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ACTION PLAN
USAID MOROCCO

MAY 1989

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I. INTRODUCTION AND EXECUTIVE SUMMARY

This Action Plan is the first since 1987 and should be read in relation to the USAID Morocco Country Development Strategy Statement approved in February 1986. It describes the current state of the Moroccan economy, the impact of the program so far on CDSS objectives, new project ideas, a new Title I proposal, and several management issues.

Macroeconomic Setting

Morocco's economy has come a long way in terms of its policy framework and its performance. Stabilization and structural adjustment programs initiated in 1983, have changed Morocco's economy from relatively protectionist, in-ward looking, and administratively controlled to relatively open, and export oriented - although still tightly controlled. Economic growth has been strong over the period 1986-1988 supported by good harvests in 1986 and 1988, low crude oil prices, and rapid growth of exports, particularly textiles and leather goods. The budget deficit has been brought down from 12.2 percent of GDP in 1983 to 4.5% in 1988, and the current account has been brought into equilibrium-running a small current account surplus in 1988 (after debt rescheduling). If current trends continue debt rescheduling may no longer be necessary by 1991.

The clouds on the horizon are the large debt overhang which will remain a serious drag on economic growth for the next several years even if the economy continues to do well, the recent falling out with the IMF over the deficit target for 1989, the inclination of the GOM to invest much of its investment resources in low-return, grandiose projects, and the need for further liberalization of the economy to make it even more flexible and dynamic. As part of its structural adjustment program, Morocco has made and is adhering to its policy decision not to rely on the public sector to create desperately needed jobs. Whether it can free up its heavy hand of state control to permit the private sector to create those jobs remains to be seen. The Mission hopes for a full briefing on what the Brady plan can mean for Morocco during Program Week.

Validity of the CDSS

The Mission believes that the CDSS focus on Economic Growth through Policy Reform and Private Sector Development, Increased Food Supply, Reduced Population Growth and Improved Primary Health Care Programs, and Improved Energy and Natural Resource Management is still valid through its five year life, i.e. through 1991. There is still much to be done to complete Morocco's transformation to a more open, market-oriented economy even while structural adjustment programs begin to wind down and there are new opportunities for encouraging the expansion of the private sector. There is important work to complete in agricultural research, higher education, and revision of the cereals marketing system, and to begin in private sector extension. The expansion of primary health care programs coverage nation-wide will be a major

achievement, even as we initiate new activities in health financing. The Mission will start an innovative activity in energy demand management, bring to fruition our energy planning and renewable energy efforts, and increase our activities in natural resources management.

The Mission suggests that a new CDSS be prepared in late 1991. This will mark a watershed in a programmatic sense for the agriculture and health sectors, and will probably be a good date from a personnel standpoint with the planned arrival of a new Mission Director in Fall of 1990.

Program Overview

Three years after approval of the CDSS, USAID Morocco believes that significant progress has been made toward achieving CDSS goals and that USAID programs have played a role in bringing this about.

Our agriculture, population and health, and housing portfolios have performed well, are making themselves felt, and will have a palpable impact on CDSS goals before the CDSS period is over. For example, thanks to immunization campaigns over the past three years, the 1991 CDSS goal for immunization coverage has been reached. Our programs related to increased economic growth and improved management of energy have performed less well to date and their potential impact may be less than hoped for. To get us back on track on economic growth, some mid-term corrections to projects and use of Mission economists' time have been made, and the Private Sector section of USAID has been strengthened. We will allow the energy portfolio, except for the new Energy Demand Management project to wind down over the next year. With the increase in ESF resources available to the Mission, we are now able to get started on the natural resources component of the CDSS which had been put off for a number of years.

The onslaught of the desert locust plague has had a major impact on the Mission's portfolio over the past two years. The locust campaign has claimed a good deal of the time and effort of the Agriculture Division and staff offices, and captured significant ESF resources.

A shift in focus is underway in population and health, with increasing efforts to increase sustainability of programs as coverage is extended. Our policy dialogue and action agenda in health financing are accelerating, leading to a new project in this area in FY 91.

In this action plan, the Mission places a proposal on the table to increase the development impact of our Title I program. The proposal is an attempt to radically restructure (at least from a GOM perspective) the Title I program in Morocco by tying resource levels to policy conditions, and requiring that local currency be deposited in a special account. While the pay-off in terms of development impact of the proposal is potentially large, its negotiation will be very difficult and requires an AID consensus before going to the DCC.

USAID Morocco Management

Two organizational changes are underway to implement the recommendations of the December 1986 Management Self-Assessment. The Controller and Management functions will be separated once again this summer with the arrival of a new Executive Officer, and a new combined Project Development and Private Enterprise Office will be created in the summer of 1989 (formal AID/W approval of this organizational change is still needed) with increased overall project development staffing. Other organizational changes are also in the works to improve integration of food aid and to reflect the Mission's phase out of energy activities.

The Mission has worked diligently to reduce US PSC costs to zero and affect other operating expense savings. We will be requesting TDY support of PFM/FM/BUD to assist us in an even closer review of FAAS costs, and we request Washington guidance on how to contain local guard service costs. However, even with the identification of further cost savings, the Mission's operating expense budget will not be adequate to increase our FN PSC personnel to a level consistent with our increased program budget and resultant project implementation oversight responsibilities, nor will it be adequate to upgrade the Mission's substandard working environment. USAID Morocco requests that we be given high priority for an Operating Expense budget increase.

USAID Morocco Program Budget

To restore minimal budget flexibility to respond to new initiatives of the Bush administration, the Mission requests a DA budget increase for FY 91 to \$15 million from the current level of \$12.5 million, and an increase in the ESF level to bring resource availability back to that of the actual level of \$20 million from the AAPL of \$15 million for 1990. Moreover, the mission is currently behind schedule in the development of new project ideas, in large measure due to a scarcity of project development funds, and requests a substantial allocation of FY 90 PD&S funds in order to catch up.

More immediately, with the recent ANPAC approval of the Population and Child Survival 608-0198 PID, and the agreed expansion of the project to include health financing activities, a \$1 million increase in the FY 1989 OYB is required, specifically in the DA Health account. An additional \$10,000 in FY 89 PD&S funds is also required.

II. USAID OBJECTIVES, PERFORMANCE AND PLANS

The format of the initial two components of this section of the Action Plan requires some explanation. The next page provides a tabular summary of the USAID Morocco Strategy employing the framework of our four CDSS objectives. Following this are presentations of impact indicators, an impact assessment, and an evaluation strategy for each of our four CDSS objectives.

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 GOM pricing policy reform
- 2) Respond to requests for policy analysis in areas such as financial sector reform
- 3) Explore constraints to new enterprise creation

B. Improve Efficiency and Productivity of Public Services

- 4) Assist GOM efforts to improve and decentralize urban management 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 & Earning

- 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 and Managerial assistance to private exporters and public/private export promotion
- 9) Encourage US-Moroccan joint ventures

II. INCREASED FOOD SUPPLY

A. Strengthen Agricultural Education and Technical/Socioeconomic Research

- 1) Increase capacity of National Agronomic Institute (IAV) to train agricultural sector professionals
- 2) Develop improved production technologies for rainfed agriculture through National Research Institute's (INRA) Aridoculture program

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

- 3) Strengthen Agricultural Credit Bank (CNCA) lending programs
- 4) Monitor reforms underway in input distribution
- 5) Disseminate results of applied research from Aridoculture Center
- 6) Improve GOM process for selecting and designing irrigation systems

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

- 7) 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
- 8) Support pricing and marketing reforms through P.L. 480 Title I
- 9) Assist in reform of cereals market

D. USAID Approaches to Nutrition Problems of the poor

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

III. REDUCED POPULATION GROWTH AND IMPROVED PRIMARY HEALTH CARE

A. Expand Accessibility & Acceptability of Voluntary Family Planning

Public Sector

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

Private Sector

- 2) Develop mechanisms for increasing FP/MCH services through the private sector
- 3) Explore health financing issues

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

- 4) 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

- 5) 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 GOM capacity for energy data analysis, investment planning, and resource management
- 3) Strengthen human resource development in energy and natural resources

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

- 4) Adapt and disseminate commercially viable renewable energy technologies, especially through the private sector
- 5) Examine household energy demand and economically/environmentally sound responses
- 6) Improve GOM management of watershed areas

II.B.1. INCREASED ECONOMIC GROWTH THROUGH POLICY REFORM AND PRIVATE SECTOR DEVELOPMENT, AND IMPROVED EFFICIENCY AND PRODUCTIVITY OF PUBLIC SERVICES

| a) <u>IMPACT INDICATORS</u> | <u>BASELINE</u> | <u>INTERIM</u> | <u>TARGET</u> | |
|--|-----------------|----------------|----------------|-----------------------------------|
| <u>Overall Performance Indicators</u> | <u>1981-84</u> | <u>1985-88</u> | <u>1989-92</u> | |
| Growth of Gross Domestic Product per capita (annual rate) | .01% | 2.1% | 2.1% | |
| Growth of Private Investment (% of GDP) | 14.8% | 16.5% | 16.3% | |
| <u>Economic Policy Orientation</u> | <u>1980-83</u> | <u>1984-87</u> | <u>1988-92</u> | <u>Highest Possible Score (a)</u> |
| Credit/Monetary Policy | -1.0 | +1.0 | +3.0 | +7.0 |
| Tax Regime | +1.0 | +1.0 | +1.0 | +5.0 |
| Pricing Regime | -3.0 | -1.0 | -1.0 | +5.0 |
| Foreign Trade and Exchange Regime | -3.0 | +5.0 | +7.0 | +9.0 |
| Policy Response Regime | -4.0 | 0.0 | +2.0 | +4.0 |
| Bureaucratic Regime | -5.0 | -5.0 | -3.0 | +7.0 |
| Political Receptivity/ Implementation Record | -4.0 | +2.0 | +4.0 | +4.0 |
| Total Score | -19.0 | +3.0 | +13.0 | +41.0 |
| <u>Increased Reliance on Market Forces</u> | <u>1982</u> | <u>1986</u> | <u>1990</u> | |
| Price deregulation (% fully liberated) | 49 | 54 | 67 | |
| <u>Restrictions on imports</u> | <u>1983</u> | <u>1986</u> | <u>1990</u> | |
| Percent of imports subject to QRs | 62 | 11 | 9 | |
| Percent of domestic manufacturing protected by QRs | 50 | 34 | 15 | |
| Nominal Tariff Protection | 0%-400% | 0%-45% | 0%-45% | |
| <u>Improved Efficiency and Productivity of Public Services</u> | <u>1986</u> | <u>1988</u> | <u>1990</u> | |
| Marginal cost pricing of utilities | No | No | Yes | |
| Participants placed (Cumulative) | | | | |
| LT (US) | 275 | 412 | 534 | |
| ST | 305 | 547 | 904 | |
| <u>Increased Growth of Private Sector Export Production and Earnings</u> (average annual rates) | <u>1981-84</u> | <u>1985-88</u> | <u>1989-92</u> | |
| Private Sector Exports | 0.7% | 24.5% | 8.5% | |
| Public Sector Exports | -4.1% | 0.5% | 8.2% | |
| Fresh Fruits and Vegetables | -17.4% | 22.4% | 7.1% | |

(a) Country Policy Typology developed by PPC/EA

b) IMPACT ASSESSMENT - INCREASED ECONOMIC GROWTH

Overall progress of the economy since 1983 has been excellent in spite of ups and downs in the adjustment process. Per capita GDP growth has been at a rate of two percent per year in real terms from 1981 to 1988 after smoothing out the effects of drought years and bumper crops. The policy framework has improved considerably as discussed below primarily under the influence of World Bank sectoral adjustment lending and IMF Stand-By Arrangements but with key support from USAID complementing these programs in agriculture, energy and pricing policy. (See pages 61-63 for detailed discussion on macroeconomic reform.) Investment by the private sector has grown fast enough to make up for the restriction on public sector investment and growth of private sector exports has been particularly rapid over the past three years. Through its Economic Policy Analysis project with the Ministry of Economic Affairs and analytical projects in the Ministries of Agriculture and Energy, USAID has financed studies and generally improved the analytic capacities of these ministries to formulate sound economic policies with respect to pricing decisions. Our projects have greatly improved the content of policy discussions in the government with respect to support prices for agricultural products, import policies for these same products, and proposals to reverse specific deregulation measures (which were effectively quashed). In the private sector, the USAID program has helped establish a mixed public-private export credit insurance company to replace a publicly administered program, made export pre-financing credit available to small and medium-size exporters and assisted close to thirty private exporting firms a year with production and marketing problems through the International Executive Service Corps. We have thus played a supportive role in encouraging the adoption of sound policy and promoting the development of private sector exporters. Our housing portfolio is picking up steam and promises to have a major impact on how the GOM treats clandestine housing upgrading, public and private land development, housing finance and municipal development issues nationwide. The GOM is keeping a close eye on the Tetouan project and how land tenure issues are resolved, how new property tax systems are implemented and generally how the municipality manages and finances shelter and infrastructure programs. The GOM has also requested assistance to develop legislation and an institutional framework to encourage joint public-private land development.

