
DA - Development Assistance Funds (ARDN; POP; HF; EHR; SDA)
ESF - Economic Support Funds
HG - Housing Guaranty
PRE - Private Enterprise Bureau (AID)
PASA - Participating Agency Services Agreement

International Organizations

IMF - International Monetary Fund
IBRD - International Bank for Reconstruction & Development (World Bank)
IDA - International Development Association (IBRD)
UNDP - United Nations Development Program
UNFPA - United Nations Fund for Population Activities
UNICEF - United Nations Children's Fund
WHO - World Health Organization
FAO - Food and Agriculture Organization
ITPA - Industry and Trade Policy Adjustment (IBRD loan program)
CRS - Catholic Relief Services
JEC - Joint Economic Commission (US-Morocco)

Government of Morocco

GOM - Government of Morocco
MEA - Ministry of Economic Affairs
MOF - Ministry of Finance
MOP - Ministry of Plan
MOPH - Ministry of Public Health
MOH - Ministry of Housing
MARA - Ministry of Agriculture and Agrarian Reform
MEM - Ministry of Energy and Mines
CNCA - National Agricultural Credit Bank
CMPE - Moroccan Export Promotion Center
CDER - Center for the Development of Renewable Energy
ONAREP - National Petroleum Exploration and Development Agency
ORMVA - Regional Agricultural Development Office
ONE - National Office of Electricity
OCE - Office of Marketing and Export (Agricultural)
ANHI - National Agency for Housing Improvement
FEC - Municipal Development Loan Fund
INRA - National Agronomic Research Institute
IAV - National Agronomic and Veterinary Institute (Hassan II)
PNAP - National Program for Project Analysis and Management
VDMS - Household Delivery System (Family Planning/MCH Services)
ODI - Office of Industrial Development
ISCAE - Institute of Commercial and Business Administration Studies

Other Terminology

GDP - Gross Domestic Product
ADP - Automated Data Processing
SDR - IMF Special Drawing Rights (monetary unit)
MCH - Maternal Child Health
MWRA - Married Women of Reproductive Age
ORT/ORS - Oral Rehydration Therapy/Salts
TOE - Tons of Oil Equivalent
ST/LT - Short-term/Long-term
VAT - Value-Added Tax

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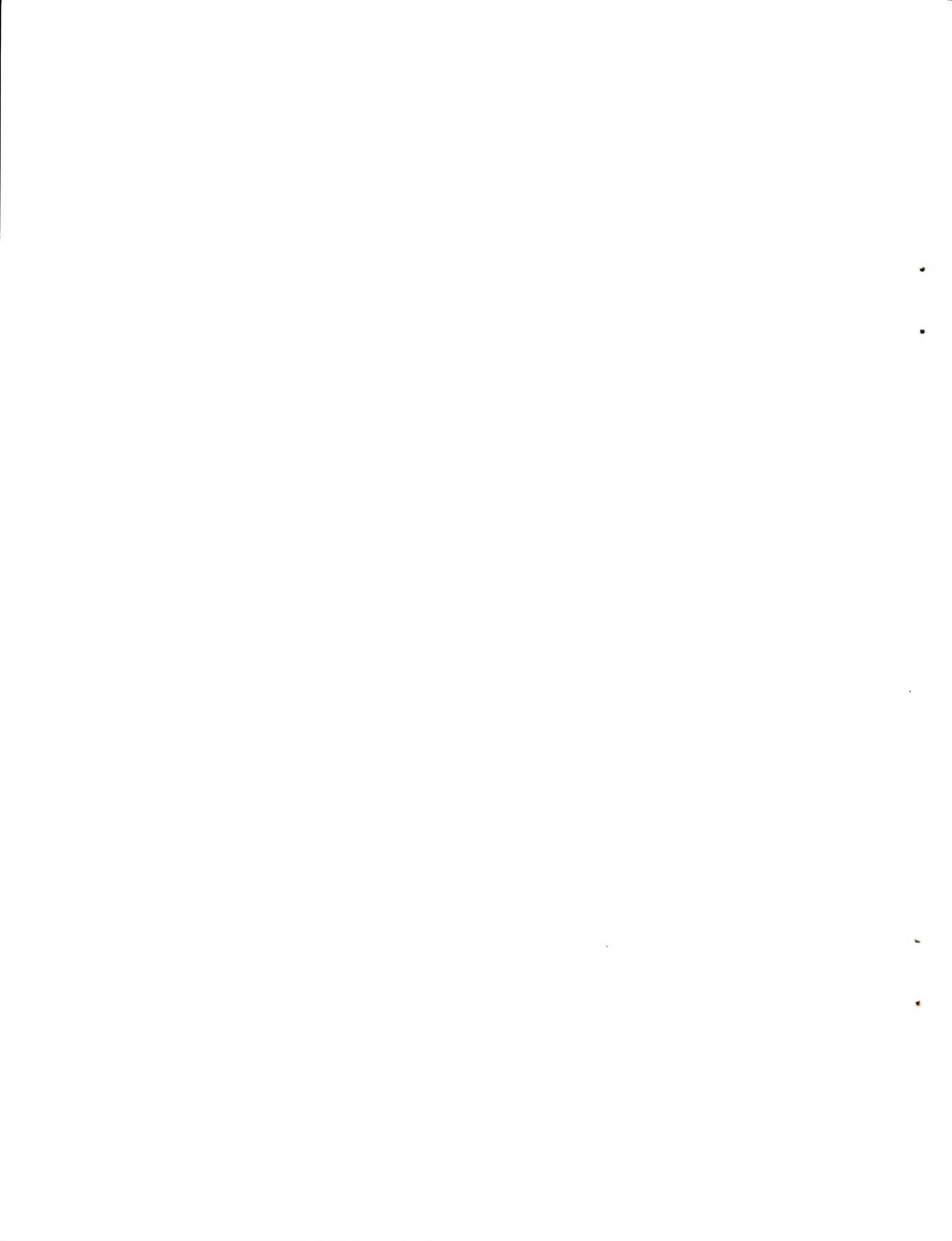
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I. EXECUTIVE SUMMARY



I. EXECUTIVE SUMMARY

A. Overview

The parameters of strategic planning for any AID field mission are similar: the nature of the political relationship between the U.S. and the host country; the needs of the country; the commitment of the country's government to appropriate development policies; and the capacity for effective use of U.S. resources. The strategy outlined below assumes no substantial changes of these parameters in Morocco over the CDSS period.

We hope this assumption does not hold with respect to the current political relationship. In fact, we expect that U.S. - Morocco relations will improve as the significance of the Oujda Agreement of 1984 continues to diminish. For purposes of this exercise, however, we have felt it prudent to adopt conservative assumptions.

With respect to Morocco's needs for assistance, as will be apparent from the Macroeconomic Assessment that follows, they have grown rather than shrunk. Morocco's macroeconomic "resource gap" remains enormous (est. \$300-\$500 million annually), even after future debt rescheduling and planned donor credits are taken into account. Further, per capita incomes in Morocco are continuing to decline. Morocco is no longer a "middle income country", and per capita GDP has dropped from \$631 in 1981 to \$515 in 1985 (at current prices and exchange rates). Moreover, there are a large number of key institutions and technical endeavors in the midst of change, for which U.S. advisory assistance and technology can play a highly important developmental role.

Further, we believe that the Government of Morocco's commitment to policy reform will continue to be strong if, repeat if, it is buttressed by a matching commitment from the international banking and donor community to provide resources necessary during a prolonged period of politically difficult stabilization. The commitment of the Government to policy change is illustrated in the following sections. Resource transfers provided under the auspices of the U.S.-sponsored "Baker Plan" could be the vehicle for the fulfillment of the commitment of the donors and the banking community. However, it is critical that the "conditionality" associated with donor assistance be kept within the limits of Morocco's managerial and technical capacity on the one hand, and social and political acceptability on the other. The importance of the latter should not be underestimated. Morocco is entering its fourth year of austerity, and the structural adjustments it is undergoing are highly significant to its social and political development.

Finally, we believe that the Government of Morocco has established a strong record regarding the effective use of U.S. assistance over recent years, and we foresee no reason why this record should decline. In fact the trend is up. The Government has committed itself to a reform process fully consistent with AID's development philosophy, including macroeconomic and sectoral policy reform, strengthened economic and financial analysis of investments and increased reliance on the market forces and private sector. The GOM is aware of the experience and expertise the U.S. has to offer in these areas and wants to take advantage of it.

Within these parameters, USAID Morocco finds a strong political, economic and programmatic basis for an active U.S. assistance program in Morocco. We propose a strategy for such a program in this document. We also believe that a higher level of resources than has been assumed by this strategy may become appropriate as the political atmosphere improves. The strategy outlined below has been designed with the need for "upward mobility" in mind; it contains elements for which increased levels of resources could be effectively used. Annex A provides further source material should a significant expansion of the program become possible. Nevertheless, in an era of budgetary austerity in the United States -- which approaches the relative burden of deficit reduction now being successfully implemented by the Government of Morocco -- we have adopted the view that it would be imprudent to assume significant real increases in U.S. assistance levels over the next five years. Thus the strategy below does not require them.

The limits on USAID Morocco's financial resources are not the only basis for our deliberate effort to be selective in preparing this strategy. There has been a continuous review of priorities within as well as amongst "sectors" of emphasis in our strategy, and we are endeavoring to cull out activities which are characterized by a slower pay-out than seems justified by Morocco's present economic condition. Further, we have assumed no increases in direct hire staffing resources over the five year period, and have heeded the Administrator's guidance to focus AID resources on a smaller number of key problems to achieve more measurable impacts. The number of projects anticipated for the end of this decade is fewer than the number active in our current portfolio.

This effort to concentrate resources on critical, higher-yield areas has not obliged the Mission to dramatically alter its prior program emphases. Indeed, the strategy below can be described in large part as "staying the

longer-term institutional and technical constraints to equitable development. On a first read, the program strategy that follows may appear to stress the former at the expense of the latter. This is due in part to the format prescribed by the Agency's guidance, in which the "Macroeconomic Environment" and problem of "Economic Growth" are treated first and organizationally separate from some of their most important causative factors (e.g., agricultural production, energy supply and population pressures). It may also be in part due to the fact that key elements of the Mission's strategy for addressing the macroeconomic problems facing Morocco -- via our support for the economic policy reform process and the indigenous private sector -- are the newest elements of our program strategy. But if we have paid special attention to the macroeconomic aspects of Morocco's development in this CDSS (see also Annexes B and D), this should not be taken to suggest any retreat from our established "key sector" approach and the crucial equity objectives within it. We have not lost sight of the people behind the statistics, and the equity orientation in each of our sectoral strategies will become apparent as the reader moves through the document.

While USAID Morocco's strategy goals have not changed greatly over the past two years, its effective utilization of the Agency's strategic means has. In particular, over the past three years the Mission has consciously enhanced its use of policy dialogue and its search for appropriate private sector mechanisms to address Morocco's development problems. This expanded approach characterizes all sectors of Mission involvement, not just the Mission's support to macroeconomic policy reform and trade liberalization. The importance of the policy dialogue and increased reliance on the private sector in agriculture, population/health and energy will be made explicit in the strategy sections below. What is new about USAID Morocco's strategy is that it now stands firmly on all four pillars, rather than balancing itself on only two as had been the case until 1983.

Notwithstanding the continued importance of our efforts in the key sectors of agriculture (see also Annex C), population/health and energy development, the seriousness of Morocco's current macroeconomic "crises" can hardly be overstated. Total Moroccan debt now exceeds its annual GDP, and the 1985 trade deficit deteriorated further as increases in imports (under a

liberalized regime) matched increases in exports. The central budget remains in serious deficit, and the rate of domestic savings continues to lag well behind investment levels. USAID is not and cannot be the leader in addressing these immediate, enormous problems. It can encourage, stimulate, educate, cajole and assist the Government to maintain its commitment to the reforms designed to address them, and it can increase specific efforts to help implement them. But unlike the IMF and the World Bank, it cannot apply the leverage that accompanies the availability of large financial resources. That being said, however, USAID Morocco does not believe that under current circumstances large resource transfers are a sine qua non for exerting selective influence on the policy reform process. As described below, our efforts are undertaken with care and in line with our relative comparative advantages as a donor; they have been designed and are being implemented in full collaboration with the programs of the international financial institutions active in Morocco.

Nevertheless, while AID has been highly supportive of the successive stabilization and adjustment programs the Government of Morocco has undertaken with the IMF and the IBRD, we must concede a growing unease about the capacity of the Moroccan economy to achieve the "performance targets" set by the IMF, even if the Government's current commitment and high level of effort remain unchanged. The targets set (and agreed to) seem to us to be highly ambitious in many respects, as well as highly dependent upon the validity of economic modeling assumptions which may or may not hold. Perhaps inevitably there appear to be some inconsistencies between the objectives established on the one hand by the IMF, with its concentration on austerity and stabilization, and those set on the other by the IBRD, with its concentration on adjustment and growth. We look to the international financial institutions to do a better job in the future of reconciling the purposes and effects of their respective programs. Further, over the CDSS period they -- together with the groups involved in rescheduling Morocco's debt -- must take into close account the absorptive limits (technical, managerial, social and political) of the country for rapid structural change. We will look for evidence of greater sensitivity to these concerns in the future, particularly within the policy framework to be established for the next meeting of the IBRD-led Consultative Group.

B. Summary of USAID Morocco Program Strategy

The USAID Morocco CDSS for FYs 1987-1991 has been drafted to be responsive to the Agency's global strategic plan, the "Blueprint for Development". We have adopted the Blueprint as a framework for analyzing key development problems in Morocco and for developing a strategy which is responsive to them. Of the five key problems described in the Blueprint, USAID Morocco's CDSS addresses four (Economic Growth; Hunger and Food Deficits; Rapid Population Growth; Health Deficiencies and Early Child Mortality) and adds a fifth (Energy Resource Deficits) which plays a particularly important role in constraining development in Morocco. We have departed from the Blueprint, however, in that illiteracy and lack of education have not been selected by USAID Morocco as an integral part of its program strategy. The reasons for this include the pressing need in Morocco to concentrate limited resources on a few critical areas which have potential for relatively high economic yields in the near term. Further, the substantial involvement of the IBRD (and the French) in the sector weaken the case for future USAID involvement (as does USAID's modest track record in this sector in the past). But education is not the only "priority sector" USAID Morocco has been obliged to leave outside the ambit of its program strategy. The needs are many and the resources few. The choices that must be made to select from many potentially fruitful uses of resources are difficult. Nevertheless, such tough choices are at the heart of strategic planning, and we have done our best to make those choices rationally. To provide further explanation as to why important development needs in Morocco are not addressed by this CDSS, we have included as Annex A a summary of the more salient choices we have faced and a brief description of the "roads not taken".

There have been and will continue to be various pressures for USAID Morocco to proliferate from its basic strategy into new and often deserving areas of development. We propose to actively resist such pressures during the CDSS period in the absence of unforeseen and substantial increases in the Mission's financial and human resources. A summary of the Mission's overall strategy for the forthcoming CDSS period is set forth in the outline following. Through a winnowing process, we have narrowed its focus to four overarching strategic objectives, which we expect to maintain intact over the coming five year period. They are:

- (1) Increased Economic Growth;
- (2) Increased Food Supply;

- (3) Reduced Population Growth and Improved Primary Health Care; and
- (4) Improved Management of Energy and Natural Resources

As noted, the last three of these impact greatly and directly upon the first, but are treated separately for organizational purposes. Each of these four strategic objectives has been further broken down into two or three sectoral subobjectives each, to which USAID interventions are addressed. These subobjectives are stated broadly but are within USAID's capacity to affect. Our more specific interventions to address these sectoral subobjectives are elaborated in the text of the Strategy Section. Short-term and long-term benchmarks -- which may be used to measure progress toward achieving sectoral subobjectives -- are also provided therein.

The process of developing a consensus on this concentrated strategy has been highly participatory and sometimes wrenching. What follows represents our internal compact about what USAID Morocco will and will not do over the next few years. We now seek to extend that participation and that compact, to include AID/Washington.

USAID MOROCCO STRATEGY SUMMARY

OBJECTIVES AND INTERVENTIONS

I. INCREASED ECONOMIC GROWTH

A. Increase Reliance on Market Forces

1) Support implementation of COM pricing policy reform

2) Study and assist reforms to facilitate privatization of state-owned enterprises

B. Improve Efficiency and Productivity of Public Services

3) Support GOM reform of the national planning/budgeting process and investment appraisal system

4) Assist GOM efforts to improve and decentralize urban management and budgeting processes and mobilization of resources

5) Upgrade managerial, analytical and technical expertise through expanded participant training

C. Increase Growth of Private Sector Export Production & Earnings

6) Reform, capitalize and "privatize" the Export Credit Insurance Program

7) Provide increased pre-export financing to smaller and new exporters through commercial banks

8) Provide technical & managerial assistance to private exporters and public/private export promotion organizations

II. INCREASED FOOD SUPPLY

A. Strengthen Agricultural Education and Technical/Socioeconomic Research

1) Increase capacity of National Agronomic Institute (IAV) to train agricultural sector professionals

2) Develop improved production technologies for rainfed agriculture through National Research Institute's (INRA) Aridoculture program

B. Increase Availability of Agricultural Inputs and Production - Increasing Technologies

3) Strengthen Agricultural Credit Bank (CNCA) lending programs

4) Increase efficiency of input storage and distribution (seeds, fertilizers, etc.)

5) Extend results of applied research from Aridoculture Center

C. Improve Policy Environment for Growth through Increased Reliance on Market Forces

6) Improve capacity of Min. of Agriculture to collect and interpret data, appraise investment projects and conduct policy analysis

7) Support pricing and marketing reforms through P.L. 480 Title I

D. USAID Approaches to Nutrition Problems of the poor

III. REDUCED POPULATION GROWTH AND IMPROVED PRIMARY HEALTH CARE

A. Expand Accessibility & Acceptability of Voluntary Family Planning

Public Sector

1) Improve FP/MCH service delivery systems, especially the household visitation program (VDMS), through:

- expansion of services
- operations research
- improved MOPH program mgmt.
- improved education and communications programs
- improved surgical/clinical methods

Private Sector

2) Define need for and develop mechanisms for increasing FP/MCH services through the private sector

B. Improve Population and Development Planning and Thus the Capacity to Cope with Population Growth

3) Support development and use of multi-sector economic and demographic modeling in preparation of multi-year plans and policy development

C. Increase Child Survival and Reduce Child Health Deficiencies

4) Support and accelerate national immunization and other early childhood health programs

IV. IMPROVED MANAGEMENT OF ENERGY AND NATURAL RESOURCES

A. Strengthen Energy Sector Policy Analysis, Planning & Management Capacity

1) Support the development of a national energy demand management (conservation) program

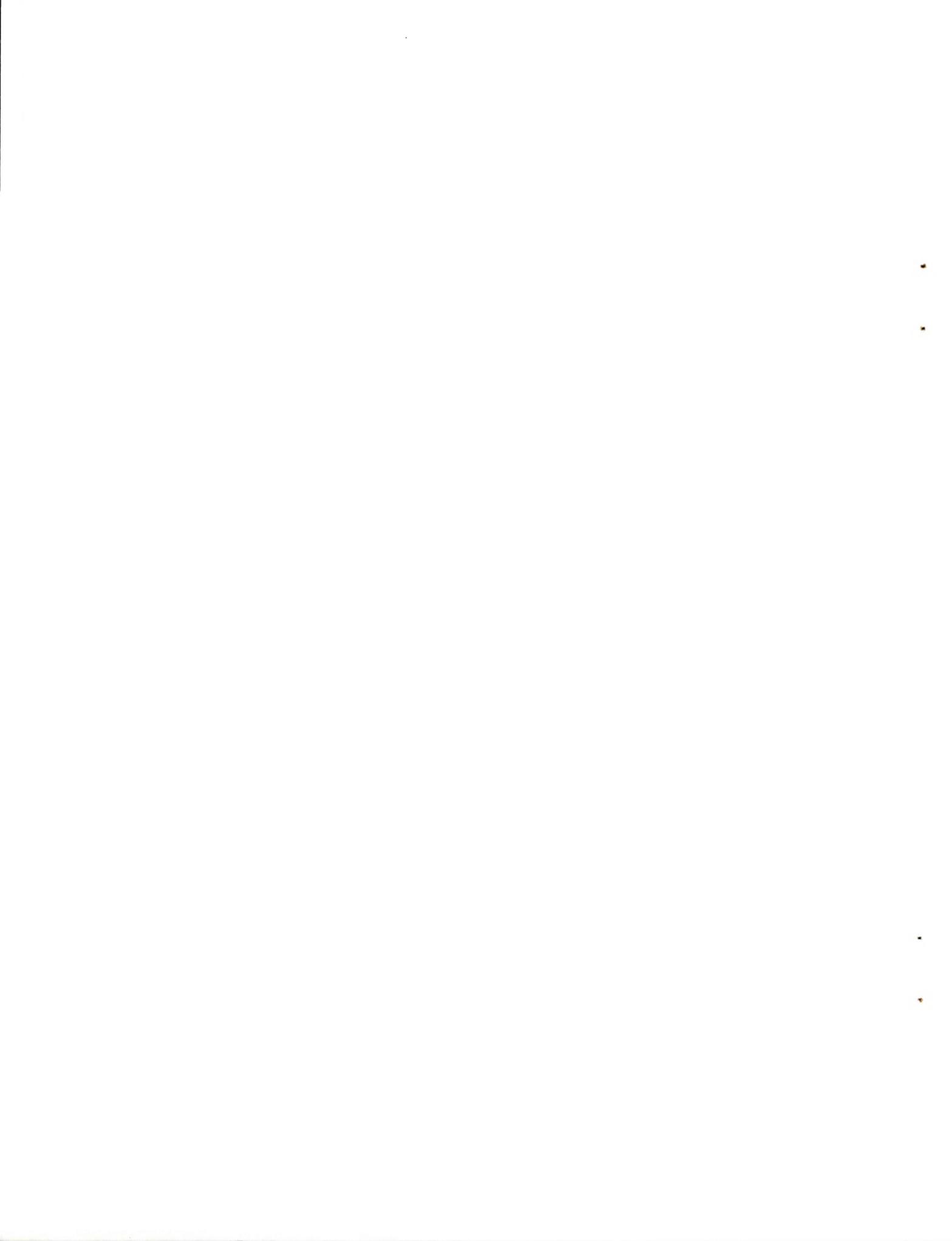
2) Strengthen COM capacity for energy data analysis, investment planning, and resource management

