

USAID MOROCCO

FY 1988 ACTION PLAN

February 1987

Agency for International Development  
Washington, D.C.

BEST AVAILABLE

TABLE OF CONTENTS

USAID MOROCCO  
FY 1988 ANNUAL ACTION PLAN

	<u>PAGE</u>
I. <u>Introductory Overview</u> . . . . .	1
II. <u>USAID Performance and Plans</u>	
A. USAID Morocco Strategy Summary — FYs 1987-1991 (Revised)	3
B. Program Progress and Program Plans through FY 1988	
1. Increased Economic Growth through Policy Reform and Private Sector Development . . . . .	4
2. Increased Food Supply . . . . .	11
3. Reduced Population Growth and Improved Primary Health Care . . . . .	17
4. Improved Energy and Natural Resource Management . . .	23
C. Policy Agenda . . . . .	27
III. <u>Special Considerations</u>	
A. Financial Issues . . . . .	32
B. Evaluation Plan and Schedule . . . . .	35
C. P.L. 480 Narrative . . . . .	36
Title I Narrative	
Section 108	
Title II Narrative	
D. Management and Work Force Issues . . . . .	39
E. Gray Amendment . . . . .	40
F. Women in Development . . . . .	41
G. Summary Budget Table (FYs 1987-89) . . . . .	43

ANNEX 1

New Project Description: Cereals Market Restructuring  
Project (608-0195)

I. INTRODUCTORY OVERVIEW

## I. Introductory Overview

One year after the approval of a new Country Development Strategy Statement, USAID Morocco is confident that our program focus (working on the four program problem areas of economic growth, food supply, population growth and primary health care, and management of energy and natural resources) remains valid. Our ongoing and proposed portfolio attacks key constraints in each area and has the potential to make a difference in how Morocco develops. The impacts of long term activities of USAID Morocco in agricultural education, agricultural research, and family planning begun before the CDSS planning period are already being felt. Several new program possibilities have been identified which could make significant contributions to Moroccan structural adjustment in the near term.

Given the strength of our ongoing portfolio, the potential impact of new projects, an improving Moroccan policy environment and economy, and the comparative advantage USAID has as a donor in institution building and technical assistance, we are optimistic about our ability to contribute to the achievement of CDSS goals. However, AID budgetary constraints could soon begin to jeopardize USAID Morocco's ability to achieve its CDSS goals in agriculture, family planning, child survival, and participant training.

### Progress Over the Past Year

Morocco's economic performance over the past year has been impressive. Morocco has concluded a new IMF Stand-By Agreement; it held successful negotiations with private lenders at the London Club; and trade liberalization and devaluation coupled with a record harvest and declining oil prices brought the current account deficit to 1.7% of GDP at the end of 1986. Recent policy statements of the King and government officials and the outlines of the proposed five year plan point to an increasingly favorable policy environment. The King has explicitly spoken in favor of privatizing and restructuring public enterprises. He is also a strong supporter of decentralized government including local communities taking responsibility for planning, implementing and financing development projects. Several of his Ministers are talking much less obliquely than in the past about Morocco's demographic future, improving rural life and creating more jobs in the private sector. Many pieces of the economic policy puzzle are falling into place and the stage is now set for successful Paris Club (prospective debt rescheduling in excess of \$1.0 billion) and Consultative Group meetings in March 1987.

The USAID Morocco portfolio is performing well. AID/W's recent portfolio implementation review sustained this view. Highlights during 1986 include the arrival of the technical assistance team for the Pricing Directorate of the Ministry of Economic Affairs, reaching a peak of implementation activity in our agricultural portfolio, increasing gains in family planning, the consolidation of our energy portfolio, and launching the complex Private Sector Export Promotion project (0189).

Several new initiatives are under way to put us even further into the mainstream of the structural adjustment process. We are moving forward to PP preparation for an Energy Demand Management project (0193) to capture benefits to the economy of improved-energy efficiency. We are negotiating a new

subproject under our Economic Policy Analysis project (0191) to provide technical assistance to the entity responsible for restructuring public enterprises and developing the country's privatization plan. We are developing a new Cereals Market Restructuring project (0195) to help implement a GOM policy decision to liberalize the cereals market. We are discussing a new Title II compensatory program to provide a safety net for those most adversely affected by the GOM's stabilization and structural adjustment program. We also have proposed an increment to our Title I program to finance a Section 108 private sector lending program.

#### The Impact of Budget Constraints

FY 1987 and FY 1988 DA budget constraints will begin to impinge on the achievement of USAID Morocco objectives in 1988. Our agricultural portfolio will have drawn its pipeline down to levels requiring overt project slowdowns. Our contributions to the GOM child survival program will be limited. Our training program will be unable to place participants in time to meet the Administrator's targets. No new projects would be funded under DA.

If USAID Morocco were to receive ESF levels in the \$15 to \$20 million range over the action plan period, we would be able to go forward with a few new initiatives and perhaps supplement DA funding to avoid disruptions. On the other hand, if USAID Morocco were to receive ESF budgets at the FY 1987 approved level (\$10 million), we will not achieve CDSS goals, and the ongoing program may have to be restructured.

#### This Year's Action Plan - Format and Content

This year's action plan format is significantly different from those of previous years. First, we have merged discussions of past performance and future benchmarks for each problem area. Second, we have added quantitative and qualitative indicators for each problem area to help track over time the status of CDSS goals as well as the progress of our portfolio. We realize that USAID Morocco can not always take credit for improvements at the sector goal level nor establish direct causality between our programs and overall trends; however, we feel that the inclusion of overall indicators helps keep A.I.D.'s attention focused on our goals.

As requested at last year's review, we have included separate sections on the policy agenda and women in development.

II. USAID PERFORMANCE AND PLANS

- A. USAID Morocco Strategy Summary — FYs 1987-1991  
(Revised)
- B. Program Progress and Program  
Plans through FY 1988
- C. Policy Agenda

II. A. USAID MOROCCO STRATEGY SUMMARY -- FYs 1987-1991 (REVISED)

OBJECTIVES AND PROGRAM ACTIVITIES

I. INCREASED ECONOMIC GROWTH

A. Increase Reliance on Market Forces

- 1) Support GM 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 GM reforms of the national planning/budgeting process and investment appraisal system
- 4) Assist GM 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

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 (ONCA) lending programs

- 4) Monitor reforms underway in input distribution

5) Disseminate 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 (1) conduct policy analysis and implement policy changes; and (2) prepare and implement investment projects reflecting these policies
- 7) Support pricing and marketing reforms through P.L. 480 Title I
- 8) Planned project supporting major reforms in cereals marketing

D. USAID Approaches to Nutrition Problems of the poor

- 9) Food programs to offset the negative effects of structural adjustment program

III. RELATED NUTRITION 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 (VIMS), through:
  - expansion of services
  - operations research
  - improved MCH 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 GM capacity for energy data analysis, investment planning, and resource management
- 3) Strengthen human resource development in energy & 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 & economically/environmentally sound responses

II. B. Program Progress and Program Plans  
through FY 1988

- I. Increased Economic Growth through Policy Reform and Private Sector Development
- II. Increased Food Supply
- III. Reduced Population Growth and Improved Primary Health Care
- IV. Improved Management of Energy and Natural Resources

I. Increased Economic Growth through Policy Reform and Private Sector Development

A. Goal #1: Increased Reliance on Market Forces

1. Program Activities

Support GOM's pricing policy reform with technical assistance to Pricing Directorate.

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

2. Overall Progress Indicators

Quantitative

	<u>BASELINE (1986)</u>	<u>CURRENT (1987)</u>	<u>END OF FY 88 BENCHMARK</u>	<u>CDSS GOAL (1991)</u>
Increases in utility tariffs*				
- Electricity	3.8%	8%	10%	100%
- Water	20%	15%	13%	OF LRMC
Percentage of investment financing met out of retained earnings				
- Electricity	0%	0%	10%	25%
- Water	17%	17%	20%	30%
GOM financing of non-financial public enterprises (billion dirhams). As a percent of GDP	4.3b dhs 3.1%	4.0b dhs 2.6%	2.9b dhs 2.1%	1.7b dhs 1%
Consumer Subsidies (billion dirhams). As a percent of GDP	1.8b dhs 1.3%	1.4b dhs 0.9%	.7b dhs 0.5%	0 0%
Cost recovery for low income housing (include cross-subsidization)	20%	40%	65%	80%

\* Nominal Tariff increases required to meet IBRD objectives for covering Long Run Marginal Cost (LRMC).

Qualitative

CDSS Objective - Promulgation and enforcement of regulations against restrictive business practices.

Benchmarks:

Pricing Directorate technical assistance team (HIID) has assisted in development of antitrust legislation during the first quarter FY 1987

CDSS Objective - Assist GOM in design and implementation of comprehensive privatization strategy.

Benchmarks:

Public awareness campaign conducted to increase knowledge of benefits of privatization (1986); culminated in King's Speech (October 1986)

Ministry of Finance unit (DEPP) to guide public sector restructuring and privatization activities with its role having changed from line office to policy setter (1988)

Comprehensive Privatization Strategy and Program to be developed by the GOM under the World Bank's Public Enterprise Rationalization Loan (PERL) (1988)

CDSS Objective - Broaden financial markets and increase investor confidence.

Benchmarks:

Measures required for increasing private equity holdings in enterprises now under public ownership identified (1987)

New financial instruments developed to facilitate privatization (1988)

3. Progress Narrative

Under the technical assistance project for the Pricing Policy sub-project, two senior economists have joined the Pricing Directorate as resident advisors. Analytical work has begun from which recommendations for further price liberalization will be developed. The Pricing Directorate has been given lead responsibility in a major review of utility pricing, in particular electricity and water. A similar review is underway for the pricing of petroleum products. Since the contractors arrived only this fall, systematic approaches to pricing public services have not yet been developed but will figure in the work plan for 1987. As part of negotiations for HG-001, work has continued on developing viable cost recovery mechanisms for low-income housing. Some options are being tested in programs of the Ministry of Housing.

The Mission has carried out a preliminary study of the structure of equity markets and is debating the prospects for introducing new financial instruments such as convertible bonds to increase private ownership of profitable state-owned enterprises. The GOM is concentrating initially on measures to improve the financial condition and performance of state-owned enterprises. In a major speech in October, the King of Morocco called for privatization and other measures to reduce the drain on the budget from subsidies to public enterprises. Since then, his ministers have repeatedly called for privatization and increasing the role of the private sector.

Significant efforts toward privatizing non-strategic enterprises wholly or partially owned by the State, however, appear to be at least a year away. Nevertheless, privatization in the form of partial or full divestment of nonstrategic enterprises continues to be actively debated, both in public and private circles, stimulated in part by USAID's policy dialogue and related activities (e.g., AID's Privatization Conference).

4. Programmatic and Management Actions through FY 1988

Program Management Activities

Develop subproject under the Economic Policy Analysis project (0191) in early CY 1987 to provide long-term and short-term technical assistance to the secretariat responsible for implementation of the World Bank Public Enterprise Rationalization Loan (PERL).

Significant Project Activities

Pricing Directorate working on restrictive business practices, price liberalization, price setting methods for regulated goods, a data base on regulated prices, and compensatory programs to alleviate effects of food price changes.

Technical assistance to be provided for privatization plans affecting selected enterprises and activities conducive to privatization in conjunction with PERL and financial and capital markets.

5: Constraints to Program Success

Political difficulties of implementing pricing adjustments for necessities, including utilities, and privatization of specific enterprises.

B. Goal #2: Improved Efficiency and Productivity of Public Services

1. Program Activities

Training in project analysis; HIG programs and related technical assistance; and Participant Training program.

2. Overall Progress Indicators

Quantitative

	<u>BASELINE</u> <u>(1984)</u>	<u>CURRENT</u> <u>(1986)</u>	<u>END OF FY 88</u> <u>BENCHMARK</u>	<u>CDSS GOAL</u> <u>(1991)</u>
Participants Placed (cumulative)				
LT (US)	157	275	416	600
ST	120	306	527	850
Tetouan plots serviced and developed by private sector	0	0	0	3,000

Qualitative

CDSS Objective - Process of programming public investment, budget preparation, and monitoring reformed.