In assessing the restructuring of the Moroccan economy, we applied the Country Policy Typology (developed by PPC/EA) to Morocco and compared its score to those received by other countries. This exercise revealed considerable progress. Compared to eight other ANE countries, Morocco went from far below average and a strong anti-market bias in 1980-83 to slightly above average and moderately market-oriented in 1984-87. With a score of +3.0 Morocco is still far below Jordan and Thailand (+18.5) but mercifully way ahead of Egypt's -30.5, worst by far among the 42 countries rated. This rating exercise also points out policy areas where further improvements are needed. In order of significance they are the reduction of bureaucratic impacts on economic activity, removal of remaining price controls and liberalization of financial markets. The analysis also reminds us that Morocco remains highly vulnerable

to exogenous shocks through the potential adverse budget impact of any rise in international energy prices, the lessened but still significant effect of a drought on economic activity and the sensitivity of Morocco's export earnings to economic performance in the OECD countries.

Signs of continuing improvement in policy orientation are evident already. By 1992 Morocco should attain a score of +13.0 by removing credit controls (but still setting interest rate floors and ceilings), deregulating foreign exchange holding, not relying on payments arrears as a source of external financing, introducing fees for service in health and perhaps education and other areas, and generally through a growing appreciation of how markets allocate resources efficiently. Morocco could do better by linking domestic prices more to international price movements, and particularly by simplifying bureaucratic procedures and eliminating superfluous approvals, licensing and similar documents. Even without these changes, the modest improvements in policy orientation listed above will help Morocco achieve its relatively modest growth targets (modest for a NIC) of 4.5% annual GDP growth. Without stronger reforms to move its score into the 20-25 point range or better there will be no Asian Tiger type growth. Furthermore, the risk of growth stalling because of international energy price increases, drought or world recession will remain.

c) EVALUATION STRATEGY - INCREASED ECONOMIC GROWTH

The Mission has just completed an evaluation of the Economic Policy Analysis project. As a result of its findings, we are discussing the conditions under which we would be willing to extend the Pricing Directorate subproject in order to speed up price deregulation and work on anti-trust legislation which promotes the development of competitive markets. We will also go ahead with a critical evaluation of our export promotion activities with special attention to the effects each area of activity has had in the promotion of exports and private sector development. We will continue our work on electricity pricing and other energy pricing policies facing the GOM, particularly the internal system for petroleum pricing.

With respect to other significant areas of policy weakness identified above, we intend to assist the Ministry of Finance carry out studies critical to the financial sector reform, hopefully persuading Morocco to move faster in creating competition in the sector. We also intend to work with the Ministries of Commerce and Industry and the Ministry of Economic Affairs in the area of investment policy. This will involve investigation of factors which impede efficient investment such as heavy and unproductive bureaucratic involvement in the process.

In the housing area, RHUDO will carry out sector studies to identify constraints to increased private sector participation in low income shelter production activities, and to evaluate the existing housing finance system and identify ways in which this system could direct an increased proportion of its services to the needs and capabilities of low income families.

II.B.2. INCREASED FOOD SUPPLY

| a) <u>IMPACT INDICATORS</u> | <u>BASELINE</u> | <u>INTERIM</u> | <u>TARGET</u> |
|---|------------------------|---------------------|--------------------|
| <u>Overall Performance Indicators</u> | | | |
| | <u>1976-83</u> | <u>1984-87</u> | <u>1991</u> |
| Per capita cereal production per year (3 year moving average) | -4.8% | 14.2% | 2.6% |
| Cereal production in Settat rainfed area vs rest of nation: Settat | | | |
| | -6.5% | +17.0% | N/A |
| Nation | -3.0% | +14.5% | N/A |
| <u>Strengthen Ag Ed & Technical & Socio-economic Research Systems</u> | | | |
| Percent of GOM investment budget allocated to agric. research | <u>1978-80</u> 2.5% | <u>1986</u> 2.9% | <u>1991</u> TBD |
| Ph.D. theses defended at Ag. Inst. | <u>1981</u> 16 | <u>1988</u> 68 | <u>1992</u> 128 |
| Moroccanization of Ag. Inst. Faculty | 57% | 93% | 98% |
| INRA staff at Aridoculture Center with a Ph.D. or Masters degree | <u>1978</u> 0 | <u>1988</u> 20 | <u>1994</u> 48 |
| <u>Increased Availability of Agr. Inputs & Prod Increasing Tech.</u> | | | |
| Hectorage planted with Hessian fly resistant wheat varieties | NA | <u>1988</u> 0 | <u>1991</u> TBD |
| INRA technology transfer bulletins published | <u>1984</u> 0 | <u>1988</u> 3 | <u>1991</u> 3 |
| Cereal crop land planted with certified seed: Hard Wheat | <u>1980-84</u> 13% | <u>1988</u> 40% | N/A |
| Soft Wheat | 24% | 50% | N/A |
| Low rainfall cereal crop land that is fertilized | <u>1982</u> 15% | <u>1988</u> 45% | N/A |
| <u>Improved Policy Environment for Growth through Increased Reliance on Market Forces</u> | | | |
| Area planted according to crop comparative advantage (000's hectares) | <u>1980</u> | <u>1987</u> | N/A |
| Crops with high comp adv. | 158 | 227 | |
| Crops with med. comp adv. | 3981 | 4797 | |
| Crops with low comp adv. | 738 | 761 | |
| Agric. commodities transferred from licensed/quota import system to tariff based system | <u>1986</u> 0 | <u>1988</u> 10 | <u>1992</u> 800 |

b) IMPACT ASSESSMENT - INCREASED FOOD SUPPLY

Development of the rainfed sector of agriculture has proceeded satisfactorily during the last five years, indicating that USAID strategy, combined with actions under the Second Agricultural Sector Adjustment Loan (WB), is beginning to pay off.

There has been a significant shift in public investment from the irrigated sector to the rainfed sector, with the relative share going to the rainfed sector increasing from approximately 25 percent in 1978-80 to almost 50 percent in 1987. This was in part a result of combined World Bank and USAID policy negotiations, the latter being carried out under PL 480 Title I. Local currency generations under PL 480, Title I account for roughly 30 percent of the agricultural investment budget. The 1988-1992 five-year plan, recognizing that past investment policies had neglected the rainfed sector, and recognizing that Morocco's comparative advantage in agriculture lies in the rainfed sector, quite specifically lays out a rainfed strategy.

The GOM has moved deliberately during the last five years to correct pricing and marketing policies which had tended to dampen the development of the rainfed sector. Fertilizer price subsidies, which had almost exclusively benefitted large, irrigated farms, have been virtually eliminated. Seed price subsidies have been cut in half. For all cereals except bread wheat domestic markets have been completely deregulated and price supports reduced to levels significantly below prevailing market prices. The GOM is also removing quantitative barriers to imports on over 800 agricultural commodities, and establishing ad valorem rates that provide a minimum, acceptable level of protection. The latter action is being carried out with technical assistance from the Planning, Economics and Statistics Project.

Partly as a result of the above policy shifts, the long-term downward trend in per capita production of cereals has apparently been arrested and has turned upward. Per capita production of the four major cereals increased at a rate of about 14 percent per year since 1984. Rainfall perhaps accounted for somewhat over 50 percent of the increase in production. It is apparent however that policy change, shifting of investment to the rainfed sector, a strong promotional campaign to increase bread wheat production, an increase in total hectareage, and greater use of fertilizer and improved seeds combined to significantly improve the productivity of the domestic cereals subsector.

Significant progress has been made toward achieving specific subgoals in the USAID strategy. The Aridoculture Center at Settat now operates at near full capacity, with 26 Moroccan scientists and 12 technical advisors engaged in over 200 agricultural experiments ranging from testing new machinery to development of new grain varieties. Thirty-two Moroccan scientists are at various stages of their doctoral studies, so that by 1994 the full complement of 48 Moroccan scientists will be realized. Promising technologies already generated include: 1) Hessian Fly resistant wheat which promises to save the region's farmers over \$20 million per year (to be released for the 1989 planting season); 2) new winter chickpea varieties; 3) weed control and other tillage practices; 4) fertilizer recommendations; and 5) mechanization. Three technology transfer bulletins have already been released. Another is expected to be ready for release in 1989, followed by one more in 1990.

The Institute Agronomique (IAV Hassan II) has a faculty of 335, half of which will have received an American PhD by 1992, a student body of 2300, and graduates 140 master of science degree holders per year. Faculty and graduate students are engaged in a wide range of research programs, including irrigation efficiency, small ruminants productivity, animal health, agricultural sector modeling, and horticulture. Graduates of IAV hold critical technical and policy-making positions in virtually every agricultural institution in Morocco. In short, the graduates of this first-class agricultural education institution are a highly significant element in the sector and can be expected to have a long-term positive impact on productivity in the sector.

Good progress has been made in improving the policy environment for agricultural growth. Self-help measures under PL 480, a wide range of structural changes carried out under ASAL II, and increased capacity for policy analysis under the Planning, Economics and Statistics Project, have all contributed to the major policy shifts described above. Specifically, the Planning, Economics and Statistics project, has: 1) generated accurate data for monitoring resource use, marketing, and production, 2) developed a strong capacity for policy analyses, including farm modeling, prices and incentives analysis, costs of production studies and trade analysis, and 3) developed several in depth evaluations of GOM investment programs. Specific changes in Moroccan agriculture that are related in part in these policy analyses include a 44 percent increase in area devoted to crops with a high comparative advantage since 1980, and removal of quotas on imports of ten major agricultural commodities since 1986.

Toward increasing the availability of agricultural inputs and production increasing technologies, two major USAID contributions are noteworthy. Under the Drought Relief Loan to the Agricultural Credit Bank, loans totalling \$13.5 million were rescheduled for drought stricken small farmers. The collection rate on the rescheduled loans has been over 60 percent, indicating the efficacy of the restructuring policy. Management of the Bank's portfolio was significantly improved under the technical assistance portion of the Project, contributing to a long-run decrease in Bank loan costs. Technical assistance was applied to technical transfer activities under the Dryland Applied Agricultural Research Project. Combined with a World Bank project to improve Morocco agricultural extension services, this effort promises to greatly improve the delivery of new technology to farmers in the long term. A major program of on farm trials, training of extension agents, and development of extension materials is underway at the Aridoculture Center and strong linkages are being developed with the provincial extension services. Work will begin on private linkages as well.

Self-help measures under the PL 480 Title I program have been instrumental in stimulating the restructuring of the state fertilizer marketing entity and privatization of state-owned retail outlets, reducing fertilizer subsidies, and privatizing the Moroccan seed industry. Also under PL 480, with technical assistance from the Planning, Economics and Statistics Project, a major study of machinery subsidies was carried out. The study recommended that such subsidies be drastically reduced. While the GOM has not acted on the recommendations, the study is causing the GOM to seriously rethink its machinery promotion strategy.

c) EVALUATION STRATEGY - INCREASED FOOD SUPPLY

The centerpiece of our agricultural development strategy is the generation and diffusion of technology under the Dryland Applied Agricultural Research Project. Increased productivity in the rainfed sub-sector, building on the clear comparative advantage that exists for the production of cereals and livestock for this ecological zone, is expected to be the single most important factor contributing to growth in production, farm income, and, ultimately, sustained, broadly-based economic development. The ultimate success of USAID's strategy will be judged by measuring the long-run impact of technological change on production and farm incomes.

An evaluation method is being set in place which will measure the expected long-run impact of the new technologies generated by the research project. The method is summarized as follows:

1) A baseline will be established by developing a stratified random sample of farms in three target zones which are representative of the major soil, rainfall, and farming systems regimes found in the region;

2) Baseline data will be developed for seven parameters:

- a) cereal and food legume production, technologies, and related costs,
- b) capital and land available to the farm,
- c) basic data on the farm family,
- d) forage and livestock production, technologies, and related costs
- e) household income and consumption patterns
- f) marketing activities
- g) credit use and demand

3) Data on the impact of new technologies will be generated through demonstration trials placed on a subsample of the baseline farms. Data on production changes related to adoption of the new technology and estimated rates of adoption by farmers will be generated.

4) Data will be aggregated, based on the stratified random sample of farms, to represent the total estimated production and income impact of the new technologies for the entire target zone.

An analysis of production, consumption and marketing of grains will be carried out to measure progress in deregulating the market, the impact of price policy change on consumers and producers, and to define a staged process for completing deregulation with respect to bread wheat. The GOM has deregulated the domestic markets for all cereals except bread wheat. They are reluctant to decontrol the latter because of its strategic and political importance, and because of the lack of information on the probable impact of price and market deregulation on domestic producers and consumers. Generation of information on these variables is critical to continuing a dialogue which is expected to lead ultimately to complete deregulation of the bread wheat market and the basing of official prices on international markets.

The analysis will include:

- 1) a comprehensive cereals market subsector study,
- 2) an analysis of storage requirements,
- 3) alternative food security strategies,
- 4) consumer demand for wheat and flour,
- 5) development of a decision model for imports, and
- 6) analysis of the impact of market liberalization on farm income and production.

Depending on the results of the analyses, a possible follow-on project to assist the GOM in developing a market information system, grading system, and transformation of the Grain Marketing Board (ONCL) into an agency for monitoring market performance is envisioned.