3) Strengthen human resource development in energy and natural resources

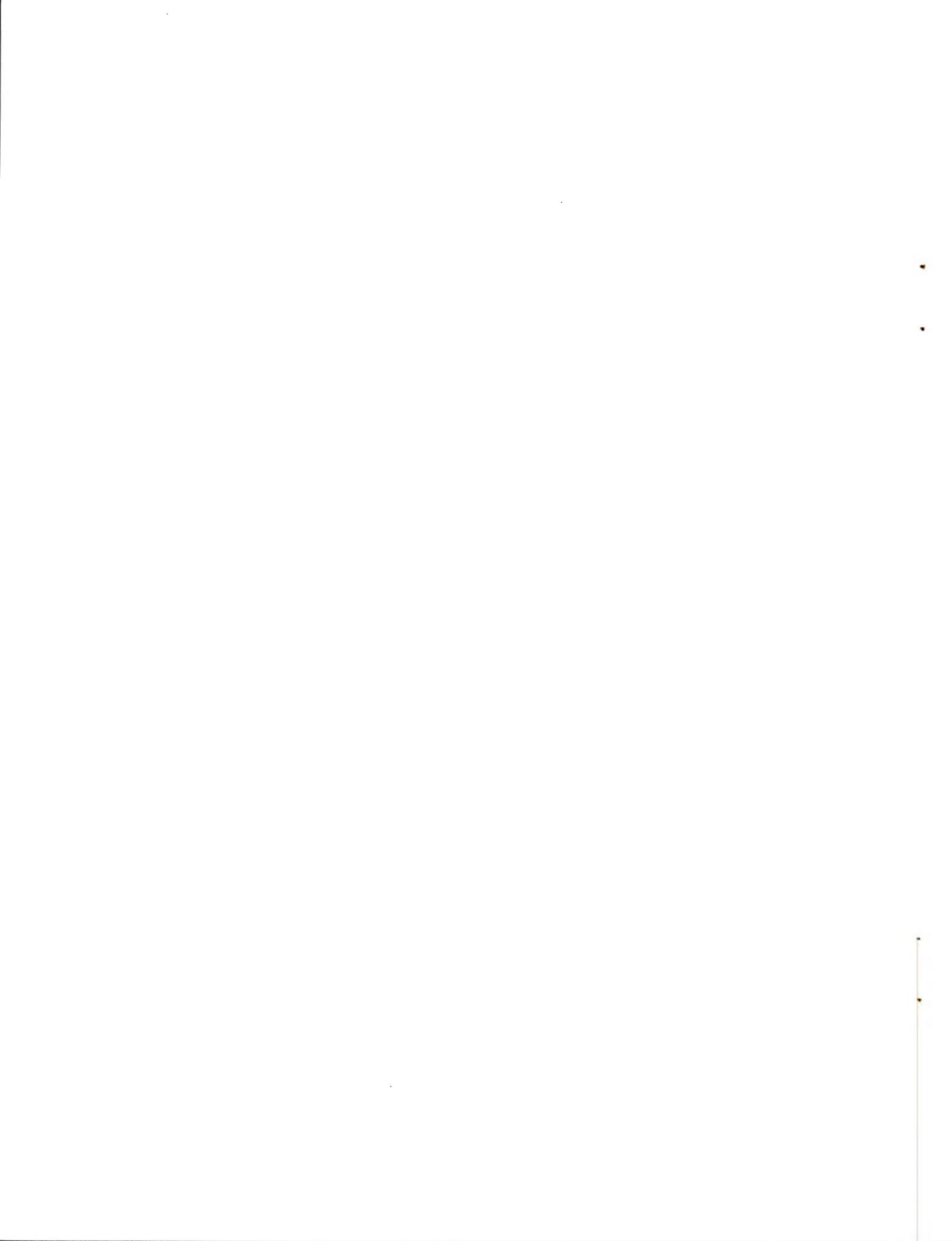
B. Increase Development and Use of Morocco's Renewable Energy Resources

4) Adapt and disseminate commercially viable renewable energy technologies, especially through the private sector

5) Examine household energy demand and economically/environmentally sound responses



II. ANALYSIS



II. ANALYSIS

At the mid-point of the 1980s, the twin themes of stabilization and adjustment dominate Morocco's economy. They will overshadow other issues for the remainder of this decade. Redressing existing external and internal disequilibria and pursuing structural reform to prevent their recurrence are needed to restore sustainable economic growth in Morocco. This will tax the will and skill of economic policy makers and managers. The GOM has already accepted negligible per capita income growth, public sector austerity, and structural reform as necessary to move to a more open, outward-oriented and productive economy.

This section highlights key symptoms of the current crisis and their causes. It also sketches policy responses and outlines the macroeconomic prospects for Morocco. Annex B provides a more detailed picture of Morocco's economic structure, recent trends and prospects during the CDSS period, including additional statistical data.

1. Economic Performance and Policy Reform

Morocco's recent economic experience mirrors that of many other developing countries. Following a long period of conservative economic policies, the country embarked upon an expansionist program in the mid-1970s. Buoyed by a sharp increase in demand for phosphates, the country's principal export commodity, Morocco raised prices and saw its phosphate revenues quadruple within a single year. This good fortune triggered an aggressive investment program led by the public sector which continued even after the phosphate boom fizzled. The failure to scale back public investment to a supportable level led to an ever widening trade deficit (see Figure II-1) and mounting external debt.

Figure II-2 illustrates the parallel impact of the public investment program on total investment, and the growing gap between investment and savings. The major expansion in public investment, initially fueled by the phosphate boom, has been financed to a very large extent through increasing budget deficits (Figure II-3). Budget deficits up to 1975 amounted to less than 5 percent of GDP. They climbed rapidly to a staggering 18 percent for 1976 and 1977 and were still at 12.3 percent in 1982.

Figure II-1

MOROCCO'S TRADE BALANCE, 1960-84
(in billions of current dirhams)

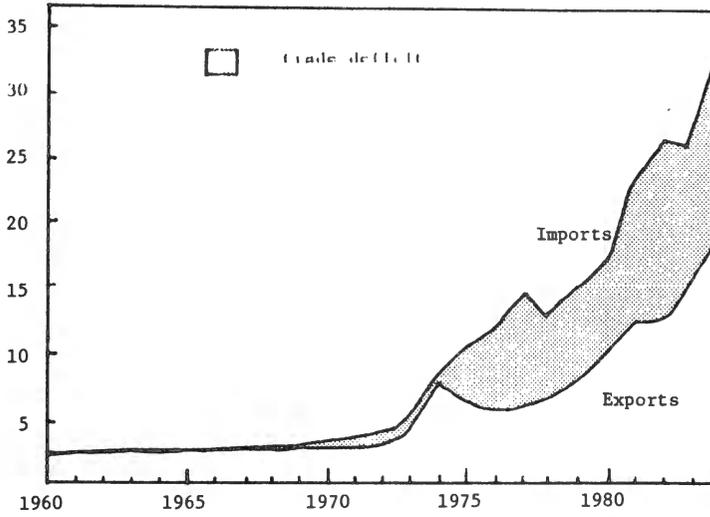


Figure II-2

GROSS NATIONAL SAVINGS AND INVESTMENT, 1960-90

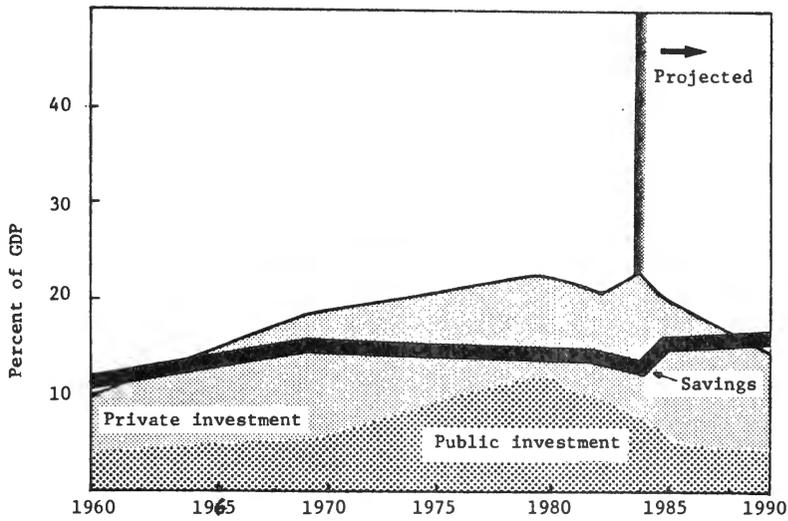
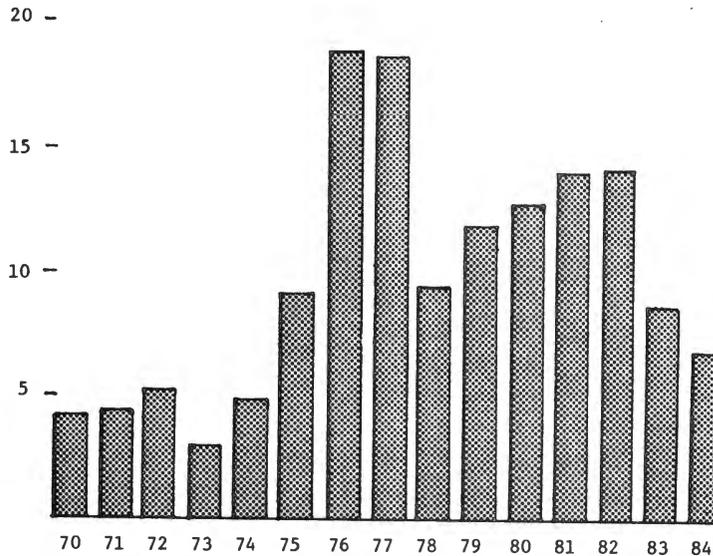


Figure II-3

BUDGET DEFICIT AS PERCENT OF GDP



Morocco financed these budget deficits primarily through external borrowing. External debt almost doubled between 1978 and 1984, reaching \$13.2 billion or 108 percent of Morocco's GDP in 1984. In 1978, over 51 percent of the long-term external debt was private; by 1984, private debt accounted for less than 38 percent of the total.

a. Stabilization and Structural Adjustment Efforts

By early 1983, the growth of borrowing abroad had brought about an unmanageable debt service burden, culminating in a severe foreign exchange shortage. Moroccan authorities took emergency measures which virtually halted imports, and turned to the IMF and the World Bank for help to cope with the crisis. In the 1983 negotiations with the IMF for an SDR 300 million (\$317 million) Stand-By Arrangement, the GOM agreed to cut projected budget deficits, to lift controls on a wide range of prices, to reduce subsidies on consumer goods, and to move toward a more realistic exchange rate for the dirham. The program incorporated ambitious targets, such as reducing the GOM budget deficit by over 50 percent within two years.

These stabilization measures were complemented by fundamental economic policy reforms negotiated with the World Bank as part of the first Industrial and Trade Policy Adjustment loan (ITPA I), signed in January 1984 for \$150 million. These reforms, based on an in-depth analysis of Morocco's industrial incentive structure and trade regime, combined measures to liberalize trade by lowering tariff and non-tariff barriers to imports as well as reducing the costs and administrative complexities of exporting.

In January 1985, Morocco met with a Consultative Group in Paris under the auspices of the World Bank. The Group agreed that Morocco would be able to reestablish self-sustaining growth through (a) donor assistance in obtaining needed debt reschedulings and new capital and (b) Morocco's adherence to the program of stabilization measures under IMF Stand-By Arrangements and structural adjustments under ITPA and IBRD sectoral loans. Morocco agreed to continue consultations with the Consultative Group about progress under these programs.

Following the successful implementation of ITPA I, marked by progress toward a more liberal trade regime and fewer controls in domestic markets, the Moroccan authorities negotiated ITPA II for \$200 million, signed in mid-1985. The provisions of this loan continued the structural adjustment process begun

under the first loan. Import tariffs and related charges are being further reduced, while taxes levied on exports are being eliminated. Similarly, administrative controls on both imports and exports are being simplified or eliminated. Domestically, the GOM has undertaken efforts to improve programming of public investments, and the performance of public enterprises.

Negotiations with the IMF for another Stand-By Arrangement proceeded in tandem with the ITPA II negotiations. Although by July 1985 the GOM had slipped from the IMF's targets and conditions, it was able to bring the process back on track through a series of measures, including the very sensitive political step of raising prices (reducing subsidies) on the basic food staples of flour, sugar and edible oils. Based on these measures, the second Stand-By Arrangement for SDR 200 (\$220) million became effective in September 1985, covering the period through February 1987. Subsequent to the signing of this second Stand-By Arrangement, the Paris Club of public creditors met and agreed to a rescheduling of Morocco's public debt over the same period as the Stand-By. Morocco has negotiated a rescheduling of its 1983-84 debt to private banks with the London Club, but a few technical disagreements on final terms have delayed signature of the agreement. Negotiations for private debt falling due in 1985-86 have just begun. In addition to the two successive IBRD trade policy adjustment loans and IMF Stand-by Arrangements, the GOM has also negotiated major sectoral reform loans with the World Bank for the agriculture, education and health sectors. This series of sectoral reform loans (each with substantial conditionality), reflects the breadth of the overall structural adjustment process to which the GOM has committed itself.

b. Performance

Morocco has achieved a generally positive though mixed, record in the implementation of its stabilization and adjustment effort. The complexity of the program and the range of steps taken to date is illustrated in the schematic overview in Table II-1. In pursuing this ambitious program, the GOM has reached some IMF program targets and missed others. Similarly, while it has complied with most of the ITPA II conditions, it has come up short on others. Budget discipline has greatly improved, and the 50 percent deficit reduction target was surpassed by the GOM. However, the trade gap has not closed as had been hoped, in spite of efforts to slow the growth of imports

TABLE II-I
ECONOMIC POLICY MEASURES AND RELATED EVENTS

Economic Policy Events	1983				1984				1985				
	I	II	III	IV	I	II	III	IV	I	II	III	IV	
World Bank loans		\$121M for oil expl. + other	\$42M for irrig.	\$100M agricult. sector \$45M AfDB	ITPA I: \$150M						\$28.4M for health	ITPA II: \$200M	
IMF stand-by arrangements		\$127M for roads	First stand-by SDR300M	\$530M donor commitment				Second tranche 1st stand-by (SDR40M)				New stand-by (SDR200M)	
Trade reform	Imports virtually frozen for several months		(Re)export simplified	Deposit for imports lowered 25 to 15%	Further simplif. of (re)exports	Max. import duty lowered to 100%	Max. import duty = 60%	Export licensing simplified	No deposit for imports	Significant reduction of import licensing requ'ts	Further liberal. of imports		
Price liberalization and financial sector		Food price increases	Interest rates adjusted	Price increases for petr. prod. (5 to 15%)	Price increases for gasoline	Price increases for petroleum products					Some liberal. of interest rates	Price increases for basic foods (subsidy reduction)	Tax reform law passed
		Minimum wages raised	Agr. producer price increases	Price de-control for most manufactured products							First issue of gov't bonds (14%) since 1976 over-subscribed	Announcement of another issue of gov't bonds	
Privatization and other economic policies	New investment code	Budget revision: cuts in capital budget + tax increases		New agricultural investment code		State export monopoly processed food abolished		Leasing of state-owned hotels to private operators			Partial privatization of public transit in Casablanca		State export for fresh fruits and vegetable abolished
Significant events		Paris Club Rescheduling	New government	Social unrest						CG meeting in Paris	New government	Paris Club Rescheduling	

TABLE II-2
BALANCE OF PAYMENTS PROJECTIONS (1985 - 1990)

	Assumptions (annual percentage change)					
	1985	1986	1987	1988	1989	1990
IMF Projection						
Exports	-	7.4	10.1	10.0	10.1	10.1
Imports	-	-2.3	0.2	1.8	7.8	8.4
USAID Projection						
Exports	-	5.0	7.0	7.0	7.0	7.0
Imports	-	0.0	4.0	4.0	6.0	7.0
	IMF Projection (millions of dollars)					
<u>Trade balance</u>	<u>-1,076</u>	<u>-849</u>	<u>-619</u>	<u>-413</u>	<u>-379</u>	<u>-356</u>
Exports, f.o.b.	2,165	2,350	2,587	2,846	3,134	3,452
Imports, f.o.b.	-3,241	-3,199	-3,206	-3,259	-3,513	-3,807
Services balance	-785	-763	-712	-609	-535	-510
Transfers account	1,000	1,068	1,128	1,197	1,268	1,344
<u>Current account (before debt relief)</u>	<u>-861</u>	<u>-544</u>	<u>-203</u>	<u>175</u>	<u>354</u>	<u>478</u>
Nonmonetary capital account	-75	-1,297	-799	7	-127	-265
Overall balance	-936	-1,841	-1,002	182	228	213
Debt service ratio before debt relief	63.0	77.6	60.9	47.8	46.9	47.9
	USAID Projection (millions of dollars)					
<u>Trade balance</u>	<u>-1,246</u>	<u>-1,140</u>	<u>-1,120</u>	<u>-1,092</u>	<u>-1,133</u>	<u>-1,212</u>
Exports, f.o.b.	2,117	2,223	2,378	2,545	2,723	2,914
Imports, f.o.b.	3,363	3,363	3,498	3,637	3,856	4,126
Services balance	-793	-763	-712	-609	-535	-510
Transfers account	1,010	1,068	1,128	1,197	1,268	1,344
<u>Current account (before debt relief)</u>	<u>-1,029</u>	<u>-835</u>	<u>-704</u>	<u>-504</u>	<u>-400</u>	<u>-378</u>
Nonmonetary capital account	-76	-1,297	-799	7	-127	-265
Overall Balance	-1,105	-2,132	-1,503	-497	-526	-643
Debt service Ratio before debt relief	63.9	80.4	64.2	51.2	51.2	53.3

and the good performance of manufacturing exports. With declining tariffs imports have continued to climb at rates close to those of export growth. In many cases the inability of the GOM to reach targets has been due to overly optimistic or ambitious assumptions in negotiations on both sides. And in some instances, stabilization and structural adjustment targets are in conflict. For example, the elimination of taxes and tariffs which constitute a key element of the trade liberalization process has reduced Treasury revenues from imports and exports, making IMF targets on budget deficit reduction more difficult to attain. Similarly, tight program targets for credit expansion have constrained investment, thereby hampering structural adjustment. Further, external factors, such as softening markets for phosphate derivatives, have hurt trade performance. Even so, some missed targets have been due in part to GOM decisions, such as an acceleration of investment expenditures in the first part of 1985, and several departures from the agreed-upon path for the depreciation of the dirham.

So far, IMF and World Bank appraisals of Morocco's performance under the previous and current Stand-By Arrangements and the two ITPA loans have been largely favorable. Missed targets have been addressed in part by renewed efforts by the GOM, and in part by agreements to relax the stringency of some conditions. The fundamental commitment of the GOM appears firm. We question, though, whether the adjustment process can be as rapid as projected by both the IMF and the World Bank. We believe the IMF and World Bank's critical assumptions on both import and export growth are overly optimistic. Our own projections show higher growth in imports and lower growth in exports. These comparative projections, shown in Table II-2, suggest that additional debt rescheduling and concessional assistance will be required through the CDSS planning period to help Morocco through a difficult adjustment process and assure the conditions for future economic growth.

2. Prospects of Economic Adjustment and Growth

The process of stabilization and structural adjustment in Morocco may well preclude any real growth in per capita incomes for the remainder of this decade. Trade liberalization will squeeze out inefficient industries. Stagnating per capita incomes and job losses may become a source of social tensions. However, the adjustment process may also accelerate job creation in exporting industries. Whether it will be sufficient to make up for the loss of jobs in industries no longer able to compete is not known.

a. Prospects of Domestic Reform

Fiscal Soundness: To date, the investment budget has taken the brunt of austerity, often with little economic justification for the incidence of cuts. Thus, investments that are critical to future growth may have been shelved, while other less critical may continue to be supported. Programming of public investments must improve to permit effective investment budget management and control, without hurting long-term growth prospects. The GOM has taken steps to improve the investment analysis process, with the support from the World Bank, the UNDP and USAID. The GOM has also taken some -- albeit halting -- steps to reduce the operating budget. Public sector hiring has been cut substantially from levels in prior years, and salary increases have been reduced or postponed. Further, the GOM has taken other steps toward budgetary discipline. Most price subsidies have been eliminated or reduced, including those for basic food staples. A new value-added tax (VAT) has replaced a complex system of sales and excise taxes; while its main purpose is to remove distortions, it is also expected to raise revenues slightly.

Fiscal soundness also requires a significant reduction of GOM arrears to its suppliers and contractors. Estimates placed total GOM arrears at the end of 1984 at about 10 billion dirhams (\$1.1 billion), with net arrears to state-owned enterprises accounting for over half of that total. The GOM intends to reduce these arrears to nominal amounts over the next three years as part of its efforts in the area of public enterprise rationalization. However, results thus far have been disappointing.

Role of the Private Sector: New economic policies are shifting emphasis from the public to the private sector. While the GOM so far has shown limited enthusiasm for full divestiture of state-owned enterprises, it is taking significant steps to improve the efficiency of those enterprises and to reduce the role of the state in the economy. For example, the state monopoly on agricultural exports (the Office for Marketing and Export, OCE) has been eliminated, creating a new competitive marketing environment. The government has begun to lift other public-sector monopolies, such as for urban public transit, as well.

b. Prospects of Improving Trade and Debt Balances

Trade: Rapid growth of exports will play a critical role in the reduction of the trade deficit. Slowing the growth of imports -- difficult as

barriers continue to fall -- will not suffice, especially as the economy grows. As noted above USAID believes that the IMF and the World Bank have tended to take an overly optimistic view of future export growth. The most recent IMF projections, yielding a positive current account balance by 1988, appear too optimistic regarding the growth of world trade and the strength of commodity markets. At the same time, unforeseen declines in the price of oil and wheat will result in import savings. USAID projections assume slower, though still solid, export growth as well as favorable developments in the crude oil and cereals markets (cf. Table II-2). These alternative assumptions show the need for a longer period of adjustment, a greater need for external financing. Debt-service ratios remain slightly higher, and per capita income growth is not expected to resume until the 1990s. Morocco's performance in domestic cereals production and energy demand management during the next five years could significantly affect the overall trade balance as well.

External Debt: The debt situation is so severe that even the more optimistic IMF projections imply that debt service will require nearly half of the foreign exchange earnings from the export of goods, non-factor services, and transfers, even with reschedulings. The IMF projects that total debt will remain above annual for sometime GDP, reaching \$14 billion in 1989 before it begins to decline. To maintain financial equilibrium, the GOM will have to seek up to a billion dollars of debt relief a year through 1988, and will face the need for additional debt rescheduling beyond 1988.