Benchmarks:

Investment and financial appraisal standards adopted by Ministries of Finance and Plan (1987)

Analysis of projects in the multiyear plan meet established investment appraisal standards (1987)

Installation of computerized capital budget development and control system in the Ministry of Finance (1987)

CDSS Objective - Improved municipal performance in Tetouan resource mobilization, management of infrastructure, property registration, and delivery of services.

Benchmarks:

Use of non-budgetary funds under HG-001 for urban development activities in Tetouan (1988)

Completion of infrastructure and municipal management and finance and analyses under HG-001 and start of project implementation (1987)

Cost-recovery mechanisms institutionalized and operating to generate revenue for low-income housing under HG-002 (1987) (1988)

Development of property registration and tax recovery plan to increase local resource mobilization (1988)

3. Progress Narrative

The Mission has supported further training of project analysis under the National Program for Project Appraisal (FNAP). However, there has been little progress toward the benchmark of introducing investment and appraisal standards. The idea of standards is acceptable, but the development and the requirement to follow such standards have been slow. The new multi-year plan is being developed after two years of having no plan. It is Mission's understanding that the plan will have a "hard core" of well-analyzed projects as well as a soft shell of optional projects which will be funded as additional resources become available. The Ministry of Finance has completed a USAID-financed study of automating its investment budget, but implementation has become entangled with other components of an ambitious computerization project for the entire Ministry of Finance. Further USAID support in this area is unlikely due to the interest of other donors in providing assistance and GOM preference for French systems.

Several key issues have been raised and discussed with GOM in course of HG-001 negotiations: the role of the Community Infrastructure Fund (FEC) as direct borrower of HG funds rather than using GOM budget contributions, the role of the municipality as the basic implementing unit vis-a-vis the role of the National Upgrading Agency (ANHI), and the development of local level cost recovery policies. HG-001 negotiations were completed at the end of January 1987; and the Program Agreement is to be signed in February 1987. The Project Agreement for the associated grant project 608-0194 was signed August 1986; this project will provide technical assistance, training, and computer equipment to implementing agencies, including the Municipality of Tetouan. The status of the benchmarks is as follows: First, actual FEC borrowing will take place one year after signature of the Program Agreement now planned for February 1987. Second, preliminary financial and management analyses have been completed; detailed engineering studies will begin within the next few months and will result in more accurate cash flow projections and construction schedules. Start up of construction activities on discrete subproject activities will be pre-financed by the FEC and the investment budget of the Municipality of Tetouan prior to the first HG drawdown. The baseline data survey of Tetouan neighborhoods is completed. Finally, cost recovery has begun on 40% of HG-002 sites. Recent survey information on the HG-002 project indicates, however, that full cost recovery goals for this project will be difficult to achieve, given the long delay in implementation.

4. Programmatic and Management Actions through FY 1988

Program Management Activities

Possible development of third HG loan program for encouraging private sector development projects, or funding support for new municipal development bank.

Significant Project Activities

1st borrowing under HG-001  
2nd borrowing under HG-002

5. Constraints to Program Success

The Mission will be unable to achieve the long-term, academic training targets of our FY 1988 Benchmark and CDSS Goal at funding levels of \$1.0 million in FYs 1987 and 1988 for the Sector Support Training project (0178). To illustrate the short-fall: Approximately 40 long-term participants are to be chosen in the selection committees of January and June 1987, requiring about \$2.0 million. With the planned FY 1987 obligation, only about \$1.5 million will be available for this long-term training. Continuation of \$1.0 million obligation levels would cause a significant reduction in the number of participants selected in FYs 1988 and 1989.

C. Goal #3: Increased Growth of Private Sector Export Production and Earnings

1. Program Activities

Reform, capitalize, and privatize the Export Credit Insurance program.

Provide increased pre-export financing to small and medium-sized exporters and new exporters through commercial banks.

Provide technical and managerial assistance to private enterprises and Moroccan export promotion organizations.

2. Overall Progress Indicators

	<u>BASELINE</u> (1986)	<u>CURRENT</u> (1987)	<u>END OF FY 88</u> <u>BENCHMARK</u>	<u>CDSS GOAL</u> (1991)
Coverage of Export Credit Ins. (% of insurable national exports)	6%	6%	10%	20%
Additional pre-export financing provided through the credit facility of the Private Sector Export Promotion project (0189) (cumulative annual credit lines - million dollars)	0	0	\$9m	\$30m
No. of firms assisted by IESC	8	19	65	150
No. of trade associations/ organizations assisted (cum.)	0	0	7	13
Nominal Growth of all exports (% p.a.)	1984-85 14%	1985-86 8%	9%	Average 7%/yr (all exports)

3. Progress Narrative

Growth of private sector export earnings has been substantial through December 1986. This trend is expected to continue throughout FY 1987. Total exports through all of 1985 increased 13.8% over 1984 and were 7.1% greater in the first 8 months of 1986 than the first 8 months of 1985. An important indicator of private sector export earnings is the consumer goods category. In current dirhams, this category increased 30% in value from 1984 to 1985 and was 25% greater in value for the first 8 months of 1986 compared to the first 8 months of 1985. The growth in consumer goods exports has been facilitated by Morocco's trade liberalization policy which has made possible the importation of intermediate goods for exporters, and a 30% devaluation of the dirham from 1980 to 1986, making Moroccan exports more competitive.

The Mission is supporting and encouraging export growth through interventions in the areas of export credit insurance, pre-export financing, and technical and managerial assistance. An agreement was signed in June 1986 to provide for the establishment of an autonomous Export Credit Insurance institution. Its key feature will be the active involvement of the private sector in its ownership and management. Although initially there was concern over the possibility of lengthy negotiations with the GOM, discussions are proceeding ahead of schedule. The GOM and the private sector have taken

important steps to create the legal and administrative framework for the new institution. It is expected that the organization will be operational prior to the end of FY 1987.

An agreement to provide pre-export financing to small and medium exporters was signed with the GOM in September 1986. The GOM is currently developing agreements with banks that will result in \$4.5 million in disbursements prior to the end of FY 1987.

Also in June 1986, the Mission entered into a Cooperative Agreement with the International Executive Service Corps (IESC) to provide technical and managerial assistance to private enterprises in Morocco's export sector and to organizations and associations that support export development. The IESC program is scheduled for five years, and will provide assistance to an average of 30 individual firms and 4 trade associations or other organizations per year. A two-year advisor is also being provided under the Agreement to assist the GOM's Center for the Promotion of Exports. To date, 19 proposals have been received, several of which are underway, and the long-term advisor has taken up residence.

#### 4. Programmatic and Management Actions through FY 1988

##### Program Management Activities

AID/W to fill Private Enterprise Officer position with highly qualified candidate immediately.

Possible negotiations for second tranche of funding for pre-export financing facility.

##### Significant Project Activities

Provide technical assistance to make new Export Credit Insurance organization fully operational.

II. Increased Food Supply

A. Goal #1: Strengthen Agricultural Education and Technical and Socio-Economic Research Systems

1. Program Activities

Increase the institutional capacity of Morocco's agricultural university, the National Agronomic and Veterinary Institute Hassan II (IAV), to train the Moroccan professionals needed for development of the agriculture sector.

Develop improved production technologies for rainfed agriculture, through applied agricultural research carried out at the Aridoculture Center in Settat.

2. Overall Progress Indicators

CDSS Objective - IAV operating as a first class agricultural university and granting advanced degrees.

	<u>BASELINE</u> <u>(1970)</u>	<u>CURRENT</u> <u>(1987)</u>	<u>END OF FY 88</u> <u>BENCHMARK</u>	<u>CDSS GOAL</u> <u>(1991)</u>
Faculty members with PhD (cum.)	1	58	95	154
- of which project supported	0	25	40	140
Faculty members with MS (cum.)	0	240	276	196
- of which project supported	0	25	28	28
% of MS degrees granted by IAV (p.a.)*	0%	30%	90%	95%
% of IAV graduates hired by private sector (p.a.)	0%	8%	20%	50%
No. of Departments in IAV granting MS degrees (cum.)	0	18	25	35

\* Percent of MS degrees in agriculture obtained from IAV as opposed to foreign universities.

CDSS Objective - Regional aridoculture research capacity fully staffed and providing new technologies.

	<u>BASELINE</u> <u>(1981)</u>	<u>CURRENT</u> <u>(1987)</u>	<u>END OF FY 88</u> <u>BENCHMARK</u>	<u>CDSS GOAL</u> <u>(1991)</u>
Moroccan scientists at Aridoculture Center (cum.)	0	31	33	40
Number of station and substation experiments (p.a.)	0	156	160	140
Number of on-farm Trials and demonstrations (p.a.)	0	62	100	160
New technologies ready for release to farmers (cum.)	0	3	8	18

### 3. Progress Narrative

Progress toward strengthening agricultural training and research institutions was impressive during the past year. Participant training is on schedule for both IAV and the Settat Aridoculture Center, technical advisors have been fielded, and the GOM has met all counterpart obligations in a timely manner. Key indicators of progress in institution building are: established research programs; linkages to international organizations; a functioning International Irrigation Center at IAV serving the entire North African region; successful completion of over 160 on-farm and on-station research trials and experiments by Aridoculture Center; and adoption by the National Agricultural Research Institute (INRA) of a sophisticated planning and budget system which links research expenditures to national objectives. Of the 35 departments established at IAV, 18 currently offer MS degrees. Over 80% of all MS candidates receive this degree in Morocco, compared to only 20% last year. With respect to specific benchmarks: 25 Ph.D. degrees were granted at IAV and 17 participants have returned from the U.S. to complete their dissertation research at the INRA Aridoculture Center. Six promising new technologies were developed in the areas of varieties, soil fertility, weed control, and mechanization. Of the six, three have a high probability of being transferred to farmers after the 1986/87 growing season. One of the three has been officially promoted by the GOM extension service.

### 4. Programmatic and Management Actions through FY 1988

#### Program Management Activities

Restructure the technical assistance activity at Settat Aridoculture Center and extend Dryland Agriculture Research project to 1994.

#### Significant Project Activities

Introduce at INRA a system of budgeting by objective to link research investment decisions more directly to national food strategy.

Complete long-term institutional strategy for IAV toward identifying level, kind of training, and professional development that best serve long term development needs of Moroccan Agriculture with particular emphases on agricultural economics and extension.

### 5. Constraints to Program Success

GOM currently unable to support operating budget for expanded Aridoculture Center in the absence of donor support, and in light of IBRD efforts to develop two additional agricultural experiment stations.

### 3. Goal #2: Increased Availability of Agricultural Inputs and Production-Increasing Technologies

#### 1. Program Activities

Strengthen Agricultural Credit Bank (CNCA) lending programs through technical assistance, training, and related activities.

Monitor reforms underway in input distribution.

Disseminate results of the applied research undertaken at the Aridoculture Center.

## 2. Overall Progress Indicators

### Quantitative Benchmarks

	<u>BASELINE</u> <u>(1985)</u>	<u>CURRENT</u> <u>(1987)</u>	<u>END OF FY 88</u> <u>BENCHMARK</u>	<u>CDSS GOAL</u> <u>(1991)</u>
CNCA lending to small and and medium scale farmers (million dollars p.a.)	\$153m	\$187m	\$230m	\$345m
Expansion of CNCA agribusiness portfolio (million dollars p.a.)	\$7.4m	\$10.7m	\$15.9m	\$15.0m
Lending costs of ag credit *	3.8%	3.8%	3.8%	3.8%
New technologies extended to farmers (cum.)	0	1	3	7
Percent of farmers in project area using new technologies**	-	-	-	-

\* Lending remains at existing levels, even though the CNCA is increasing its lending to smaller, more geographically isolated farmers.

\*\* A new benchmark to be developed FY 1988 following collection of field data.