Socio-economic analysis of at least one major GOM investment program per year will be carried out under the PL 480, Title I program, beginning with the Karia-Tissa Integrated Rural Development Program. Results of these analyses will be used to a) evaluate impact on production and incomes, b) develop economic criteria for improving public investment efficiency, and c) track progress toward rationalizing public investment in the agricultural sector.

II.B.3. REDUCED POPULATION GROWTH AND IMPROVED PRIMARY HEALTH CARE

| a) <u>IMPACT INDICATORS</u> | <u>BASELINE</u> | <u>INTERIM</u> | <u>TARGET</u> |
|---|-----------------|----------------|---------------|
| <u>Overall Performance Indicators</u> | <u>1983</u> | <u>1988</u> | <u>1991</u> |
| Crude birth rate | 40 | 37 | 35 |
| Total fertility rate | 5.3 | 4.9 | 4.3 |
| <u>Expand Accessibility and Voluntary Family Planning</u> | | | |
| Contraceptive prevalence rate (% of MWRA) | | | |
| - Total | 26% | 36% | 45 |
| - Modern Methods | 18% | 30% | 40% |
| Contraceptive users (all methods - in millions) | .9 | 1.1 | 1.7 |
| Female sterilizations, per annum | 1,000 | 7,000 | 12-14,000 |
| Moroccan employees with access to industry-based FP services | N/A | 2,000 | 100,000 |
| Contraceptive sales outlets established | 900 | 1,500 | 5,000 |
| <u>Increase Child Survival and Reduce Child Health Deficiencies</u> | | | |
| Infant mortality rate (per 1000) | 120 | 71 | 50 |
| Immunization coverage of children under 5 against polio, diphtheria, whooping cough, measles, and tetanus | <u>1987</u> | <u>1988</u> | <u>1991</u> |
| Rural | 42% | 84% | 90% |
| Urban | 83% | 91% | 95% |
| Nationwide | 50% | 87% | 93% |

b) IMPACT ASSESSMENT - REDUCED POPULATION GROWTH, IMPROVED PRIMARY HEALTH CARE

The quantitative indicators presented show the substantial progress made over the past five years in population and primary health care, in large part due to the assistance efforts of AID as well as other donors. The increase in 1983 contraceptive prevalence from 27% of married women of reproductive age (MWRA) to 36% in 1988 reflects especially an increase in family planning efforts in the public sector, the current source of 70% of contraceptive prevalence. Although public sector activities will be strengthened still further in the next two years, especially to increase contraceptive prevalence in rural areas (prevalence in some provinces, i.e., Al Hoceima and Chefchaouen, is still below 10%), it is in the private sector that USAID expects the greatest increases in contraceptive use over the remainder of the CDSS period. These gains will come from broader family planning coverage in factory and industrial settings, and from the contraceptive retail sales program. Although the launch of both programs has been delayed, and objectives for them thus stretched out, both are beginning, with realistic plans for their expansion. Achievement of USAID's key objective in the sector, increased contraceptive prevalence, has thus far been running ahead of schedule.

This reflects the success of the USAID-supported outreach mother and child health care and family planning delivery system, now active in 30 provinces, as well as associated efforts of UNFPA and the World Bank. A workplan has been developed to introduce more cost effective delivery approaches under this program, improving rural coverage in existing provinces and extending the program nationwide.

In addition, with USAID assistance, voluntary surgical contraception services have been extended to 30 provinces resulting in routine availability of these services. In support of improved quality of these FP/MCH services, USAID has provided technical assistance, commodity and local cost support for on-going training for professional personnel, paramedical and administrative staff.

USAID efforts have also generated increased awareness at high levels of the GOM and in the Moroccan private sector of demographic pressures and the need for an aggressive family planning program across sectors. As a result, the MOPH, convinced of the need for more active participation of the private sector in the family planning program, included plans to promote commercial retail sales of contraceptive and MCH products by private enterprises as key elements of its 1988-92 Development Plan.

The extent to which such progress is dependent on donor assistance and the sustainability of services are questions being addressed both in the new Population and Child Survival IV Project (0198) and on-going work with contract assistance under the current Population Project (0171). These activities are designed to strengthen Ministry of Health efforts to obtain a larger share of the GOM budget, and within the Ministry, to obtain increased allocations for family planning and primary health care programs. Initial steps in that direction are (1) the on-going AID-supported work to set up a

program-based budget including all elements attributable to a program, and (2) the allocation of a specific amount for family planning in the FY 1989 GOM operating budget.

In Child Survival, the National Vaccination Campaign of 1987 had both a specific and a general impact. Vaccination rates for children 1-5 were greatly increased by the 1987 Campaign, and have been maintained in a second lower profile campaign. AID has provided more than \$1.5 million worth of vaccines to the campaign as well as some \$2 million worth of support for mobility, training and publicity. In addition, UNICEF and Rotary International provided significant support to the campaign. A more general benefit was the overall mobilization of public and private resources for a health cause, and a strengthening of Ministry of Health credibility, at a time of budgetary restrictions which have led to worsening conditions in Ministry of Health hospitals.

Results regarding the impact of a second campaign launched in summer 1988 to increase knowledge and use of oral rehydration salts are not yet available. A solid evaluation of the use of the salts, and the effectiveness of instruction in their use and follow-up, needs to be made as a basis for design of outreach and fixed facility care programs in the care and prevention of childhood diarrheal illness.

c) EVALUATION PLAN - REDUCED POPULATION GROWTH, IMPROVED PRIMARY HEALTH CARE

USAID's evaluation strategy in population and child health targets two areas: (1) the sustainability of primary health care and family planning services, focusing on the cost-effectiveness of various outreach strategies and program components, and means of increasing their viability through actions in both the public and private sectors; and (2) the need for continuing support for research in demographic and technical areas. The latter includes further analysis of existing data, preparation for the 1992 census, use effectiveness of various contraceptive methodologies, causes of infant mortality, and the effectiveness of the ORT campaign and its follow-up.

Under the first category, USAID is working with the Ministry of Health and other donors, primarily the World Bank, on means of introducing cost-control and cost recovery mechanisms in the public sector, increased community and individual participation in the financing of health and family planning services, and the broadening of service delivery and financing options in the private sector. As described in the Impact Section, to increase resources available to the Ministry of Health, contractor technical assistance is already working with the Ministry to develop a more solid case for funding from the overall GOM budget; and to develop improved data on unit costs of various service delivery strategies. This work will permit better prioritization of funding claims between competing Ministry programs.

Results of two on-going studies, both financed under the World Bank's Primary Health Care loan, supplement this work. The first, a study of Hospital Management, although not to be finished until 1990, will provide a basis for improved management and cost control as well as a more solid basis for cost recovery efforts.

Initial results of the second study, Health Financing, are to be available in April. The study, a review of who provides what health services at what price, and who pays for what services in the public, private and semi-public sectors, will provide a basis for public sector decisions regarding actions needed to increase the role of the private sector in the delivery and financing of services. To that end, the initial results of the study will be reviewed together by representatives of each of the sectors to determine which options to develop further.

The results of these studies, and especially the second, are essential to Mission decisions as to further assistance needed to increase the role of the private sector in this area. Nonetheless, there are three areas which USAID and the GOM have agreed need to be examined now, both to complete the information the ongoing World Bank funded studies will provide, and to prepare groundwork for further action, including a FY 91 Health Financing Project. They are described below.

1. A Profile of the Private Sector in Health

The Health Financing Study has been able to estimate only indirectly the participation of the private sector in the total delivery and financing of

health services. USAID plans to use outside technical assistance to review existing data and carry out client use studies as a basis for developing a more complete picture of the health private sector, its size, the kinds of services it offers and its infrastructure, as well as of its use. REACH technical assistance will be used to develop the specific terms of reference for the study.

2. An In-depth Study of Health Service Costs

The fee schedule set by the Ministry of Health for the private sector is universally regarded as being unrealistically low; while the fees actually charged by the private sector are most often characterized as being too high. Yet the impact of the various cost elements in the charges, i.e, taxes on and costs of materials and services, and of procurement regulations are unknown. An analysis of these factors is needed to provide a basis for policy dialogue on the need for fee schedules, and their reasonable use and levels. USAID will explore these issues in collaboration with a local contracting firm.

3. Legal and Administrative Restraints to Health Financing Alternatives; Enabling Legislation Required.

USAID has provided substantial assistance to the GOM and to private professional organizations in learning more about health financing alternatives, including health maintenance organizations, new forms of health service organizations, etc. The lack of development of some of these alternatives reflects the assumed or real existence of legal and administrative impediments to them, or insufficient enabling legislation. Both the public and private sector have requested help in exploring these questions as a first step in abolishing, modifying or developing regulations, criteria and standards as needed to permit new forms of health organization and financing. USAID will be providing such assistance on the basis of a first cut of priority constraints and needs to be provided in the Project Paper for the Population and Child Survival Project.

USAID will also explore means of widening insurance coverage as a key stimulus to increasing privately provided health care.

In the second area, USAID funded technical assistance is engaged with the Ministry in further analysis of the 1987-88 National Demographic and Family Health Survey, both to develop appropriate materials for presentation of results to policy levels of the GOM and to the private sector, and for program adaptation purposes. This work will be supplemented by operations research with providers and clients to address means of increasing use effectiveness of various contraceptive methods and of promoting wider use of IUDs.

Also, under the demographic category, USAID will continue its support to the Government in carrying out national contraceptive prevalence and related surveys, with the next such study to be implemented in the fall of 1991, approximately two years into the new Population Project. In addition, and in

connection with such assistance, USAID will provide training and technical assistance to the GOM in preparing for the next national census, scheduled for 1992.

Finally, USAID is engaged with the Ministry in a study of the causes of infant mortality, using the new verbal autopsy methodology. The study will help focus ever expanding actions of the Ministry in mother and child health care. Of specific interest is the effectiveness of the recent ORT campaign and means of increasing both the use of such therapy in cases of acute diarrhea, and of its prevention through improved hygiene. This will be another area of specific USAID-supported research over the next two years.

II.B.4. IMPROVED ENERGY AND NATURAL RESOURCE MANAGEMENT

| a) <u>IMPACT INDICATORS</u> | <u>BASELINE</u> | <u>INTERIM</u> | <u>TARGET</u> |
|---|-----------------|----------------|---------------|
| <u>Overall Performance Indicators</u> | <u>1984</u> | <u>1988</u> | <u>1991</u> |
| Energy Intensity - Primary Energy Consumption/Real GDP (Raw Index, 1984 = 100) | 100 | 93 | 90 |
| | <u>1984</u> | <u>1987</u> | <u>1991</u> |
| Imported Oil Intensity - Imports of Petroleum/Real GDP (Raw Index, 1984 = 100) | 100 | 94 | TBD |
| <u>Strengthen Energy Sector Policy Analysis, Planning and management Capacity</u> | <u>1986</u> | <u>1988</u> | <u>1991</u> |
| Firms in EDM Program | 30 | 60 | 100 |
| <u>Increase Development and Use of Morocco's Renewable Energy Resources</u> | | | |
| Solar Water Heaters Installed | 2500 | 3000 | 5000 |
| Improved Wind or Solar-Powered Water Pumps Installed | N/A | 350 | 1000 |

b) IMPACT ASSESSMENT - IMPROVED ENERGY AND NATURAL RESOURCE MANAGEMENT

USAID Morocco has made significant progress in supporting the development of a national Energy Demand Management Program (EDM) -- the first priority intervention under this strategy objective -- through the signature last July of the \$5 million Project Agreement, and the signature in March, 1989 of the technical assistance contract for project implementation. This caps USAID efforts to encourage a GOM decision to add EDM as an important component in the Five Year Plan (1988-1992). The project's focus on private sector users reinforces an underlying USAID theme to move away from undue reliance on the public sector for implementation.

The GOM continues to follow an energy pricing policy at well above border prices (though real prices have declined over the past five years since prices have remained fixed at 1984 levels). This pricing policy fosters both energy efficiency, and contributes significantly to GOM revenues -- estimated \$800 Million in 1988 -- in response to IMF and IBRD urging to bring the GOM budget deficit down (though it may also discourage Moroccan export competitiveness which USAID will analyze in the coming year). The EDM project will concentrate in the initial years on three sectors; construction materials, agro-industry, and hotels, to build on the previous successful work and demonstrate the high returns that EDM can produce for the economy over both the short and the long term. The EEC, the French, and the World Bank are all pursuing additional EDM projects with which the USAID will cooperate under the ongoing project. Energy conservation work under the Energy Planning project has already directly achieved documented total savings of more than \$ 10 million per year over the past three years.

The Ministry of Energy and Mines (MEM) has now accepted the important recommendations of the Energy Planning Project external evaluation which is strengthening the GOM capacity for data analysis, investment planning, and resource management -- the second CDSS intervention under this strategy objective. The energy model is now functioning, and was used by USAID-financed consultants to help the GOM develop new internal regulations for ex-refinery pricing of virtually all Moroccan petroleum products. The new system, which responds to a World Bank condition under the PERL Loan, will be applied in 1990 if the simulation now being tested in 1989 is successful. This work could lead to more open markets and possible substantial foreign exchange savings resulting from permitting imports of final petroleum products (now generally limited) when these are substantially cheaper than importing and refining crude in Morocco. The USAID has also worked closely under the Planning Project with the World Bank and the GOM to consider new tax policies which -- while maintaining GOM revenues from energy imports at a constant level -- will overcome the tax distortions which now favor the import of coal over fuel oil, even when fuel oil is less environmentally damaging and cheaper.