The external debt burden is a serious drag upon economic growth, discouraging lending, and depressing the investment climate. Doubts about actual convertibility of dirham profits into other currencies, although legally guaranteed, add to the risks potential investors abroad perceive. These risks have militated against long-term direct foreign investments. Investments are currently focused on options with short payoff periods, exploiting existing capacity rather than expanding production capacity for the long term. Until Morocco demonstrates it can achieve a healthier economy through structural adjustment, offering reasonable returns and acceptable risks, its efforts to attract long-term private capital are likely to fall short of the level needed. Continued GOM commitment to economic reform for the long-haul is critical to increased investment and growth. It is in reinforcing the GOM's commitment to policy reform and structural adjustment that USAID's program can be of vital importance to Morocco.

3. Key Elements in Economic Growth: Population Pressures, Agricultural Development and Energy Supply

The three sectors in which USAID has concentrated its resources and efforts during the previous CDSS period are critical components of the overall macroeconomic picture and will be key determinants of the rate of growth and development of Morocco's economy in coming years. The problems in each sector are analyzed in some detail in subsequent sections. Nevertheless, it is important to note the linkages between these sectors and the "larger problem" of overall economic growth.

Population Pressures: Morocco's rapid population growth (2.7 percent per year) has essentially erased any gains registered in productivity and economic growth in recent years -- with the result of stagnating or even declining real per capita incomes. The lack of economic gains threatens Morocco's political and social fabric. At current rates, Morocco's population of 22 million will double in 26 years. The pace of population growth demands rapid increases in agricultural productivity to feed the population, or -- barring such productivity gains -- rising food imports. As described below, increased imports rather than increased productivity have characterized the food supply situation in Morocco. Further, rural-to-urban migration continues apace, with the concomitant problems of rapid urban expansion in Casablanca and numerous secondary cities.

Morocco's rapidly growing population severely taxes the ability of the GOM to provide needed services, especially in expanding urban areas. The GOM's commitment to the provision of social services (health, housing and education) is admirable but has created unsustainable pressures on inadequate budgetary resources. The high level of rural to urban migration exacerbates these problems. Further, the rapidly growing numbers of job seekers exceed the ability of the economy to create employment. Projections indicate that under present conditions the economy will be able to generate less than two-thirds of the total jobs required to absorb annual net entrants into the labor force. In addition, the ability of the economy to generate domestic savings is impaired by the high rate of population growth. Household savings are low and "informal" (not banked), restricting the capital formation required for economic growth. Finally, the stress on Morocco's natural resources resulting from rapid population growth is severe and growing.

Agricultural Development: In 1984, imports of foodstuffs, beverages, and tobacco accounted for 17 percent of the total import bill. The agriculture

sector accounts for about 40 percent of total employment and has produced between 10 and 17 percent of GDP over the past decade, depending on weather and other factors. Its performance has a major impact on the overall performance of the economy, and the lack of growth in the agriculture sector in recent years has been a key contributor to the country's overall economic stagnation. The agriculture sector suffers from many of the structural problems identified in the overall economy above, e.g. inadequate reliance on market forces, excessive protection of inefficient industries, excessive government intervention and low productivity of investments in the sector. Addressing these problems in agriculture will be critical to the success of Morocco's overall structural adjustment effort.

Morocco has a strong comparative advantage in food production, and could have a favorable agricultural trade balance. Unfortunately, domestic food production has been stagnated over the past decade, necessitating steady increases in food imports. Morocco is now heavily dependent on imports to meet domestic consumption needs for wheat, vegetable oils, milk products and other key foodstuffs. At the same time agricultural exports have not been growing rapidly and in some cases have declined in terms of volume. As a result, Morocco is faced with a sizeable deficit in its agricultural trade balance (\$375 million in 1984).

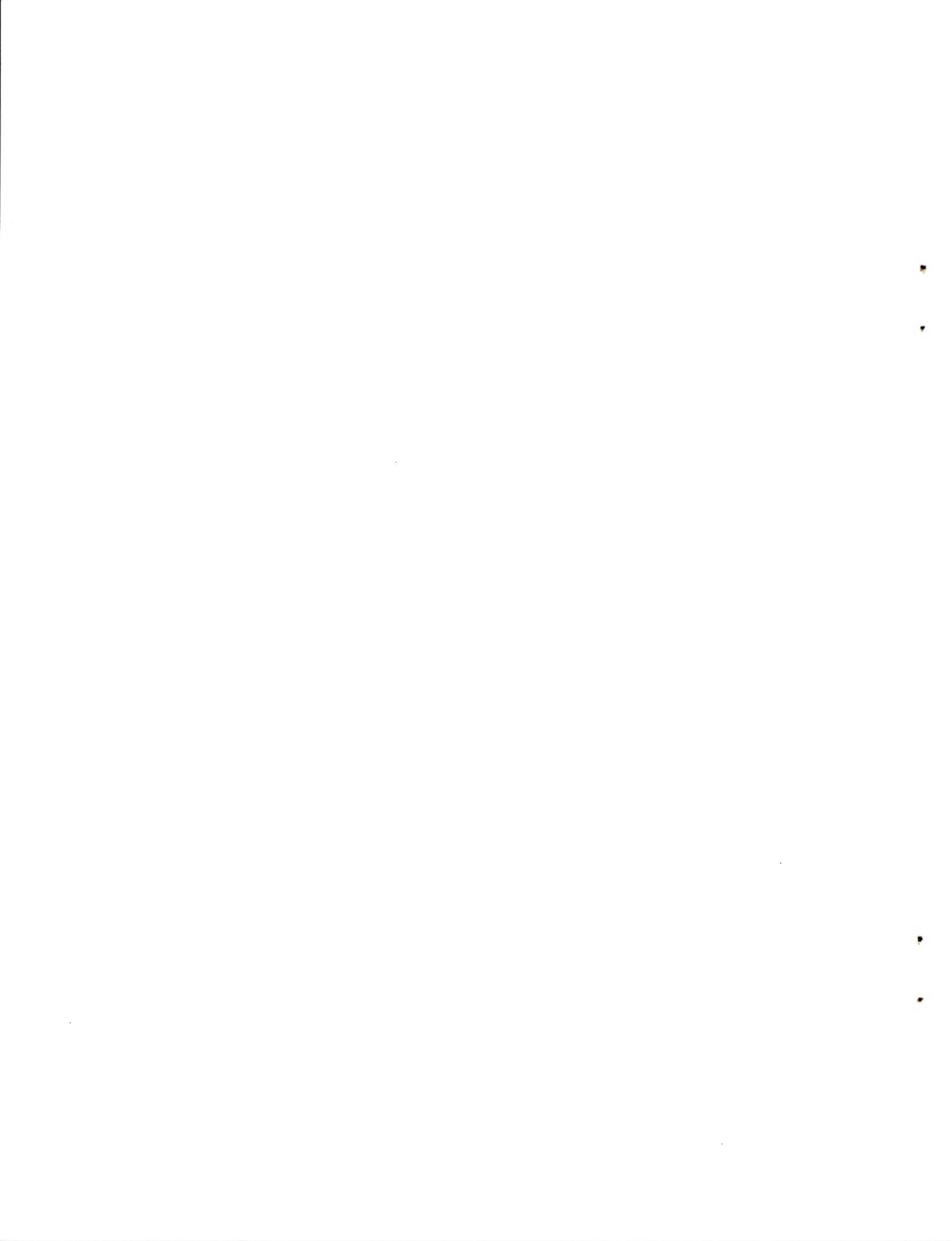
In order to improve the productivity of agriculture for both domestically consumed and exported crops, the GOM is attempting out a major program, based on sector loans from the World Bank and project loans from USAID and other donors. These reforms include reorienting public investment towards rainfed agriculture, reducing the excessive protection of irrigated crops, restructuring prices and reducing subsidies to eliminate distortions of resource distribution, and exploring the transfer of a range of activities to the private sector.

Energy Supply: Energy is a critical and costly input into all sectors of the economy, and thus closely associated with growth prospects. As agriculture and industry grow, energy consumption will increase, unless it is used much more efficiently. Morocco imported nearly 90 percent of the commercial energy it consumed in 1984, at a cost of approximately \$1 billion. Energy imports constitute the largest single drain on the trade balance and corresponds to over 45 percent of export earnings. Hydro-electricity (which has declined precipitously in recent years as a result of the drought) and coal from a single mine account for virtually all of Morocco's domestic

production of commercial energy. In spite of intensive efforts, mostly in conjunction with private sector partners, Morocco has been unable to locate any significant deposits of fossil fuels. The recent decline in world market prices for oil could alleviate the import burden significantly, although possibly temporarily.

The consumption of traditional forms of energy -- mostly fuelwood from forests and shrublands -- entails serious environmental costs. Used primarily in cooking, fuelwood accounts for almost 80 percent of total household energy consumption and for roughly 50 percent of total energy consumption. The country is now consuming its wood resources at a level far in excess of natural forest growth and regeneration, mortgaging future agricultural production potential and environmental health. As in agriculture, the GOM is undertaking a series of measures to increase efficiency and rationalize management of energy resources. This is being done with the active support of both the World Bank and USAID.

II.B. KEY DEVELOPMENT PROBLEMS



1. INADEQUATE ECONOMIC GROWTH

a. Problem: Financial Disequilibria

Nature, Severity and Distribution

The macroeconomic overview above provides a sketch of the nature and severity of Morocco's internal and external disequilibria: the persistent balance of payments deficit, the somewhat more malleable budget deficit, the savings-investment gap, and the severe foreign debt burden. Restoring these balances require simultaneous, efforts to respond to different elements of the problem. Domestic disequilibria must be addressed by greater financial discipline to reduce budget deficits, increase revenue and improve the productivity of public investments. Further, Moroccan government at the national and local level must rely less on the resources of the national treasury, and look more toward other forms of financing, such as cost recovery systems relying on user charges, to provide public services. External disequilibria account for much of the economic growth problem. Debt rescheduling is essential for short-term relief. The country may benefit from near-term improvements in the terms of trade (e.g. a fall in oil prices) but a long-term solution hinges on improvements in the structure of the trade balance.

The problems of external disequilibria have developed over the past decade. Cautious economic policies were pursued by the GOM until the mid-1970s. Then, in 1974, Morocco's foreign exchange earnings quadrupled due to a sharp rise in world market demand for phosphates. Encouraged by this windfall gain, the GOM embarked upon an ambitious investment program; investment as a percentage of GDP increased rapidly, reaching a peak of 27.6 percent in 1977. Unfortunately, the phosphate boom was shortlived. But a reversal of the GOM investment program did not follow. Only toward the end of the 1970s did policy makers realize that the economy could not sustain the pace of investment. Investment as a percentage of GDP dropped somewhat, but not to pre-1975 levels, remaining in the range of 21 to 23 percent in recent years. Even the austerity budgets since 1983 have not lowered this share appreciably.

Morocco's domestic savings have been inadequate to finance its investment program. Even when remittances of Moroccan workers in European countries are taken into account, total national savings are only approximately 15 percent of GDP, far short of total gross investment. The investment-savings gap was estimated to be about 6 percent of GDP or nearly \$630 million in 1984.

The investment boom starting in 1974 gave rise to a major increase in imports which continued even after the phosphate boom fizzled. Export earnings dropped, then grew modestly in 1977 and 1978. Since then, export performance has improved significantly. With the exception of 1982, export earnings (in current dirhams) have increased at annual rates of between 18 and 30 percent. Export growth has, however, been continually outpaced by increases in imports. Since 1973 imports have been growing at double-digit annual rates, increasing by one-third in 1984 (in current dirhams).

To finance the investment and foreign exchange gaps, Morocco relied heavily on external borrowing, increasingly turning to private lenders. As a result of this trend and generally worsening financial conditions worldwide, average loan terms were characterized by higher interest rates and shorter maturities. By 1985, Morocco's external debt grew to 108 percent of GDP, or approximately \$13.25 billion, and it is projected to grow to \$14 billion by 1989, before beginning to decline. Debt service requirements, even with rescheduling, will constitute a serious drag on economic growth.

Key Variables and Causes

1. GOM Trade Policies: the GOM has pursued an interventionist approach to economic growth, placing emphasis on the public sector as the engine of growth and the state as the guardian of the needy. Mistrust of market forces dominated the political scene during the first two decades of independence. A complex system of protectionist measures, established in an effort to make the economy self-sufficient, led to its isolation from international markets. Internally, the GOM deployed a plethora of administrative controls and interventions which have had the dual effect of protecting inefficient operations by supplanting competition as a regulating mechanism, and limiting opportunities and rewards. The GOM's interventionist approach meant favoring import substitution over an outward-oriented economy, resulting in inadequate incentives and infrastructure for export expansion.

2. GOM Investment Policies: Public investment in the last half of the 1970s was marked by an emphasis on large capital-intensive projects (dams, irrigation systems, government buildings) and social infrastructure projects in health and education. Many of these investments have low rates of return, especially in the near term, and were financed in large part by borrowing abroad.

3. Institutional Weaknesses: The problems of trade and investment policies reflect in part the shortage of institutional capabilities for sound economic policy formulation, appraisal, and implementation. Effective economic policy-making requires adequate analytical capacities and procedures. The planning, financing and managing of public service delivery must include constant search for sustainable financing mechanisms. All of this requires the ability to collect, analyze, interpret and use economic data in the formulation of policies based on assuring an adequate return on investment.

4. Human Resources Development: The need to develop institutional capabilities goes hand in hand with the need for human resource development. In spite of Morocco's impressive educational accomplishments too few of its people are well-trained in modern economics, management or business administration. Economic policy concepts that have guided government policy and bureaucratic decisions for decades are now yielding to new approaches, often radically different. Many of these new concepts are introduced on the basis of negotiations with the IMF, World Bank and other donors and have yet to be internalized by the institutions and individuals responsible for economic policy formulation and implementation.

5. Developments in Key Economic Sectors: As detailed below, other factors contributing importantly to the overall problem of economic growth included agricultural stagnation, continued high rates of population growth and a growing import burden to meet the economy's need for energy.

Assessment of Host Country and Donor Efforts

The economic policy reforms undertaken by the GOM in 1983 mark a clear departure from the "dirigiste dogma" that characterized the first two decades of Morocco's development as a modern economy. Restoring the market is the cornerstone of that reform -- decontrol of prices, dismantling protective barriers, reducing regulatory controls, and other measures to remove or diminish distortions of market signals. New economic policies are creating the necessary conditions for private-sector led growth in a competitive world economy.

The GOM is attempting to pare the trade deficit by reducing imports of goods and services which the country can produce on competitive terms (e.g. cereals), and by curtailing demand through the more efficient allocation and use of goods it must import (e.g. energy). The GOM has also begun to establish the conditions for improved export performance: depreciation of the

dirham, streamlining of bureaucratic requirements, and the abolition of state export monopolies. Even so, much remains to be done to create the necessary institutional support for the rapid growth in exports essential to close the trade gap and help restore Morocco's ability to service its debt and finance future investment.

In close cooperation with the international donor community, especially the IMF and the World Bank, the GOM is addressing all key elements of the problem of financial disequilibria. Similarly, the GOM has committed itself to a program of institutional and human resource development in the area of economic data gathering and analysis, investment planning and management, budget preparation and control, and policy analysis and scenario formulation.

b. Problem: Inadequate Income and Employment Prospects

Nature, Severity and Distribution

Economic stabilization and adjustment are likely to entail continued stagnation or even decline in per capita incomes over the next few years. These prospects present the main social and political issue for the Moroccan polity. Part of the problem lies in the economy's inability to generate a sufficient number of jobs. Official indicators of unemployment and underemployment probably understate the current dimensions of the problem because of questionable definitions and data deficiencies. Estimates for 1985 put the overall unemployment rate at 11.5 percent. First-time job seekers accounted for 44 percent of all unemployed persons; the percentage of secondary and post-secondary graduates who found a job within the first six months dropped precipitously from 43 percent in 1977 to 25 percent in 1982. A definition of underemployment as work for less than two-thirds of the workyear puts an additional 18 percent of the employed population into the underemployed category. Thus, according to official figures, about 27 percent of the population in the labor force are either unemployed or underemployed. The problem may be even more severe than this figure reflects.

The annual net investment required to provide jobs to the projected annual net increase in job seekers of some 252,000 persons would be in the neighborhood of 16 billion dirhams (\$1.7 billion). Under the assumption of "reasonable" capital-labor ratios, annual growth of GDP would thus have to exceed 5 percent in real terms per year just to absorb new entrants into the labor force. In fact, the Ministry of Plan has projected that the economy

will generate jobs at an annual rate of some 161,000 for the remainder of this decade, less than two-thirds of the net additions to the labor force. At that rate, the pool of the unemployed would grow at an annual rate of roughly 14 percent.

These aggregate figures gloss over the potential for maximizing the job creation performance of the economy. For example, some export industries show costs per job (capital-labor ratios) substantially below the average for all manufacturing. Thus, targeting the export industries could raise the productivity of investment with respect to job creation.

Raising per capita incomes will require both the expansion of employment opportunities and raising productivity. In spite of the relatively good performance of the economy in the late 1970s, labor productivity in manufacturing fell by 1.4 percent per year between 1976 and 1980. This reflects to some extent the rapid expansion of the public enterprise sector during that period. State-owned enterprises in Morocco have varied widely in terms of efficiency and productivity, but have come to constitute on the whole a major drain on national treasury. Increased stimulation of and reliance on the private sector is likely to increase labor productivity in coming years.

Key Variables and Causes

1. Exogenous Factors: The decline in per capita incomes in Morocco during the early 1980s is partly due to factors beyond the control of the Moroccan government. The severe drought beginning in the 1980-81 crop year greatly affected rural incomes and increased the cost of food. The worldwide recession at the beginning of the decade and rising interest rates limited the GOM's capacity to respond.
2. GOM Policies: The trade and investment policies of the GOM directed investment into capital-intensive uses, often at the expense of job creation. Internal pricing policies have distorted prices and led to an inefficient use of domestic resources. Many of these structural weaknesses are the direct outgrowth of the interventionist policies discussed above.
3. Low Productivity of Investment: Given the level of investment in absolute terms and relative to GDP, an immediate cause (or symptom) of the jobs and income problem is the low productivity of investments. In the early 1970s, a gross investment of roughly three dirhams would produce one additional dirham of annual income. A decade later one additional dirham of annual income required a gross investment of 8 dirhams. The low productivity

of investments in turn is due in part to protectionist policies, which favored investments in very capital-intensive import substitution activities, and in part to poor programming of public investments.

Assessment of Host Country and Donor Efforts

Again, the economic policy reform process, undertaken with IMF, IBRD and USAID assistance, constitute the principal GOM response to problems of employment and income in the long run. The reduction of protectionist barriers will redirect investment into more productive uses, both in terms of output and in terms of job creation. Increased incentives for private sector production is anticipated to result in new jobs and higher levels of productivity, especially in the manufacture of exports. In addition, the GOM -- with support from the World Bank -- has also taken steps to reorient its educational system more toward more marketable vocational skills. Efforts being made to address stagnating real incomes in the rural areas are described in the strategy section on Agriculture below.

c. Problem: Impacts on Urban Areas

Economic growth in Morocco has been accompanied by inequities in the distribution of both costs and benefits. A critical dimension of the distributional problem is the urban-rural split. While a good performance of the agricultural sector in rural areas is essential to overall growth, Morocco's cities and towns will carry a huge load in the successful transition of the Moroccan economy. Already, urban areas account for 70 percent of GDP, 44 percent of the population, and 43 percent of total employment. By the year 2000, over 50 percent of the total population is projected to live in cities and towns.

It is in the urban areas especially that the GOM will have to implement new policy approaches accelerating private sector growth, strengthening market mechanisms and pruning government intervention. The social friction likely to accompany economic austerity and adjustment will be most pronounced in urban areas, calling for mitigating measures. Since the need for fiscal discipline extends to all levels of government, policy formulation, resource mobilization and program management at the urban level face constraints similar to those at the national level.

Morocco faces serious institutional weaknesses in formulating and implementing policies in support of economic growth at the urban level.

Public and private sector institutions have not demonstrated an adequate capability to plan, finance and manage services necessary to support economic growth at the urban level. Government-supported urban development programs have relied excessively on national budgetary resources for financing instead of developing effective mechanisms for mobilizing private sector financial resources. Program design and implementation have suffered not only from insufficient institutional capabilities of government implementing agencies, but from the lack of coordination among these agencies, and limited private sector participation.

Urban problems have found full expression in the housing sector. Rapid urban growth long ago outstripped the ability of public providers to meet the shelter needs of low-income families. Urban households therefore took matters in their own hands: as much as 50 percent of the housing built in some of the major cities in recent years is considered "clandestine," that is, permanent in nature but untitled and built in unzoned areas lacking access to water, sewerage, electricity and community services. The major constraints to increasing the supply of adequate and affordable shelter and related infrastructure services for low-income residents of urban areas include: inadequate housing and urban finance institutions; insufficient private sector investment in land and housing development; inadequate supply of serviced land; and the absence of an overall shelter policy which assures coordination between public and private housing and service providers.

2. HUNGER AND FOOD DEFICITS

- a. Problem: Stagnation of Food Production and Growing Food Imports 1/

Nature, Severity and Distribution

During the 1960s, Moroccan agriculture grew at an average of 3.6 percent per year. During the 1970s and early 1980s, however, the growth rate for the sector slowed to around 1.2 percent. Although production of some crops, particularly irrigated crops such as citrus, sugarbeet and sugarcane, has increased, production of many major dryland crops (e.g. durum wheat, barley, corn, peas, beans, and chickpeas) has actually declined. Major declines have also occurred in livestock numbers, due to the severe drought which started in 1980. The sheep population has fallen by 24 percent since 1980. As a consequence Morocco has become heavily dependent on imports of basic foodstuffs, particularly cereals, vegetable oils and milk products. During the 1980-83 period, domestic production covered only 62 percent of total cereal needs (as compared to 87 percent during 1965-69), 64 percent of milk consumption and 23 percent of vegetable oils. The bill for wheat imports alone reached \$280 million in 1984. At the same time, the growth of Moroccan agricultural exports, measured in volume, has been nearly stagnant over the past 15 years. As a result of these trends, the agricultural commodity trade balance of Morocco, which was a surplus in 1974, has become one of major deficits, totaling nearly \$375 million in 1984. This deficit has severely aggravated Morocco's foreign exchange gap.

Key Variables and Causes

1. Drought: Drought conditions, varying in severity from year to year and across regions, have continued since 1980. Although rainfall levels so far this year have been promising, it is not possible to say yet that the drought has ended. Periodic drought is a recurring feature of Morocco's climate.
2. Investment Priorities: Since independence in 1956, the GOM has concentrated its resources in agriculture on the development of irrigated production, to the neglect of rainfed crop production. The latter produces

1/ Annex C, the detailed Description of the Agricultural Sector in Morocco, contains an extensive discussion of the Moroccan food production system and the problems it faces.

most of the country's basic food supply and supports the bulk of the agricultural population. Though these investment priorities are changing, they are in part responsible for the current problem of stagnating food production. Further, greater output could also be achieved from the irrigated sector by improvement in water pricing, allocation policies, management and systems maintenance. Not only has public sector extension been weak, it has focused on the provision of public subsidies, inputs and services to farmers not on extension education. Delivery of production-increasing inputs by the private sector has been hampered by subsidization, regulation and state monopolies.