### Qualitative Benchmarks

Installation completed at CNCA of computer-based management information systems that would complement the computerized accounting system being developed under the World Bank's Sixth Agricultural Sector Loan (1988)

Expand farming systems work at the Aridoculture Center toward improving the technology diffusion process. Linkages between researchers and farmers allow efficient dissemination of research results and provide scientifically useful feedback from farmers to researchers (1988)

## 3. Progress Narrative

Successful installation of modern audit management systems has reduced CNCA's overall lending costs. Expansion of lending to smaller farmers, however, tends to offset these reductions. Thus, we expect overall cost of lending to remain fairly constant as a percent of loan value.

The need for reforms in the distribution of agricultural inputs was identified as critical in the CDSS. In the intervening year, USAID has explored this area and concluded that actions being undertaken as part of the government's agriculture sector reform program will address this problem. At the same time, USAID will shift its attention to another critical constraint

to Moroccan agriculture - the lack of producer price incentives due to inefficiencies within the cereals marketing system (See Goal #3). Credit continued to be an important factor in ensuring farmer access to modern inputs. USAID's project with the CNCA will help improve the management effectiveness of that institution and, hence, support the planned expansion of CNCA credit to small- and medium-scale farmers.

#### 4. Programmatic and Management Actions through FY 1988

##### Program Management Activities

Conduct final evaluation of grant component of Drought Recovery Credit project (0184) with CNCA.

##### Significant Project Activities

Monitor progress of inputs market reforms and continue dialogue with the GOM to encourage continued progress in reducing subsidies and promoting private sector involvement.

In restructuring the Dryland Agriculture Research project (0136), strengthen the linkages between researchers at the Aridoculture Center and the farmers.

Develop linking mechanism between research unit and extension, coordinating with World Bank extension project, if financially feasible.

#### 5. Constraints to Program Success

The capability of Moroccan institutions, private and public, to diffuse new technologies generated by the Aridoculture Center is weak. This critical issue will be looked at during the restructuring of the Dryland Agriculture Research project (0136) in FY 1987.

#### C. Goal #3: Improve Policy Environment for Growth through Increased Reliance on Market Forces

##### 1. Program Activities

Technical assistance to improve capacity of Ministry of Agriculture to: (a) conduct policy analysis and implement policy changes; and (b) prepare and implement investment projects reflecting those policies.

PL 480 Title I Self-Help Measures.

Planned project supporting major reforms in cereals marketing.

## 2. Overall Progress Indicators

### Quantitative Benchmarks

	<u>BASELINE</u> <u>(1986)</u>	<u>CURRENT</u> <u>(1987)</u>	<u>END OF FY 88</u> <u>BENCHMARK</u>	<u>CDSS GOAL</u> <u>(1991)</u>
No. of professionals in the Policy Analysis Unit of Min. of Ag. (cum.)	6	7	9	12
No. of policy and statistics staff trained at MS and PhD levels (cum.)	0	0	14	29
No. of agricultural products for which trade is liberalized* (cum.)	0	20	50	90
Farm gate price as percent of border price **	-	-	-	-

\* Approximately 100 agricultural commodities are being considered for trade liberalization.

\*\* A new benchmark to be developed in FY 1988 as part of Phase II of the Prices and Incentives Study.

### Qualitative Benchmarks

Second phase of Agriculture Prices and Incentives Study completed; analysis being continued by the Ministry of Agriculture (MARA) on an ongoing basis; recommendations being translated into policy changes (1988)

Computerization of the policy analysis and planning unit of MARA completed. Policy and planning unit in MARA fully trained and staffed, providing needed analyses for policy decision making (1988)

Major studies completed by MARA on topics such as trade liberalization, costs of agricultural production, selected sector studies, the effect of subsidies on agricultural production and consumption, and the relationship between food imports and agricultural production (1988)

Economic studies unit develops improved system target prices for producers, as part of the cereals market liberalization strategy (1988)

Area sampling frame, based on aerial photography, completed and being used to produce accurate and timely crop production estimates for policy makers (1989)

## 3. Progress Narrative

A significant breakthrough to attaining greater reliance on market forces was the GOM's decision to liberalize the domestic cereals market and to base target support prices on world prices, rather than on estimates of fixed costs of production. The GOM's policy shift is in part a result of the findings of the USAID-funded Prices and Incentives Study which demonstrated Morocco's comparative advantage in cereals production. The study further

showed the coverage of the current procurement system is insufficient to provide price protection to more than a small percentage of farmers. As a result, the effect of consumer subsidies for flour has been to depress producer prices and to cause cereals production to stagnate. In addition, the policy analysis unit of MARA was charged with developing the new system of target prices and estimating market-oriented prices for imported commodities. This demonstrates the unit's greatly improved capacity to carry out policy related studies.

With respect to specific benchmarks: The Prices and Incentives Study was completed and utilized in developing significant policy reforms. Computers have been installed, and training in their use will be completed by the end of FY 1987. DPAE employees have been sent to the U.S. for training in economics and statistics. Aerial photography is complete for 80% of the targeted area, and the remainder will be completed by the end of FY 1987. In addition, area frame sampling has been applied to major cereals, thereby increasing the accuracy of yield estimates derived. Finally, the commodity situation reports are being produced on a monthly and annual basis.

USAID resources will directly address producer price incentives through a proposed Cereals Market Restructuring project (to be developed in FY 1987). This project will involve liberalization of the farm-to-mill marketing system and deregulation of domestic cereals marketing margins, privatization of parastatal grain marketing entities, and the creation of a public market information system. Implementing these activities will correct the negative effect on farm prices of consumer subsidies, thereby stimulating demand for modern inputs.

#### 4. Programmatic and Management Actions through FY 1988

##### Program Management

Design a new project in Cereals Market Restructuring (0195) that will remove a serious disincentive, namely, depressed producer prices, to the adoption of modern technology by farmers.

#### 5. Constraints to Program Success

Lack of trained economists to fill key positions in the Economics Analysis Unit of MARA will continue to place a drag on progress in building this institution. Constraints on public employment also inhibits growth of the unit.

III. Reduced Population Growth and Improved Primary Health Care Programs

A. GOAL #1: Expand Accessibility and Acceptability of Voluntary Family Planning

1. Program Activities

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

- expansion of services
- improved education and communications programs
- improved Ministry of Health (MOPH) program management
- operations research
- improved surgical and clinical methods

Define need and mechanism for increasing FP and MCH services through the private sector.

2. Overall Progress Indicators

	<u>BASELINE</u> <u>(1983)</u>	<u>CURRENT</u> <u>1987)</u>	<u>END OF FY 88</u> <u>BENCHMARK</u>	<u>CDSS GOAL</u> <u>(1991)</u>
Contraceptive Prevalence (modern & traditional methods)	26%	30% (Est)	39%	42%
No. of contraceptive users (all methods - in millions)	.9m	1.1m	1.40m	1.7m MWRA
No. of female sterilizations	1,000	5,500 (1986)	10,000	30,000
No. of Moroccan employees in private sector with access to industry based FP services*	-	500	8,000	100,000
No. of contraceptive productive sales outlets established	-	1,500**	5,000	8,000

\* At present practically no industries or factories provide FP services to employees.

\*\* Pharmacies and pharmacy outlets

3. Progress Narrative

A technical assistance plan has been developed and implementation is underway to strengthen MOPH capability to prepare periodic contraceptive prevalence estimates based on analysis of monthly service statistics reports. Current prevalence rates will be confirmed from information obtained in the 1987 Family Health and Demographic Survey. The questionnaire and survey plan have been developed and fieldwork for the survey is scheduled to begin in March 1987. Preliminary results will be available by August 1987.

Mission review of available public and private sector distribution information indicates that the projection of 1.1 million users of modern methods of contraception during FY 1987 will be achieved.

A total of 5,500 women received voluntary sterilization services during FY 1986. All surgical equipment procurement and related renovation or construction of dedicated operating room space for voluntary surgical contraception activities have been completed. Each of the 30 provincial VSC units will be fully operational in early CY 1987. Accordingly, USAID believes the projected caseload of 10,000 clients during FY 1988 will be achieved.

USAID has initiated discussions among the Régie des Tabacs, the Moroccan Family Planning Association (AMPF), and The Futures Group (Contraceptive Social Marketing (SOMARC) project contractor) concerning the development of a subsidized condoms sales program through the Régie's extensive network (17,000 outlets) of local tobacco shops. Also, AMPF has recruited and trained 45 community agents and instituted a community based contraceptive sales (pills and condoms) program in the region of Rabat. Finally, discussions are also underway with the SOPHA Group (the largest Pharmaceutical Distributor in Morocco - 70% of all medical and pharmaceutical products sold) concerning the launch of an aggressive condoms sales program through the existing network of pharmacy and medical supply depots.

Agreement in principle has been reached with 3 large private sector firms (Polymedic, General Tire, and Régie des Tabacs) for the systematic introduction of family planning services under their factory-based employees benefit and service programs. Also, the National Training Center for Reproductive Health, in collaboration with USAID and John Snow FP Private Enterprise program support, has agreed to strengthen training support provided to private sector physicians and paramedical personnel.

#### 4. Programmatic and Management Actions through FY 1988

##### Program Management Activities

Carry out an in-depth, mid-term evaluation during FY 1987 of all project components, focusing on overall effectiveness of the project and expanding the use of voluntary family planning services and improved primary health care, especially for infants and children.

Population and Family Planning Support III (0171): Results of the evaluation will be used to develop an extension of the current project through FY 1991, or to design a new project.

##### Significant Project Activities

Launch a nationwide family planning promotion campaign.

Introduce (1) subsidized condom sales program through private sector sales points and (2) a low cost oral contraceptive pill for sale through pharmacies and related sales points in the Moroccan commercial market place.

Implement reproductive health training programs for private sector physicians and paramedical staff.

Develop pilot demonstration FP service delivery mechanism to extend private sector physician and paramedical clinic coverage to underserved urban neighborhoods.

Work with at least ten of the largest firms in the Rabat and Casablanca areas to offer FP services routinely under the companies' employee benefit and services program.

#### 5. Constraints to Program Success

The overall GOM budget crunch is affecting the VDMS program. For example, it has been increasingly difficult to replace VDMS personnel and attrition is high - 10 percent per year.

Our private sector program continues to face a wariness within the GOM to the increased use of the private sector to broaden promotion or service capability.

### B. GOAL #2: Improve Population and Development Planning and thus the Capacity to cope with Population Growth

#### 1. Program Activities

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

#### 2. Overall Progress Indicator

CDSS Objective - Official GOM policy level support for fertility reduction.

##### Benchmarks:

Use of multisector economic and demographic models in preparation of 1988-1992 GOM development plan (1987)

GOM leaders (i.e. ministers) formally sensitized to the burden of rapid population growth; specifically, seminars held and individual meetings carried out on alternative growth scenarios (1986-87)

Rapid population growth and its implications for development planning are specifically addressed in 1988-92 GOM Development Plan (1988)

CDSS Objective - GOM increases resources allocated to FP programs.

##### Benchmark:

A method developed to attribute GOM resources allocated to FP related programs. Such resources increased by 10% over 1987 levels by 1991.

### 3. Progress Narrative

As a result in part of USAID's continuing policy dialogue in population, the GOM has taken an increasingly open position toward family planning. Specifically in several recent speeches that addressed the need to improve the quality of life in rural areas, the Minister of Health, with implicit royal support, has mentioned the priority and importance of family planning.

Furthermore, sectoral projections utilizing multi-sector economic and demographic models have been developed and incorporated into the framework for the next Development Plan. Two Ministry of Plan seminars have been held on use of demographic data in economic and social development planning.

Finally, technical assistance is on-going to the Ministries of Plan and Health to develop sectoral presentations on the development impact of rapid population growth, scheduled for the 3rd quarter of FY 1987.

### 4. Programmatic and Management Actions through FY 1988

Evaluation completed (FY 1987) and a strategy developed to reinforce policy aspects on a long range basis.