The USAID has obtained GOM acceptance of a more sharply defined role for the Center for the Development of Renewable Energy (CDER), consistent with the CDSS intervention objective to adapt and disseminate commercially viable

renewable energy technologies, especially through the private sector. CDER and the EEC held a seminar in March with strong participation by the private sector to consider commercial opportunities. USAID will sponsor with CDER a second seminar in September to assess the comparative costs of different technologies, using for the first time real figures produced by USAID-financed projects. These projects include installing PV pumps in the remote Province of Tata (jointly with CRS) while supplying water for 15,000 people, installing wind machines for water pumping (based on an improved design) by a private manufacturer in Essaouira Province, and assessing electricity generating machines for remote sites using windmills (Oudja and Sidi Boulanuar), and micro hydro at Tabant in the High Atlas. The two seminars will reinforce CDER's role as the source of expertise on viable renewable energy systems for rural water pumping and pre-electrification, under programs now being considered by the Ministry of Interior (2000 villages), battery chargers with PV's for TV and domestic lighting, and PV powered refrigerators for remote rural health clinics. As part of AID's project, commercialization strategies for PV's and wind are also being prepared.

The CDER project is also encouraging a fledgling solar hot water industry, which is still not making a major impact in Morocco despite the favorable underlying economic potential. Solar hot water heaters are being installed by Moroccan private firms in houses in Marrakech, and in bungalow type hotel rooms in Agadir to produce comparative costing figures on systems. The USAID also will explore whether there are real policy constraints such as import taxes on necessary materials and tax breaks for competitive technologies which work against a solar hot water industry.

The Societe National des Produit Petroliers (SNPP), a large Moroccan corporation, has begun implementation of an 18 month study of household energy supply and demand in rural and urban areas, responding to the CDSS call to examine household energy demand and economically/environmentally sound responses. The study -- in which the World Bank is a major participant -- will provide the data base for several policy papers, and preparation of a strategy to address household energy concerns, a critical area for GOM policy decisions in light of continuing deforestation and a 10 percent growth in butane use. USAID financing for the study has encouraged greater cooperation on the GOM side among the Ministry of Agriculture's Eaux et Forets, MEM, and the Ministry of Plan, all of whom require solid information of forest products use or expected butane consumption.

Other activities complementing the USAID-financed study include: (i) an Eaux et Forets study of urban energy consumption in Casablanca indicating greater levels of urban consumption of fuelwood than previously estimated; (ii) a well attended and technically in-depth January 1989 seminar to explore the links between energy and forestry sponsored jointly by MEM, Eaux et Forets, and the Government of France; and (iii) a detailed study of cooking systems in Berber villages on the southern reach of the High Atlas.

c) EVALUATION STRATEGY - IMPROVED MANAGEMENT OF ENERGY AND NATURAL RESOURCES

Natural resources and environmental concerns are assuming a greater role in USAID programs, as the consequences of deforestation, topsoil and water loss, reservoir siltation, and broad ecological damage become increasingly evident to Moroccan leaders. The GOM has asked USAID to help develop more effective watershed management practices to implement a new GOM policy of assuring that adequate watershed protection is an integral part of all new dam projects (and to the extent financing is available, to introduce protection practices for existing dam watersheds). A proposed Watershed Management Project is expected to address these issues based on the analysis of the problem being prepared by the team currently in Morocco. Their report will be available at the end of April, and provides a foundation for PID preparation.

The USAID will explore in greater depth other environmental dimensions which will impact sustained economic growth. An environmental profile -- a process that will take place over two-three years -- will be undertaken which will bring together disparate Moroccan officials in the GOM, the universities, and the private sector to better understand the Moroccan context, and develop possible future programs. The USAID in cooperation with the Peace Corps will also implement initiatives in biological diversity which are now being started.

The USAID will continue to address petroleum and electricity pricing issues under the Energy Planning, and Economic Policy Analysis Projects. Separate analytical studies to be completed over the next year will provide the framework for GOM consideration of core pricing decisions. In parallel, the GOM has expressed interest in a separate pricing study to evaluate the disincentives to greater exports (especially agricultural products) from maintaining high domestic energy prices, which might be carried out by USAID coordination of technical assistance available to both the pricing directorate and the MEM. The ongoing energy pricing work and USAID discussions of private power generation as part of our policy agenda also position USAID to help the GOM expand its understanding of the options for major capital investment in electricity (estimated \$2 billion) over the next decade.

II.C. POLICY AGENDA

Morocco's Current Policy Framework

Morocco's policy framework has improved significantly from the time Morocco suffered a severe foreign exchange crisis in 1983 and began stabilization and adjustment programs with the IMF and IBRD. Policy reform related to the stabilization and structural adjustment of the productive sectors of the economy has been extensive, and successful. As we have noted elsewhere, applying the Country Policy Typology developed by PPC/EA to Morocco demonstrates considerable progress. Compared to eight other ANE countries, Morocco went from far below average and a strong anti-market bias in 1980-83 to slightly above average and moderately market-oriented in 1984-87.

There is a good climate for policy reform in the sectors where the Mission is most active. The agriculture sector has been the subject of two IBRD sector loans to liberalize the sector. The health sector is undergoing a management revolution under the guidance of the current Minister of Health and is attempting to define the future role of the private sector in health care delivery. The GOM institutions most involved in low-cost housing are searching for ways to reduce policy constraints to resolving "clandestine" housing problems, producing affordable service plots, and financing low-income housing. The energy sector is increasingly interested in pricing issues.

While the overall policy framework is reasonable, there is, of course, always more to be done. The Mission's policy agenda seeks to encourage the positive trend, principally by bringing analytical talent to bear on how to implement policy reforms.

While Morocco's policy framework is generally moving in the right direction, a disturbing recent development is the seeming proliferation of ideas for low return, grandiose investment projects as resources available to the investment budget begin to rebound. In addition to the Hassan II Mosque under construction in Casablanca, there is much talk of the giant M'Jara dam, a new University, and a new airport for Agadir.

Defining the Mission's Policy Agenda

Since the submission of the Mission's last policy agenda in March 1988, we have made a concerted effort to bring greater precision to the identification of policy constraints worthy of our attention and energy, revamped our policy projects to provide the necessary resources to focus on these issues; and have responded to an AA/ANE stimulus to become more active in the area of health financing.

USAID Morocco carried out an intensive survey of possible policy constraints to achieving our four CDSS goals: Increased Economic Growth through Policy Reform and Private Sector Development; Increased Food Supply; Reduced Population Growth and Improved Primary Health Care Programs; and Improved Energy and Natural Resource Management. We looked at problems within these areas and asked the question: Is there a policy dimension to this problem?

Possible policy constraints were then subjected to the following filters:

- a) Is the policy constraint important or binding?
Would reducing the constraint have a significant impact?
- b) Is the policy constraint closely related to the Mission's current or proposed portfolio?
- c) Does USAID specifically or AID generally have the capacity to make a meaningful contribution?
- d) Is the policy constraint too politically sensitive to be addressed by USAID?
- e) Is the policy constraint being addressed adequately by other donors?

In addition over the past year, the Mission has conducted formal evaluations of two of its policy projects (Economic Policy Analysis Support 608-0191, and Energy Planning Assistance 608-0180), reviewed the Mission's ability to tackle housing policy issues, and looked into the possibility of providing an additional policy analysis project (Cereals Marketing Reform 608-0195) to deepen analytical talent available to look at reform of Morocco's soft wheat marketing system. As a result, the Mission recently signed a new subproject with Ministry of Economic Affaires to provide a flexible mechanism to respond quickly to requests for analysis of particular policy issues. As of this date, the Mission has received nine requests dealing with a wide variety of subjects including financial market reform, pharmaceutical pricing and studies of the informal sector. The Energy Planning project's PACD was extended to June 1990 to consolidate gains made in developing the Ministry of Energy and Mines analytical capacity and to provide time to complete ex-refinery pricing and fuelwood studies which have caught the attention of the GOM.

One housing project (Tetouan Urban Development 608-0194) was amended to more than double funding available to look at policy issues which constrain resolution of clandestine housing problems. A new housing project was authorized (ANHI Low Income Housing Program 608-0200) to address policy constraints which limit production of affordable serviced plots. The Mission currently is making a proposal to the GOM to add a third subproject to Economic Policy Analysis to look at cereals marketing issues.

AA/ANE's visit to Morocco in late February 1989 provided an opportunity to explore the feasibility of accelerating our involvement in the policy area of health financing. On her departure Dr. Adelman challenged the Mission to be more activist and we have responded accordingly.

USAID Morocco's Policy Agenda

The following tables provide a summary of the policy issues which survived the process discussed above. The format used is to identify a problem area and then describe current policy constraint, the revised policies sought, the next steps which Mission will take during the next 18 months to address the constraint, and finally benchmarks which can help us determine if any progress is being achieved.

II.C.1. POLICY AGENDA - INCREASED ECONOMIC GROWTH

| <u>Current Policy</u> | <u>Policy Sought</u> | <u>Next Steps</u> | <u>Benchmarks</u> |
|--|---|--|---|
| <u>Problem Area: Administered Prices</u> | | | |
| Complicated scheme of full and partial liberalization without reference to conditions of competition; 46% of prices still subject to administrative controls | Full deregulation of prices in competitive markets by 1992 | Case studies completed and disseminated for discussion; timetable established for further price liberalization; study of local government controls initiated under Pricing Policy subproject | 54% of prices deregulated ('86) case studies discussed in GOM; principles for future deregulation established and agreed upon ('90) |
| Pricing decisions for utilities now made through negotiation based on average production costs | Adoption of efficiency pricing in regulated utilities by 1990 | Oversight for studies underway provided by HIID; Pricing Directorate cadres trained in electricity and water price regulation; regulatory methodology utilized by all participating ministries | Methodology approved by end '89; applied in '90 in setting actual prices |
| Prices of petroleum products administered at above world levels; distortions in price structures create inefficiencies in refining and use | Prices determined by market forces, thus eliminating distortions; appropriate tax policy maintains price level to encourage energy conservation | Continue work on petroleum products pricing study (a) to further elaborate system and (b) to address policy constraints to a liberalized and efficient petroleum products market | Pricing system simulated by GOM in '89 based on study results; GOM puts system into effect ('90); Price liberalization and tax structure reform adopted by GOM ('92) |
| <u>Problem Area: Overregulated Financial Sector</u> | | | |
| Credit ceiling and interest rate floors and ceiling set by Bank Al Maghrib | Financial Markets fully liberalized; sector open to international competition | Policy studies to build case for deregulation of financial markets, reform of equity markets, introduction of new financial instruments, stimulation of venture capital | Credit ceiling lifted by end '89; policy studies completed and reviewed by end '90; Interest rates deregulated end '91; international banks and other financial firms enter market in '92 |

| Current Policy | Policy Sought | Next Steps | Benchmarks |
|--|--|---|--|
| <u>Problem Area: Lack of Competition</u> | | | |
| High-level support for small enterprise; red tape and administrative barriers overwhelming for small investors | Ease of entry into economic activities | Eliminate unneeded administrative approvals; e.g. prior approval for even small investments and other second-guessing | Formal business creation time reduced progressively from 29 months to 3 months; Specific approvals and documents eliminated |
| Price collusion exists; consumer protection attempted by GOM through price controls | Competition Law (rules under which markets operate) | Pass law fixing criteria for intervention or non-intervention by State | Consensus achieved on law among ministries ('89) GOM SecGen submits law to Council of Ministries mid '90; Law approved by GOM end '90; voted by Parliament end '91 |
| Positive privatization rhetoric; Timing and magnitude unclear for program; Isolated sales occurring | Privatization of targeted state-owned enterprises | Promote conditions for competition with state-owned enterprises by eliminating direct and indirect subsidies; Assist restructuring directly only in cases of clear U.S. comparative advantage | USAID "target of opportunity" if occasion arises |
| <u>Problem Area: Clandestine Housing</u> | | | |
| The absence of effective cost recovery policies for local governments to recover infrastructure investments and the lack of tenured land doesn't allow municipalities to open up new urbanized land for low income families; as a result this encourages the development of clandestine neighborhoods. | Implement the upgrading component of the Tetouan Upgrading Project to demonstrate a realistic strategy for upgrading and legalizing clandestine neighborhoods. | - Begin on site upgrading activities in HG-001. | - Contract for upgrading works (GOM 9/89). |
| | Develop and implement a strategy for accelerating the land titling process. | - Assist GOM to develop land tenure strategy for Tetouan Project. | - Elaborate the TOR and start assistance on land tenure registry program with GOM agencies November 1989. |
| | Rationalize the role of the central government as a policy instrument and that of local governments to effectively coordinate with specialized agencies to make the link with the private sector and to address the needs of the urban poor. | Develop a cost recovery strategy for infrastructure investments in Tetouan Project. | Draft cost recovery system developed by December 1989. |