3. Institutional Capacity: Weaknesses in the GOM's research and extension institutions have led to a lack of improved technologies appropriate to small- and medium-scale producers, especially in rainfed areas, and inadequate dissemination of technologies as they become available. Institutional factors such as the dominance of parastatal agencies in supply and distribution systems have limited investment in, and access to, production-increasing inputs such as seeds and fertilizers.

4. Planning and Policy Problems: The GOM's capacity for agricultural planning and policy analysis remains limited. Subsidy policies, while improving, continue to discourage domestic production. The domestic cereals marketing system is overregulated and biased in favor of imported wheat available at below world market prices.

Assessment of Host Country and Donor Efforts

The GOM was slow to respond to the continuing drought conditions of the early 1980s. In recent years, however, concern over low reservoir levels has led the GOM to more carefully manage water for irrigation, hydroelectric power and potable water uses. The GOM has conducted public water conservation campaigns and is exploring for untapped ground water sources for agriculture. More importantly, the GOM has recognized that drought is a continuing factor in the Moroccan environment and has begun long term planning for drought management.

The GOM is committed to redirecting resources to the rainfed sector, as called for in its "Plan Cerealier." However, budgetary constraints, a lack of appropriate technology for dryland agriculture, and the need to complete irrigation investments that have already begun, has made such a change in priorities difficult to accomplish. Nevertheless, the rainfed sector, which

accounted for less than 25 percent of public investment in 1978-1980 period, accounted for 37 percent between 1981 and 1984. The IBRD is supporting the rehabilitation of existing irrigation networks through two major irrigation projects, and the GOM is committed to reducing water delivery subsidies in its irrigation systems and to making major improvements in water charges and collection rates to increase coverage of operation and maintenance costs.

The GOM's agricultural research capacity and extension capabilities are being strengthened. A dryland agriculture applied research center (the Aridoculture Center) has been established with USAID assistance. Improved technology for cereals and other rainfed crops is being developed. Major policy and institutional reforms of Morocco's National Agricultural Research Institute (INRA) are being undertaken with AID and other donor support to concentrate scarce resources on priority research problems. In addition, the GOM is in the process of instituting major reforms in the extension service, with IBRD assistance. An IBRD sponsored program to create 28 pilot extension centers is promising but only just getting underway. The GOM has planned, but has not yet implemented, a reform under which the responsibility for development of rainfed areas, including extension, will be transferred from the provincial offices of the Ministry to the more autonomous and effective regional agricultural development agencies which now manage the irrigation networks. Some important first steps have been taken in elimination of input subsidies and deregulation of the private sector, especially for fertilizers. However, more needs to be done to assist farmers to acquire production-increasing inputs. Access to agricultural credit in particular is a key element. The Agricultural Credit Bank in Morocco is a strong institution and has made major progress in increasing lending to small farmers over the last decade.

Morocco is thus currently undertaking a major adjustment of the agricultural sector, involving the deregulation of prices, elimination of subsidies and monopolies, and redirection of public sector investment. Within the context of this adjustment program, and with USAID and IBRD assistance, the GOM has undertaken an analysis of the impact of pricing and subsidy policies on incentives to production. The agricultural planning, data collection and analysis capability of the Ministry is being strengthened with USAID assistance. USAID and IBRD are encouraging the GOM to deregulate domestic cereals collection and promote the use of domestic cereals in production of flour for urban markets. With donor encouragement, the GOM has

started to eliminate or reduce subsidies in seed and fertilizer distribution and to increase private sector participation in the distribution of these inputs.

b. Problem: Inadequate Nutrition Levels of the Poor

Nature, Severity and Distribution

At the time of the last national nutrition survey (1971), 67 percent of the Moroccan population consumed the minimal daily requirement of 1800 calories per day recommended by the World Health Organization. That study also showed that 45 percent of children in rural areas suffered from moderate protein-calorie malnutrition as compared to 33 percent in urban areas. Although no firm and current national nutrition data are available, the World Bank and FAO estimate that daily per capita calorie intake in Morocco has risen to an average of 2,643 calories, or 115 percent of recommended levels. This improvement reflects increases in incomes and distributional policies since 1971. It is probable that per capita consumption and nutritional status have improved for a major portion of the Moroccan population especially prior to the drought which commenced in 1981.

Despite this improvement, malnutrition remains a problem among the poor, especially those in rural areas and regions which have suffered from the drought. Although the average weight and height of Moroccan newborns exceed normal standards, a significant deterioration takes place over the next 10 to 48 months due to a combination of improper weaning practices, undernutrition, and unsanitary conditions.

Key Variables and Causes

1. Increasing Cost of Foodstuffs: An increasing proportion of basic foodstuffs is being imported into Morocco rather than produced domestically. The cost of foodstuffs represents a large portion of household expenditure of the poor. The poorest 45 percent of Moroccan families spend over 80 percent of their household income on food.
2. Impact of Public Policy: Current data by meaningful categories (i.e. income, education, residence, occupation) are lacking on the nutritional status of the population. Hence there is little comprehension of the role a multisectoral food policy could play in improving nutritional status. The Ministry of Agriculture is not directly concerned with consumption issues, as it is not charged with GOM responsibility to address them. All direct efforts

to affect nutrition status are within the jurisdiction of the social sector ministries, i.e. Public Health and Social Affairs.

3. Nutrition Education: There is little knowledge on the part of poor families as to the proper weaning practices and good hygiene. Coupled with poor environmental sanitation, this results in severe diarrhea and malnutrition cycles for many young Moroccan children. Intrafamilial food distribution customs also favor males, leaving women and children particularly vulnerable to food shortages.

Assessment of Host Country and Donor Efforts

Efforts are underway to increase aggregate domestic production and productivity of Moroccan agriculture, particularly with respect to widely consumed (and imported) foodstuffs such as cereals and sugar. Untargeted consumer subsidies on flour, edible oil and sugar, established to protect the purchasing power of the poor, have become a major drain on GOM budgetary resources. The GOM raised prices on these basic foods in September 1985. Current and prospective financial constraints will probably require the GOM to eliminate the remaining subsidies over the next four years. The GOM has therefore become interested in methods of targeting food assistance to the poor.

The GOM is currently examining food consumption needs and alternative long-term supply scenarios. This information will be supplemented by the results of a major household consumption and expenditure study (14,000 households) currently underway with U.N. assistance. The results of the study will be available in late 1986, and will form the basis for further analysis and policy reformulation. In addition, a more directed child health and nutrition study is planned, utilizing a portion of the same households studied in the consumption survey. Data from these surveys should provide the GOM with improved means of targeting health and nutrition interventions, including food subsidies to those who need it.

Within the framework of its overall mother-child health program, including the AID-assisted home visitor health and family planning program (VDMS), the Ministry of Public Health provides nutrition education and surveillance. In addition, the Ministry of Social Affairs provides nutritional education programs to 150,000 low-income mothers receiving food supplementes supported by the PL 480 Title II program. This latter program may be strengthened through USAID assistance as the Title II program is phased out and full responsibility for food supplementation is assumed by the GOM.

3. RAPID POPULATION GROWTH

Nature, Severity and Distribution

Morocco's current population growth rate of 2.7 percent per year is one of the most serious threats to achievement of other development objectives. Mid-range population projections for the year 2000 reach 31.7 million, an increase of 9.6 million (44 percent) over the 1985 population of 22.1 million. At current rates the population will double by the year 2012. Progress in fertility reduction has been made by Morocco in recent years, with the total fertility rate dropping from 7.20 in the mid-1960s to 5.56 in 1982. This drop, however, has occurred primarily in urban areas where the TFR now registers 4.46 compared to 7.02 in rural areas. This situation directly reflects differing levels of contraceptive usage. A recent survey shows increases in prevalence nationwide from 12 percent in 1978 to 26 percent in 1983 (21 percent modern methods; 5 percent traditional methods) while rural prevalence was found in the same survey to have reached only 15 percent. Evidence of faster falling fertility in the largest urban areas, where prevalence exceeds 42 percent, is a positive aspect of the urbanization trend. Nonetheless, continuing high levels of fertility and desired family size in rural areas, as well as the burgeoning growth rate in urban areas, offer challenges to be met over the CDSS period if other development efforts are to achieve anticipated results.

Key factors working in favor of a lowered birth rate have been the increase of age at first marriage in both rural and urban areas, from 17 in 1960 to 22 in 1980; improved knowledge of contraceptive possibilities, with 91 percent of women informed about at least one modern means of contraception; and wider access to contraception through public and private sources. These positive signs are countered by the increasing size of the target population. With more than 40 percent of the population today under 15, access to and effectiveness of family planning services must increase still further if population pressures are to be mastered.

Key Variables and Causes

1. Institutional Capacity: The Government of Morocco early on recognized population pressure as a potential threat to its development efforts. Although the first two development plans (1968-72, 1973-77) addressed the problem, implementation was weak. This reflected the GOM's lack

of will to confront the problem with effective technical approaches given concern over the political cum religious reaction to overt promotion of family planning. In 1980, however, an AID-supported operations research project to test household distribution of contraceptives in Marrakech province showed the climate was ready for a more vigorous approach. As a result, the Ministry of Health with AID assistance began a mother-child health and family planning program in 3 provinces based on household distribution of a package of family planning and primary health care services. Contraceptive services were also expanded into provincial health facilities. Today the household distribution program, or VDMS, is fully operational in 13 provinces which contain 40 percent of the population. The extension of VDMS to another 6 provinces and 9 peri-urban prefectures in 1986 will provide coverage for 70 percent of the total population. However, increasing contraception prevalence in these covered areas is the top priority during the CDSS period.

2. Policy Environment: Over the same period and with AID assistance, the sensitivity of GOM officials to the pressures of rapid population growth has increased. Although an explicit high level policy statement on the problems of such growth is unlikely to appear in the near future, the population factor is increasingly integrated into GOM-wide development planning. Nonetheless, due in part to unavailability of appropriate data, and in part to the complexity of the computations involved, GOM planners have continued to focus on a single "most-likely-scenario" in their efforts to introduce demographic factors into sectoral plans. Because of the poor quality of the data with which they are working, as well as the uncertainty connected with such forecasts, a more sophisticated approach to population and development planning is needed.

3. Private Sector Environment: The population effort is currently based largely in the public sector, especially in terms of family planning promotion. Limited private promotion efforts are centered in the private Moroccan family planning association, whose range of activities is delineated by an understanding between the association's leaders and the Ministry of Public Health. Thus far social marketing in the form known in Jamaica or Bangladesh falls outside of this range. Despite the limitations on family planning promotion in the private sector, however, the most recent prevalence survey showed the private sector to be the most important source of supply for pills, condoms and vaginal methods, as well as for one quarter of IUD insertions and nearly one-third of female sterilizations. Furthermore,

through policy dialogue, GOM agreement has been obtained to carry out additional private market research to identify obstacles to wider contraceptive usage in terms of price, availability and cultural acceptability. Research results will be used to design means of increasing the role of the private sector as service provider.

4. Political and Cultural Factors: The conservative approach taken by the GOM to social marketing reflects the cautious tone which has characterized the population and family planning effort in Morocco from the beginning. As a result, no overt opposition to the program's increasing vigor has emerged. The family planning program, expressed in terms of child spacing, receives strong effective support at the highest levels. Yet criteria restricting sterilization to females over 28 with at least 4 children, including a living son at least 2 years old, reflect the reluctance of the GOM to endorse birth limitation at "policy levels." The question is open as to the extent to which the political and religious climate can now accommodate more open support for fertility reduction.

Assessment of Host Country and Donor Efforts

The GOM has vigorously addressed the problem of rapid population growth in terms of instituting an increasingly effective family planning program. Contraceptive prevalence targets for the program are being met. The target set for the CDSS period of 43 percent (37% modern methods) by 1991 assumes continuing assistance from other donors (primarily USAID and UNFPA), and growing private sector contraceptive sales. The longer range prevalence target established by the GOM of 50 percent (modern methods) by 2002 probably requires a more forthright approach by the GOM to demographic planning -- one which promotes family planning for birth limitation as well as child spacing. Program achievements to date have depended heavily on AID as well as on UNFPA support. Both groups have been successful in stretching GOM planning horizons for the program, largely through formal and informal operations research.

4. HEALTH DEFICIENCIES AND EARLY CHILD MORTALITY

Nature, Severity and Distribution

Morocco has made substantial gains in improving health conditions over the past twenty years, as is reflected by present life expectancy figures of 59 for men and 60 for women. Furthermore, recent surveys indicate that infant mortality has dropped to 91 nationwide, while preventable communicable disease incidence (whooping cough, diphtheria, polio and measles) has fallen substantially. Nonetheless, both infant and child mortality rates are unacceptably high for a country at Morocco's stage of development, especially among the poor in rural and urban marginal areas. Neonatal tetanus accounts for more than 50 percent of tetanus incidence for which overall rates have not fallen. Typhoid and tuberculosis rates have shown slight increases in recent years. Infant mortality comprises 40 percent of total mortality with 35 percent of these deaths reportedly related to diarrheal illness. Current data on child malnutrition are lacking, but health officials have noted earlier incidence of malnutrition and more chronic malnutrition than previously. Finally, underreporting of mortality, especially of infant and child deaths, is high, particularly in rural areas.

Many of the health deficiencies can be traced to continuing deficiencies in sanitation and in preventive health services, especially in rural and urban marginal areas. Only 22 percent of the rural population has access to potable water compared to 65 percent of the urban population. Fewer than 15 percent of expectant women receive prenatal care in rural areas while 50 percent receive such care in urban settings. More than 55 percent of deliveries nationwide take place without medical supervision. Although 80 percent of urban children are effectively vaccinated against polio, whooping cough, diphtheria and tetanus, fewer than 40 percent of rural children have completed the full vaccine sequence. Measles coverage rates are slightly lower, but show the same rural and urban differentials.

Key Variables and Causes

1. Institutional Weaknesses: GOM efforts to increase the effectiveness of these programs are hindered by weaknesses in the institutional structure and capacity of the Ministry of Health. These include low productivity of the health system due to management gaps, inferior pay scales for health personnel, especially paramedical staff, and insufficient incentives for rural

service; inadequate health planning capacity; and a lack of data on mortality, health and nutrition status, which if available, would permit a more focused approach and thereby improve productivity.

2. Financial Constraints and Increasing Health Costs: The GOM's economic and financial support for the public health system has been reduced at a time when demands for care, especially curative care, have been increasing. This reflects growing public expectations of "modern medicine" particularly in the urban areas, as well as the "epidemiological transition" occurring as a result of increased life expectancy and improving health conditions. The MOPH share of the GOM budget fell from 7.9 percent in 1965 to 3.5 percent in 1985, while the personnel portion of the MOPH operating budget has expanded from 56 percent to 73 percent over the same period.

3. Public and Private Sector Collaboration: Public and private sector collaboration in the health sector is weak. The MOPH has assumed too much of the burden to supply "free" health care to all, and is no longer able to finance quality services in its existing infrastructure quality services.

Assessment of Host Country and Donor Efforts

Progress made in reducing infant mortality and preventable diseases can be attributed largely to the GOM's nationwide mother child health program which includes family planning and immunization as important components. In 1981 nationwide programs in immunization and diarrhea control were launched with goals established in the 1981-1985 development plan to vaccinate all infants under one year and to treat 35 percent of diarrheal illnesses with oral rehydration therapy . Both UNICEF and WHO have supported these programs which, while not achieving targeted levels, have made substantial progress. Furthermore, both immunization referral and oral rehydration therapy are included in the USAID-supported VDMS activity and are the subject of new promotion efforts. Finally, both are key aspects of the GOM's nationwide primary health care program receiving support on a pilot basis from a World Bank loan.

The World Bank health sector loan provides financing and technical assistance as well to address Ministry management problems, to develop the Ministry's health planning capacities, and to advance efforts (supported in an early stage by AID) to address health financing problems through study and action phases. The GOM's approval of a 16 percent increase in the Ministry's operational budget in 1986 (compared to a 7 percent average increase for other

ministries), specifically to augment paramedical salaries, reflects the Minister's personal efforts to improve the health financing situation.

While progress has been achieved in increasing child survival, the above discussion reflects the need for a more concerted and coordinated effort on the part of the GOM and other donors to attain acceptable levels of health status, especially for mothers and children. To date assistance provided by donors (WHO, UNICEF, World Bank and USAID) has been minimally coordinated and usually negotiated on an independent basis. The economic crisis now faced by the Health Ministry has opened the door for greater donor coordination, particularly between AID and UNICEF.

5. ENERGY AND NATURAL RESOURCE DEFICITS

a. Problem: Dependence on Imported Oil

Nature, Severity and Distribution

Like many developing countries, Morocco has encountered serious economic dislocations over the past several years that have resulted in budget cuts and a reordering of national priorities. With over 47 percent of Morocco's export earnings -- nearly 9 billion dirhams (approximately \$1 billion) -- used in 1984 to purchase imported petroleum, energy development is a high priority. The recent decline in world market prices may provide some financial relief in the short run, but Morocco will continue to be heavily dependent on imported sources of energy and on rapidly depleting wood and non-wood natural resources in the 1987-1991 period. This situation will continue to be a significant constraint to industrial and agricultural development.

With overall growth of energy demand levels remaining fairly constant at about 3 percent per annum over the past five years coupled with a continued decline of natural resources, notably hydroelectric, Morocco resorted to increased petroleum imports. In an attempt to reduce the nation's energy bill, the GOM has embraced the two pronged policy of raising petroleum prices to curb demand and promoting energy conservation.

Commercial consumption of energy, including fossil fuels and hydropower, was 4.5 million tons of oil equivalent (TOE) or 57 percent of total energy demand in 1984 (see Table I). Of the commercial energy consumption, petroleum and petroleum products and electricity generation accounted for 96 percent, with coal (for non-electricity generating uses) and natural gas accounting for only 3 percent and 1 percent respectively. Traditional or non-commercial energy consumption, mostly in the form of fuelwood for household use, was approximately 3.4 million TOE or 43 percent of the total energy demand in 1984.

The total supply of petroleum and petroleum products increased by 5.3 percent between 1981 and 1984 (see Table II). This increase was directly associated with the rising demand for petroleum at the nation's thermal electricity generating plants and was largely imported from Middle Eastern countries and the Soviet Union. Effective GOM petroleum pricing policies and conservation measures, and conversion of certain large consumers to coal, kept

SUPPLY AND DEMAND IN THE ENERGY SECTOR

Table I: Structure of Net Energy Consumption 1984 (a)
Thousands TOE(b)

Consuming Sector	Tradi- tional Energy	Commercial Energy				Total
		Coal	Natural Gas	Electri- city (c)	Petroleum Products	
Industry						
- Phosph.	---	---	46	85	178	309
- Cement	---	78	---	91	250	419
- Other	---	41	16	450	378	885
Transport/ Services	---	---	---	204	1,707	1,911
Agricul- ture		---	---	65	160	225
Househlds	<u>3,378</u>	<u>9</u>	<u>---</u>	<u>331</u>	<u>409</u>	<u>4,127</u>
Total	3,378	128	62	1,226	3,082	7,876

(a) World Bank figures. Morocco Energy Assessment Status Report, January 1986.

(b) Tons of Oil Equivalent

(c) National Electricity Office figures only, does not include other sources of electricity generation

Table II: Sources of Energy Supply (d)
Thousand TOE

Item	Primary Production		Imports		Total Supply	
	1981	1984	1981	1984	1981	1984
Tradi- tional	3,180	3,378	---	---	3,180	3,378
Commercial	689	580	4,725	4,945	5,238	5,525
of which:						
Natural Gas	64	64	---	---	64	64
Oil & Prdts	19	15	4,698	4,774	4,491	4,789
Hydro	254	90	---	---	254	90
Coal	<u>352</u>	<u>411</u>	<u>27</u>	<u>129</u>	<u>429</u>	<u>540</u>
Total	3,869	3,958	4,725	4,903	8,418	8,861

(d) World Bank figures. Morocco Energy Assessment Status Report, January 1986.

Note: Total supply figures do not always equal the sum of primary production and imports because of stock changes.

the demand for petroleum and petroleum products relatively stable in other sectors. Locally produced and imported coal supplies for industry and power generation increased by 26 percent between 1981 and 1984. This increase helped compensate for the dramatic drought-related decrease in hydro-electric production and reflected a significant market adjustment to coal in relation to petroleum due to more favorable prices.

Key Variables and Causes

1. Resource Deficit: Despite persistent exploratory efforts -- including effective efforts to involve the private sector -- Morocco has been unable yet to locate significant hydrocarbon reserves. Domestic petroleum production slowed to 15,000 tons in 1984, a decrease of 6.8 percent from the previous year (and down 21 percent from 1981). Natural gas production has remained stable at about 64,000 TOE per year as significant prospects associated with the Meskala deposit failed to materialize.
2. Drought: Due to the persistent drought and the corresponding decrease in hydro-electric reservoir levels, the net global production of electricity -- estimated at 6.4 billion kilowatt hours (KWH) -- has been met by resorting to importing petroleum and coal to produce electricity. Due to drought, hydroelectric production fell from 25 percent of electricity supply in 1981 to 8 percent in 1983 and 6 percent in 1984.
3. Financial Shortages: Energy enterprises such as the National Electricity Office (ONE) and petroleum product distribution companies are faced with financial arrears that interfere with performance and efficiency. These arrears, largely the result of non-payment by other parastatals and the government, have weakened ONE's financial position and effectively reduce the price of electricity for some large public consumers to close to zero.
4. Ineffective GOM Strategy: The GOM does not have an effective strategy for allocating investment resources among energy alternatives and ranking energy products according to agreed criteria. Although the Ministry of Energy and Mines has undertaken the task of energy project appraisal and policy development, this process needs substantial strengthening.
5. Institutional Weakness in Planning and Coordination: Coordination among GOM ministries and agencies with overlapping responsibilities for energy investment planning, electricity distribution, and the like is often lacking. For example, responsibility for electricity distribution is divided between ONE and the Regies (the local public utilities) which hampers efficiency in the electricity sector.

Assessment of Host Country and Donor Efforts

On the whole, the GOM has a fairly good record in adjusting market prices of energy products to changes in their economic costs. Petroleum product prices have been raised to, and in many cases above, their import parity prices. Domestic prices for locally refined petroleum products increased substantially in 1984 to contain demand and to comply with the conditions of the IMF Stand-by Arrangement. Domestic coal prices have increased substantially, thus facilitating financing of planned coal investments. However, although electricity tariffs have been increased recently, they still remain below economic costs and butane (butagas), used primarily to meet household energy needs, is subsidized.