## C. GOAL #3: Increase Child Survival and Reduce Child Health Deficiencies

### 1. Program Activities

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

### 2. Overall Progress Indicators

	<u>BASELINE</u>	<u>CURRENT</u> <u>(1986)</u>	<u>END OF FY 88</u> <u>BENCHMARK</u>	<u>CDSS GOAL</u> <u>(1991)</u>
Infant mortality rate	120/1000 (1983)	91	-	75/1000
Child mortality rate	22/1000 (1982)	-	-	10/1000
Immunization coverage of children under five against polio, diphtheria, whooping cough, measles and tetanus				
- Rural	30% (1985)	-	80%	80%
- Urban	60% (1985)	-	95%	95%

### 3. Progress Narrative

#### a. Support for the National Immunization Program

The GOM, responding in part to continuing donor persuasion (UNICEF and USAID), has decided to carry out a National Immunization Campaign to achieve immunization of 80% of children under five against six diseases by the beginning of 1988. Intergovernmental and donor discussions are underway on support needed for such a campaign, and a director for the program has been appointed. USAID estimates that through such a campaign the goal is achievable by the end of FY 1988.

With funds obligated to date, procurement actions have been initiated for equipment support for the program. A vaccine delivery calendar has been established through April 1988. The first two deliveries were made in January and February 1987. Vehicles will be procured by April 1987.

Plans have been completed for a nationwide study of knowledge, attitudes and practice of ORT and immunization. The study, which will be completed in FY 1987, will form the basis of a national promotional campaign and will increase M.D. and pharmacist interest in ORT and vaccination.

#### b. Oral Rehydration Therapy:

Improvements have been implemented at the MCPH ORS production plant to assure availability of ORS through public sector facilities. The private sector firm continues to produce ORS and market nationally. MOPH production has been increased from 0 in 1985 to 1.9 million packets in 1986. As a result of continuing production problems the plant has not exceeded this amount since. Recent improvements, however, are expected to result in a target of 6 million packets per year in 1988.

### 4. Programmatic and Management Actions through FY 1988

#### Program Management Activities

Amend Child Survival component of Population and Family Planning Project (0171) in FY 1987 to (1) increase support as needed for the national immunization campaign and (2) add funding to support interventions to improve MCH care, particularly pre- and post-natal services for mothers and young infants, and improved medical coverage of births. Additional resources beginning in FY 1988 are required if these objectives are to be achieved.

#### Significant Project Activities

Support provided in collaboration with UNICEF for a national immunization campaign.

Develop ORT social marketing strategy.

Infant Mortality Study carried out in connection with the Ministry of Plan's National Demographic Survey.

Reopen nurse-midwife training facility with revised curricula.

5. Constraints to Program Success

The proposed immunization campaign as well as overall priority the GOM is putting on health care, at least in terms of rhetoric, have significant implications for MOPE recurrent costs. To date, increases in the MOPH's budget have not materialized.

IV. Improved Energy and Natural Resource Management

A. Goal #1: Strengthen Energy Sector Policy Analysis, Planning and Management Capacity

1. Program Activities

Develop a national energy demand management project.

Strengthen GOM capacity for energy data analysis, investment planning, and resource management.

Strengthen human resources in energy and natural resources.

2. Overall Progress Indicators

Quantitative

	<u>BASELINE</u> <u>(1984)</u>	<u>CURRENT</u> <u>(1987)</u>	<u>END OF FY 88</u> <u>BENCHMARK</u>	<u>CDSS GOAL</u> <u>(1991)</u>
Energy/Intensity Index*	100	102	100	95
Number of firms in EDM Program	0	0	50	100
Analytical studies conducted	39	68	107	150

\* Primary energy consumption/GDP

Qualitative

CDSS Objective - 10-20% increase in efficiency of use of oil imports.

Benchmarks:

Energy audits completed for portions of industry, mining, commerce and transport sectors (1987)

GOM review of analytical studies concerning use and relative cost of gasoline, kerosene, butane, and diesel (1987)

CDSS Objective - GOM using modeling capability to assist in making investment decisions.

Benchmarks:

Ministry of Energy and Mines (MEM) uses new model and techniques to develop and assess components of Five Year Plan (1987)

MEM modeling capacity to assess energy scenarios established and operational (1987)

### 3. Progress Narrative

Intensive activities involving both the Moroccan public and private sectors and USAID in FY 1986 and early FY 1987 led to the identification and preliminary design of an energy demand management project for Morocco. As a key step in the process, a high level Moroccan delegation attended the ANE Bureau Workshop on Energy Conservation and Private Power Generation. Subsequently, U.S. energy efficiency experts conducted a pre-feasibility analysis of the project leading to the PID approved by AID/W in January 1987. Audits provided under the Energy Planning Assistance project (0180) provided important inputs into the PID formulation.

USAID technical assistance starting in 1986 under the Energy Planning Assistance project (0180) has helped the Ministry of Energy and Mines (MEM) to install an energy model consisting of several discrete modules, the associated training and documentation to use the model, and the building of a reliable data base. The necessary micro-computers have also been installed under the project. As a result, the MEM is now developing its capability to rationalize energy investments, review energy pricing structures, and assess options for the development of domestic energy supply and the promotion of energy efficiency. The MEM will use this newly acquired capability in preparing its contributions to the new Five Year Plan.

Under the planning project, and the Conventional Energy Management and Training project (0176), the contractors have carried out several analytical studies covering diverse subjects, including energy audits of certain industries, macro-economic importance of energy in Morocco, refinery studies, impact of oil price scenarios on Morocco energy options, and technical exploration and promotion reports to attract private investment. Such studies will continue to be an important output of these projects.

USAID continues to work closely with MEM and its parastatal organizations to identify and carry out project-related training needs. Specific training programs reflecting U.S. leadership in the energy sector have provided participants with technical and academic training under the Conventional Energy Management and Training, and Energy Assistance Planning projects, and will continue to receive emphasis.

### 4. Programmatic and Management Actions through FY 1988

#### Program Management

Complete PP for Energy Demand Management in FY 1987 and begin project implementation. Conduct final evaluation of the Conventional Energy project. Conduct mid-term evaluation of the Energy Planning project.

#### Significant Project Activities

Monitor progress of energy efficiency improvements through quantitative sector-by-sector analysis.

Facilitate use of newly acquired energy modeling capability.

B. Goal #2; Increase Development and Use of Morocco's Renewable Energy Resources

1. Program Activities

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

Examine household energy demand, and economically and environmentally sound responses.

2. Overall Progress Indicators

Quantitative

	<u>BASELINE</u> <u>(1986)</u>	<u>CURRENT</u> <u>(1987)</u>	<u>END OF FY 88</u> <u>BENCHMARK</u>	<u>CDSS GOAL</u> <u>(1991)</u>
No. of Moroccan renewable energy firms supported	0	2	4	10
No. of additional solar water heaters installed	-	-	500	5,000
No. of additional wind- or solar-powered water pumps installed	-	-	100	1,000

Qualitative

CDSS Objective - CDER actively carrying out technology adaptation and diffusion through private sector.

Benchmarks:

Market development assessment studies for wind and solar water heating applications completed; investment opportunities for Moroccan firms identified (1988)

Institutional linkages with Moroccan and US renewable energy institutions established by CDER (1987)

CDER building including documentation center, laboratories, and workshops complete and equipped, and renewable energy technologies installed on building (1988)

CDSS Objective - GOM implements recommendations of household energy studies.

Benchmarks:

Household energy demand survey completed (1988)

Household energy strategy developed (1988)

3. Progress Narrative

As a result of a project evaluation and a subsequent amendment to the Renewable Energy Development project in early FY 1987, USAID and CDER agreed on a revised role for CDER as a catalyst and promoter of renewable energy technologies by the private sector. USAID will concentrate its support, through technical assistance and training, on two technologies likely to be economically and financially viable: solar water heating, and water pumping using both photovoltaic and wind resources. The program emphasizes the importance of technology assessments, with a study to be undertaken in 1987 on biomethanation. USAID support for the CDER building itself, scheduled for completion in 1988, will include laboratory and specialized workshop equipment. Plans for a documentation center within the new facility will be developed in 1987-88 under a technical assistance contract to an 8(a) firm.

AID has agreed with the World Bank and the GOM to a series of USAID-financed host country contracts to prepare a Household Energy Strategy for Morocco. A nation-wide survey will be undertaken in 1987 to provide basic data on household energy supply and demand and to develop a strategy for future policy actions. AID has also financed a field manager to help the GOM conduct the study.

4. Programmatic and Management Actions through FY 1988

Execute technical assistance contract with an 8(a) firm to implement CDER project extension (FY 1987).

II. C. Policy Agenda

### C. The Policy Agenda

As 1987 begins, USAID Morocco finds itself in a position to respond to exciting possibilities in the policy arena. Several factors have brought this about:

1. The GOM has taken and implemented general policy decisions to liberalize the Moroccan economy and reduce the budget deficit.
2. A new IMF Stand-By was approved in December 1986.
3. The World Bank has in place or is negotiating several structural adjustment loans which provide the substantial financial resources to move forward with liberalization; and
4. AID has won the confidence of the GOM in our ability to provide critical and timely analysis to undergird policy decisions, and to provide specialized expertise to assist in working out the "how" of policy reform implementation.

The GOM is continuing its comprehensive policy of economic restructuring and liberalization which began in earnest after the foreign exchange crisis of 1983. The imposition of severe trade restrictions in April 1983 was the most obvious sign of weakness in an overprotected, uncompetitive economy. Since then Morocco has liberalized trade, cutting maximum import tariffs from over 100% to 45% with plans to reduce the maximum to 25%, applied for admission to the GATT, eliminated various administrative barriers to producers of exports, decontrolled many prices, raised interest rates and pursued a flexible exchange rate policy with the dirham depreciating by over 30% over the past six years. The GOM has also reduced its budget deficit to 6.6% of GDP in 1986 compared to 18% in 1982 and, as a result of the policy changes, cut its balance of payments deficit to only 1.7% of GDP in 1986 from 12.7% in 1982. The austerity required to make these reductions was alleviated somewhat by an excellent harvest in 1986 and the temporary drop in oil prices. Nevertheless, income growth is not expected to exceed 4% a year over the remainder of the decade, assuming average or better rainfall.

The GOM is now negotiating further significant changes in its economic structure, refraining from major new public infrastructure investments, starting to make its state-owned enterprises subject to market forces, and planning to shift more and more of its non-strategic state-owned enterprises to private ownership and responsibility. As price decontrol continues and the role of the private sector increases, the GOM is at the same time subjecting its budget to greater scrutiny, striving to reduce arrears, carrying out significant reforms in agriculture and education, and examining further reforms in the financial sector. With sufficient external support and assistance, Morocco should succeed in building a flexible, competitive economy which could achieve sustained growth in the coming decade. During the coming years of continued austerity a significant problem will be the absolute paucity of public resources for new investment.

### The IMF Stand-By

Following the disappointing experience under the 1985-86 Stand-By (e.g., critical performance targets affecting money growth, the budget deficit, and reduction of external arrears were missed at the end of 1985), the new (fifth) Stand-By will provide \$280 million aimed at bringing the deficit under control (to 4.3% of GDP in 1987), to restrict money growth (less than \$600 million in new credit to the economy in 1987) and clear-up approximately \$450 million in external arrears. More broadly the program aims at reducing the overhang of external debt (112% of GDP in 1985) to a target of 69% in 1992.

### Major World Bank Programs

Complementing the Stand-By are several World Bank structural adjustment loans (\$600 million committed during 1984-86 and another \$420 million anticipated to be committed during 1987). These include two Industrial and Trade Policy Adjustment (ITPA) loans for trade liberalization (\$150 and \$200 million respectively -- both fully disbursed) and an Agricultural Sector Adjustment Loan (\$100 million) for restructuring public investment and expenditures, reforming agricultural price and incentives policies, and improving the GOM's policy, planning, and analysis capability in the agricultural sector.

The government has begun negotiations for two loans: a \$200 million Public Enterprise Rationalization Loan (PERL) for restructuring its major public enterprises and initiating privatization; and a \$150 million second Agricultural Sector Adjustment Loan. An Export Development Loan has also been appraised and is scheduled for negotiations in late February 1987. This will complement ITPA as well as USAID's ongoing Private Sector Export Promotion project (0189).