| Current Policy | Policy Sought | Next Steps | Benchmarks |
|--|--|--|---|
| <p><u>Problem area: Private sector share of low income shelter production is to low:</u></p> <p>The absence of a legal and institutional framework to promote public/private partnership for land assembly, financing of primary infrastructure; in appropriate and outdated zoning standards and unrealistic infrastructure standards discourage private developers from actively participating in shelter production for the urban poor.</p> | <p>- A legal and institutional framework for undertaking joint public-private sector land development.</p> <p>- Downgrade infrastructure and construction norms to allow the private sector to produce more serviced plots and shelter units at prices affordable to our target group.</p> | <p>- RHUDO will complete Tetouan ZAC strategy and in response to MOI (Directorate of Urban Planning) and MOH (Directorate of Policy and Programming) help to develop legislation and institutional framework for ZAC activities.</p> <p>GOM with USAID HG and Grant financing will seek to:</p> <p>a) lower the cost of serviced land through reduction in norms and standards;</p> <p>b) increase the role of private developers and small builders through wholesaling of partially serviced land sites and joint ventures with specialized agencies (ANHI/HG003)</p> <p>.c) examine norms for land development.</p> | <p>- USAID funded ZAC studies completed May, 1989; National studies contracted 10/89.</p> <p>- USAID will contract sector studies in norms and standards and private sector participation (608-0200).</p> |

| Current Policy | Policy Sought | Next Steps | Benchmarks |
|--|---|---|--|
| <p><u>Problem area:</u> <u>Housing Finance</u></p> | <ul style="list-style-type: none"> - Housing finance institutions develop financing program to the socio-economic characteristics of the urban poor. - Housing finance institutions develop products to support private sector initiatives in land development and construction targetted to urban low income groups. | <ul style="list-style-type: none"> - Through the HG-003 program RHUDO will negotiate with the GOM to authorize the ANHI to deposit HG loan proceeds and Program beneficiary advances with a shelter financing institution. This will establish a banker-client relationship and begin dialogue for CIH (Housing Bank) financing of ANHI programs. The ANHI will agree to assist some program beneficiaries to meet requirements for eligibility for construction financing through the CIH (IBRD financed). - RHUDO will carry out sector studies to evaluate the existing housing finance system and identify ways in which this system could direct an increased proportion of its services to the needs and capabilities of low income families. | <p>Elaborate the TOR with ANHI and CIH on housing finance study (December 1989).</p> |

| Current Policy | Policy Sought | Next Steps | Benchmarks |
|--|--|--|---|
| <p><u>Problem area:</u> <u>Inefficient Financial</u> <u>Intermediation for local</u> <u>governments</u></p> | <ul style="list-style-type: none"> - Improve efficiency and productivity of public services by improving urban planning and management capabilities to mobilize and manage resources more effectively at the local level. - The creation of a viable financial intermediary capable of mobilizing sufficient resources to support decentralization. - New Municipal Development Bank (BDCL) established as a financial viable banking | <ul style="list-style-type: none"> - Comprehensive TA/Training program will be implemented to: <ul style="list-style-type: none"> a) support GOM initiatives in municipal development and decentralization b) enhance the Municipality of Tetouan ability to increase revenue collection (property tax software, ongoing cost recovery TA); c) provide TA to reinforce financial management capacity; d) enhance technical services department in maintenance and project management capacity; e) strengthen the MUN capacity to carry out Tetouan Project environment; - USAID will develop new grant program to provide TA and Training to assist in the start-up of the BDCL. | <p>Contract 608-0194 TA and Training Program (Fall, 1989)</p> <p>Develop PID (June 89) for 608-0202 BDCL TA and ProAg (November 1989). Begin TA with BDCL (November 1989).</p> |
| <p>Local governments do not recover investments from primary infrastructure programs and revenue collection rate are bellow acceptable levels for resources which finance capital budget programs.</p> | | | |
| <p>The absence of an effective financial intermediary to support decentralization and economic investment by local government has resulted in heavy reliance on central government subsidies.</p> | | | |

II.C.2. POLICY AGENDA - INCREASED FOOD SUPPLY

| <u>Current Policy</u> | <u>Policy Sought</u> | <u>Next Steps</u> | <u>Benchmarks</u> |
|---|--|--|---|
| <u>Problem Area: Investment Policy</u> | | | |
| Political and Social criteria are given more weight than economic criteria in project selection | Greater use of economic criteria in allocating public investment | Economic analysis of public sector investments in agriculture | Small-scale irrigation project constructed in 1990 using economic criteria |
| | | Economic criteria used in Supplemental Irrigation Project | One evaluation per year of GOM agricultural investment program |
| | | Negotiate expansion of agricultural research based on economic returns | By 1992 economic criteria applied more broadly to irrigation projects |
| | | Continue high level dialogue on feasibility of M'Jara Dam | Investments in agricultural research increases to a rate commensurate with economic rates |
| <u>Problem Area: Pricing Policy</u> | | | |
| Inappropriate marketing and pricing policies for wheat | Wheat market deregulated, prices decontrolled | Analyze production, consumption and marketing of wheat | Policy analysis completed in 1990 |
| | | Develop recommendation for decontrolling wheat market | GOM agrees to deregulate the soft wheat market |
| | | Transform public market board to monitoring function | GOM agrees to dismantle the marketing functions of the marketing board |
| Water and machinery are subsidized | Water and machinery priced at market levels | Study of water pricing dialogue on impact of machinery subsidies | GOM agrees to collaborate on study of water and machinery subsidies |
| | | | High level decision makers agree to reduce subsidies |
| | | | Water and machinery become part of policy making process |

II.C.3. POLICY AGENDA - REDUCED POPULATION GROWTH AND IMPROVED PRIMARY HEALTH CARE

| <u>Current Policy</u> | <u>Policy Sought</u> | <u>Next Steps</u> | <u>Benchmarks</u> |
|---|---|--|--|
| <u>Problem Area: Public Sector</u> | | | |
| <u>Health Financing</u> | | | |
| Both curative and preventive services in the public service are largely free of charge. Except in the autonomous hospitals (4 at present, 12 by 1990), any fees collected are returned to the central treasury. | A rational and effective cost recovery system applied in all public sector health facilities. | <p>USAID to participate with GOM and World Bank in reviewing results of Health Financing and Hospital Management studies, the latter of which includes plans and initial steps for revising fee schedules, collecting and applying users' fees. Potential need for TA from USAID to be determined during development of 0198 Project Paper.</p> <p>USAID, in consultation with the MOPH and the Conseil de l'Ordre des Medecins, as a part of 0198 PP, to develop plans for In-Depth Study of the Structure of Health Service Costs as basis for revision of fee schedules for the public sector, and their modification or abolition in the private sector.</p> | <p>Cost recovery system developed by April 1990.</p> <p>Study contracted by November 1989; completed by December 1990.</p> |
| Ministry of Health percentage of overall GOM budget is low in comparison with other countries at the same level of economic development (3% compared to 5-8%), diminishing in real terms; and programmed largely for curative services. | Ministry of Health budget is increased, and a greater proportion is allocated for primary health care services. | USAID will complete (1) on-going work with Ministry of Health on benefit-cost analyses of family planning and primary health care services to support MOPH request for additional resources; and (2) analysis of program cost effectiveness as a basis for internal program decisions and budget allocations. | Ministry of Health successfully presents a larger budget request for CY 1990, including an increased proportion and absolute amount for preventive and primary health care services. |

| Current Policy | Policy Sought | Next Steps | Benchmarks |
|---|--|---|--|
| <u>Problem Area: Lack of dynamism in Private Health Care Sector</u> | | | |
| <p>A variety of policies and practices, and a lack of enabling legislation combine to limit new private sector initiatives in the delivery and financing of both curative and preventive health services.</p> | <p>Policies and procedures developed and publicized to encourage greater private sector action in health delivery and financing.</p> | <p>To define the nature of current policy constraints and policy sought more clearly, USAID, during 0198 PP development, will design and then contract (1) a Profile of the Private Sector, to document the size of the sector, kinds of services offered, its infrastructure, and a study of its clientele, reasons for their use of the sector, and their view of it; and (2) a study on "Legal and Administrative Restraints to Health Service Delivery and Financing Alternatives, and Enabling Legislation Required." USAID will use the results of these two studies in discussions with the GOM, the private sector, the World Bank to refine plans for assistance required under Project 0198 to develop standards, criteria, or draft policy or legislation which will encourage private sector action; and to develop a Health Financing PID.</p> | <p>Profile of the Private Sector designed and contracted by November 1989; Legal and Administrative Restraints study designed and contracted by November 1989.</p> |

| Current Policy | Policy Sought | Next Steps | Benchmarks |
|----------------|---------------|------------|------------|
|----------------|---------------|------------|------------|

Problem Area: Population Policy

The GOM's response to rapid population growth remains centered in the Ministry of Health.

Broader active involvement of the GOM as well as the private sector in the promotion of family planning services.

USAID will include in the PP for the new Population and Child Survival Project an agenda for increasing involvement of other ministries in family planning promotion. Initial candidates are the Ministry of Interior and local governments (collectivites locales) through wider presentation of the "Family Planning Saves Lives" message, and inclusion of local leaders in the message and the program. An opportunity to involve the highest levels of the country in the message will be sought.

Ministry of Interior openly supports family planning program.

The social marketing program for contraceptives will be extended, increasing outlets beyond the pharmacy sector.

Contraceptives, i.e., condoms and orals, promoted openly in pharmacies, and sold outside pharmacies.

Community sales points for contraceptives and primary health care supplies established.

II.C.4. POLICY AGENDA - IMPROVED ENERGY AND NATURAL RESOURCES MANAGEMENT

| <u>Current Policy</u> | <u>Policy Sought</u> | <u>Next Steps</u> | <u>Benchmarks</u> |
|--|--|---|--|
| <u>Problem Area: Energy Efficiency</u> | | | |
| First level energy savings achieved through GOM domestic pricing policy on energy efficiency and encouragement of large energy users to conserve. Unclear how tariffs and GOM investment regulations restrict achievement of second level savings. | Policy environment which does not discriminate against investments in energy efficiency. | Identify policies which raise cost or otherwise constrain investments in energy efficiency | Fifty firms surveyed by TA contractor by end of CY 1989. Policy analysis study contracted by end of CY 1990. |
| <u>Problem Area: Private Power Generation</u> | | | |
| ONE has a monopoly to produce all electricity in Morocco, except for systems producing less than 300kw and internal firm use. | The GOM should permit private power generation and co-generation of electricity to be purchased by ONE when economically feasible. | Document private power generation options in U.S. and other countries and suggest options for Morocco- May 1989 and follow-up fall 1989 Work with private sector investors (foreign and Moroccan) on project identification for wind farms, cogeneration, and combined cycle gas turbines. | GOM organizes discussion with U.S. experts. ONE cooperates with foreign investors to implement wind farm feasibility study. |
| | | Ongoing Short term study tours. | Two study tours organized in next year. |
| <u>Problem Area: Natural Resource Management</u> | | | |
| Inappropriate tenancy and management systems for natural resources. | TBD | TBD | TBD |

II.D. NEW PROGRAM THRUSTS

Introduction

New project initiatives, the design schedule, and financial resource requirements are examined in this section. First, though, a quick review of the program mortgage identifies existing claims on new resources.

Program Mortgage

The DA/ESF program mortgage is manageable.

On the DA side, the mortgage situation has improved and for the first time in several years a new DA-funded project, Population and Child Survival (0198), is expected to be authorized this fiscal year. Planned expenditures within the DA portfolio of authorized projects will, however, again necessitate a DA mortgage drawdown in 1990 which will claim the entire OYB of \$12.5 million.

For 1991, two projects, the new Population and Child Survival project (0198) and the ongoing Dryland Applied Agricultural Research project (0136) will require \$10 million. The Mission's ability to finance the proposed health financing project and new initiatives in agriculture will be extremely limited.

The ESF program is completely projectized. New funding authorizations over the past nine months to the Locust Control (0196) and Supplemental Irrigation (0197) projects have contributed to a mortgage which has only recently become significant. At the same time, the FY 90 AAPL is \$5 million less than the actual 1989 OYB.

Locust Control (0196) is scheduled to receive the bulk of the FY 90 ESF budget. As the Mission's vehicle for the delivery of emergency assistance against the locust plague, expenditure requirements are uncertain and actual resource requirements may be more or less than currently programmed. Therefore, it is important to develop several shelf projects for FY 90 or FY 91 initiation.

New Program Initiatives

A. FY 1989

Several new project starts are planned this fiscal year. The only new DA-funded project will be Population and Child Survival 608-0198. As the fourth in a series of projects designed to assist the GOM in broadening family planning and maternal child health care coverage, this project will in addition address the recurrent cost burden of the public FP/MCH outreach program and actively pursue health financing issues. Project exploration into the service sustainability issue is expected to set the stage for a new health financing project initiative in 1991.

In the ESF account, three new initiatives have been programmed for FY 89 funding. The Low Income Housing Project 608-0200 has already been authorized as a small grant to help the National Office for Housing Upgrading refine policies and increase the production of serviced land. This office is also important to the implementation of the Tetouan Urban Development Project. Project funds will finance sector studies of the norms and standards for land servicing, public/private partnerships in the provision of low income housing, and low income household access to formal housing finance programs.