The GOM's plans to convert Morocco's industry energy supply to gas have been shelved because reserves in the Meskala field are less than 1/10th of original estimates. Instead, a major switch from fuel oil to coal has been initiated both in industry and power generation to take advantage of the more favorable coal prices. The GOM has prepared plans to develop domestic energy resources, including constructing additional hydro sites, expanding coal production, intensifying exploration for oil and gas, and harnessing the potential of wind, solar, and biomass.

Perhaps most importantly, the GOM has taken measures to stimulate an increasing role for private enterprise, both local and foreign, to provide capital, know-how, and management skills in the area of oil and gas exploration. Some 16 joint venture exploration conventions have been signed through 1985 with major oil companies and local private concerns. This success in stimulating private sector interest will be reinforced by a proposed new law covering petroleum exploration. This law will be introduced in the next session of the Parliament and will provide further incentives for private sector investment in oil and gas exploration in Morocco.

Finally, the GOM has evidenced a strong interest in increasing energy efficiency. It has made efforts to increase the efficiency of existing facilities, especially existing hydro sites, through improved management. It is also making efforts to reduce power losses in its power generating plants and the transmission and distribution network, and it has taken measures to conserve energy use through an education campaign launched in 1984. Specific measures were adopted such as advancing the clock by one hour to shift the peak load on electricity consumption and applying power cuts to agricultural and industrial facilities during peak evening hours.

b. Problem: Inadequate Supply of Traditional Fuels

Nature, Severity and Distribution

Traditional energy, particularly in the form of fuelwood, accounts for 85 percent of primary energy produced domestically in Morocco. In relation to aggregate energy supply, national woodfuel consumption remains high, estimated by the World Bank to be increasing from 3.180 million TOE in 1981 to 3.378 million TOE in 1984. The implications of this are serious: if energy policies in Morocco are to be effective, they should take into account short-term measures to preserve, and long-term measures to augment, woodfuel resources, particularly in the most affected and neglected region, the semi-arid zones.

Despite a significant natural forest cover of 5.3 million hectares and a reforestation effort that succeeded in replanting 220,000 hectares over the past 10 years, exploitation of woodfuels is significantly out-stripping the renewal capacity of Moroccan forests. The World Bank study shows a current biomass deficit of approximately 9 million cubic meters per year, and projected population pressure is expected to cause a dramatic increase in this deficit in years to come. In addition, a much larger area of semi-arid and range land (four times the extent of forest land) is subject to heavy exploitation of the natural shrub cover for firewood use. This, coupled with rising commercial demand for wood products and agricultural land, exacerbates the problem for which comparatively few policy options have been identified to reverse the trend.

Key Variables and Causes

1. Resource Deficit: Inadequate supply of fuelwood and other traditional fuels, particularly in rural areas where fuelwood is considered to be a "free" good, and overgrazing by livestock in forest and rangelands severely limit natural regeneration.
2. Rapid Population Growth: An annual population growth rate of 2.7 percent creates increased pressure on available fuelwood resources in areas where household energy is largely supplied by woodfuels.
3. Inefficient Consumption Techniques: Low efficiency of traditional fuelwood consumption patterns and techniques, including open burning and transformation techniques in the production of charcoal, accelerate resource depletion.

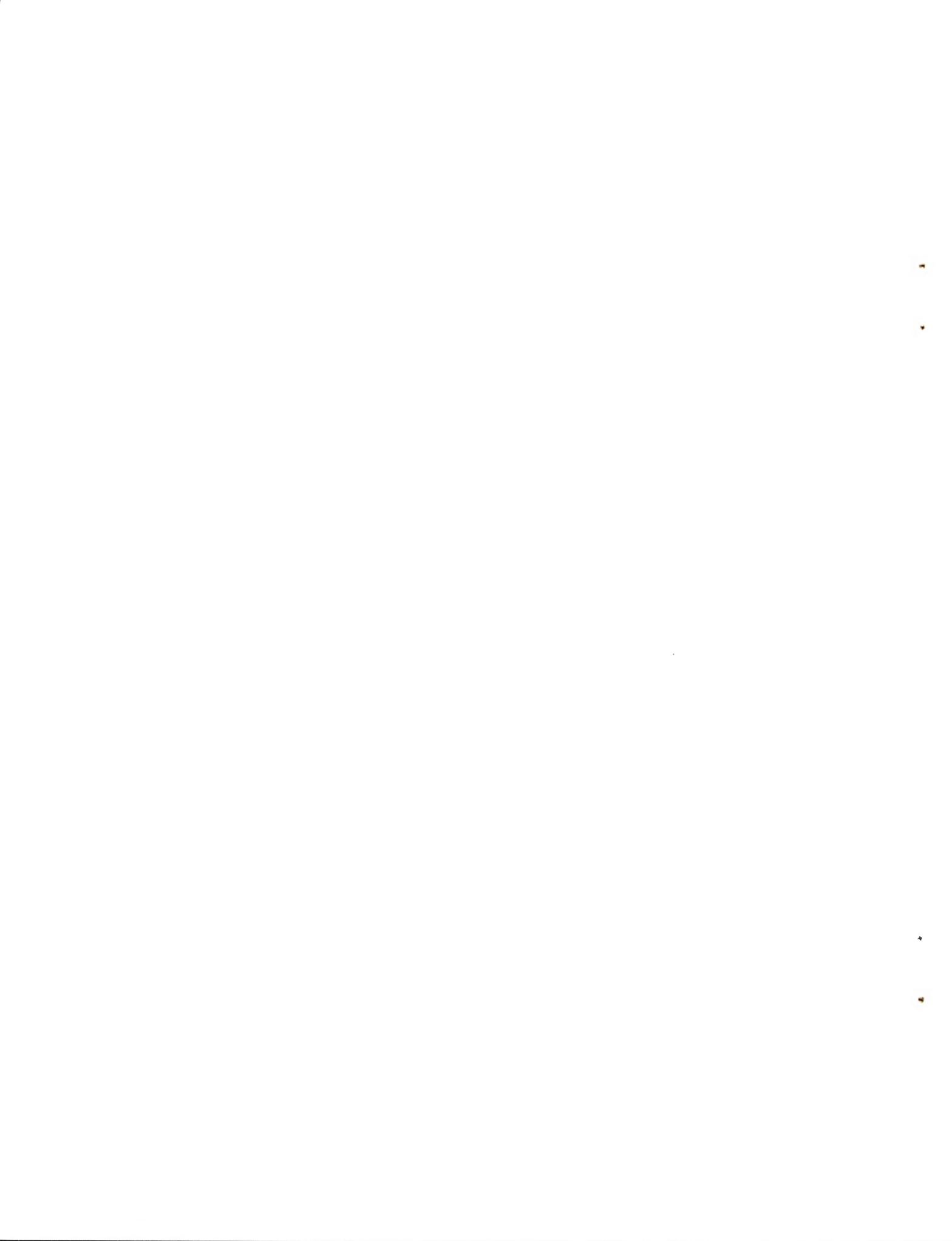
4. Lack of Sector Policies and Investments: Lack of private and public sector policies and investments to adequately collect and analyze forest and shrub cover resources and to provide support for programs to reverse apparent deforestation trends.
5. Shortage of Viable Alternatives: Few available alternatives to fuelwood energy resources amenable to rural consumption are within the economic reach of users and the cost of continued subsidies on imported bottled butane gas is high.
6. Inadequate Institutional Capability: GOM institutional responsibility to investigate the supply and demand problems for traditional fuels, to define strategy objectives, and to coordinate a government and private sector response is not clear. In addition, institutional mechanisms, particularly at the local level, are weak or non-existent for controlling use of rangelands and forest areas to avoid resource degradation.

Assessment of Host Country and Donor Efforts

The GOM, with assistance from the World Bank and FAO, is moving ahead with commercial reforestation projects and improved forestry management approaches. Little emphasis, however, is placed on non-commercial traditional fuelwood supplies. Both the Ministry of Agriculture's Division of Forests, Water and Soil Conservation and the Ministry of Energy's Division of Energy Resource Development have been investigating the fuelwood problems from their separate vantage points. The Ministry of Agriculture views the problem from the perspective of commercial wood product demand, reforestation, and forestry resource management; The Ministry of Energy from the perspective of comparative fuel analysis, household energy consumption, and woodfuels transport, conversion and monetization. The Ministry of Interior also has taken a role in the development of the forestry subsector through "national promotion" campaigns to plant trees on common lands or state land. The GOM's establishment of an Interministerial Committee recommended by the World Bank will help coordinate its activities in these overlapping fields.

The growing diffusion of bottled butane fuel in rural areas is a substitution effort but one that shifts demand to an imported fossil fuel in areas where traditional fuels predominate. The relative economic costs of this interfuel substitution are not yet well known although a proposed study of household energy demand involving the World Bank and USAID should provide some additional insight on this and other related issues.

III. STRATEGY



III. STRATEGY

A. Introduction

USAID Morocco's program strategy over the CDSS period is designed to respond effectively to the above-described problems of (1) inadequate economic growth; (2) food deficits; (3) rapid population growth; (4) health deficiencies and early child mortality; and (5) energy and natural resource deficits. To address these five key development problems, the Mission has adopted a strategy characterized by four overarching strategic objectives:

1. Increased Economic Growth
2. Increased Food Supply
3. Reduced Population Growth and Improved Primary Health Care
4. Improved Management of Energy and Natural Resources

The third objective above reflects a deliberate decision to adopt a combined approach to population growth and maternal/child health care in Morocco. Both family planning and primary care services are provided by the same Ministry (MOPH) through an integrated program strongly supported by USAID.

Also, as noted earlier, it should be kept in mind that the second, third and fourth strategic objectives are key determinants of the first. Increased Economic Growth will be impossible to obtain without significant progress toward the other three objectives.

None of the above strategic objectives can be achieved through USAID interventions alone; they are "goal-level" in character (to borrow from logical framework language) and can only be seriously addressed through long-term commitments by the GOM supported by multiple donors. However, they provide a conceptual basis for less abstract sectoral sub-objectives which can be significantly influenced by USAID interventions, if not necessarily fully achieved. The kinds of effects which we expect our interventions to have on the achievement of the sectoral subobjectives are indicated in "benchmarks," both long and short term. We have made an effort to be realistic about benchmarks, and to state them in a concrete way. If some of them are thus more like "outputs" than percentage increases, that is because it was believed more meaningful to state them in realistic and measurable fashion.

The choice of these four strategic foci has been discussed briefly in Section I above and is addressed in more detail in Annex A, "Tough Choices." These choices reflect Morocco's most significant needs, the Agency's

priorities (as set forth in the Blueprint), and Mission decisions about the role it can effectively play in the context of limited financial and human resources and a substantial donor community. As will be apparent, our role within each of these "sectors" is determined in part by the roles of other donors, especially the World Bank. The Mission believes that without significant increases in financial and human resources, it could not expand into any new "sectors" (eg. Education, Water Resources), nor could it significantly expand the number of interventions it proposes to carry out within each sector.

All four sectors are characterized by strategies which embrace the policy dialogue, institutional development, the transfer of technology and the search for effective private sector mechanisms. The degree to which this is so with respect to each USAID intervention is expressed in the "Four Pillars" Summary Tables that follow. These tables provide USAID's rough subjective judgment on a scale from one to five (five is the highest rating; " - " means not applicable) of the respects to which each intervention incorporates the Agency's priority programmatic components.

We have not included a separate "Macroeconomic Strategy" below, independent from that proposed for dealing with the key problem of inadequate economic growth. As illustrated in the Analysis Section above, Morocco's problems of debt, trade and fiscal policy are so intimately related to the prospects for future economic growth as to make separate consideration illogical. Even combining the two is not adequate to give the full picture of the economic growth prospects and strategy in Morocco. Agricultural production, population growth and energy costs all impact so significantly on the nature and rate of economic growth in Morocco as to make separate consideration somewhat artificial, if organizationally necessary. The following four strategy sections thus comprise USAID Morocco's "cross-sectoral" strategy for economic growth with equity in Morocco.

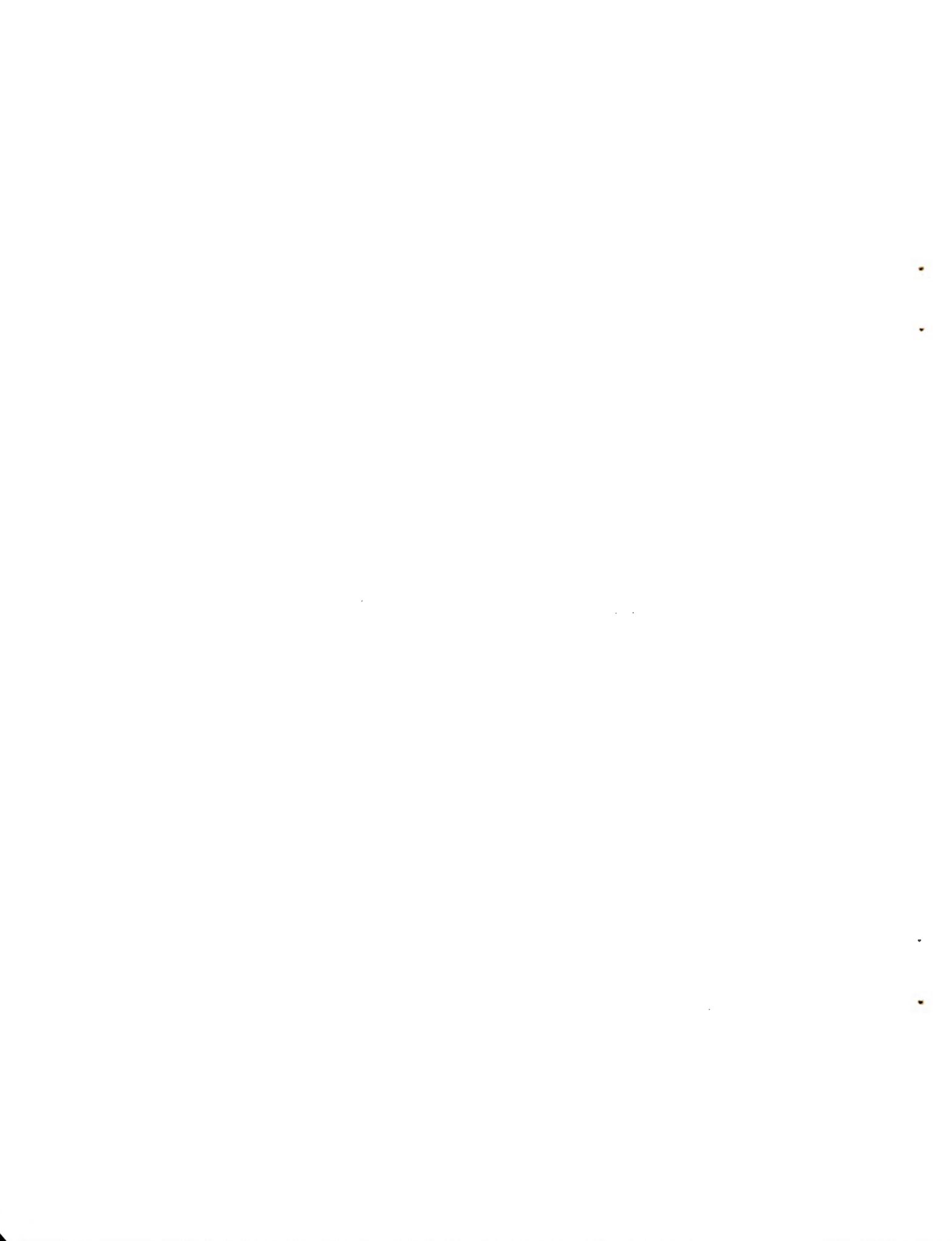
CDSS FOUR PILLARS ANALYSIS

<u>OBJECTIVES AND INTERVENTIONS</u>	<u>POLICY DIALOGUE</u>	<u>PRIVATE SECTOR</u>	<u>INSTITUTION BUILDING</u>	<u>TECHNOLOGY TRANSFER</u>	<u>OBJECTIVES AND INTERVENTIONS</u>	<u>POLICY DIALOGUE</u>	<u>PRIVATE SECTOR</u>	<u>INSTITUTION BUILDING</u>	<u>TECHNOLOGY TRANSFER</u>
<u>I. INCREASED ECONOMIC GROWTH</u>					<u>II. INCREASED FOOD SUPPLY</u>				
<u>A. Increase Reliance on Market Forces</u>					<u>A. Strengthen Agricultural Education & Technical/Socio-economic Research</u>				
1) Support implementation of GOM pricing policy reform	5	5	2	1	1) Increase capacity of National Agronomic Institute (IAV) to train agricultural sector professionals	1	1	5	5
2) Study and assist reforms to facilitate privatization of state-owned enterprises	5	5	2	2	2) Develop improved production technologies for rainfed agriculture through the National Research Institute's (INRA) Aridoculture program	1	1	5	5
<u>B. Improve Efficiency and Productivity of Public Services</u>					<u>B. Increase Availability of Agricultural Inputs and Production Increasing Technologies</u>				
3) Support GOM reform of the national planning/budgeting process and investment appraisal system	4	-	5	2	3) Strengthen Agricultural Credit Bank (CNCA) lending programs	1	5	3	1
4) Assist GOM efforts to improve and decentralize urban management and budgeting processes and mobilization of resources	4	3	5	2	4) Increase efficiency of inputs storage and distribution (seeds, fertilizers, etc.)	3	5	1	-
5) Upgrade managerial, analytical and technical expertise through expanded participant training	1	1	4	5	5) Extend results of applied research from Aridoculture Center	1	5	3	1
<u>C. Increase Growth of Private Sector Export Production and Earnings</u>					<u>C. Improve Policy Environment for Growth through Increased Reliance on Market Forces</u>				
6) Reform, capitalize and "privatize" the Export Credit Insurance Program	5	5	3	2	6) Improve capacity of Min. of Agriculture to collect and interpret data, appraise investment projects and conduct policy analysis	4	1	4	3
7) Provide increased pre-export financing to smaller and new exporters through commercial banks	4	5	3	1	7) Support pricing and marketing reforms through P.L. 480 Title I	5	3	3	-
8) Provide technical and managerial assistance to private exporters and public/private export promotion organizations	1	5	2	5					

CDSS FOUR PILLARS ANALYSIS

<u>OBJECTIVES AND INTERVENTIONS</u>	<u>POLICY DIALOGUE</u>	<u>PRIVATE SECTOR</u>	<u>INSTITUTION BUILDING</u>	<u>TECHNOLOGY TRANSFER</u>	<u>OBJECTIVES AND INTERVENTIONS</u>	<u>POLICY DIALOGUE</u>	<u>PRIVATE SECTOR</u>	<u>INSTITUTION BUILDING</u>	<u>TECHNOLOGY TRANSFER</u>
<u>III. REDUCED POPULATION GROWTH AND IMPROVED PRIMARY HEALTH CARE</u>					<u>IV. IMPROVED MANAGEMENT OF ENERGY AND NATURAL RESOURCES</u>				
<u>A. Expand Accessibility and Acceptability of Voluntary Family Planning</u>					<u>A. Strengthen Energy Sector Policy Analysis, Planning & Management Capacity</u>				
<u>Public Sector</u>									
1) Improve FP/MCH service delivery systems, especially household visitation program (VDMS), through: - expansion of services - operations research - improved MOPH program mgmt - improved education and communications programs - improved surgical/clinical methods	3	-	5	3	1) Support the development of a national energy demand management (conservation) program	4	2	2	
					2) Strengthen GOM capacity for energy data analysis, investment planning, and resource management	5	1	4	
					3) Strengthen human resource development in energy and natural resources	1	1	4	
<u>Private Sector</u>					<u>B. Increase Development and Use of Morocco's Renewable Energy Resources</u>				
2) Define need for and develop mechanisms for increasing FP/MCH services through the private sector	3	5	3	2	4) Adapt and disseminate commercially viable renewable energy technologies, especially through the private sector	1	3	4	
<u>B. Improve Population and Development Planning and thus the Capacity to cope with Population Growth</u>									
3) Support development and use of multi-sector economic and demographic modeling in preparation of multi-year plans and policy development	4	-	3	4	5) Examine household energy demand and economically/environmentally sound responses	3	2	3	
<u>C. Increase Child Survival and Reduce Child Health Deficiencies</u>									
4) Support and accelerate national immunization and other early childhood health programs	2	2	4	3					

III.B. KEY DEVELOPMENT STRATEGIES



1. INCREASED ECONOMIC GROWTH

USAID Morocco fully supports the economic adjustment and stabilization program pursued by the GOM; the success of this program is critical to long-term development prospects. The international donor community, especially through the Consultative Group, can play a useful role in this process. The IMF has undertaken to assist the GOM in overcoming the most immediate crises caused by fundamental disequilibria in the country's external and internal accounts. The World Bank is working with the GOM to address the underlying structural weaknesses through broad loan programs to support adjustments in policies, incentives and institutions affecting trade and development at a global level.

USAID Morocco is committed to assist the GOM's policy reform efforts to address the economic growth problems examined in previous sections. Given its limited resources, USAID must take a very selective approach. Over the recent past, it has concentrated its efforts in three sectors critical to overall economic growth: agriculture, population and energy. In the recent past, the Mission has begun to complement this sectoral focus through interventions designed to assist GOM agencies charged with the responsibility for implementing the macroeconomic policy reform. These new interventions reflect the increased priority of policy dialogue and private sector development in the Mission's program.

The necessity for a highly selective approach to economic policy reform places a premium on close coordination with other donors, notably the World Bank. The Bank has carried out most of the analytical work upon which the GOM's adjustment program is based. USAID has in some cases taken the lead with analyses of certain growth problems, such as constraints on and opportunities for export expansion. In other instances, USAID has designed and initiated complementary interventions of a type in which it has a "comparative advantage", such as grant-financed technical assistance and training. These initiatives are geared toward specific, well-defined institutional and human resource needs and have potentially far-reaching impacts in the context of the larger IBRD-led structural adjustment process.

Thus, the USAID strategy with respect to the overarching problem of macroeconomic growth comprises interventions designed to complement and reinforce efforts by the GOM supported by the World Bank to achieve three cross-sectoral objectives: (a) increased reliance on market forces in the economy as a mechanism for resource allocation and use; (b) increased

efficiency and productivity of resources allocated by the government; (c) increased growth of private sector export production and earnings. USAID's strategy to address economic growth problems at the sectoral level are described in the sections below on increased food production, reduced population growth and improved energy management.

a. Sub-objective: Increased Reliance on Market Forces
as a Mechanism of Resource Allocation

As described in the Analysis Section, Morocco has long relied on regulation and administrative allocation of resources. While the government has embraced the principle of moving to policies in conformance with market mechanisms, questions remain about the mechanics and the impacts of such increased reliance. To assist the GOM in managing the transition, USAID Morocco envisions two major interventions: (1) support for a reform of pricing policies -- i.e., getting regulated prices right and analyzing conditions for letting market forces determine other prices; and (2) examination of options and opportunities for privatization initiatives, including the possible support of reforms in financial markets.