### USAID Morocco

Given this positive environment for significant policy reform, AID can contribute best to the policy reform process by concentrating on areas where AID has a comparative advantage. In the Moroccan context, this means that we will be aggressive in the agriculture, energy and family planning areas where our past program involvement has been high and we expect significant resources in the future. It also means we will pursue important targets of opportunity where we have something unique to offer, for example:

- a. the U.S. has valuable technical experience in many policy areas where the GOM needs help and A.I.D. has grant funding to make it attractive;
- b. the U.S. is the recognized leader in data processing and information systems management which allow timely policy analysis; and
- c. the current U.S. agricultural surplus allows us to play a useful role in ameliorating the negative impacts of stabilization and adjustment programs on the poorer segment of society over the medium term.

Four policy objectives will have our top priority over the remainder of FY 1987 and during FY 1988:

- a. deepening GOM concern for rapid population growth;
- b. cereals market liberalization;
- c. greater efficiency of energy use; and
- d. privatization of public enterprises.

We will continue to push for greater GOM concern for an effective response to Morocco's rapid population growth. While our family planning program continues to progress, the National Contraceptive Prevalence Survey and the evaluation of our family planning project to be carried out this year will provide the opportunity to add new substance to policy dialogue in this area simultaneously as the GOM prepares the new five year development plan (1988-1992).

We will pursue the liberalization of cereals markets. Liberalization of cereals marketing will remove a significant constraint to the adoption of more productive agronomic technologies - depressed producer prices; and is essential to realizing the potential of our other investments in the sector. The idea was first recommended by the USAID financed Prices and Incentives Study and is under negotiation as part of the disbursement conditions of the World Bank's Second Agricultural Adjustment Loan. Our assistance to prepare a detailed implementation plan and help finance structural changes was requested during this year's Title I negotiations. The attached New Project Description (Annex 1) provides our latest thinking.

Although Morocco has benefitted from the early 1986 fall in international oil prices, its heavy dependence on imported oil (85% of commercial energy) makes its economy hostage to oil price increases that have already started anew (almost a 70% increase since the 1986 CDSS review). With the medium term projection for oil prices showing constant or increased real prices by early 1990 and Morocco using 75% of its foreign exchange to buy oil at current prices, Morocco's economy needs to be as efficient as possible in the use of energy. We will work with the government and the private sector in the development of a national Energy Demand Management project (0193) expected to start in FY 1987 to provide a basis for both short and longer term results.

Privatization of public enterprises in a systematic manner is a target of opportunity which has arisen as the result of World Bank/GOM negotiations of the proposed Public Enterprise Rationalization Loan (PERL). We are now negotiating the placement of a technical assistance team within the entity responsible for implementing the PERL to assist with a) setting policy and preparing strategies, b) developing an information system, and c) preparing a privatization plan. We will finance the required technical assistance under our ongoing Economic Policy Analysis project (0191).

In addition to these activities, USAID Morocco will be pursuing several additional policy objectives over the period of the Action Plan. A summary of policy objectives and next steps follows.

USAID MOROCCO POLICY AGENDA

Policy Objective

Next Steps

Cereals market liberalization

- Complete analytical work for a PID in FY 1987 and PP in early FY 1988
- Build appropriate Self-Help Measures into 1987 and 1988 Title I agreements
- Develop direct contacts with cereals marketers (e.g. cereal importers and marketing cooperatives, with whom we have had little prior contact)

Privatization

- Change function of secretariat, which oversees privatization activities, to policy analysis
- Assist GOM in developing privatization strategy
- Develop new financial instruments to broaden capital market
- Improve analysis of tradeoffs between public and private investment in agriculture

Utility pricing policy to cover 100% of LRMC plus percentage of investment

- Monitor implementation of recommendations of Pricing Directorate for electricity and water

Greater GOM concern for an effective response to rapid population growth

- Presentation of sectoral population impact models to high level officials, in the context of preparation of the new five year development plan
- Discussions with high level officials of results of evaluation of the population project
- Presentation of the National Contraceptive Prevalence Survey and results of the evaluation, in a modified RAPID format, to public and private officials

Increase participation of private sector in health and FP service delivery

- Develop contraceptive social marketing program by end of 1987

- Sell concept of social marketing of CRT to GOM

Improved health financing system

- Provide TA to in-depth study of current health financing situation and development of alternatives

Increase cost-recovery of low-cost housing developments.

- Use TA team to analyze alternatives in three areas: reducing infrastructure standards, streamlining cadastral and titling processes, and expanding role of private sector institutions to finance and recover shelter related investments

Increase efficiency of energy use

- Launch national energy demand management project, and assist GOM in implementation through support from Energy Demand Management (EDM) project

Encourage private generation of electricity

- Conduct study and plan implementation as part of the EDM project

Reduce import duties on equipment needed for energy conservation and renewable energy generation

- Prepare description of current situation during PP development of the EDM project

III. SPECIAL CONSIDERATIONS

- A. Financial Issues
- B. Evaluation Plan and Schedule
- C. P.L. 480 Programs
- D. Management and Work Force Issues
- E. Gray Amendment
- F. Women in Development
- G. Summary Budget Table (FYs 1987-89)

## A. Financial Issues

### Summary

It is becoming increasingly evident that a DA level of \$15 million will have immediate, negative impacts on our ongoing, highly successful agricultural portfolio, our child survival strategy, and our participant training targets unless we are able to "top-up" our DA funding levels with ESF resources. If the DA drought continues into FY 1989, our family planning program will also be in jeopardy. On the ESF side, at a \$15-20 million annual level, we would have the flexibility to prevent disruptions to our DA portfolio and begin important new initiatives in energy demand management and cereals market restructuring. At a \$10 million annual ESF level, we would have to restructure our DA program and either restrict ourselves primarily to technical assistance projects, or mortgage future ESF for several years.

### Development Assistance

Until recently financial issues related to our Development Assistance (DA) portfolio have been of such a nature that they could be resolved with relatively minor adjustments to the Mission's OYB. Sufficient pipeline in all our projects, with annual incremental obligations, has been adequate to meet reasonable forward funding requirements. The situation, however, has profoundly changed, as discussed below. In reviewing the issues below one should refer to the "Summary Budget Table" in Part III. G. This table shows DA levels of \$16.370 million (FY 1987); \$15.0 million (FY 1988); and \$19.595 million (FY 1989). It should be noted that the higher funding level for FY 1989 is required in order to compensate for the funding inadequacies of our program as a result of the reduced levels in both FYs 1987 and 1988.

Though felt generally throughout the Mission portfolio, funding constraints are particularly evident in the ARDN account. This is true for two reasons: (1) reductions specifically in the ARDN budget levels for FYs 1987 and 1988, and (2) given the maturity of the agricultural projects, project expenditures are at a fairly high rate, thus eroding the pipeline that had been built up by the end of FY 1986. The mortgage for the ARDN portfolio as of September 30, 1986 was \$27.0 million. Assuming the planning levels in the "Summary Budget Table," it will not be until FY 1989 that our ongoing ARDN projects will be fully funded. With this sizeable mortgage and reduced annual levels, new project starts are impossible until FY 1990. It should be noted that the FY 1989 obligation for Dryland Agriculture Applied Research project (0136) exceeds current LOP funding of \$26.0 million on the basis that the project will be redesigned with a 6-year extension and a LOP increase to about \$50.0 million.

Regarding population and child survival: Fortunately, there is sufficient pipeline in the Population and Family Planning project (0171) to permit a lower than usual FY 1988 obligation for this project in order to permit additional funding for the ARDN portfolio. The FY 1989 obligation provides initial funding for a project amendment (or new project) through FY 1991. As for child survival, the Mission continues to amend this component annually and to add funding incrementally as it becomes available. Overall budget

limitations in FY 1988 lessen our ability to contribute to a new immunization campaign. We cannot provide the desired level of resources for child survival activities without crippling our ongoing projects in other accounts.

An issue concerning the Sector Support Training project (0178): Most funding for this project is committed through fully funded PIO/Ps for long-term participants. Thus, most of the LOP funds for this project should be obligated well in advance (about 2-3 years) of the September 1993 PACD. With the planned funding shown in the "Summary Budget Table," the mortgage by end FY 1989 will be \$4.1 million. It should be noted that to reduce the mortgage as much as we have by that time requires a sizeable obligation in FY 1989. Further, the reduced levels in FYs 1987 and 1988 will not permit us to achieve Mission (as well as Administrator McPherson's) targets established in the PP Supplement approved September 1986.

Because of the reduced levels in the SDA Account, we have had to show ESF funding in FY 1988 (and after) for the Economic Policy Support project (0191).

Economic Support Funds

The problems created by the perennial uncertainty of ESF levels are not so much related to pipeline and mortgage questions as to programmatic and political issues. Programmatically, it is very difficult to design ESF projects when funding levels are not certain. Politically, the uncertain (and now declining) levels strain our relations with the Government of Morocco and make it difficult to both support the GOM's efforts in structural adjustment and trade liberalization and maintain the role of a major partner in these efforts, in collaboration with the IMF and the World Bank.

In the "Summary Budget Table," we have shown ESF funding at fairly high levels: \$19.835 million in FY 1987 (assuming the President's supplemental is approved) and \$20.0 million in both FYs 1988 and 1989. The notes attached to that table explain the positive implications for funding our existing and planned ESF portfolio at those higher levels.

In contrast to the high levels presented in the "Summary Budget Table," find below what we consider to be a "worst case scenario," i.e., \$9.835 million in FY 1987 and \$10.0 million in FYs 1988 and 1989.

	<u>1987</u>	<u>1988</u>	<u>1989</u>
LEVELS (\$000s)	9,835	10,000	10,000
Private Sector (0189)	2,016	-	-
- - IESC	(2,016)	-	-
- - Pre-Export Financing	-	-	-
Energy Demand Mgt. (0193)	7,819	-	7,181
Cereals Market (0195)	-	8,250	819
Economic Policy (0191)	-	1,750	2,000

Under these conditions, we would be forced to adjust as follows:

- - Not to fully fund the pre-export financing component of the Private Sector Export Promotion project (0189); a balance of \$3.5 million remains to be obligated for this \$8.0 million component.

- - Delay fully funding the Energy Demand Mgt project (0193) until FY 1989 to allow the start of Cereals Market (0195) in FY 1988; the latter project would not be fully funded until FY 1990.

- - Please note that, because of reductions in SDA levels, we have had to show ESF funding for a critical SDA project, Economic Policy (0191), notwithstanding ESF levels at the "worst case."