After a long delay, the Ministry of Agriculture has requested that we re-commence discussions for USAID cooperative assistance in the reform of the cereals market. In response, a new subproject under the Economic Policy Analysis 608-0191 project is being developed with an objective to help the Ministry deregulate the cereals market in accord with reforms called for in IBRD's Agricultural Sector Adjustment Loan II. The subproject will provide technical resources to help GOM decision makers flesh out the details of the reforms and determine the impact on farmers, consumers, the budget, and the balance of payments.

The International Executive Service Corps (IESC) has requested an amendment of the current Cooperative Agreement, which is funded under the Export Promotion 608-0189 project, to add a Trade and Investment component. Their proposal is to provide services to encourage US firms to form joint ventures in Morocco and promote exports of Moroccan firms, as a supplement to the regular program of short term visits of retired business executives to assist Moroccan firms.

B. FY 1990

The Mission has two projects in preparation which are programmed for funding in 1990. First, drawing on feasibility studies carried out over the past two years, AID has been asked to participate in the creation of a new municipal development bank. The proposed project (Municipal Development Bank, 608-0202) would provide training and management assistance to the staff of the bank in order to strengthen resource mobilization capacity and help create a revolving fund to prefinance feasibility studies for projects under consideration for BDCL financing. The project would explore the potential use of new money market instruments including a current deposit account system, use of municipal bonds, and develop creative financial packaging of local government projects to attract private commercial banking participation and offshore financing. A new project description (NPD) has been prepared and is included in this Action Plan, pages 51 through 55.

Second, in response to a large deforestation and resultant soil erosion problem, the Mission is conducting preliminary analyses of how to improve the management of key watershed areas of Morocco. Morocco faces an estimated loss of 20,000 hectares of forested lands each year. An NPD for the proposed Watershed Management (0201) project will be prepared for submission with the ABS in May 1989.

Both of the above projects are slated for financing through the ESF appropriation.

C. FY 1990 Shelf and Outyears

The Mission is studying possibilities and developing a number of new project ideas which before now have not been shown on mission funding schedules or design plans. Six ideas are briefly introduced below:

1. The Mission has, over the past two years, deepened its understanding of the constraints to the creation or expansion of small and medium size enterprises. A NPD for New Enterprise Development 608-0204 is presented on pages 46 through 50 in this regard. The proposed project seeks new economic efficiencies through market liberalization and more competitive enterprise.

2. A follow-on project to the Sector Support Training (608-0178) project is planned for design, authorization and initial funding in FY 1991. The principal purpose of the current project is to assist in meeting managerial, analytical and technological training needs in certain high priority areas of the public and private sectors. The new project will likely be broadened to accommodate a wider field of participants from the private sector.

3. USAID is developing a health financing project to begin as early as FY 1991. The recurrent cost burden of the public FP/MCH outreach program is under study as are alternative means to stimulate greater private sector participation in service delivery and promotion.

4. Consistent with Bureau strategy, and at the request of the Minister of Agriculture, USAID is studying possibilities for the private sector extension of improved inputs and agronomic practices to increase production. Moroccan agribusiness is slowly being liberalized and promises opportunities for the commercialization of new products coming out of the agricultural research stations. Project development is motivated to a large extent by the Mission's experience with the Dryland Applied Agricultural Research project, and the difficulties which have been encountered in extending new technologies to the farming population through public channels.

5. A major factor of infant and child mortality is diarrheal disease, reflecting in large part serious deficiencies in potable water and sanitation. USAID has, from time to time, considered project intervention and the subject is, in fact, identified in the CDSS as a "fruitful area", but dismissed because of fragmented responsibilities in the GOM. USAID is restudying the subject for possible intervention at the local level.

6. A bilateral program design and support mechanism is needed for increased programming effectiveness and flexibility. Like the Bureau program, four categories of activity are envisaged: (1) project development, feasibility studies, operational research and pilot testing of hypotheses leading to final design; (2) evaluations and financial management and audit activities not otherwise budgeted; (3) CDSS-related studies and sector assessments; and (4) general purpose activities such as seminars, workshops and special economic or statistical surveys.

ACTION PLAN, May 1989

Project Design Schedule

| Year of Initial Obligation | Project Title & Number | NPD | PID | PP | Authorization |
|--|---|-------|-------|-------|---------------|
| <u>A. FY 1989</u> | | | | | |
| | 1. Population and Child Survival, 608-0198 | 5/88 | 12/88 | 6/89 | 7/89 |
| | 2. ANHI Low Income Housing, 608-0200 | N/A | 8/88 | 12/88 | 12/88 |
| | 3. Private Sector Export Promotion Supplement, 608-0189 | N/A | N/A | 4/89 | 5/89 |
| <u>B. FY 1990</u> | | | | | |
| | 1. Municipal Development Bank, 608-0202 | 4/89 | 5/89 | 12/89 | 12/89 |
| | 2. Watershed Management, 608-0201 | 5/89 | 6/89 | 4/90 | 5/90 |
| <u>C. FY 1990 Shelf & Outyears</u> | | | | | |
| | 1. New Enterprise Development, 608-0204 | 4/89 | 12/89 | 6/90 | 7/90 |
| | 2. Sector Support Training II, 608-0208 | 5/89 | 12/90 | 6/91 | 6/91 |
| | 3. Health Financing, 608-0207 | 10/89 | 6/90 | 3/91 | 6/91 |
| | 4. Private Agricultural Extension, 608-0210 | 5/89 | 6/90 | 3/91 | 6/91 |
| | 5. Rural Potable Water | 5/90 | TBD | TBD | TBD |
| | 6. PD and S Bilateral | TBD | TBD | TBD | TBD |

Design Schedule

The project design schedule is presented below by year of the scheduled initial obligation of funds.

A. FY 1989

1. Population and Child Survival, 608-0198

The PID was submitted to AID/W in December 1988 and approved in an ANPAC on March 30, 1989.

An allotment of \$25,000 in PD&S funds has been received for the procurement of technical design assistance in the preparation of the PP. Of this amount, \$5,500 has been earmarked, to date. A FY 89 supplemental allocation of \$10,000 has been requested for the design of health financing activities to be included as an additional component of the project.

The PP is scheduled to be completed in June with authorization and initial funding to occur in July.

2. ANHI Low Income Housing, 608-0200

The PP was approved and the project authorized in December 1988. A project agreement will be executed upon receipt of an allotment of funds in May.

3. Economic Policy Analysis, 608-0191

No amendment to the PP or authorization is necessary for the development and funding of the proposed Cereals Marketing Reform subproject. Subproject plans will be documented in a Memorandum of Understanding and processed for steering committee approval within the regular established procedures of the umbrella project. Subproject activity is expected to begin within the calendar year.

4. Private Sector Export Promotion, 608-0189 - Supplement

Mission review of the IESC Trade and Investment proposal has been completed. A PP supplement will be prepared by the end of April. A delegation of authority from the AA/ANE to the Mission Director will be requested to execute the Cooperative Agreement amendment in Rabat.

B. FY 1990

1. Municipal Development Bank, 608-0202

The PID is scheduled to be completed by the end of May 1989. The ANE Bureau has provided \$40,000 in PD&S funds to partially finance technical analyses on financial resources available to the new bank and to assist USAID in the preparation of the PID. PP completion and project authorization is planned for December 1989.

2. Watershed Management, 608-0201

The PID is expected to be ready for AID/W review in June, 1989. PD and S funds totalling \$80,000 have been committed for the financing of technical assistance in the preparation of the PID. Assuming PID approval, the PP is scheduled for completion in April 1990.

C. FY 1990 Shelf and Outyears

1. New Enterprise Development, 608-0204

In-house preparation of the PID is scheduled for completion before the end of the calendar year. The PP will be finished in time for FY 90 authorization and funding, if resources are available on the ESF side of the program.

2. Training III, 608-0208

The proposed follow-on project to the existing Sector Support Training project, 608-0178, should be in place by the beginning of FY 1992. An orderly design process calls for a NPD to be ready for the FY 1991 Action Plan (May 1989); the PID to be produced by December 1990; PP approval and project authorization to occur before June 1991; and initial funding late in FY 1991.

3. Health Financing, 608-0207

The proposed project will complement the new Population and Child Survival 608-0198 project which is to be authorized in FY 89. The Health Financing project will be obligated in FY 1991 if additional DA money is available. A NPD will be included in the FY 1991 Congressional Presentation (October 1989); the PID will be ready for AID/W review by June 1990; and the PP should be finished by March 1991.

4. Private Agricultural Extension, 608-0210

A new project description will be prepared for inclusion in the FY 1991 ABS (May 1989). Design activity will thereafter proceed for proposed funding in FY 1991.

5. Rural Potable Water, 608-0206

No design schedule has yet been considered for the project. A NPD will not be prepared before May 1990.

6. PD&S, 608-0203

A new project description for program development and support will be prepared to introduce the concept firstly to the Ministry of Economic Affairs (MEA). A Mission decision to proceed through the design process will thus depend upon MEA's reaction to the use of bilateral funds for this purpose.

Resource Requirements

A. FY 1990 PD and S

Mission demand on Bureau PD and S funds will be significant in FY 1990. Financing for project design assistance and CDSS-related studies is required.

The preliminary budget estimate for FY 1990 is \$650,000, as specified below

| <u>Project</u> | <u>Amount</u> | <u>Use</u> | <u>Quarter of Allotment</u> |
|-----------------------------------|---------------|-----------------------|-----------------------------|
| 1. Municipal Development Bank | \$ 75,000 | PP Design | First |
| 2. Watershed Management (a) | \$100,000 | PP Design | First |
| (b) | \$100,000 | Environmental Profile | First |
| 3. Enterprise Development | \$100,000 | PP Design | Second |
| 4. Training III | \$ 25,000 | PID Design | Third |
| 5. Private Agricultural Extension | \$ 70,000 | PID Design | First |
| 6. Health Financing | \$ 80,000 | PID Design | First |
| 7. CDSS | \$100,000 | Studies | Third |
| TOTAL | \$650,000 | | |

A brief explanation of each funding requirement follows:

1. Design Assistance

a. Municipal Development Bank, 608-0202. Funding from the SDA account will be needed to finance four specialists for the development of the PP. The services of a financial analyst, economist, institutional analyst and management information specialist will be required for one month each. A preliminary estimate of costs totals \$75,000. Funds will be needed in the first quarter.

b. Watershed Management, 608-0201. FN account funds will be needed to field a PP design team. The team is expected to be composed of three individuals, a Social Scientist, Agricultural Economist and Forestry Specialist. A total level of effort of 20 person/months will be required at an estimated cost of \$100,000. Funds will be needed in the first quarter. Overlapping PP development, preparation of the Country Environmental Profile will proceed. Second year funding from the FN account in the amount of \$100,000 is required in the first quarter.

c. New Enterprise Development, 608-0204. The PID is being produced in-house, but design assistance on the PP will be necessary. Funding in the amount of \$100,000 from the SDA account is requested for the assistance of three experts for a period of six to eight weeks each. A second quarter allotment is requested.

d. Training III, 608-0208. A third quarter allotment of \$25,000 from the EHR account will be requested for assistance in the development of the PID.

ACTION PLAN, May 1989

Project Resource Requirements

FYs 89 - 91

| Account/Project Title and Number | Budget (\$000) | | |
|---|-----------------|--------------------|-------------------|
| | FY 89 Actual | FY 90 Estimated | FY 91 Proposed |
| <u>ARDN</u> | | | |
| Dryland Applied Agriculture Research, 608-0136 | 5,000 | 5,482 | 5,000 |
| Agronomic Institute, 608-0160 | 3,000 | 807 | --- |
| Agricultural Planning, 608-0182 | 1,000 | 1,211 | --- |
| Private Agricultural Extension, 608-0210 | --- | --- | 2,500 |
| <u>TOTAL ARDN</u> | 9,000 | 7,500 | 7,500 |
| <u>POP, HE, CS, AIDS</u> | | | |
| Population, Child Survival IV, 608-0198 | | | |
| - POP | 2,300 | 3,300 | 3,500 |
| - HE | 450(a) | 450 | 250 |
| - CS | 500 | 750 | 750 |
| - AIDS | 250 | 500 | 500 |
| Health Financing, 608-0207 | --- | --- | 2,500 |
| <u>TOTAL POP, HE, CS, AIDS</u> | 3,500 | 5,000 | 7,500 |
| <u>TOTAL DA</u> | 12,500 | 12,500 | 15,000 |
| <u>ESF</u> | | | |
| Sector Support Training, 608-0178 | 4,250 | 3,000 | 3,000 |
| Export Promotion, 608-0189 | 1,500 | --- | --- |
| Economic Policy analysis, 608-0191 | 2,450 | --- | 3,580 |
| Tetouan Urban Development, 608-0194 | 1,000 | --- | --- |
| Locust Control, 608-0196 | 10,000 | 10,000 | --- |
| Supplemental Irrigation, 608-0197 | --- | --- | 6,000 |
| Low Income Housing, 608-0200 | 800 | --- | --- |
| Watershed Management, 608-0201 | --- | 1,000 | 4,420 |
| Municipal Development Bank, 608-0202 | --- | 1,000 | --- |
| Enterprise Development Training III | --- | --- | 2,000 1,000 |
| <u>TOTAL ESF</u> | 20,000 | 15,000 | 20,000 |
| <u>TOTAL DA/ESF</u> | 32,500 | 27,500 | 35,000 |

(a) Supplemental funding of \$1 million has been requested (Rabat 03442) to provide for the timely initiation of health financing component activities added to the project during AID/W review of the PID.

e. Private Agricultural Extension, 608-0210. Technical assistance for the preparation of a PID is tentatively estimated to cost \$70,000. A first quarter allotment of funds from the FN account is requested.

f. Health Financing, 608-0207. Much of the ground work for this project proposal will be prepared in the implementation of the new Population and Child Survival project (608-0198). Project specific design work will however have to be contracted out using PD&S resources at an estimated cost of \$80,000, as previously advised in 89 Rabat 02496.