Short-term Benchmarks (FY 87)

- Significant progress toward efficiency pricing in the energy sector (esp. electricity)

- Systematic approaches to pricing urban services developed and tested; cost recovery mechanism for low-income housing in place

- Measures required for increasing private equity holdings in enterprises now under public ownership identified (e.g. capital market reforms)

- Public awareness campaign conducted to increase knowledge of benefits from privatization

Long-term Benchmarks (FY 88-91)

- Full efficiency pricing achieved in the energy sector

- Promulgation and enforcement of regulations against restrictive business practices

- A significant percentage of public sector revenues generated by user charges and similar cost recovery mechanisms

- Significant reductions in consumer subsidies for basic food staples and other consumer goods

- Comprehensive GOM privatization strategy in implementation

- Privatization of several parastatals and government services achieved

Intervention No. 1 - Pricing Policy Reform: The reform of pricing policies is a central element of the economic adjustment effort. To complement related initiatives in key sectors such as agriculture and energy, USAID will pursue opportunities to assist GOM agencies with responsibilities in pricing and the development market mechanisms. The first component of this intervention is a project with the Pricing Directorate in the Ministry of Economic Affairs. Combining technical assistance, short-term training and appropriate ADP equipment, this project is designed to assist a key unit of the GOM in its efforts to follow through on a comprehensive reform of pricing policies. Following upon the recent decontrol of prices for most consumer products, policy issues in the coming years will be concerned with the impacts of letting the market determine prices, ensuring competitive pressures, choosing among alternatives in setting prices that remain regulated, and responding to inflationary trends. The Pricing Policy project, a subproject under the Economic Policy Analysis Project, will assist the Pricing Directorate to develop its analytical and advisory capabilities with respect to these tasks. This intervention could extend to other GOM agencies with related responsibilities, such as the Statistics Directorate in the Ministry of Plan whose price index monitoring and reporting system is not yet fully developed. Various GOM agencies are in the process of deregulating prices and implementing user-charge mechanisms for public services, an essential element in increased reliance on market forces for the allocation of resources. For example, the Ministries of Agriculture and Energy are actively involved in pricing reforms in their respective sectors. USAID has been and will continue to be responsive in this area, consistent with available resources.

Intervention No. 2 - Privatization/Financial Markets: Morocco's development and its ability to respond swiftly and effectively to the changing economic environment has been hampered by a large inefficient state-owned enterprise sector which is both a budget drain and a major user of available investment resources. At the same time, development is limited by the rigidities and inefficiencies of financial markets. The Mission has engaged the government in a policy dialogue about privatization and brought the largest country delegation to the recent AID-sponsored Privatization Conference in Washington. The intention is to assist the GOM in developing a privatization strategy over the medium-term, including the identification of priority targets. Privatization can mean any action taken to increase

competition such as abolishing a legal monopoly, making market entry easier, or deregulating an industry. It can also mean contracting out for services, leasing to private management, partial sale of equity to private interests or total divestiture of a state-owned enterprise. One promising area for a facilitative intervention is to strengthen financial intermediaries and markets needed to implement privatization strategies which also seek to deconcentrate private equity holdings. Financial sector reform to mobilize savings and encourage greater enterprise efficiency represents a cornerstone of the GOM's economic policy reform. The complexities of Morocco's capital market reform present a formidable task, and available information does not allow us to yet specify the best opportunities for USAID's selective approach. If the GOM agrees that capital market reform is a critical element in its privatization strategy, USAID will initiate in FY 1987 a study of needed improvements in financial markets to facilitate the privatization of state-owned enterprises. Based on the results of this study and USAID's continuing policy dialogue with the GOM on the issue of privatization, the Mission will develop further steps within its financial and human resource capacities. USAID will also develop a program with the Moroccan private sector to publicize the conclusions of the Privatization Conference and gain public acceptance of privatization as a means of improving economic welfare.

b. Sub-objective: Improved Efficiency and Productivity of Public Services

The external and internal disequilibria that have triggered Morocco's economic crisis can be attributed in large part to an ambitious public investment program that often paid scant attention to economic and financial criteria. Improving the analysis and programming of public investment therefore represents a high priority in the GOM's economic adjustment program. Moreover, there is a need for greater efficiency in the public sector to improve the productivity of service delivery. That requires improved planning and management, as well as new financing mechanisms, especially increased reliance on user charges. The task is particularly daunting at the level of local government in urban areas, faced with the responsibility of implementing the policies designed to support economic growth and cope with its social impacts. Finally, at all levels of government, there is a critical need for human resource development, focused on managerial, analytical and technical competencies now in short supply.

These three facets shape USAID interventions: (a) support initiatives aimed at improved analysis and programming of public investment, including a better integration of multi-year planning and annual budgeting; (b) assist the GOM in efforts to improve urban planning and management to mobilize and manage resources more effectively at the local level; and (c) upgrade the managerial, analytical and technical expertise of Moroccans in the public sector.

Short-term Benchmarks (FY 87)

- Promulgation of economic and financial investment appraisal standards by the Ministries of Finance and Plan
- Analysis of certain projects included in the multi-year Plan meet established investment appraisal standards
- Installation of computerized capital budget development and control system in the Ministry of Finance
- Completion of infrastructure and municipal management/finance analyses under HG 001 and start of project implementation
- Cost-recovery mechanisms institutionalized and operating to generate revenue for low-income housing (HG 002)
- Over 200 LT academic participants placed in U.S. institutions between FYs 1984-1987; over 375 ST technical programs completed in same period in U.S.

Long-term Benchmarks (FY 88 - 91)

- Reform of the process of programming of public investment, budget preparation and monitoring in place
- Project appraisal standards are used effectively and institutionally by MOP and MOF to approve and reject technical investments proposed by technical ministries
- 70 hectares (over 5000 plots) of Tetouan land serviced and developed by private sector and sold to low-income households by 1991
- Improved municipal performance in Tetouan resource mobilization management of infrastructure, property registration and delivery of services
- Public and private insitutional structures capable of implementing housing and urban service activities established in other urban areas
- Over 350 LT academic participants placed in U.S. institutions between FYs 1984-1991; over 850 ST technical programs completed in U.S. in same period.

Intervention No. 3 - Improvement of GOM Planning and Budgeting

Processes: Sound economic policies require adequate planning and monitoring procedures within the GOM budget process, and better reporting of key economic indicators. USAID has already begun to support the GOM in this area through projects with the Statistics Directorate in the Ministry of Plan, the National

Training Program in Project Appraisal and Management, and a small systems analysis study for the Investment Budget Division of the Ministry of Finance. The latter has joint responsibility with the Ministry of Plan for the inclusion or exclusion of investment proposals in the GOM budget. The need expressed is for the establishment and enforcement of criteria and procedures for the effective review and approval or rejection of investment proposals from line ministries. USAID will review with interest further possibilities to assist the GOM in this area, development of such criteria and procedures, in collaboration with IBRD efforts to the same end.

Future interventions in this area will be guided by the continuing policy dialogue with the GOM and by the needs emerging from the transition of the Moroccan economy to a market economy. These interventions will target opportunities for institutional development and technology transfer in the area of investment planning (project design and appraisal), the integration of planning and budgeting processes, and increased reliance on private sector financing for delivery of services.

Intervention No. 4 - Improvement of Urban Management and Mobilization of Resources: USAID will continue its support for improved planning, financing and management of urban services, primarily through the Housing Guaranty (HG) Program and related technical assistance. This assistance will be designed to demonstrate how public interventions at the subnational level can increase private sector investment in urban shelter and service provision.

The recently amended HG 001 program represents the first comprehensive urban development program supported by the GOM in a major Moroccan city (Tetouan). The HG loan will finance the infrastructural costs of an extensive sites and services/upgrading project which will include the registry of over 7500 property titles in existing low-income neighborhoods and the provision of over 4000 serviced new low-income housing plots. USAID will finance a supplementary technical assistance and training program to strengthen the capacities of the three main implementing institutions -- the ANHI (the urban housing and upgrading institution), the FEC (the principal municipal finance agency), and the Municipality of Tetouan -- to carry out an integrated approach to the problems of low-income housing and services. The program will upgrade the Municipality's management and financial capabilities, including the operation and maintenance of its infrastructure system. Finally, the program will carry out a pilot effort to obtain private sector investment in low-income housing and service provision.

USAID's ongoing HG-002 program seeks to strengthen the GOM's ability to manage programs in low-cost core housing and slum upgrading in some 14 secondary cities. The program has led to the creation of the new semi-autonomous technical agency (ANHI) charged with the responsibility for addressing low-cost housing needs. The major policy focus of the HG 002 program has been the development of adequate cost recovery (user charge) mechanisms to allow government agencies to generate sufficient funds to implement similar programs in other cities and towns.

In addition to these HG program interventions, USAID will continue its assessment of specific urban development problems, building on the Mission's Urban Development Assessment and a recent detailed study of Morocco's urban planning process. Lines of inquiry will focus on urban municipal finance and resource mobilization, housing finance systems and incentive schemes to stimulate private sector investment in housing and urban services.

Intervention No. 5 - Human Resource Development: USAID will continue and expand its efforts to upgrade the managerial, analytical and technical expertise of Moroccans engaged in the development process. In line with the Agency's increased emphasis on participant training, USAID is expanding its support of both long and short-term training in the United States, especially in the fields of particular U.S. competence, i.e., management, administration, finance and high technology (science, energy, etc.). Recent efforts to broaden the Moroccan public's knowledge of U.S. training opportunities have resulted in a great increase in interest and demand. Further, to increase Moroccan access to U.S. technology in all fields, USAID will continue to provide support for English language training for proposed participants and interested program counterparts. Finally, in an effort to achieve wider impact at reasonable cost, USAID will support periodic in-country training seminars with the assistance of existing Moroccan institutions such as the National School of Public Administration, the National Business School (ISCAE), the Applied Statistics School, etc. These efforts have taken place through a general participant training program (Sector Support Training) and through individual projects in the key sectors. The latter may decline somewhat over the period, as major institution-strengthening projects are completed. However, the general participant training program will be significantly strengthened.

c. Sub-Objective: Increased Growth of Private Sector Export Production and Earnings.

Short-term Benchmarks (FY 87)

- Establishment of mixed private/public Export Credit Insurance institution
- Provision of \$8 million in pre-export credit to small and medium exporters
- Provision of direct managerial/technical assistance to 80 enterprises (IESC)
- Export growth of 15% in manufactures in real terms (in 1986

Long-term Benchmarks (FY 88-91)

- Expansion of ECI coverage from \$60 million to \$240 million of exports by 1990
- \$40 million in new credit provided to small and medium exporting industries over CDSS period
- Direct IESC assistance provided to over 200 firms by 1990
- Average real export growth of 7% per for all goods (other than phosphates) over the CDSS period

The severity of the balance of trade deficit and its impact on the economy has been described above in the Summary Macroeconomic Assessment and the Analysis of Economic Growth (see also Annex B). The World Bank is working with the GOM to change the relative incentives to export and import by changing the parameters of the trade regime. Moroccan exports have begun to respond and import growth has been slowed considerably. Some of the "easy" gains - such as increasing exports to traditional trading partners by making use of idle plant capacity without improving products or developing new ones - have been made already. Further progress in expanding exports depends upon the more difficult tasks of increasing "quality control" and efficiency of producers for export, encouraging more "entrepreneurial attitudes" (risk taking behavior), developing new product lines for export, improving marketing to diversify the outlets for Moroccan exports and encouraging long-term investments in export-oriented industries. The most promising avenue for increasing export earnings is through a strong series of GOM measures to create a policy and institutional environment favorable to new investment in export production, supplemented by export promotion and marketing. As the economic recovery cannot be fueled by the domestic market, an export orientation is critical to a return to overall economic growth in Morocco.

Additionally, export-oriented industries appear to have the greatest potential for near-term job creation. Many of Morocco's export-oriented industries are relatively labor-intensive. Rapid increases in export

production can be expected to generate significant additional job opportunities. Further, export-oriented industries -- particularly those in the manufacturing sector -- have already demonstrated their ability to respond quickly to improved market-based incentives. Exports of manufactured goods increased by 23 percent in real terms in 1981-1982, as compared to real growth of only 5 percent between 1977 and 1980. This performance, which occurred in unfavorable domestic and international economic conditions, was in part a response to a devaluation of Morocco's exchange rate. The "price elasticity" of Morocco's manufactured exports thus appears to be great, as does the willingness of Moroccan exporters to seek export markets to replace declining domestic returns. Manufactured exports have continued to record high growth rates under Morocco's structural adjustment program, and the subsector will be the principal focus of USAID financed promotional efforts.

Because the principal focus of USAID's strategy will be export development, the Mission intends to examine alternative means to increase Morocco's foreign exchange earnings during the CDSS period. The imperative is strong to explore all avenues to increase the country's capacity to service its debt and earn its way in a competitive world economy. One area of possible inquiry is the development of Morocco's marine fisheries resources. While the Mission currently believes that the rationale for discrete project involvement in the sector is weak (see Annex A), U.S. training will be provided to strengthen the GOM's institutional capacity in the area over the longer term. In addition, Moroccan private firms in fisheries may very well benefit from the export credit insurance and pre-financing components of the USAID's new Private Sector Export Promotion project. Another possibility is tourism. After phosphate products and foreign worker remittances, tourism is Morocco's third largest earner of hard currency. Like manufactured exports, the tourism "industry" is also employment-intensive and provides a strong stimulus to the services sector. The Mission believes that the current GOM policy and incentive structure in this area is adequate to assure growing private sector investment, and that no USAID project level assistance is needed. Nevertheless, under the private sector export promotion initiative, USAID will study possibilities for selectively targeting additional training and technical assistance to strengthen Moroccan capabilities to increase its foreign exchange earnings.

Intervention No. 6 - Export Credit Insurance Reform: USAID is undertaking a major ESF-financed Private Sector Export Promotion initiative in FY 1986. Three interventions are planned for this initiative. The first intervention will strengthen and reform the export credit insurance (ECI)

program. Exporters, bankers, and government officials agree that the current program does not function well. A main problem is that it has no real reserves against losses; thus, exporters and lenders have little confidence in the program's solvency, and export insurance policies tend to be overly conservative. USAID will provide a long-term concessional loan (est. \$8 million) to the GOM for creating funded reserves in the export insurance system. AID will also provide technical assistance to improve program management and to support a restructuring of the insurance entity to assure at least 50% private ownership and effective management control. The reformed ECI program will enable more Moroccan exporters to take larger risks, develop new products and sell in new markets, encouraging an expansion of exports at a faster rate than is likely to occur under the current public-sector ECI program. The current estimate is that this reform should generate close to \$200 million in increased export earnings over the CDSS period.

Intervention No. 7 - Pre-Export Finance for Small and New Firms: The second intervention is credit targeted specifically to meet the needs of small and medium-sized private export-oriented companies, especially those new to export. This credit will be extended to finance pre-export production costs of firms who have not had access to the current system due to size or to the lack of a track record (sales and foreign exchange repatriation history). The initial loan will make additional foreign exchange available to the GOM during a critical economic period, while also providing badly-needed credit to a segment of the private sector in which there lies untapped potential for export production. Additional credit will permit small and medium enterprises to expand faster than the current conservatively administered export financing program allows. The credit program is expected to utilize approximately \$8 - \$10 million annually in loan funds. The continuation of this intervention beyond FY 1987 is, of course, contingent upon an evaluation of the effectiveness of the initial intervention in stimulating new export growth. The best available estimate is that an initial \$8 million loan for pre-export financing could be expected to result in over \$160 million in increased export earnings during the CDSS period. If an initial loan is successfully implemented and unmet demand by new and smaller exporters remains high, USAID would anticipate the allocation of additional ESF resources to this purpose during the CDSS planning period.

Intervention No. 8 - Technical/Managerial Assistance to Private Firms and Export Promotion Organizations: The third intervention of the export promotion program is the provision of technical, managerial and training assistance through an AID grant. The GOM's Center for the Promotion of Moroccan Exports (CMPE) is to receive assistance to strengthen its capacity to provide production, promotion and marketing services to export-oriented firms. The principal private enterprise association, the General Economic Confederation of Morocco (CGEM) may also receive assistance in carrying out a more active export promotion program. The International Executive Service Corps (IESC) is now and will continue to provide specific technical and managerial assistance to export firms under this intervention. Exporters may receive IESC assistance for problems such as production scheduling, quality control, development of new products and strategies for entering new markets. This technical assistance intervention is expected to cost about \$5 million during the CDSS planning period.

While maintaining a macroeconomic strategy focused on increasing foreign exchange earnings, USAID will also support small initiatives in domestically-oriented private enterprise where these are not USAID staff intensive and promise a significant return. For example, the Mission has made a \$300,000 OPG to Catholic Relief Services for small business development in collaboration with the Casablanca business school. In addition, USAID strategies for reducing imports of major commodities requiring foreign exchange (fuel and food) are described in the following sections.

2. INCREASED FOOD SUPPLY

Domestic food production in Morocco has been stagnant for nearly a decade and a half. The country's aggregate production of basic foodstuffs, especially cereals, has stagnated and major declines have occurred in livestock numbers. As a consequence, Morocco has become heavily dependent on imports of basic foodstuffs, particularly cereals, vegetable oils and milk products. Between now and the year 2000, increases in the demand for food are projected to outstrip increases in domestic production for almost all food items. Similarly, some of Morocco's principal agricultural exports, including citrus and fresh or processed vegetables, have been either stagnant or declining over this same period. As a result of these trends, the agricultural commodity trade balance of Morocco has gone from one of a surplus in 1974 to one of major deficits now. Strong, long-term measures are necessary to reverse this trend and move Morocco toward agricultural self-reliance.

The USAID Agriculture Strategy:

Morocco's agriculture development efforts, in the post-independence period, were concentrated on the development of the important but small irrigated sector. Donor efforts, including those of USAID, supported this focus. By the end of the 1970s, however, it became apparent that the relative neglect of rainfed agricultural production had led to large and increasing imports of cereals and other basic foodstuffs, significantly exacerbating Morocco's trade deficit. In response, USAID developed a major new agriculture strategy in 1982 which refocused assistance to Morocco on the rainfed sector. This agriculture sector strategy was elaborated in the FY 1984 CDSS. USAID's long-term commitment to rainfed agriculture was reiterated in both the FY 1985 and FY 1986 CDSS documents and its commitment to this subsector is clearly recognized by the GOM and other donors. USAID's implementation of its rainfed strategy is now well underway and gathering momentum. This CDSS proposes to "stay the course" in rainfed agriculture and to examine ways to elaborate and complement that strategy during the 1987-1991 planning period.

During the CDSS period, USAID will maintain a strong and central focus on the development of rainfed agriculture, with programs aimed primarily at increasing food production and incomes in non-irrigated areas, especially in more marginal areas of 250 to 400 mm of average annual rainfall. The bulk

of Morocco's rural population lives and works on small farms in such areas. The focus on rainfed agriculture serves three purposes: (1) it addresses the need for greater growth in domestic food production and reduced import expenditures; (2) it addresses income distribution concerns, since a large portion of Morocco's rural poor are dependent upon rainfed agriculture production; and (3) by increasing food availability, it will permit a decline in relative food prices to consumers, benefitting the rural and urban poor for whom food constitutes the greatest portion of household expenditure.

Sectoral Strategy Objective for Agriculture:

USAID's global objective in the agriculture sector is to increase the productivity and aggregate output of food crops and livestock in Morocco. USAID seeks to increase growth in cereals production to a rate equal to or greater than that of domestic demand. The overall long-term benchmark is to reach a cereals output level whereby future cereals imports will not exceed current levels. At present the demand for wheat is projected to increase by 3 percent per year over the next decade. Production, on the basis of past performance, will only increase by 0.8 percent per year during this period.

While this strategy is directed primarily at increasing cereals production, it will also address other basic foodstuffs as well, e.g. food legumes, vegetables, and meat. The strategy recognizes that food production in Morocco's rainfed zones takes place in the context of highly complex farming systems, which integrate crop, livestock and forage production as well as some non-farm activities. Achieving this overall sectoral objective will require an integrated program closely linked through three sub-objectives:

(1) To strengthen agricultural education and technical, socioeconomic research. Increased crop and livestock production requires the continuing application of improved technologies to the problems facing Moroccan farmers;

(2) To increase the availability to Moroccan farmers of agricultural inputs and production-increasing technologies. Technical solutions to agricultural problems developed by Moroccan scientists must be communicated to and adopted by farmers. Improvement in agricultural productivity requires the provision of a range of inputs, such as credit, improved seeds, fertilizer, pesticides, herbicides, and improved implements;

(3) To stimulate an agricultural policy environment conducive to the growth and development of the sector. Farmers need positive price incentives and access to open markets if they are to increase production.

a. Sub-objective: Strengthened Agricultural Education and Technical Socio-economic Research Systems

Short-term Benchmarks (FY 87)

- 40 faculty members completed Ph.D. and 25 completed MS programs

- Applied research trials at 60 on-farm sites underway

- At least 3 new technologies ready for release as extension recommendations

Long-term Benchmarks (FY 88-91)

- IAV operating as a Moroccan "Title XII" institution and granting advanced degrees on its own

- Professional manpower needs of agricultural sector being filled; 50 percent of IAV graduates being hired by the private sector

- Regional research capacity fully staffed and functioning at the Aridiculture Center, providing new technologies for extension to local farmers

- Yields of cereals in rainfed areas increased by at least 50% over pre-drought levels on participating farmers' plots

Intervention No. 1 - Agronomic Institute: The Agronomic Institute Project is a major, ten-year USAID-financed effort to assure that highly trained manpower will exist to meet the professional needs of Moroccan agriculture in the coming years. During the planning period, USAID will continue to support the institutional development of the National Agronomic and Veterinary Institute Hassan II (IAV), Morocco's agricultural university. Under the project, USAID finances technical assistance, extensive participant training, and appropriate equipment to IAV through a host country contract with a Title XII institution (University of Minnesota). The project also constitutes a major effort in research and technology transfer, via the extensive research activities by Moroccan faculty working under the guidance of U.S. university faculty. The principal output of the project is highly-trained and productive Moroccan faculty in all major disciplines relating to agricultural development, including social sciences and human nutrition. Approximately 140 IAV faculty members will be trained in masters and doctoral level programs by the end of this project in 1990. These faculty members will, in turn, prepare future IAV students for professional careers in agriculture, to the ultimate benefit of Morocco's farmers. By the end of the CDSS period, it is expected that the development of the Agronomic Institute's

faculty will have been largely completed and IAV will have become a mature, multi-disciplinary educational and research institution. USAID will continue to examine the need for selective support to IAV in high priority areas as a means of sustaining and capitalizing upon this major investment. Considerable potential exists for utilizing the resources available at IAV in the implementation of USAID's agricultural program beyond the planning period.