III. 3. Evaluation Plan & Schedule

SCHEDULE OF PLANNED EVALUATIONS - - FY 1988 ACTIVITY PLAN

	FY 1986				FY 1987				FY 1988			
	1ST QTR	2ND QTR	3RD QTR	4TH QTR	1ST QTR	2ND QTR	3RD QTR	4TH QTR	1ST QTR	2ND QTR	3RD QTR	4TH QTR
<u>ARIN</u>												
0160												<u>(0160)</u>
0182												<u>(0182)</u>
<u>POP</u>												
0171												<u>(0171)</u>
<u>SDA</u>												
0180												<u>(0180)</u>
0187												<u>*(0187)</u>
0191												<u>(0191)</u>
<u>ESF</u>												
0176												<u>*(0176)</u>
0184												<u>*(0184)</u>
0189												<u>(0189)</u>
0190												<u>(0190)</u>

\* Project Assistance Completion Report (PACR)

LIST OF PLANNED EVALUATIONS  
 FY 1988 ACTION PLAN  
 COUNTRY/OFFICE USAID/MOROCCO

Project List (Project No. & Title)	Last Eval FY 1987 Completed Start (Mo./Yr.) (Qtr)	FY 1988 Start To AID/W (Qtr)	Reasons/Issues	Funding Source (\$000)	USAID Person Days	Collateral Assistance
608-0160 Agronomic Institute	5/86 (86-04)	3	<p>PACD 4/25/90</p> <p>This project strengthens the institutional capability of Hassan II Agronomic Institute (IAV-H2) to conduct in-country training of agricultural managers, technicians, and scientists. The 1986 evaluation concluded that the major factors accounting for the institutional development of IAV are (1) the sense of mission and leadership, (2) the commitment to build on a diverse body of experience in creating a world class institution, (3) strong and sustained programmatic leadership (4) the structural autonomy and entrepreneurial attitudes of the faculty, (5) a long-term commitment by USAID and the Title XII relationship with the University of Minnesota, and (6) the openness on the part of IAV to new ideas. The 1988 evaluation will focus on the nature of linkages with U.S. institutions, their value, and the impact which they have on IAV's effectiveness. The evaluation will assess the project's impact on IAV's capability to deliver critical services to Morocco's agriculture sector and maintain institutional sustainability.</p>	Project OE	45 3	30 University of Minnesota 30 person days AID/W TDY: ANE/TR/ARD or S&T/AD or BIFAD 20 person days

LIST OF PLANNED EVALUATIONS  
 FY 1988 ACTION PLAN  
 COUNTRY/OFFICE USAID/MOROCCO

Project List (Project No. & Title)	Last Eval Completed (Mo./Yr.)	FY 1987		FY 1988		Reasons/Issues	Funding Source (\$000)	USAID Person Days	Collateral Assistance
		Start (Qtr)	To (Qtr)	Start (Qtr)	To (Qtr)				
608-0171 Family Planning Support III	3			1		<p>PACD 9/30/89</p> <p>This project's primary objective is to extend the availability of family planning and child services to 70% of Moroccan population by 1988. This in-depth evaluation will identify problems impeding timeliness of implementation and program and environmental factors that affect the various sub-projects, review the Morocco Fertility Survey of 1983 and contraceptive Prevalence Surveys of 1983-84 and 1987), to determine progress toward the project's objectives. The evaluation will also assess the capacity of the COM Ministries of Health and Plan to collect, process and utilize demographic data and related program planning and management information as they relate to achievement of the project's purpose.</p>	Project	40	IQC 70 person days
608-0176 Conventional Energy Management and Training	6/86 (86-03)			3	4	<p>PACD 6/30/88</p> <p>This project provides assistance to strengthen the internal capabilities of the National Petroleum Exploration and Development Agency (ONAREP) to attract private investment and joint venture partners to explore, develop, and produce petroleum resources in Morocco. This final evaluation will be in the form of a PWR and will review ONAREP's efforts to attract private investment and joint venture partners to Morocco and contractor performance.</p>	OE	5	40 AID/W IUX: ANE/TR/IRN or SKT/10P 30 person days

LIST OF PLANNED EVALUATIONS  
 FY 1988 ACTION PLAN  
 COUNTRY/OFFICE USAID/HR/UCD

Project List (Project No. & Title)	Last Eval Completed Start (Mo./Yr.)	FY 1987		FY 1988		Reasons/Issues	Punding Source (\$000)	USAID Person Days	Collateral Assistance
		Start (Qtr)	To (Qtr)	Start (Qtr)	To (Qtr)				
608-0180 Energy Planning Assistance	4	4	1			PACD 9/30/89 This project strengthens the analytical and advisory capabilities of the Planning and Development Service (SID) recently established within the Ministry of Energy and Mines. This is the first of two comprehensive evaluations to review progress in establishing an effective SPP; to assess the quality of the economic advice being generated; and to assess contractor's performance and the effectiveness of the training program.	To be determined	20	To be determined
608-0182 Planning, Economics and Statistics for Agriculture	3	4				PACD 9/30/93 This project increases the capacity of the Ministry of Agriculture to gather and analyze agricultural statistics, to undertake economic analysis of factors affecting agriculture, and to monitor and evaluate agricultural development projects. This first mid-term evaluation will determine the capacity of MAWA and specifically the Division of Planning and Economic Affairs (DPAE) to conduct area sampling frame surveys, objective yield analysis, and professional studies relative to agricultural statistics and economics. It will also assess the adequacy of training requirements and appropriateness of technical assistance inputs.	Project	45	20 PSC 60 person days Member of advisory team 20 person days

LIST OF PLANNED EVALUATIONS  
 FY 1988 ACTION PLAN  
 COUNTRY/OFFICE USAID/PROCCO

Project List (Project No. & Title)	Last Eval Completed		FY 1987		FY 1988		Reasons/Issues	Funding Source (\$000)	USAID Person Days	Collateral Assistance
	(Mo./Yr.)	(Qtr)	Start	To	Start	To				
608-0184 Drought Recovery Credit	4	4	4	4	(Qtr)	AID/W (Qtr)	This PACR will determine the impact of the credit program on participating farmers and will determine whether ONCA has implemented recommendations of project studies and what impact these recommendations have on the operation of ONCA.	Project	10	20 PSC 30 person/days
608-0187 Small-Scale Enterprise	4	4	4	4	(Qtr)	AID/W (Qtr)	PACD 8/30/88 The PACR will examine how effective the project has been in improving management capabilities in the 40 small businesses receiving assistance under the project. It will also evaluate how effective the project has been in establishing a management outreach facility in a GYM institution.	Project	20	PSC 20 person days
608-0189 Private Sector Export Promotion Project	C-1 C-2 C-3	4 4 4	4 4 4	4 4 4	(Qtr)	AID/W (Qtr)	PACD 6/30/91 This project consists of three separate but complementary components. All three are scheduled for initial (mid-term) evaluations during 1988. The cooperative Agreement component (C-1) provides technical and managerial assistance to Moroccan firms in the export sector. The Export Credit provides for the establishment of and technical assistance to a new export credit insurance organization. The Pre-Export Financing component (C-3) provides credit to small and medium exporters. All three evaluations will be completed at the same time and will focus on implementation progress and recommend any design changes required to ensure that improvements take place.	Project C-1 C-2 C-3	20 50 50	10C 6 C-1 20 person days 7 C-2 30 person days 5 C-3 20 person days

LIST OF PLANNED EVALUATIONS  
FY 1988 ACTION PLAN  
COUNTRY/OFFICE USAID/MOROCCO

Project List (Project No. & Title)	Last Eval Completed (Mo./Yr.)	FY 1987		FY 1988		Reasons/Issues	Funding Source (\$000)	USAID Person Days	Collateral Assistance
		Start (Qtr)	To (Qtr)	Start (Qtr)	To (Qtr)				
608-0190 Winter Snowpack Augmentation	5/85 (85-5)	2	3			<p>PACD 9/30/89</p> <p>The purpose of this project is to develop within the Government of Morocco the ability to design plan, implement, monitor, and evaluate scientifically based winter snowpack augmentation programs that will increase manageable water resources. This second (mid-term) of three external evaluations will review and critique the design, management, implementation and effectiveness of the program.</p>	PASA Mission OE	30 2	<p>EMREC funded contractor 45 person days</p> <p>10 AID/W IDY: NE/PD/ENV 15 person days</p>
608-0191 Economic Policy Analysis Support				2	2	<p>PACD 9/30/90</p> <p>This project will enhance the GOM's capabilities to formulate and appraise economic policy alternatives. This first evaluation will:</p> <ul style="list-style-type: none"> <li>- focus on the work of the Direction des Prix (DP) with respect to economic policy issues in the areas of subsidies and regulation of natural or effective monopolies;</li> <li>- ascertain the perceived utility of the work done and the leadership exercised by the DP;</li> <li>- address the effectiveness of the technical assistance provided;</li> <li>- include an assessment of the impact of the microcomputer on the monitoring reporting functions of the (DP); and</li> <li>- examine usefulness of any short term training the DP staff may have received.</li> </ul>	Project	20	<p>IQC or PSS 30 person days</p>

### C. P.L. 480 Narrative

As a result of both poor policies and successive drought years (1980-84) domestic cereals production had stagnated and cereals imports surpassed one-third of domestic consumption in 1984-85. With the return of near normal rainfall, domestic production increased dramatically in 1986. The outlook for the 1987 is uncertain due to lack of rain in the early part of the cropping season; the best guess, at this writing, is a below average cereals crop. Given uncertain rainfall and the pressure of population growth, Morocco will do well to contain cereals imports below 2 million tons annually over the next five years. Furthermore, given Morocco's continuing foreign exchange and debt servicing difficulties and the extent of the GOM's overall structural adjustment effort, USAID Morocco requests: (1) more favorable loan terms for Title I; (2) a Section 108 program to provide additional dollar resources to the GOM and local resources to the private sector; and (3) a new Title II compensatory program to alleviate the adverse effects of the adjustment program on poorer segments of society.

### P.L. 480 Title I

USAID's agricultural sector strategy is based on developing new technologies, improving access of farmers to production inputs and services and liberalizing markets to improve incentives for farmers to expand production. PL 480 Title I is an integral component of this strategy. Local currency supported programs are aimed principally at increased food production in rainfed farming. Even more important than local currency programming is the policy dialogue which is embodied in the self-help measures negotiated each year through the PL 480 Title I program. The significant level of Title I resources reinforces the quality of the policy discussions with the GOM. USAID is an important participant in the continuous, detailed discussions concerning agricultural reforms in prices and subsidies and in the liberalization and deregulation of the sector, largely as a consequence of the negotiation of Title I agreements. The GOM clearly understands that USAID has aligned its policy dialogue with the thrust of the GOM's sector adjustment strategy and with major elements of the World Bank's Sector Adjustment lending in agriculture. USAID has used the PL 480 Title I program and the opportunity it presents to negotiate self-help measures which reinforce this sector adjustment process, notably in enhancing the liberalization of cereals marketing through measures to improve market efficiency and the progressive deregulation of input supply. These areas continue to be the core of USAID's sectoral policy dialogue with the GOM.

The established collaborative Title I modus operandi with the GOM derives from the past four years of the growth of Title I within the context of severe GOM resource constraints, exacerbated by an enduring drought. Even with the recent (but perhaps temporary) improvement in agricultural production, the GOM approaches Title I negotiations quite seriously. The mutual esteem developed through serious discussion of agricultural development has resulted in self-help measures which are closely aligned with USAID's technical assistance efforts in agriculture. The negotiation of self-help measures has become a progressive exercise intended to assure complementarity between the Title I Agreement, the major objectives described in the USAID Agriculture Strategy and the World Bank's Second Agricultural Sector Loan. USAID proposed and Washington agencies approved a revised PL 480 calendar in early FY 1986 which has advanced the PL 480 process allowing for early programming opportunities

and the possibility of concluding Title I negotiations before the GOM budget process is completed. Both of these innovations have enhanced USAID's capacity to use PL 480 Title I resources more effectively.

USAID continues to argue (as we proposed in early FY 1986) that Morocco be accorded the softest loan terms available under Title I. Our proposal is consistent with Morocco's continuing descent (in dollar terms) into the category of IDA eligible countries. Unfortunately, the Mission has not detected either substantial interest or support for this position among the principal Washington departments. We are still hopeful that A.I.D. will take the lead in inter-agency circles to obtain softer terms for Title I credits to Morocco, as would be consistent with A.I.D. guidance for other resources, i.e. loan financing under ESF and DA.

Each year the local currency requirements of this Mission's projects are scrutinized with a view to the programming of proceeds from the annual PL 480 Title I Agreement. Such programming provides assurance that dirham expenditures required by USAID projects will be provided within the GOM's development budget. This permits continued GOM support to projects and relative immunity of the projects from the subsequent budgetary reduction exercises which have characterized the GOM's budget during the past three years. The same form of "disbursement insurance" is provided to other important line items within the agricultural development budget, through the programming process. This includes the production and distribution of seed stocks to farmers, selected agricultural training activities, and support to GOM's reforestation efforts.

#### Section 108

USAID has completed preliminary design work on a program of medium-term lending to private enterprise through the commercial banks and other private financial intermediaries. This program is aimed at meeting the needs of small and medium enterprises for up to 10-year credit; and it provides the financial intermediaries with a stable source of funds for the same length of time. The program responds both to the government's desire to increase the role of the private sector and the shortage of long-term capital for new businesses and sound investment proposals whose proponents do not possess adequate collateral to obtain loans under existing credit programs. The Mission is requesting \$10 million to launch a Section 108 program in FY 1987.