2. CDSS - related studies

A new CDSS will be prepared for submission to AID/W late in FY 1991. A \$100,000 minimum set-aside for special studies during 1990 is requested.

B. Operational Year Budget, Fiscal years 1989, 1990 and 1991

The budget table on the preceding page provides an update on the FY 89 OYB, confirms the FY 90 funding plan as last documented in the FY 90 Congressional Presentation, and introduces a preliminary FY 91 funding plan.

Two changes have been made in this update of the FY 1989 OYB. First, Cereals Marketing Reform 608-0195 has been dropped for funding as a new bilateral project in FY 89. Proposed activities contributing to the deregulation of the domestic cereals market will instead be funded as a subproject under the umbrella of the 608-0191 Economic Policy Analysis project. Second, we are noting the requirement and request for a supplemental allocation of \$1 million from the DA Health account. The Supplemental funding is required as a result of the expansion of the Population and Child Survival 608-0198 project to include health financing activities as a prelude to the FY 1991 initiation of the proposed Health Financing 608-0207 project. See Rabat 03442 for a complete explanation of the financing requirement.

The FY 1990 funding plan is consistent with the FY 1990 AAPL.

For FY 1991, DA and ESF budget levels of \$15 million and \$20 million respectively are required. These amounts are needed to restore minimal budget flexibility for the introduction of new projects consistent with Bush administration policy initiatives. The proposed FY 91 DA budget of \$15,000,000 is allocated among four projects: the Agricultural Research (608-0136) project, the FY 89 initiated Population and Child Survival (608-0198) project, and two new FY 91 starts: Health Financing (608-0207) and Private Agricultural Extension (608-0210). Two new projects are proposed for first time funding in the \$20 million ESF budget: New Enterprise Development (608-0204) and Training III (608-0208). In addition, final funding to Sector Support Training (608-0178), Economic Policy Analysis (608-0191) and Supplemental Irrigation (608-0197) is requested, as is second tranche funding to Watershed Management (608-0201).

C. PL 480

A new negotiating strategy for Title I commodities assistance in FYs 90 and 91 is presented beginning on page 68 of this Action Plan. The objective is higher returns and greater impact on food resource assistance than what has been possible in recent years. An increased resource level is required to implement the strategy. Specifically, a Title I level of \$50 million is requested for FY 1991. This compares to an actual FY 89 level of \$40 million and a planned level of \$35 million for FY 90.

For Title II, as explained elsewhere in the Action Plan, all elements of the Compensatory Food Program except the MCH feeding component will terminate by the end of FY 90. The MCH component will revert to the regular Title II program which will phase-out before terminating at the end of FY 92. Title II funding levels (without freight) are: FY 89 \$15.4 million; FY 90 \$15.6 million and FY 91 \$4 million.

D. Housing Guaranty

The authorization for a \$10 million housing loan guaranty was amended in December 1988 to finance the HG-003 ANHI Low Income Housing program. A program agreement will be negotiated and signed in May 1989 and the first borrowing is expected to occur in the first quarter 1990. No new authorization requests are anticipated for FYs 90 and 91.

NEW PROJECT DESCRIPTION

NEW ENTERPRISE DEVELOPMENT, 608-0204

The Development Problem

Since the financial crisis of 1983 the GOM has, in concert with bilateral and multilateral institutions, embarked on a series of major policy reforms. These reforms have changed the structure of the Moroccan economy, gradually transforming it into a more open and market oriented economy. While this process is not yet complete, the major macroeconomic policies are in place and the incentive structure is conducive to increased private investment. The effect of changing key "macro prices", such as the exchange rate and interest rates, has been to better integrate the domestic price structure with world prices. This has stimulated Morocco to develop its productive capacity more in line with comparative advantage and has resulted in recent years in a substantial export boom and vigorous economic growth, viz. 8% per annum in 1988. Recent progress towards reductions of tariff and non-tariff barriers to international trade and current efforts in the area of fiscal reform, in both the budgetary process and tax structure, point to increasing opportunities for private sector development.

Against the backdrop of macroeconomic reforms, there remains the task of liberalizing sector and subsector markets. Operationally, this means price deregulation and removal of barriers to increased competition. In recent years, the GOM has steadily moved away from price interventions either directly in the form of explicit price controls or indirectly through subsidies. On-going policy dialogue and sector policy analysis will continue to encourage a phase out of GOM price interventions. This trend is expected to continue leading to further improvements in allocational efficiency and reduced social costs. However, non-price barriers to resource allocation and efficient operation of markets remain in the form of barriers to market entry affecting potential new firms.

Morocco is endowed with a large entrepreneurial class and abundant supply of labor. The labor force has been growing at a rate of 4 percent per annum and improvements in the educational system are producing more skilled and technically trained workers. In terms of the sectoral distribution of employment, the informal sector accounts for the overwhelming majority of employment. For example, in 1985 the total estimated employment was 5,929,200 of which 4,748,500 were employed in the informal sector. In the case of industry 852,600 workers were employed in the informal sector compared to 213,400 employed in the modern sector. In commerce and services, 1,073,900 were in the informal sector while only 141,500 were in the formal sector. The development of more competitive and efficient markets will require easier movement between the formal and informal sectors. This movement can take the form of small scale enterprises in the informal sector becoming institutionally "visible" by registering as a modern firm. Registration in the Moroccan context confers legal recognition (i.e. protection of property

and contract rights, better access to legally required permits and licenses, enforcement of minimum wage labor laws, protection from arbitrary dismissal, etc.) and better access to credit and other productive inputs more readily offered to the modern sector e.g. public utilities. In effect, the ability to register has a direct bearing on the firm's capacity to more optimally size its productive operations in order to lower unit costs of production. The relative importance of economies-of-scale both in terms of management and production (to say nothing of R&D costs) can be very significant depending on the industry and technology used.

In sum, the (institutional) barriers to market entry have serious implications for the relative competitiveness and efficiency of markets. This arises from considerations of market structure i.e. number of firms competing in a given market and access to productive inputs, particularly capital, to more optimally size productive units thereby achieving greater cost competitiveness.

Priority and Relationship to AID Policy

The project directly supports broad based growth and private sector development within a market framework. It is a logical sequel to the Export Promotion Project (608-0189) and builds on progress achieved under the structural adjustment program. The project will accelerate economic growth through improved market efficiency and enhanced factor input productivity. It will support the formation and expansion of new enterprises whose activities are likely to broaden the economic base and diversify export markets. It will also enhance investment and productive employment opportunities contributing to greater economic stability and enhanced international credit worthiness.

Project Solution to the Identified Problems

The project represents a two-tier effort to support the development of small and medium enterprises.

Given the relative importance of the informal sector in the Moroccan economy, the project's first tier will a) support studies of the informal sector with emphasis on policy and regulatory constraints; b) provide assistance for new and expanding micro and small enterprises; c) provide assistance to GOM towards simplifying the policy and regulatory requirements for establishment of new enterprises. The second tier will assist the start-up, expansion and restructuring of medium-size firms. Many of these firms are already in the formal sector, and require restructuring of production or marketing operations in order to achieve greater export competitiveness. In addition to the technical assistance for this which is available via the export promotion project (the IESC component), long-term financing as well as equity capital may be needed to implement new product strategies or adopt new technological processes. To this end the project will develop "non-traditional" financing pilot programs to increase access to capital.

A. Informal Sector and Micro-Enterprise

1. Enterprise Research

In cooperation with the University of Fez and GOM Ministry of Planning, USAID will provide a grant to finance studies and pilot projects on a cost sharing basis. The studies, under the directorship of a well known expert in this field, may be undertaken by professional economists, social scientists and technologists to evaluate operations and constraints faced by micro and small enterprises in the informal sector. This research could be supplemented by thesis research on a partial stipend basis. The objective will be to expand the body of knowledge concerning the informal sector and identify specific constraints to enterprise growth. The research would be an extension, in Morocco, of the work done by the Instituto Libertad y Democracia in Peru. It would draw on the experience of that organization, with whom a direct liaison would be maintained. On a limited pilot basis, analysis of specific production processes may be evaluated to determine areas for productivity growth with probable application to a larger class of similar micro and small enterprises.

2. Assistance to Micro-Enterprises

Through one or a combination of grants to Private Voluntary Organizations (PVO's), managerial, technical, administrative and financial assistance will be provided to micro-enterprises. AID's recently formulated policy guidelines for micro-enterprise development, as well as the micro-enterprise development experience of S&T Bureau and other AID units, will be important bases for the design of this program. In time, with experience, the assistance could be expanded to include small and medium-size firms on a fee basis.

3. Assistance to the Government of Morocco (GOM)

Advisors would be made available to GOM, on an intermittent basis, for assistance in simplifying the administrative and regulatory requirements for establishment of new enterprises. This would work in liaison with the Informal Sector Research activity, applying lessons learned in the manner utilized so successfully by H. De Soto's initiatives in Peru. In time, it is expected that the USAID assistance will represent a significant contribution to the eventual establishment by GOM of a "guichet unique" ("one-stop shop") for entrepreneurs.

B. Non-Traditional Financing

Pending more thorough liberalization of the financial sector (sometime in the early 1990s), it may be possible to modify current financing practices in ways that will provide greater access by small enterprises to capital. This could be done on an experimental basis with UAID initially bearing most of the subjective risk associated with lending to a "new" class of entrepreneurs.

1. Working Capital

Under this program, USAID would seek to increase the flow of credit to small enterprises through an intermediary credit-worthy borrower. The program would entail a "pass forward" of suppliers credit to a small enterprise where there already exists a client relationship. In effect, the supplier would be the borrower of first instance from a commercial bank participating in the program. The small enterprise, not having access to bank credit due to collateral and other reasons, would draw credit from his suppliers. Alternatively, a "pass back" mechanism could be used where credit-worthy contractors would pass credit to their small enterprise sub-contractors. The AID role would be to establish, through one or more banks, a guaranty fund to protect the intermediary borrower from possible small firm default. The current interest rate structure would be unaffected. However, as the program demonstrates (hopefully) that the small enterprise default rate is no more than average (in part due to the client-borrower relationship), the bank(s) will continue the credit line on a self-insured basis, as USAID phases out.

2. Fixed Capital

a) Many small enterprises operate out of rented premises and have few collateralable assets. Therefore, they are often barred from access to long term loans for fixed capital investment from the banking system. However, a bank-affiliated leasing firm might specialize in leasing small scale capital equipment to small enterprises. The lease agreement could provide a "buy out" clause to allow the small enterprise to acquire the machinery on an installment basis. The effect of the lease agreement would be to take a "lump sum" asset cost and convert it to a rental flow expense which would be affordable to the small enterprise. Moreover, it would give flexibility to the enterprise by allowing it to operate on a variable cost basis where production volume could be easily adjusted to demand. The USAID role would be to guaranty the bank's loan to its leasing company affiliate to purchase appropriate capital equipment for lease to small enterprises. If successful other leasing companies might become interested in specializing in this market.

b) An Investment Company would be capitalized by private Moroccan investors. It would lend or invest on a medium to long-term basis for the establishment of new firms as well as for "troubled" medium size firms with good growth potential. It would help finance investment opportunities and monitor medium size firm reorganization and management performance. The monitoring function would include referrals to sources of consulting expertise and when necessary, the company would arrange for technical and managerial expertise with USAID assistance. The Investment Company may acquire over time an equity position in these firms. This might be done through a debt-equity option under a long-term loan. The portfolio of loans and investments could grow to the point where debentures might be floated to raise additional capital. The immediate USAID role would be to train investment analysts and assist in the design of new financial instruments, pursuant to these investment operations. An additional role for USAID would be to facilitate the provision of medium and long-term financing with collateral relief and -

more importantly - convertible debentures which, in the long run, constitute equity financing. It is assumed that the policy question of a) USAID loaning to private institutions and b) USAID indirectly assisting the provision of equity capital, can be satisfactorily resolved, as appears to be the case for some other Missions. The USAID objective is to have the restructured firm expand production and increase employment opportunities. The cooperation of other donors, particularly IFC, would be desirable.

Preliminary Outline of Project

Goal: Promote broad-based economic growth within a market framework.

Purpose: Improve economic efficiency through market liberalization and the development of more cost competitive enterprises

Outputs:

- Improved policies affecting the informal sector
- Formation of new enterprises facilitated
- New credit mechanisms developed
- Restructured firms exporting successfully
- New financial instruments introduced
- New marketing methodologies introduced
- Adaptation of agro-industry technologies
- Export markets diversified
- Productive employment opportunities increased

Inputs:

- Studies financed
- Loan guaranty
- Technical assistance in management consulting and investment banking
- Training of private sector analysts
- Marketing information systems
- Micro-computers etc.