Intervention No. 2 - The Aridoculture Center: The National Agricultural Research Institute's (INRA) program for rainfed agriculture is the context of another major, ten-year USAID financed effort to develop the improved technologies needed for the future development of Morocco's rainfed subsector (Dryland Agriculture Applied Research Project). USAID has assisted and will continue to assist Morocco to develop INRA's extensive applied research program for rainfed food and livestock production. This effort concentrates on strengthening the farming systems research capacity of INRA's Aridoculture Center (and the related outreach work of the Agricultural Information Resource Center) in Settat. The applied research program includes cereals breeding for drought and pest tolerance, development of improved tillage practices and equipment, research into questions of soil fertility and weed control, and forage agronomy. Much of this research is being carried out on farmers' land. Pending the recommendations of an upcoming evaluation of the Dryland Agriculture Applied Research Project, USAID will consider expanded support to selected, complementary activities through the project, including strengthened efforts in the areas of small farm mechanization and integrated livestock production. Although new "technological packages" are beginning to come on-stream, USAID expects this institutional development and research technology transfer effort to extend well beyond the 1988 project completion date. USAID will support the completion of the long-term development of the institutional and technical capacity of INRA to sustain a flow of new production increasing technology and convey improved practices and inputs to farmers' fields to reap the benefit of this long term effort.

- b. Sub-objective: Increased Availability to Moroccan Farmers of Agricultural Inputs and Production-Increasing Technologies

Short-term Benchmarks (FY 87)

- Improved management information system in operation at CNCA and

Long-term Benchmarks (FY 88-91)

- 50 percent increase in CNCA lending to small- and medium-scale farmers

micro-computers being used at pilot CLCAs to reduce lending costs

- Agribusiness lending options of CNCA developed; CNCA opening major new portfolio of agribusiness lending

- An assistance project for input (eg. fertilizer) storage and distribution designed and implementation initiated

- 100 percent increase in CNCA lending to agribusiness.

- Private sector becomes principal vehicle for storage and distribution of agricultural inputs

- Appropriate soil test-based fertilizer recommendations available to all cereal farmers in rainfed areas

- New production-increasing technology and inputs being used by farmers throughout the marginal rainfed zones

- New tillage implements being manufactured and distributed in Morocco

Intervention No. 3 - Agricultural Credit Bank: The Drought Recovery Credit Project is USAID Morocco's initial effort to support the institutional development of Morocco's Agriculture Development Bank (CNCA). It appears probable that CNCA will need additional assistance, particularly in the areas of savings mobilization and agribusiness lending, including marketing, processing and other private sector industries which service agriculture. Adequate and effectively administered credit is the sine qua non of farmer accessibility to agricultural inputs and will constitute a continuing focus of the USAID strategy (in concert with other donors) throughout the planning period.

Intervention No. 4 - Agricultural Inputs, Storage and Distribution: USAID Morocco has carried out preliminary studies of the agricultural inputs subsector (seeds and fertilizer), and is in the process of discussing design options for an ESF-financed inputs project. The project would finance the import of U.S.-origin materials required to produce agricultural inputs and address the bottlenecks in existing storage and distribution systems, especially for fertilizers. USAID's policy related efforts (described below) will support further deregulation of the production and distribution of fertilizer and certified seeds, in order to broaden their availability through private sector competition.

Intervention No. 5: Extending New Technology to Farmers. As noted in the problem section above and discussed in Annex C, Morocco's formal agricultural extension system is weak. Some major institutional changes are in process, including the transfer of responsibility for extension in rainfed areas from the Ministry of Agriculture to the semi-autonomous regions development offices (ORMVAs) and the creation of 28 pilot "T and V" extension centers. Nevertheless, the outcome of these reforms is not yet clear. Consequently, USAID will emphasize private sector activities, such as those described above (Interventions 3 and 4), to diffuse new production-increasing technology to farmers. USAID will also encourage the development of more meaningful farmer extension education, as opposed to the public input delivery activities which have dominated Moroccan "extension" in the past. This would focus on the integration of farming systems applied research such as that being done at the Aridoculture Center, with the dissemination of the results of that research. Unless production-increasing technologies are spread from research plots to large numbers of farmers, USAID's and the GOM's production objectives will not be met. USAID will remain open to opportunities to improve extension education to farmers, including the expanded use of radio and television, and will stress the use of the private sector for the efficient delivery of production increasing inputs and services.

- c. Sub-objective: Improved Policy Environment for Growth through Increased Reliance on Market Forces

Short-term Benchmark (FY 87)

- Second phase of Agriculture Prices and Incentives Study completed; analyses being continued by MARA on an ongoing basis; recommendations being translated into policy change

- Computerization of the policy investment analysis unit of the Ministry of Agriculture completed

- Aerial sampling photography completed and area frame being used in 20 provinces

Long-term Benchmarks (FY 88-91)

- Policy/investment analysis unit in the Ministry of Agriculture fully trained and staffed, providing needed analyses for policy decision making

- Domestic private sector cereals marketing deregulated; input subsidies eliminated

- Agriculture statistics being collected on a rapid, regular basis using area frame sampling

Intervention No. 6 - Data and Investment Analysis and Policy

Development: USAID will continue to give major attention to assisting the GOM in assessing its current and proposed agricultural policies. Most of these efforts will be carried out through the ten-year Agricultural Planning, Economics and Statistics Project. This project is strengthening the capacity

of the Ministry of Agriculture to collect and analyze agricultural data, plan, monitor and evaluate public investments, and carry out policy-related analyses as a basis for policy scenario formulation. It is also currently financing the first comprehensive analysis of the GOM's agricultural pricing and incentives policies. This, and related work carried out under IBRD auspices, has laid the groundwork for the future overhaul of the agricultural price and incentive structure, the progressive reduction of certain subsidies, and the progressive deregulation of input and output markets. USAID will also continue to support efforts by the GOM to direct a greater proportion of public sector investment resources towards rainfed agriculture, and to deregulate the domestic cereals marketing.

Intervention No. 7 - P.L. 480 Title I Program and Pricing/Marketing Reforms: USAID Morocco uses the large P.L. 480 Title I program is both to reinforce the implementation of its projects in the agriculture sector and more importantly to reinforce its efforts in the sectoral policy dialogue. In the past, P.L. 480 Self-Help Measures focused on restructuring the GOM agricultural investment budget away from irrigation and towards the rainfed sector. Considerable progress has been achieved in this direction. Further, in the last two years USAID has built its competence and knowledge base and has earned the confidence of the GOM in such complex areas of agricultural pricing, subsidies, deregulation and encouragement of the private sector. Through the Agricultural Prices and Incentives Study, itself a Title I Self-Help Measure, USAID has become a full participant in the agriculture pricing policy dialogue which constitutes a major part of the IBRD's first and second (pending) Agricultural Sector Loans. USAID will continue this policy dialogue initiative and focus on issues of prices, deregulation and private sector involvement, particularly with respect to inputs supply and domestic cereals marketing. Reliance on market forces in agriculture will be USAID's central policy dialogue theme in the sector.

USAID Approaches to Nutrition Problems of the Poor

The problem of hunger and inadequate nutrition levels in Morocco has been briefly described in the Analysis Section. While this problem cannot be ignored, it does not begin to approach the magnitude that exists today in most other countries on the African continent. USAID has not selected inadequate nutrition as a primary focus of its strategy due largely to the relatively greater seriousness of other problems and the need to concentrate resources on

a limited number of areas. Nevertheless, USAID is involved in several important activities bearing on the nutritional status of Moroccans, especially young children. While these do not constitute a coherent "strategy," per se they address the most important aspects of the nutrition problem and provide a basis for effective GOM approaches to it.

Existing data on nutritional status are old (1971), inadequate and conceivably misleading. To remedy this problem, USAID Morocco is assisting the GOM to improve the data base on nutritional problems through substantial support to the Statistical Services Division of the Ministry of Plan and the Ministry of Health. Under a PASA with the U.S. Bureau of the Census, this division conducted the 1982 National Census. With United Nations assistance, it is now completing a detailed Household Consumption and Expenditure Survey. Using the same sampling frame, the Ministry of Public Health will carry out a National Child Health and Nutrition Study beginning in late 1986 for which USAID plans to provide local cost support.

In addition to these data collection and analysis efforts, USAID Morocco has supported one of the oldest and largest Title II food supplement programs for low-income groups. The GOM's food supplement program will be progressively transferred to full GOM responsibility during the course of the CDSS period. In that process and as USAID assists the GOM in redesigning its program, the focus on meeting nutritional needs of particularly vulnerable groups (poor mothers and children) will be strengthened. Title I local currency generations are already being programmed to finance locally produced and available foods to substitute for declining Title II foodstuffs. USAID expects the GOM to request technical assistance for the design of that longer range program, and would consider such requests favorably.

Further, as the quality and quantity of data is improved and the prices of basic staples rise (as blanket subsidies are reduced), USAID expects to be asked to provide policy analysis assistance in the targeting of food subsidies to specific needy groups. This will occur within the context of USAID's Economic Policy Analysis Project with the Pricing Directorate of the Ministry of Economic Affairs. It is this group which is responsible for analyzing the impacts of the various pricing scenarios that will be considered as the GOM phases out of consumer subsidies on flour, sugar and edible oils. USAID is providing two senior economic advisors to work with this Directorate over the next three years. Their scope of work will include studies on the specific targeting of subsidies to low-income groups.

Hence, although USAID has not developed a full strategy to address the problem of inadequate nutrition per se, it will provide significant assistance to the GOM in addressing this issue during the CDSS period through four different levels of interventions:

(1) A domestic food production strategy designed to increase the availability of basic staples (especially cereals) to those for whom food supply constitutes the principal expenditure of income;

(2) A data collection and analysis effort to update and expand the knowledge base on nutrition issues and provide the GOM a basis for carrying out further nutrition policy analysis and targeted programs;

(3) An effort to assist the GOM in assuming full responsibility for specific food supplement programs for high-risk groups during the phase-over of Title II; and

(4) A policy analysis effort to assist the GOM in its efforts to mitigate the impacts on the poor of food price increases which will occur over the CDSS period.

STRATEGY OBJECTIVE: INCREASED FOOD SUPPLY

SUB-OBJECTIVES:

- | | | |
|---|---|---|
| <p>A. <u>Strengthened Agricultural Education and Technical/Socioeconomic Research Systems</u></p> | <p>B. <u>Increased availability of Agricultural Inputs and Production-Increasing Technologies</u></p> | <p>C. <u>Improved Policy Environment for Growth through Increased Reliance on Market Forces</u></p> |
|---|---|---|

INTERVENTIONS:

- | | | |
|---|---|---|
| <p>1. Increase the capacity of the National Agronomic and Veterinary Institute Hassan II (IAV) to train the Moroccan professionals needed for development of the agriculture sector (Agronomic Institute Project)</p> <p>2. Develop improved production technologies for rainfed agriculture, through applied agricultural research carried out at the Aridoculture Center in Settat (Dryland Agriculture Applied Research Project)</p> | <p>3. Strengthen Agricultural Credit Bank (CNCA) lending programs through technical assistance, training and related activities (Drought Recovery Credit Project)</p> <p>4. Increase efficiency of input storage and distribution (new project)</p> <p>5. Extend results of the applied research undertaken at the Aridoculture Center (Dryland Agriculture Applied Research Project)</p> | <p>6. Improve capacity of Ministry of Agriculture to: a) conduct policy analysis and implement policy change; and b) prepare and implement investment projects reflecting those policies (Planning, Economics and Statistics for Agriculture Project/Agriculture Prices and Incentives Study)</p> <p>7. Support pricing and marketing reforms through P.L. 480 Title I (Title I Self-Help Measures)</p> |
|---|---|---|

BENCHMARKS

	ST	LT	ST	LT	ST	LT
	- 40 faculty members completed Ph.D. and 25 completed M.S. programs	- IAV operating as a "Title XII" institution and granting advanced degrees	- Improved management information system in operation at CNCA and micro-computers being used at pilot CLCAs to reduce lending costs	- 50% increase in CNCA lending to small- and medium-scale farmers	- 2nd phase of Agriculture Prices and Incentives Study completed; analyses done by MARA on an ongoing basis; recommendations translated into policy change	- Policy/investment analysis unit in MARA fully trained and staffed, providing needed analyses for policy decision making
	- Applied research trials at 60 on-farm sites underway	- Professional manpower needs of agri. sector being filled; 50% of IAV graduates being hired by the private sector	- Agribusiness lending options of CNCA developed; CNCA opening major new portfolio of agribusiness lending	- 100% increase in CNCA lending to agribusiness	- Computerization of the policy-investment analysis unit in MARA completed	- Domestic private sector cereals marketing deregulated; input subsidies eliminated
	- 3 new technologies released as extension recommendations	- Regional research capacity fully staffed and functioning at the Aridoculture Center, providing new technologies for extension to local farmers	- Assistance project for input (e.g. fertilizer) storage and distribution designed and implementation initiated	- Private sector becomes principal vehicle for storage and distribution of agricultural inputs	- Aerial sampling photography completed and area frame used in 20 provinces	- Agricultural statistics collected on a rapid, regular basis using area frame sampling
		- Yields of cereals in rainfed areas increased by at least 50% over pre-drought levels on participating farmers' plots		- New production-increasing technology and inputs used by farmers in the marginal rainfed areas		
				- New tillage implements manufactured and distributed in Morocco		

3. REDUCED POPULATION GROWTH AND IMPROVED PRIMARY HEALTH CARE

Although Morocco's multi-faceted population program has made progress in the last few years, the Analysis Section indicates that much remains to be done in the provision of voluntary family planning and primary health care services. For cultural and political reasons, as well as to make the most effective use of scarce personnel and other resources, the GOM and AID have addressed the problem of rapid population growth, and one of its indirect determinants, early child health, under a single program. USAID will maintain its focused efforts in the sector during the CDSS period to increase Moroccan capability to address population pressures, while taking new steps to strengthen GOM efforts to increase child survival rates. Early in FY 1987 a new national contraceptive prevalence survey is scheduled, to be followed immediately by a major evaluation of USAID's "umbrella" Family Planning Project. Results of the survey and the evaluation will be used to reassess the interventions described below for the CDSS period and to strengthen or modify them as required.

Improvements in family planning and health status will require both improved productivity within the health system and the mobilization of increased resources. Since under current budget constraints additional public resources are unlikely, private financing sources are required. AID has undertaken a policy dialogue with the Ministry of Public Health and private sector professional organizations on this issue. With centrally-funded AID assistance, a wide spectrum of Moroccan health and finance leaders has been exposed to alternative means of financing health services in the U.S. Further, the Minister of Health has been provided with a broad study of the health financing situation in Morocco. In collaboration with the World Bank USAID will continue to pursue an intensive dialogue in this area. The latter is funding an in-depth study of health financing alternatives in Morocco, which is expected to lead to the implementation of reforms in the public sector and proposals for new modes of finance and delivery in the private sector. AID's role will continue to be that of a catalyst in stimulating policy-level discussions and, as appropriate, to support pilot efforts for new mechanisms that mobilize private resources.

The global strategy objective is to reduce the rate of population growth in Morocco. This will be done through a combination of measures to expand the voluntary use of family planning methods, to improve population and development planning, and to increase rates of child survival.

a. Sub-objective: Expanded Accessibility and Acceptability of Voluntary Family Planning

Short-term Benchmarks (FY 87)

- Contraceptive prevalence increased to 34 percent (modern and traditional methods)
- Number of contraceptive users increased to 1.1 million married women of reproductive age (MWRA)
- Number of female sterilization clients increased to 10,000 annually
- Availability of contraceptives (pills, condoms, secondary methods) extended to private business outlets other than pharmacies

Long-term Benchmarks (FY 88-91)

- Contraceptive prevalence increased to 43 percent by 1991 (modern and traditional methods)
- Number of contraceptive users increased to 1.6 million MWRA by 1991
- Number of female sterilization clients increased to 30,000 annually by 1991
- Birthrate reduced to 33; total fertility rate reduced to 4.37 by 1991

Interventions to address this sub-objective are based on two assumptions: (a) that the current integrated household delivery system for family planning and primary MCH care services (VDMS) is an effective and necessary means of promoting and providing services to a majority of the rural and poor urban population through the CDS period; and (b) that a greater role for the private sector in family planning is required to achieve targeted prevalence levels at a reasonable and supportable cost.

Intervention No. 1 - Improve Public Sector Service Delivery: Over the past six years, AID's focus has been the development and expansion of Morocco's public sector family planning activities. Its primary intervention has been the development and expansion of the MOPH household delivery program (VDMS) to areas covering approximately 70 percent of the population; the provision of surgical contraceptive capacity in 30 hospitals; and development of family planning promotion and referral activities in other GOM ministries. These activities, in collaboration with service expansion through other donor supported programs (UNFPA, World Bank), will complete planned geographic coverage by the public sector program. USAID support to this sector will

emphasize consolidation of program activities to improve performance, impact and cost effectiveness of existing activities. That is to say, the effort would be directed to increasing prevalence without further geographic expansion. USAID will also continue support to improve program management and evaluation, development and testing of radio, television and other communications strategies, operational research to pilot test more efficient delivery options, and clinical contraceptive research.

Intervention No. 2 - Expand Private Sector Service Delivery: Specific emphasis will be made to increase the role of the private sector in family planning service delivery over the CDSS period. This effort will capitalize on Morocco's extensive commercial medical and technical infrastructure, already the source of contraceptive services for more than 40 percent of users. USAID will also complete market research to determine the most appropriate means of increasing commercial promotion of family planning services. These data will be used to develop new mechanisms (industrial clinics, insurance schemes, public media messages, focused marketing etc.) to increase availability of family planning services offered through private sector outlets. Finally, USAID may provide support to the most promising members of the Moroccan PVO community which provide family planning promotion and referral services as part of their mother and child health programs.

- b. Sub-objective: Improved Population and Development Planning and Thus the Capacity to Cope with Population Growth

Short-term Benchmarks (FY 87)

- Use of multi-sector economic and demographic models in preparation of the 1987-91 GOM Development Plan
- GOM leaders (i.e. ministers) formally sensitized to the burden of rapid population growth; seminars or tutorials held on possible alternative growth scenarios

Long-term Benchmarks (FY 88-91)

- Official GOM policy level support provided for fertility reduction
- GOM resources allocated to family planning programs increased

Intervention No. 3 - Population and Development Planning: This intervention assumes that to achieve long range targeted levels of contraceptive prevalence and a reduced rate of population growth, an increasingly forthright and multisectoral approach is required. Short-range

AID and other donor supported (UNFPA) efforts to increase awareness of decision makers to the impact of demographic growth are designed to lead to more effective integration of demographic variables into development planning. To that end technical assistance will continue in employing multi-sector projection modeling in the preparation of the 1987-91 Development Plan. The development and use of such models is expected to increase GOM awareness of the importance of both demographic and non-demographic data for population and development planning. Technical training and commodity assistance coordinated with that of other donors (UNFPA, UNDP) will also continue to both the Ministries of Plan and Health in data collection, analysis and use. Support will be provided for the 1987 Contraceptive Prevalence Survey and perhaps to the 1992 Census. The longer range aim of this intervention is to support USAID's policy dialogue with the GOM to obtain stronger and more forthright support for fertility reduction.

c. Sub-objective: Increased Child Survival and Reduced Child Health Deficiencies

Short-term Benchmarks (FY87)

- ORS advertised and sold nationally and available in all public health facilities
- Immunization coverage of children under 5 against polio, diphtheria, whooping cough, measles and tetanus increased to 95 percent in urban areas and 80 percent in rural areas
- Public knowledge of ORT and immunization increased to 95 percent

Long-term Benchmarks (FY88-91)

- Infant mortality rate reduced from 91 to 75 per 1000 live births; child mortality rate reduced to 10 per 1000
- 95 percent of all children immunized effectively against polio, diphtheria, whooping cough, measles and tetanus
- Child mortality related to diarrheal illness decreased to 10 percent

Intervention No. 4 - Increase Child Survival Rates: Morocco's rates of infant and child death are high for a country of Morocco's stage of development. USAID's interventions toward reducing infant and child mortality are based on the belief that child survival is both an important aspect of development and one which plays a crucial role in family fertility behavior, particularly in rural areas. Furthermore mother and child health interventions offer a culturally acceptable context for actively promoting family planning services. USAID will greatly upgrade its support to Ministry of Health child survival efforts during the CDSS period. Already underway are

steps to assist the Ministry in evaluating the effectiveness of health aspects of VDMS, including ORS promotion and distribution of oral rehydration salts, immunization referral and nutrition surveillance. USAID is broadening its VDMS focus, moreover, by increasing public awareness of oral rehydration therapy and immunization as key child survival strategies, and by augmenting both GOM and private sector promotion and distribution capacities. Extensive resources will be directed to accelerating the GOM's national immunization program, through mobilization of local efforts, expanded publicity, and adoption of technical improvements in vaccination scheduling and administration of the program.

USAID technical assistance and local cost support are also planned to assist the GOM to carry out a national child health and nutrition survey, the first since 1971. This survey will sharpen the focus and impact of Ministry of Health and other donor activities to address health and nutrition problems. It will also strengthen the Ministry's role in shaping GOM food policy by providing up-to-date information on nutrition status of the most vulnerable groups in the population.