#### P.L. 480 Title II

As the GOM undertakes economic structural adjustment measures, under- and unemployment problems and the resulting effect on the purchasing power of poor Moroccans are increasing. Purchasing power among the poorest people will be directly affected by the elimination of the remaining subsidies on wheat flour, edible oils and sugar. Although current data on the effect on the nutritional status of the population (especially of children and women) are lacking, waiting lists for enrollment in the social welfare mother and child feeding centers in various parts of the country are quite lengthy. Furthermore, Ministry of Health MCH centers lack the resources to provide food supplements to malnourished children referred for help.

To address these problems, USAID is working with several GOM ministries to design a package of compensatory measures, the combined effect of which should buffer the poorest parts of the population against the negative effects of the structural adjustment program over a fixed period of time. These measures include both food for work activities to improve productivity and increase employment, and time-limited welfare feeding programs targeted to the most vulnerable parts of the population.

Maintaining the phasedown schedule of the ongoing Title II supported mother and child feeding program of the Ministry of Social Affairs (MAAS) is obviously inconsistent with the goal of this "compensatory program." The GOM has therefore proposed to put the phasedown plan "in neutral" at the FY 1986 level through 1990 and to resume and complete it two years later. During the interim period, assistance would be provided to the GOM to improve the efficiency of the ongoing program, and to develop a longer range GOM-supported supplementary feeding strategy.

Under the compensatory program, development is proceeding (1) with the Ministry of Agriculture and the Ministry of Interior's Promotion Nationale on Food for Work Programs focusing on reforestation and urban sanitation over a 4 year period; and (2) with the Ministries of Social Affairs and Health on social assistance programs for the same period, 1987-1990. The total compensation package would be about \$15.0 million in food assistance annually including the on-going Ministry of Social Affairs mother and child health feeding program.

Finally, to strengthen the relationship between supplementary feeding and child health activities financed under USAID's Population and Family Planning project (0171), technical assistance in child survival technologies is being provided to MAAS to upgrade training and skills of staff in the MAAS feeding centers.

D. Management and Work Force Issues

With AID/W's approval of the part-time PIT professional position in FY 1986, USDH staffing in the Agriculture Division is complete. A pending action is for AID/W to renew the validity of this PIT position for FYs 1987 and 1988.

USAID has completed an intensive review of future staffing requirements in the Population and Human Resources Division in which we assessed the workload implications of the rapidly expanding population and child survival portfolio as well as new food aid activities. We concluded that the addition of a USDH, a detail from another agency, in a "Delete Temporary Full Time" (DTF) position for a period of not less than one year, but up to a maximum of two years, would satisfy our minimal staffing requirements in PHR. The Mission has proposed the establishment of a DTF and requests AID/W's approval to fill it in the last quarter of FY 1987.

The Private Enterprise Officer position is currently vacant and the prospect for filling it during the current assignment cycle is poor. In this situation, the Mission's urgent requirement is for the addition of one USDH backstop 94 position and FTE beginning in FY 1988 into which we would propose to assign the just graduated IDI, backstop 94, for a second full tour. The IDI worked in the Private Enterprise Office during the last part of her rotational assignment and, in the Mission's judgment, has the capacity and energy to carry the rapidly growing private sector portfolio until the arrival of a qualified Private Enterprise Officer. Nevertheless, even with the arrival of the new senior PE Officer, the Mission will require both USDH positions in that office.

Looking to the future, and in anticipation of the findings of the on-going Mission Management Assessment, indications are that we will need an additional continuing USDH position beginning in FY 1988 for an Executive Officer. One possibility would be to transform the Regional Contracts Officer position (currently serving Morocco, Tunisia, Italy and Portugal) into a Mission Executive Officer position if the incumbent were certified to execute high value contracts. Such a transformation could be done upon the departure of the incumbent RCO and with the closure of the Portugal and Italy programs on the understanding that such an officer would also meet USAID Tunisia's contracting needs on periodic TDYs.

The actual position levels for FY 1986 and the proposed position levels for FY 1987 and FY 1988 are as follows:

FISCAL YEAR	<u>1986</u>	<u>1987</u>	<u>1988</u>
USDH USAID Morocco	21	21	23
IDI	1	1	0
FSN	19	19	19
USDH Regional - RLA and RCO	2	2	1
USDH - RHUOD	1	1	1
USDH - PIT (part-time)	1	1	1
USDH - DTF (full-time)	-	1	1

E. Gray Amendment

In the last Action Plan it was reported that two long-term AID-financed activities were being implemented in Morocco by 8(a) entities. These activities, which are still being implemented, are:

(1) Energy Planning Assistance, 608-0180 - A five-year contract was awarded to International Science and Technology Institute (ISTI) in September, 1985. The present value of the contract is \$2,486,400. There are no plans at this time to amend the ISTI contract.

(2) Family Planning Support, 608-0171 - An eighteen-month contract was awarded to RONCO Consulting Corp. in September, 1985. The present value of the contract is \$570,700 but it will soon be amended to increase the value by about \$550,000 and to extend the performance period by about eighteen months.

During the past year a project evaluation was done by an 8(a) firm T.E.M. The work was done pursuant to a task order issued under T.E.M.'s IQC with AID. The total work order value was about \$ 31,000.

In addition to increasing the contract with RONCO we plan to negotiate within the next two months a contract with Idea, Inc., an 8(a) firm from Washington, D.C. This new contract will be about \$1.2 million and will require the firm to furnish services to assist in the implementation of an energy project in Morocco. The activity will extend over 30 months.

New project activities in Morocco will be low so there will be few new contracts and hence not many opportunities to select new implementing agents. USAID/Morocco will, however, remain alert and will endeavor to use the services of Gray Amendment entities at every opportunity.

USAID is taking steps to assure the increased usage of HBCUs in training long-term degree candidates sent to the U.S. under AID-financed programs.

## F. Women in Development

Women play a key role in the economic life of Morocco and in general, socially and politically, are better off than women in the rest of the Arab-Moslem world. In 1982, the last year for which census figures are available, there were 4,817,000 men and 1,181,280 women engaged in full-time, regular employment; women thus represent about 20% of Morocco's full-time labor force. Labor force participation rates for women by sector include over 50% in agriculture, 22% in manufacturing, and 22% in services. Access of women to formal education has increased dramatically over the last few years. In 1985, women constituted about 38% of the student population in primary and secondary schools and 33% of the university population. Women have been quite successful in establishing themselves in the public sector, more so than in the private sector, and there are a large number of female civil servants. Still there is a long way to go to assure the full realization of Moroccan women's social and economic potential and several key areas in which USAID can intervene.

There is a great deal to be done to improve the role of women in agriculture, a key sector in the USAID/Morocco strategy. It is estimated that over 50% of subsistence agriculture is carried out by women, although women here appear to have a more limited role, particularly in terms of decision making, than is the case in many other developing countries. Moreover, the decision making role that women do have, including the ultimate disposition of the income generated, appears to decline as the scale and profitability of the production system increases. Nevertheless, women are directly involved in agricultural activities, particularly the care of livestock. The most common activities carried out by women include collecting weeds from the fields for fodder, cleaning stables, watering the animals, milking and caring for poultry and other small animals and, most importantly, gathering firewood and water. Although women do sometimes work in the hand harvesting of cereals, this tends to be limited to poorer households, and only when paid workers who are strangers to the family are not involved. Women glean the fields after hand harvesting and may be involved in carrying hand harvested grain to be threshed. In some cases, women may be paid as agricultural workers. However, they generally work only for members of their kinship group. The wages earned are usually given to the household head (as are the wages earned by male dependents in the household). When they are paid, women receive somewhat less than men for the same tasks.

In other sectors also, the role and contribution of women can be greatly improved. Several of the Mission projects are looking at how this can be done. In the energy sector, the Household Energy Study subproject of the Energy Planning Assistance project (0180) is studying women's use of and need for energy in the household. This study will lead to recommendations as to how to better meet the energy needs at the household level. A Peace Corps study, funded by USAID, is measuring the time women spend gathering firewood. This study will provide recommendations on developing a strategy to minimize this time and thus free women for more productive activities. A special study is being conducted under the Drought Recovery Credit project (0184) on women's access to agricultural credit and how the National Agricultural Credit Bank (CNCA) can increase that access.

In addition, several of the Mission projects have a direct impact upon women as target beneficiaries. In the health and population sector, women and children are the major beneficiaries of project activities. In the agriculture sector, women are important beneficiaries of the Agronomic Institute project (0160). Approximately 20% of the students of Morocco's Agronomic Institute are women, and 10% of the participant trainees under the project are women. Moreover, strides in agricultural research from the Dryland Agriculture project (0136) will affect the women farmers in Morocco's dryland farming region.

The Mission works to negotiate changes in the laws, policies, and practices which affect women during project development, implementation, and evaluation processes. Two such changes have recently been effected. Firstly, the Mission negotiated a 30% minimum target for women participants in the recent amendment of the Sector Support Training project (0178). This represents a 10% increase over the past average participation of women in this project. Secondly, in the recent drafting of legal statutes for the new Export Credit Insurance organization, the Mission successfully negotiated the removal of a clause stating that married women stockholders had to be represented by their husbands at the general assembly of stockholders.

During the planning period, the Mission will move ahead to further hone its women in development strategy. This will take place in three areas. First, two studies will be funded (1) to critically analyze the major constraints to the full realization of women's potential in dryland agriculture and how those constraints can be addressed by the Mission's agriculture portfolio and (2) to assess women's role in the export sector and how that role might be enhanced by the Mission's export promotion project. Second, project officers will be required to report on the participation of women in their projects as trainees, implementors, and beneficiaries during the Mission Portfolio Reviews beginning the third quarter FY 1987. Third, the Mission will continue to seek out opportunities during project design and implementation work to negotiate changes in the laws, policies, and practices affecting women.

G. Summary Budget Table

Action Plan  
FY 1987-1989 OYB  
(By Functional Accounts - \$000)

PROJECT TITLE & NUMBER	FY 1987	FY 1988	FY 1989
I. ARDN (AGRICULTURE/RURAL DEV.)	9120	11500	11595
Dryland Agri. Research (0136)	4200	5400	5400
Renewable Energy Dev. (0159)	600	1100	352
Agronomic Institute (0160)	1700	3700	3932
Agri. Planning & Statistics (0182)	2620	1300	1911
II. POPULATION & CHILD SURVIVAL	4500	2000	4500
Family Planning Support III (0171) and Child Survival Component	3000 1500	1500 500	3000 1500
III. EHR (EDUCATION/HUMAN RESOURCES)	1000	1000	3000
Sector Support Training (0178)	1000	1000	3000
IV. SDA (ENERGY, PRIVATE SECTOR, ETC.)	1750	500	500
Energy Planning Assistance (0180)	870	500	-
Peace Corps (0181)	(40)	(40)	(40)
Economic Policy Support (0191)	880	-	500
Tetouan Urban Development (0194)	(100)	-	-
TOTAL: DEVELOPMENT ASSISTANCE (DA)	16370	15000	19595
V. ECONOMIC SUPPORT FUNDS (ESF)	19835	20000	20000
Private Sector Support (0189)	5516	-	-
— IESC	(2016)	-	-
— Pre-Export Financing	(3500)	-	-
Economic Policy Support (0191)	-	1750	2000
Energy Demand Management (0193)	7819	7181	-
Cereals Market (0195)	6500	11069	2431
To be determined	-	-	15569
VI. P.L. 480	65000	65000	65000
Title I (Loan)	40000	40000	40000
- with Section 108	10000	10000	10000
Title II (Grant)	15000	15000	15000
- with Compensatory Food Program			
VII. HOUSING GUARANTY (LOAN)	-	5000	-
GRAND TOTAL	101205	105000	104595

Note: Refer to the notes on the following page.

Notes on Summary Budget Table (FYs 1987-1989):

1. The ESF funding shown for FY 1987 takes into account the President's supplemental request for \$10.0 million submitted to Congress. If the supplemental request is not granted, then adjustments in ESF levels for FYs 1988 and 1989 would have to be made.