STRATEGY OBJECTIVE: REDUCED POPULATION GROWTH AND IMPROVED PRIMARY HEALTH CARE

SUB-OBJECTIVES:

- | | | |
|---|--|--|
| A. <u>Expanded Accessibility and Acceptability of Voluntary Family Planning</u> | B. <u>Improved Population and Development Planning and Capacity to Cope with Population Growth</u> | C. <u>Increased Child Survival and Reduced Child Health Deficiencies</u> |
|---|--|--|

INTERVENTIONS:

Public Sector:

1. Improve FP/MCH service delivery systems, especially the household visitation program (VDMS), through:
 - expansion of services
 - operations research
 - improved MOPH program management
 - improved education and communications programs
 - improved surgical/clinical methods

3. Support development and use of multi-sector economic and demographic modeling in preparation of multi-year plans and policy development

4. Support and accelerate national immunization and other early childhood health programs

Private Sector:

2. Define need for and develop mechanisms for increasing FP/MCH services through the private sector

BENCHMARKS

<u>ST</u>		<u>LT</u>		<u>ST</u>		<u>LT</u>		<u>ST</u>		<u>LT</u>	
- Contraceptive prevalence increased to 34% (modern and traditional methods)	- Contraceptive prevalence increased to 43% (modern and traditional methods)	- Use of multi-sector economic and demographic models in preparation of the 1987-91 GOM Development Plan	- Official GOM policy level support provided for fertility reduction	- ORS advertised and sold nationally and available in all public health facilities	- Infant mortality rate reduced from 91 to 75 per 1000 live births; child mortality rate reduced to 10 per 1000						
- Number of contraceptive users increased to 1.1 million MWRA	- Number of contraceptive users increased to 1.6 million MWRA	- GOM ministers formally sensitized to the burden of rapid population growth; specifically, seminars or tutorials held on possible alternative growth scenarios	- GOM resources allocated to family planning programs increased	- Immunization coverage of children under 5 against polio, diphtheria, whooping cough, measles and tetanus increased to 95% in urban areas and 80% in rural areas	- 95% of all children immunized effectively against polio, diphtheria, whooping cough, measles and tetanus						
- Number of female sterilization clients increased to 10,000 annually	- Number of female sterilization clients increased to 30,000 annually by 1991			- Public knowledge of ORT and immunization increased to 95%	- Child mortality rate due to diarrheal illness decreased to 10%						
- Availability of contraceptives extended to private business outlets other than pharmacies	- Birthrate reduced to 33; total fertility rate reduced to 4.37 by 1991										

4. IMPROVED MANAGEMENT OF ENERGY AND NATURAL RESOURCES

Morocco requires greater amounts of energy to support sustained economic growth. To accomplish this, the energy policy agenda for Morocco requires it to reduce dependence on imported oil through policies maximizing the availability and use of viable domestic energy resources -- hydrocarbons and renewables -- while increasing the efficiency of all energy use. The United States has tremendous expertise and experience to offer Morocco in this effort. USAID has the challenge to assure that Morocco has access to the best of U.S. capability in the sector during the forthcoming CDSS period. The USAID strategy to assist Morocco improve its management of energy and natural resources has been designed to respond to GOM priorities, and to complement World Bank and other donor activities in the sector.

a. Sub-objective: Strengthened Energy Sector Policy
Analysis, Planning and Management Capacity

Short-term Benchmarks (FY 87)

- Energy demand management action program designed in co-operation with GOM and World Bank
- Energy audits completed for portions of industry, mining, commerce and transport sectors
- GOM review of electricity pricing completed
- GOM modeling capacity to assess energy scenarios established and operational
- Energy sector human resource requirements analysis completed

Long-term Benchmarks (FY 88-91)

- GOM implementing energy demand management program, resulting in 10-20% reduction in projected oil imports
- Energy audits of all sectors completed, and appropriate efficiency measures being implemented
- GOM electricity prices reflect actual costs
- GOM using modeling capability to assist in making investment decisions
- GOM implementing recommendations of human resource requirements analysis

Intervention No. 1 - Energy Demand Management: A conscious and intensive Energy Demand Management program, as recommended by a recent World Bank assessment of the energy sector, appears to offer Morocco the highest return on investment in the short-run to reduce dependence on imported oil. The effectiveness of energy demand management activities has been demonstrated in developed countries, particularly in the United States, over the past decade and similar activities are now reaching the implementation stage in other developing countries (eg. Pakistan). A results-oriented energy demand

management program involves elements of all four of the Agency's "pillars" and is consonant with the increasing attention of the GOM decision-makers in this direction.

USAID's ability to assist the GOM to implement a strengthened energy demand management program is based on building blocks already in place. Under the Energy Planning Assistance Project, USAID is financing a long-term advisor highly qualified in energy demand management who will be resident in Morocco. With the participation of this advisor and USAID staff, the Mission and the World Bank will begin in mid-1986 to prepare with the Ministry of Energy an action program for energy demand management

USAID expects near-term results from the application in Morocco of established energy conservation technologies. Given the present GOM involvement in energy-intensive sectors (industry, commerce, and transportation) which use almost 80 percent of commercial energy and close to 50 percent of total energy, government agencies and companies will be able to take the lead not only in conducting energy audits in specific sectors, but in demonstrating both the technical viability of more efficient use of energy and financial returns.

A key element of an effective energy demand management program is proper pricing signals. The GOM's record in this area is good, especially for oil and gas. The more difficult area to be addressed is electricity prices. Though not seriously distorted, electricity charges have remained below marginal costs, and major problems exist in billing and collection. AID will work together with the World Bank to engage the GOM in a policy dialogue on this issue. USAID's current project on pricing policy with the Ministry of Economic Affairs provides another context for policy dialogue on energy prices.

The major inputs to an energy demand management program at the early stages will include technical assistance, studies, training, and demonstrations. Further, the action program should also identify capital investments, for which AID will consider financing if adequate funds become available during the CDSS planning period.

Intervention No. 2 - Energy Data Analysis, Investment Planning, and Resource Management: USAID Morocco will seek to strengthen the capacity of the GOM to generate and interpret energy sector data and carry out effective policy analysis, investment planning and resource management. This multi-faceted intervention entails elements of all four of the Agency's "pillars" and will build the initiatives starting under the Energy Planning

Assistance and the Conventional Energy Management projects. Long and short term technical assistance for policy analysis and management advice, assessment of human resource requirements (and training programs to meet them), analytical studies, and an enhancement of Moroccan capability to use modeling tools are the principal activities already underway. With grant-financed assistance, USAID will play an important and complementary role to the World Bank in this area.

USAID management support to ONAREP, the GOM'S state-owned oil and gas agency, has already stimulated substantial investment interest by private sector firms and has fully exposed ONAREP to U.S. business practices. The GOM, recognizing the importance of private investment in energy development, has prepared and will submit to Parliament in mid-1986 a new petroleum investment law designed to make such investment even more attractive. While USAID expects the objectives of the existing Conventional Energy Management project to be achieved by mid-1988 (and does not plan further specific project assistance to ONAREP), nevertheless, USAID plans to continue to assist the GOM in selected activities in conventional energy development which merit further support, such as senior level management training and advice to buttress the increasing reliance upon private sector investment.

Intervention No. 3 - Human Resource Development: Strengthening human resources in the energy sector constitutes a particularly important responsibility for USAID. The existing human resource capability in Morocco's energy sector has its roots in a French language and industrial orientation. Nonetheless Morocco is actively seeking the full benefit of U.S. energy sector experience and has made special efforts to create the capability to work in English. An aggressive human resource development program in the energy sector must step outside the traditional barriers that have hampered implementation of training programs in the past. The GOM cannot readily make available for training highly competent and motivated people who are current or near-term leaders in the energy sector, as the best people must fulfill their responsibilities to cope with today's problems. As a result, USAID will make a serious effort to attract and train bright young Moroccans emerging from the country's best technical institutions in modern energy technology and management. This process will begin through a more aggressive implementation of the training components of the existing energy projects, and will be supplemented through centrally funded training programs.

b. Sub-objective: Increased Development and Use of Morocco's Renewable Energy Resources

Short-term Benchmarks (FY 87)

- Analysis of solar water heater industry potential completed
- CDER completes definition of its role and its programs for technology assessment and diffusion; current project reformulated and moving
- Institutional linkages with U.S. renewable energy institutions being established by CDER
- GOM, USAID, World Bank carry out household energy demand and supply studies
- GOM interministerial committee to strengthen forestry development fully operational

Long-term Benchmarks (FY 88-91)

- Moroccan private firms actively manufacturing and selling solar water heaters
- CDER actively implementing technology adaptation and carrying out diffusion role in cooperation with private sector
- CDER and U.S. firms exchanging information and professional personnel
- GOM implements recommendations of household energy studies covering private incentives for interfuel substitution, forestation watershed protection, etc.
- GOM implementing recommendations of interministerial committee on forestry

Intervention No. 4 - Adapt and Disseminate Commercially Viable Renewable Energy Technologies: For the past four years USAID has supported the establishment of the Centre de Développement des Energies Renouvelables (CDER), the GOM's renewable energy agency located in Marrakech. With extensive USAID technical assistance and financing for studies and equipment, CDER has become fully operational as an established semi-autonomous agency. A recent external evaluation recommends that CDER now move to a new phase of its operation by defining more sharply its role in promoting the use of renewable energy, paying special attention to stimulating the involvement of the private sector in exploitation of commercially viable technologies.

The USAID accepts and supports the fundamental recommendations of a recent evaluation report, and has undertaken a policy dialogue with CDER to better define its role over the CDSS planning period. Depending on the outcome of these discussions, USAID will either extend the existing project to allow completion of current activities for which funds are already available or redesign the existing project to execute the revised renewable energy strategy through the CDSS period.

USAID believes that the original strategy of helping Morocco to exploit its renewable energy resources -- as confirmed by the external evaluation -- is sound. Without extensive new finds of hydrocarbons, a Moroccan energy demand management effort must be complemented by maximum utilization of domestic resources, of which Morocco is favored with very attractive solar and wind potential. CDER has also shown great interest in the development of economically viable rural energy systems, particularly important to the achievement of equity objectives in the energy sector.

USAID will focus its support to emphasize CDER's efforts to obtain the diffusion of renewable energy systems through the private sector. The greatest potential is currently foreseen in the areas of solar water heaters and wind energy systems. CDER recognizes that while it has a significant role in establishing a policy framework and assessing and applying proven renewable energy technologies, the Moroccan private sector must be the mechanism for widespread dissemination of these technologies.

Intervention No. 5 - Examine Household Energy Demand Problems: The satisfaction of household energy demand in Morocco draws on two principal scarce resources, namely, woodfuels and imported subsidized butane, neither of which is fully satisfactory. As described in the Analysis Section, current projections establish that the woodfuel deficit will substantially worsen over the next decade. Furthermore, whatever policy interventions are undertaken, and however successful they are, the composition of household energy demand and the marketing and distribution mechanisms through which it is satisfied will change rapidly in the next decade. The role of public policy will be to channel that change toward solutions that are realistic and consistent with market incentives.

In view of its relative importance in the overall energy picture in Morocco (roughly 50 percent of total energy consumed), there is a serious lack of reliable information and analysis about the domestic fuels sector. Available information is dispersed among many agencies and has been neither synthesized nor evaluated. USAID's initial intervention will focus on improving the incipient knowledge base, understanding the sector, determining priorities, and establishing a viable strategy. This will be done in close coordination with the IBRD and the Ministry of Energy. The Ministry has expressed its commitment to addressing the domestic fuels sector, and has recently led a successful effort to establish an interministerial committee to coordinate among agencies with an interest in household energy, and its relationship to the problem of deforestation.

The existing Energy Planning Assistance project provides a mechanism to assist the Ministry in the initial phases of problem analysis and strategy definition. This work -- critical to the GOM even if not followed by substantial donor funding for investments -- consists of household energy surveys covering representative urban and rural areas; current and projected consumption patterns, marketing and distribution studies; an analysis of the true economic cost of deforestation vis-a-vis petroleum imports; and an analysis of alternative investment strategies. USAID anticipates that this concentrated analytical effort over the next few years will result in sound specific recommendations for interventions later in the CDSS planning period.

1
STRATEGY OBJECTIVE: IMPROVED MANAGEMENT OF ENERGY AND NATURAL RESOURCES

SUB-OBJECTIVES

A. Strengthened Energy Sector Policy Analysis, Planning and Management Capacity

B. Increased Development and Use of Morocco's Renewable Energy Resources

INTERVENTIONS

1. Support the development of a national energy demand management program (Energy Planning Assistance Project)
2. Strengthen GOM capacity for energy data analysis, investment planning, and resource management (Energy Planning Assistance Project)
3. Strengthen human resource development in energy and natural resources (various training programs)

4. Adapt and disseminate commercially renewable energy technologies, especially through the private sector (Renewable Energy Development Project)
5. Examine household energy demand and economically/environmentally sound responses

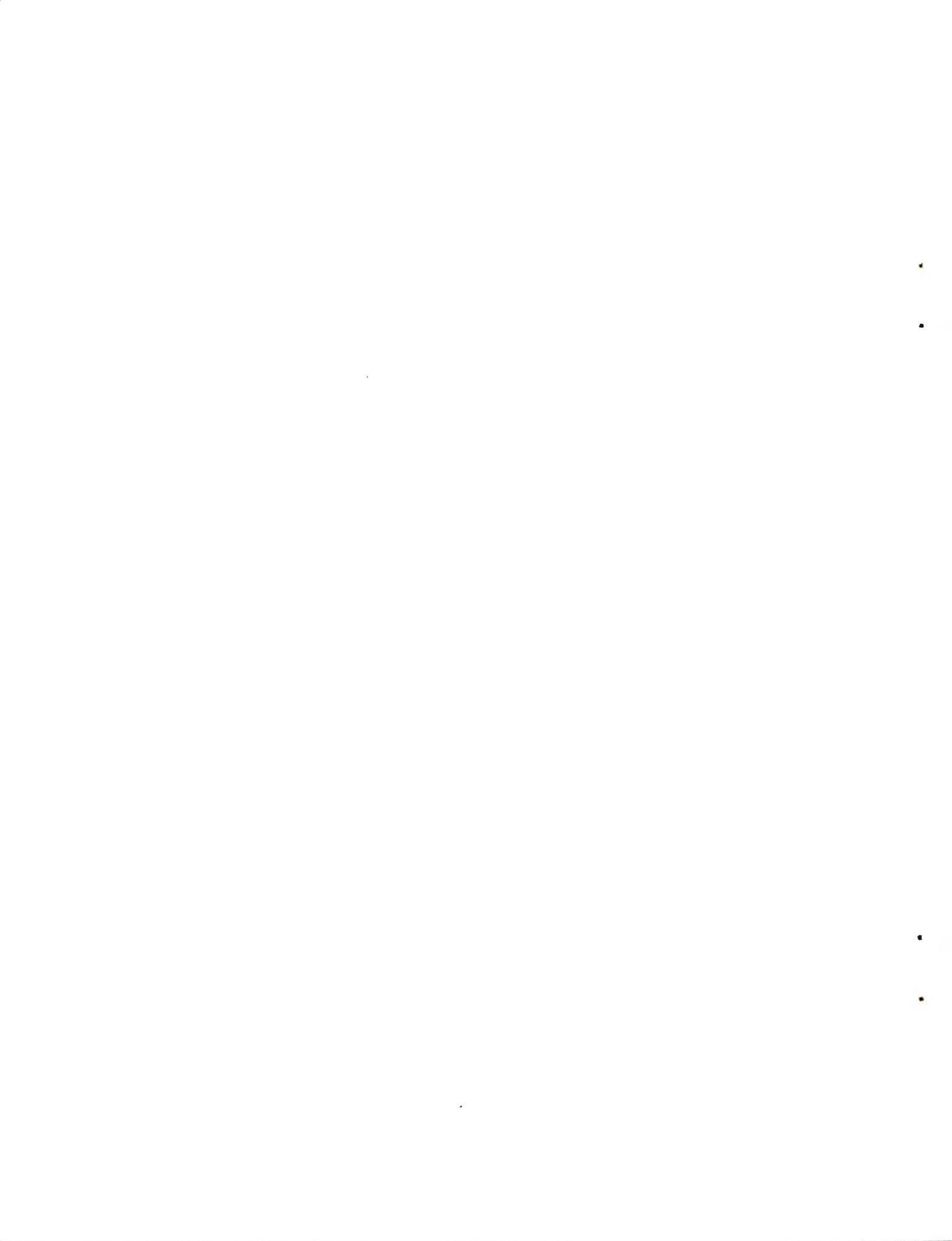
BENCHMARKS

ST	LT
- Energy demand management action program designed in co-operation with GOM and World Bank	- GOM implementing energy demand management program, resulting in 10-20% reduction in projected oil imports
- Energy audits completed for portions of industry, mining, commerce and transport sector	- Energy audits of all sectors completed, and appropriate efficiency measures implemented
- GOM review of electricity pricing completed	- GOM electricity prices reflect actual costs
- GOM modeling capacity to assess energy scenarios established and operational	- GOM using modeling capability to assist in making investment decisions
- Energy sector human resource requirements analysis completed	- GOM implementing recommendations of human resource requirements analysis

ST	LT
- Analysis of solar water heater industry completed	- Moroccan private firms actively manufacturing and selling solar water heaters
- CDFR completes its definition of its role and programs for technology assessment and diffusion; current project reformulated and moving	- CDFR actively implementing technology adaptation and carrying out diffusion role in cooperation with private sector
- Institutional linkages with U.S. renewable energy institutions established by CDFR	- CDFR and U.S. firms exchanging information and professional personnel
- GOM, USAID, World Bank carry out household energy demand and supply studies	- GOM implements recommendations of household energy studies covering private incentives for interfuel substitution, forestation, watershed protection, etc.
- GOM interministerial committee to strengthen forestry development fully operational	- GOM implementing recommendations of interministerial committee on forestry



IV. RESOURCES



IV. RESOURCES

The following tables describe the financial resource requirements of the strategy which USAID Morocco proposes to carry out over the FY 1987-1991 period. Table I shows combined DA and ESF funding requirements calculated on the basis of USAID strategy interventions which address sectoral subobjectives. These amounts are totaled to provide an estimated funding level required to effectively address the Mission's four fundamental strategic objectives. As can be seen from Table I, agriculture (Increased Food Supply) will continue to receive the largest share of DA and ESF resources, i.e. approximately 40% of the total over the five year period. Nevertheless, agriculture shows a very slight annual decline over the period, due in large part to the planned completion of two major institutional development projects during the CDSS period. The other three "sectors" show slight growth in DA/ESF funding over the period, with significant percentage increases in the Mission's two newest areas of endeavor, Economic Growth (Policy Reform/Private Sector Development) and Energy Development. Population/Child Survival funding shows a very slight annual increase from the proposed FY 1987 level.

Table II calculates the approximate funding requirements by type and functional account over the period. Within Development Assistance accounts, ARDN funding remains the "lion's share" (42%). A significant increase in current DA levels is found only in the SDA account. Proposed levels of DA overall show only minor annual increases of \$1 million per year from \$20 million in FY 1987 to \$24 million in FY 1991. ESF levels proposed are similarly modest though increase slightly faster than DA, rising from \$20 million in FY 1987 to \$31 million in FY 1991. ESF increases will be directed to interventions with near-term balance of payments impacts. Our basic P.L. 480 Title I proposal is a straight line at current levels of \$45 million per year, although we would expect to propose annual supplements depending on circumstances and GOM performance. Title II is shown completing its phase-out by the end of the CDSS period. One Housing Guaranty Authorization for \$25 million is proposed during the period, for FY 1989. Further, the Mission hopes that the PRE Bureau will continue its active program in Morocco, but has not endeavored to predict funding forthcoming from the Private Sector Revolving Fund.

Overall, the Mission's strategy requires only modest nominal increases in DA and ESF funding over the CDSS period, from a combined total of \$40

million in FY 1987 to \$55 million in FY 1991. The proposed official bilateral development assistance totals for Morocco over the CDSS period thus show only a very modest progression in nominal terms, from \$89.8 million in FY 1987 to \$100.0 million in FY 1991. This is only an 11% increase over a five-year period, and is thus likely to constitute an actual decrease in real terms.

Even given this modest proposal for strategic resources, some may consider this "optimistic" in light of Gramm-Rudman-Hollings. USAID Morocco cannot in good conscience propose lesser funding levels. We have taken great care to strictly limit the expansion of the program into new areas, and the actual number of development projects to be active by 1991 is likely to be smaller than the number of active projects in the Mission's portfolio today. Should the proposed funding levels not be forthcoming, the Mission will have to examine ways in which the proposed strategy can be reduced in scope. Given Morocco's financial position and its declining real income levels, this would be an unfortunate turn of events.

TABLE I
Strategy Funding Requirements By Objective
(\$ millions)

OBJECTIVES/ INTERVENTIONS	FISCAL YEARS					CDSS PERIOD TOTAL	
	FY 87	FY 88	FY 89	FY 90	FY 91		
<u>I. Increased Economic Growth</u>	11.0	13.0	14.0	16.0	18.0	72.0	(30%)
a. Reliance on Market Forces	1.5	2.0	2.0	2.0	2.0	9.5	
b. Public Service Productivity	1.5	2.0	2.0	2.0	2.0	9.5	
c. Private Sector Export Growth	8.0	9.0	10.0	12.0	14.0	53.0	
<u>II. Increased Food Supply</u>	19.5	19.5	18.5	19.0	19.0	95.5	(39%)
a. Agricultural Education and Research	7.5	7.5	6.0	5.5	4.0	30.5	
b. Agricultural Inputs/ Technology Dissemination	10.0	10.0	11.0	12.5	14.0	57.5	
c. Agricultural Policy Development	2.0	2.0	1.5	1.0	1.0	7.5	
<u>III. Reduced Population Growth</u>	6.5	6.5	7.0	7.0	7.0	34.0	(14%)
a. Voluntary Family Planning	4.0	4.5	5.0	5.0	5.0	23.5	
b. Population/Development Planning	0.5	0.5	0.5	0.5	0.5	2.5	
c. Child Survival	2.0	1.5	1.5	1.5	1.5	8.0	
<u>IV. Improved Mgmt of Energy and Natural Resources</u>	3.0	7.0	9.5	10.0	11.0	40.5	(17%)
a. Policy Analysis, Planning and Management	1.5	5.5	7.0	7.5	8.0	29.5	
b. Renewable Energy Development	1.5	1.5	2.5	2.5	3.0	11.0	
<u>TOTAL:</u>	40.0	46.0	49.0	52.0	55.0	242.0	(100%)
of which:							
DA	20.0	21.0	22.0	23.0	24.0	110.0	
ESF	20.0	25.0	27.0	29.0	31.0	132.0	

TABLE II
Strategy Funding Requirements by Functional Account
(\$ millions)

	FY 87	FY 88	FY 89	FY 90	FY 91	TOTAL
I. Development Assistance	20.0	21.0	22.0	23.0	24.0	110.0
ARDN	9.5	9.0	8.5	9.5	10.0	46.5
POP	4.0	5.0	5.5	5.5	6.0	26.0
Child Survival	2.0	1.5	1.5	1.5	1.5	8.0
EHR	1.5	2.0	2.5	2.5	2.5	11.0
SDA	3.0	3.5	4.0	4.0	4.0	18.5
II. Economic Support Funds	20.0	25.0	27.0	29.0	31.0	132.0
Total DA + ESF	40.0	46.0	49.0	52.0	55.0	242.0
III. P.L. 480 Title I	45.0	45.0	45.0	45.0	45.0	225.0
IV. P.L. 480 Title II	4.8	4.1	2.8	1.6	-	13.3
Total Assistance	89.8	95.1	96.8	98.6	100.0	480.3
V. Housing Guaranty Auth.	-	-	25.0	-	-	25.0

V. ANNEXES