2. In this regard, we are showing \$20.0 million in ESF for FYs 1988 and 1989. (Given prior experience, this level is highly unlikely.) Nevertheless, on this basis, please note the following for specific projects in ESF:

- Private Sector (0189) is fully funded at \$20.0 million by FY 1987.
- Energy Demand (0193) is fully funded at \$15.0 million by FY 1988.
- Cereals Market (0195) is fully funded at \$20.0 by FY 1989.
- Economic Policy (0191) requires ESF funding from FY 1988 on as a result of reduced SDA levels.
- If the President's supplemental request is granted in FY 1987 and if our FYs 1988 and 1989 levels are approximately \$20.0 million, then we will be in a position to design a new (to be determined) ESF project for funding in FY 1989.

3. For specific projects in DA:

- Dryland Research (0136) assumes a 6-year project extension through 1994.
- Renewable Energy (0159) is fully funded at \$9.7 million by FY 1989.
- Ag. Institute (0160) is fully funded at \$28.5 million by FY 1989.
- Ag. Planning (0182) is fully funded at \$12.567 million by FY 1989.
- Sector Support Training (0178) will still require by end of FY 1989 \$4.0 million to be fully funded at \$18.0 million.
- Family Planning (0171) assumes a project amendment (or new project) to go from FY 1989 through FY 1991. Funding will be \$3.0 million and \$1.5 million respectively for POP and Child Survival in FY 1989.

4. Under PL 480, the Mission is currently reviewing with appropriate Moroccan officials both Section 108 and compensatory food programs to begin in FY 1987.

5. As HG-001 and 002 get underway, the Mission will review with the GOM a possible HG-003 for FY 1988 as part of a worldwide Private Sector Housing Guaranty Program.

## ANNEX 1

### NEW PROJECT DESCRIPTION

#### CEREALS MARKET RESTRUCTURING PROJECT (608-0195)

##### The Development Problem

Annual capita production of wheat declined from 121 kg during 1970-1974 to 85 kg during 1981-1986. This occurred despite strong indications that Morocco has a distinct comparative advantage in dryland cereals production and that current yields are significantly below potential. Better farmers produce double the average cereals yield per hectare and demonstration farms realized yields of over 2 1/2 times the average. Part of the lag in production can be attributed to drought in more recent years. However, the failure of pricing policies to provide effective incentives to producers was the most important single cause of the decline after the weather. Consumer subsidies on bread have translated into depressed producer prices, despite attempts to insulate producers from the effects of a subsidized retail market for wheat flour.

Although domestic grain producers are ostensibly insulated from the effects of subsidizing consumer prices, the Prices and Incentives Study, financed by USAID, indicated clearly that producer prices have been in fact depressed by subsidized flour prices. The GOM attempted to counter the adverse impact of consumer subsidies with subsidies on fertilizer, seeds and other inputs. Unfortunately, the input subsidy approach proved to be both inefficient and expensive and, as a consequence, the GOM is now removing input subsidies as part its agricultural sector adjustment program. Continued depressed prices, coupled with removal of subsidies for fertilizer and seeds, may accelerate the decline in domestic wheat production per capita if something is not done to increase the effective demand for domestically produced soft wheat.

The pricing system is ineffective because only a small percentage of farmers in fact gain access to the official price. These are the largest farmers, raising therefore the further question of inequity in government price support programs. Most farmers receive a price significantly below the official price because: 1) the number of government-authorized purchasing centers is so limited that only large farmers with large volumes and access to transport have access to the centers; 2) small farmers cannot meet the complicated quality standards; 3) budgetary constraints limit government purchases at official prices to less than 40 percent of the bread wheat produced and much smaller quantities of other cereals, and 4) licensing and other market regulations reduce participation of private entrepreneurs in grain marketing.

The current official price system also seriously distorts seasonal, locational, and qualitative price differentials, as it is fixed at a constant level throughout the year, does not account for transport costs, and does not contain realistic differentials for quality. Thus, in addition to being ineffective as an incentive price, the system exaggerates inefficiencies in the cereals market system by failing to provide an allocative role vis-a-vis seasonal storage, geographic location, and failing to reflect consumer demand in terms of quality.

### Priority and Relationship to AID Policy

GOM officials have indicated that reform of the cereals marketing system and, ultimately, achieving self reliance in food grains is the number one agricultural policy goal. Subsidies for wheat flour, fixed marketing margins, losses on government-managed storage operations and costly reductions in marketing efficiency are an almost intolerable burden on public finances. Moreover, disincentives to farmers have resulted in declining domestic per capita production, adding a growing foreign exchange deficit to the already critical treasury deficit. The GOM is responding by considering the following marketing reforms:

1. Eliminating the system of fixed prices for domestic bread wheat, based upon estimated costs of production, and substituting a target-price system based upon the world market price;

2. Deregulating the domestic cereals market by eliminating licensing requirements, allowing mills to purchase from any dealer or any farmer at the "target-price", removing transport and storage subsidies, eliminating fixed quotas on storage, and eliminating fixed marketing margins;

3. Transforming the SCAMs and CMAs <sup>1</sup> into private, regional cooperatives; and

4. Establishing a food security stock in lieu of direct governmental control of imports and domestic marketing to protect consumers from fluctuations in world supplies and prices.

Input subsidies will be completely phased out by 1990. During the same period, the new target-price system for grains, based on world market prices plus a 25% protection element, will stimulate increased domestic production, assuming farmers have access to this price. Farmers will have improved access under the proposed market liberalization scheme, as open competition and removal of fixed marketing margins should stimulate entry of private firms into grain marketing and storage. However, government controlled storage facilities (25-30% of total existing capacity) and a lack of public price, production, and marketing information (including planned import levels and security stock purchases and sales) could greatly inhibit the improvement of marketing efficiency.

These reforms fall directly within the mainstream of A.I.D. development policy, which is to encourage free-market competition and involvement of the private sector in marketing activities. Governed by the principle of comparative advantage, A.I.D. policy encourages liberalization of marketing systems toward allocating resources to their most efficient use. Allowing market forces to express themselves freely by removing government controls and eliminating direct intervention in markets is seen as the most efficient means of attaining priority development goals. These are: adequate food production at reasonable prices, reduced supply and price fluctuations and increased small-farmer incomes.

---

<sup>1</sup>/ Societe Cooperative Agricole Marocaine (SCAM) and Cooperative Marocaine Agricole (CMA).

Improved grain marketing efficiency and establishing incentive prices for domestic grain producers, added to improved production technology through research and education, improved credit institutions, reformed input markets, and improved policy analysis capability, rounds out USAID's strategy for increasing agricultural productivity and aggregate food production in Morocco.

#### Project Solution to the Identified Problem

Three major implementation problems could inhibit realization of the GOM's cereals market reform program.

First, the details of the market reform strategy, with detailed costs and benefits by option, remain to be developed and adopted as official policy by the GOM. In particular, detailed plans are required for security stock management, including stocks location, the role of imports, and timing of purchases and sales.

Second, an effective public information system is essential for efficient functioning of free markets. Removal of direct government ownership of marketing facilities, freeing marketing margins, and allowing private firms to freely compete for sales to mills will work efficiently only if all traders have equal access to accurate price, stocks, and trade information. Unbiased information can be best produced by a public entity. ONICL<sup>1</sup> is the entity most likely to be given this responsibility but lacks resources and trained manpower to carry out the task. The U.S. can help in this regard, as U.S. market information services for agricultural commodities are probably among the most advanced in the world. The GOM has committed itself to begin work in this area as a self-help measure in the FY 87 PL 480, Title I agreement.

Third, Government-managed, cooperative storage facilities should be privatized. They are inefficiently operated, incurring substantial losses year after year, and their continued presence in the market discourages private traders from investing in marketing facilities. The GOM's proposed solution is to transform these publicly-run cooperatives into true private cooperatives that will compete on even terms with private traders in the liberalized market environment. USAID agrees with the strategy regarding the removal of government presence in the grain-marketing channels. U.S. technical and financial resources could be applied efficiently to facilitate this transformation. The U.S. has had a wealth of positive experience in development of private cooperatives and U.S. institutions have successfully provided technical assistance to cooperatives in many third-world countries.

The proposed project will add the missing critical elements to help refine and implement the policy and structural reform program. These reforms are designed to stimulate increased cereals production in a country having a distinct comparative advantage in cereals. The GOM plans to deregulate the domestic market and design a price support system which would provide incentives for increased domestic production. Competition is the key to efficient pricing. Market deregulation, removing barriers to entry of private firms, combined with creation of an efficient market information system will

---

1/ Office National Interprofessionnel de Céréales et Légumineuses  
(National Marketing Board of Grains and Legumes)

act together toward creation of the desired degree of competition. Furthermore, reducing and redefining the governments role in market intervention (privatizing the SCAM's and CMA's) will improve farmers' access to incentive prices by encouraging competition between private cooperatives and private entrepreneurs.

### Tentative Project Description

Goal: Increased per capita production of food grains.

Purpose: Increase the level of effective prices of grains to producers and increase access to an efficient marketing system.

Outputs: The proposed project will be comprised of three major elements:

1. Developing a comprehensive cereals marketing reform strategy;
2. Creating a viable public market information system for grains and improving management of imports and security stocks; and
3. Transforming government-managed grain marketing cooperatives into private cooperatives.

The first element will focus on refining the import-based price support system, developing detailed plans for deregulating domestic markets, and installing an evaluation unit in MARA <sup>1</sup> (or ONICL itself) to monitor the impact of market reforms on food production, employment, farm incomes, and the GOM budget. Refining the strategy is necessary to resolve implementation problems, precisely measure tradeoffs at each stage of market reform, and to develop the means to effect mid-course corrections as the reforms are implemented. Agreement on basic policy changes has been reached but implementation of the reforms will require an increased analytical capacity in MARA. USAID's role has already been substantial through contributions of our policy advisory-unit (608-1082) to the development of a new target price system for producers and financing the Prices and Incentives Study. The present project will expand USAID technical and financial involvement in this critical reform process.

Complementing domestic marketing reforms, the first element will also define the cereals import and security policy so as not to adversely effect the desired increase in effective demand for domestically-produced grain. These policies involve both technical decisions (e.g. when to rotate stocks, how to minimize storage costs) and political decisions (e.g. levels of security and politically tolerable price levels). USAID will furnish technical assistance to ONICL or to the DPAE in MARA to help refine and implement these policies.

---

<sup>1/</sup> Ministère de l'Agriculture et de la Réforme Agricole.

During the five-year transitional phase of the market reform process, ONICL's role, vis-a-vis the domestic marketing system, will be transformed to that of monitoring the impact of reforms on producers and grain supplies, developing a viable market information service, and overseeing management of a security stock. Technical advisors and material needs such as vehicles, computers, and data publishing equipment are proposed in support of these activities. It is expected that specific elements of the market information service requiring development under the project will include surveys to determine quarterly stocks by region and market level, prices and margins, and trade volume. Data will be published periodically and disseminated broadly to public and private entities involved in the domestic grain trade to insure maximum competition among traders.

Elements of the component for privatizing government-managed, cooperative grain storage facilities will include evaluation of assets, developing financing schemes for forming cooperatives, training cooperative managers, and financing transfers of assets. Credit for modernizing existing storage facilities and constructing new facilities is also a possibility. Technical assistance will be provided to evaluate rules and regulations governing cooperatives and developing recommendations for modifications in such regulations, to insure that the newly-formed cooperative grain marketing firms will remain a viable and competitive part of the reformed marketing system.

ONICL and the Direction of Vegetable Production (DPV), both units under the Ministry of Agriculture and Agrarian Reform (MAR), will be responsible for implementing the market information and cooperative components, respectively.

At the end of the project, the cereals market will be liberalized, approximately 25% of total storage capacity will be in the hands of efficiently operated, regional cooperatives, and pricing efficiency will be enhanced by a functioning public market information service. Small farmers will have access to markets, market prices will provide incentives to increased domestic cereals production, and marketing costs will have declined to rates consistent with world averages. The Government's grain-market losses will have been substantially reduced and a food security system, one that will more efficiently protect consumers and producers against price fluctuations than the current regulatory system, will be in place.

Estimated Inputs: Technical advisors, equipment, and loan funds.

PID Approval: Given policy implications of this project, Mission intends to submit the Project Identification Document (PID) for AID/W approval.