Life of Project: 5 years, FY 91-95

Estimated Budget:

A. Informal Sector & Micro-Enterprise

| | |
|--------------------------------|--------------|
| 1. Enterprise Research | \$ 2,000,000 |
| 2. Assistance Micro-Enterprise | \$ 2,500,000 |
| 3. Assistance to GOM | \$ 500,000 |

SUBTOTAL (Informal Sector and Micro-Enterprise) \$ 5,000,000

B. Non-Traditional Financing

| | |
|--------------------|--------------|
| 1. Working Capital | \$ 5,000,000 |
| 2. Fixed Capital | \$10,000,000 |

SUBTOTAL (Non-Traditional Financing) \$15,000,000

TOTAL \$20,000,000

NEW PROJECT DESCRIPTION - 608-0202

MUNICIPAL DEVELOPMENT BANK (BDCL)

The Development Problem

Since 1976 with the creation of the Communal Charter, Morocco has embarked on a program of "Progressive and Controlled" administrative decentralization of local governments (Regional, Provincial, Communal) as well as economic decentralization to reduce the disparities and stimulate economic growth of cities outside the Casablanca - Rabat - Kenitra corridor. To achieve this the Government has increased the number of local level decision centers (Provinces and Communes), generalized the presence of Ministerial departments at the local level, expanded the communal charter to define new responsibilities for local Governments, revised the industrial investment codes to provide new tax advantages for projects located away from Casablanca and strengthened the Financial and Human Resources of Local Governments.

Decentralization in the Moroccan context is intended to encourage local level institutions to assume responsibility for investment decisions, to permit a better distribution of resources and thereby stimulate optimal spatial distribution economic growth through the country. To accelerate the process the GOM has:

1. decided to create a new municipal development bank to act as a financial intermediary able to provide assistance to local governments to prepare requests for projects financing;
2. proposed local finance reform which is intended to broaden the tax base;
3. beginning in 1988, transfer 30% of the Value Added Tax (VAT) proceeds for local government use. Discussions are being held to decide upon the financial responsibilities which will be transferred along with revenue transfers;
4. increased responsibility for shelter production by local government.

Through 608-0194 Tetouan Urban Development Project USAID is funding grant assistance to develop models to improve local government resource mobilization and project design and management. As part of the 608-HG-003 Low Income Housing Project, the National Shelter Upgrading Agency (ANHI) will be encouraged to better coordinate urban development projects with local governments.

The Government of Morocco now intends to proceed with the creation of a new Municipal Development Bank that will absorb the existing Fonds d'Equipement Communal (FEC) in order to create financial intermediary that can adequately mobilize the resources to support the GOM decentralization program.

This bank is the first public finance institution to be created in Morocco in over a quarter of century. The USAID feasibility study on BDCL is providing a vehicle for USAID to contribute to one of the most challenging policy debates going on in Morocco. Underlying the drive to create a new banking institution is the determination by GOM planners to provide a mechanism that can finance the Kingdom's commitment to undertake decentralization and promote a better distribution of economic growth. The decision to create a new institution with the mandate to finance economic development at the local level is a challenge for GOM monetary officials that are responsible for pursuing restructuring in the current climate of economic austerity. The USAID study is providing the necessary analytical elements for GOM policy makers to make basic decisions concerning the structure of the BDCL that will determine whether the institution is simply a continuation of the existing subsidy driven Fonds d'Equipeement Communal (FEC) or becomes a viable banking institution that can generate and manage the financial resources needed to support decentralization in Morocco.

Priority and Relationship to AID Policy

USAID interest in the establishment of this institution is related to the likelihood that the BDCL will become the borrower of the Tetouan HG-001 \$25 million loan and is consistent with USAID's policy to promote privatization and improve efficiency and productivity of public sector institutions by encouraging the new financial institution to compete with private sector institutions in the capital markets and not become a subsidy driven institution. The creation of the new bank will promote improved investment decision making with emphasis on the financial viability of projects and provide a vehicle for more equitable geographic distribution of investment resources.

Project Solution to the Identified Problem

USAID and RHUDO completed the BDCL feasibility study at the request to the Ministry of Interior Directorate of Local Governments (MOI/DCL) (July 88). The report provided an analytical justification to support the GOM intention to create the first public banking institution in Morocco in twenty five years. The nature of the clientele and long term decentralization objectives of the GOM justify the creation of a specialized public financial intermediation institution; however the USAID report introduced reasons for giving the BDCL a private sector look, organizationally, administratively and financially.

The study provided USAID with the opportunity to drive home the message that the new bank should not continue the role as a pass through for subsidies to local governments but should operate competitively in the financial markets.

The premise for USAID's position on the structure of the BDCL is driven by the importance this institution will have in providing financial support for the GOM's decentralization policy. The GOM wants to promote economic growth and grass roots democracy and achieve a better distribution of growth and

investment in small towns and cities throughout Morocco. Therefore it was critical for GOM planners to recognize that they must sharply limit political criteria for lending and base BDCL investment decisions more heavily on economic and financial criteria.

The banking institutions and monetary authorities concurred with USAID recommendations concerning initial capitalization, legal status as a bank, funding options and operating autonomy, and discounting facilities to be made available to institution. Consistent with USAID recommendations, commitments from future shareholders will provide US \$60 million (500 million dirham Moroccan) in start up capital. The findings of the feasibility study were precise in identifying those critical elements without which the institution's financial viability would be in jeopardy:

- Adequate initial capitalization 500 million dirhams (US 60 millions).
 - Legal status as a bank (deposit-taker) subject to banking law, but with certain exemption recognizing its special mission clientele.
 - A range of funding options, and the autonomy to select and develop these options - including current accounts and customer deposits (from municipalities, and from companies and individuals doing business with the municipalities).
 - A new management team which will organize the new institution and then absorb the FEC personnel and portfolio according to its own operational plan.
 - A decentralized operating structure, with the option of establishing at a later date, regional offices throughout the country.
 - A mission to raise funds on behalf of the municipalities off the bank's balance sheet (the "multiplier" effect).
- These conditions, given the limitations of Morocco's long-term financial markets, are key to enabling the new institution to fulfill its mission and at the same time remain financially sound and viable.

The BDCL will become operational this spring 1989 with the payment of shareholder contributions and the establishment of the board of directors.

In early 1989 the MOI/DCL asked USAID to conduct a detailed study on the range of financial resources that the BDCL could use, the mechanisms and procedures to be used to mobilize these resources as well as their costs and human and material means needed for mobilizing, developing and recycling such resources. This study is currently underway and will provide data to support development of the proposed Grant Project Activity.

The proposed grant project will provide technical assistance and training to help the BDCL senior management establish sound banking policies consistent with commercial banking practices, develop viable money management techniques to help the bank effectively compete for resources on the financial market in

Morocco and help underwrite the establishment of a revolving fund to prefinance feasibility studies prior to formal presentation for BDCL financing.

For example, the need for low cost and stable resources was raised in the USAID Feasibility Study. Local Government accounts (including VAT transfer receipts) are currently managed by the Treasury General (TG) with very low interest paid on these accounts. The BDCL will have to determine how these resources could be credited to local government accounts opened at the BDCL. Furthermore there appears to be a substantial "float" in local Government operating and capital budget accounts managed by the Treasury General that the BDCL could tap into. The TG has been very reticent to discuss the volume of these excess resources. This type of short term, but constant financing would, even after paying interest to the local government accounts, provide funds to the BDCL below the cost of funds raised on the capital markets.

The feasibility study stressed the need for the BDCL to pay closer attention to the financial and economic viability of projects proposed for bank financing. USAID will assist the BDCL to improve evaluation criteria and establish a revolving fund to prefinance project feasibility studies prior to considering the project for BDCL financing. The fund would recover its advance when the BDCL approves project financing if its financial and economic criteria have been met. Those projects not approved would be written off by the fund as a sunk cost. The long term returns of evaluating risk by prefinancing the feasibility studies will offset any loss for those studies that are not approved for BDCL financing.

Other Donor Activity

The IBRD and Government of France (GOF) have indicated their interest in providing assistance for the start up of the BDCL. The GOM has, in writing, specified the area of intervention for each donor agency: accounting practices (GOF), training for local government authorities to improve project preparation (IBRD), financial resource management (USAID). The IBRD intends to prepare a project in late 1989, as follow-on to the FEC program, to establish a line of credit for the BDCL.

Tentative Project Description

Goal: To support GOM sector efforts in decentralization and development of local governments.

Purpose: To strengthen the institutional capacities of the BDCL and the MOI/DCL by assisting in the creation of a sound financial intermediary that can generate the necessary resources to meet local development needs.

Outputs:

- Creation of a financial institution that operates competitively in the financial markets.

- Improved efficiency of public sector financial institutions by maintaining solvency and liquidity of the BDCL.
- Investment selection criteria based on financial viability of projects.
- Creation of new investment opportunities for private sector in public works, neighborhood upgrading and joint ventures with local governments.
- New financial instruments introduced.
- New revenue generating services offered by BDCL to clients.

Inputs:

- Technical assistance (short and long term) to the BDCL in commercial banking and financial management strategic planning.
- Technical assistance in MIS to develop software applications in budget forecasting, investment decision making, project appraisal.
- Computer equipment.
- Technical assistance and training to the Directorate of Local Governments to improve budget forecasting, revenue sharing programming of Value Added Tax receipts and to develop programs to permit local governments to better prepare project proposals for the BDCL.
- Creation of a revolving fund to prefinance feasibility studies for projects proposed for BDCL financing.

Life-of-Project

3 years - FY 90 - 92

Coordinating Entities

USAID/Rabat, the Municipal Development Bank (BDCL) and the GOM Ministry of Interior/Directorate of Local Government (MOI/DCL).

Implementing Entities

Municipal Development Bank;
Directorate of Local Governments/Ministry of Interior.

II.E. MANAGEMENT, STAFFING AND OPERATING EXPENSES

USAID

A Mission Management Self-Assessment was conducted in December, 1986 and assessment recommendations have been noted and discussed by Mission management with other Mission officers as appropriate. Some of the recommendations required relatively easy modifications of existing procedures; others are more long-range in their nature. The Mission has carried out a number of actions to implement the Assessment recommendations, particularly in the areas of staffing and organization, as follows:

1. Controller - Management Split

A major recommendation of the Assessment was that the Controller and Executive Officer positions be separated, and that an Executive Officer (EXO) position be created, replacing the Regional Contracting Officer. This was accomplished in November, 1987. Management problems continued, however, and contracting problems worsened. With AID/W consultation, the decision was taken to place the Executive Office under the Office of the Controller. An interim Office of "Finance and Management" was established on May 20, 1988 pending formal AID/W approval. When it became clear that USAID Morocco's contracting needs surpassed AID/W's ability to provide contracting assistance, the personnel ceiling for an RCO was re-established. USAID will disaggregate the Controller and Management functions once again in late 1989, to reduce vulnerability and improve support functions.

2. Project Development

The Mission Assessment overview statement commented on the heavy workload of the Mission's sole Project Development Officer (PDO). It also suggested that the Mission consider either merging the PDO with the Private Enterprise Office or creating a separate office outside of Program.

Consistent with this recommendation, a new office will be created in the summer of 1989 called the Office of Project Development and Private Enterprise (PDPE). We await formal AID/W approval of this organizational change. This Office will incorporate the activities currently located in the Private Enterprise Division and the project development activities currently located in the Program Office as well as provide engineering advice to the Mission.

3. Other Organizational Changes

Also planned for the summer of 1989, PL 480 Title II activities will be transferred from the Office of Population and Human Resources to the Program Office where all Food for Peace programs, both Titles I and II, will be managed. Beginning in the summer of 1990, the activities currently located in the Office of Energy and Natural Resources will be divided between the Office of Agriculture and the Office of Project Development and Private Enterprise. Natural resources activities will be transferred to the Office of Agriculture and energy activities (the Energy Demand Management Project) will be located in the PDPE Office. The ENR Division will be abolished in 1990.

The objectives of these organizational changes are to:

- (a) reduce vulnerability
- (b) improve project development support functions
- (c) facilitate project implementation
- (d) reflect directions of the program (phase out of energy and improve integration of food aid)

FY 1989-90 Operating Expenses

FY 1989 will be a lean year for operating expense supported activities. As mandated by the Bureau, the Mission initially scaled back its FY 1989 requirements by ten percent from \$2,368,000 to \$2,148,700. We removed the following costs which were proposed in the FY 1989 operating expense budget of the FY 1990 Annual Budget Submission:

| | |
|-------------------------------------|--------|
| - U.S. PSC Salaries and Benefits | 96,400 |
| - Office Maintenance and Renovation | 8,000 |
| - Office Furniture and Equipment | 31,000 |

The major management initiative which the Mission had proposed to reduce FY 1989 operating expenses was changing the source of funding for the US PSC Economist from OE to program under project No. 608-0191 Economic Policy Analysis. Unfortunately we were unable to obtain agreement with the GOM early in the year to fund the Economist's PSC under the project. Therefore, only about one third of these savings will be realized by terminating the services of the PSC Economist effective 4/1/89. Thus we are now seeking restitution of \$60,000 representing salaries and benefits plus contract close out costs, e.g., repatriation, transportation, shipping, and related costs.

Since submission of our initial FY 1989 operating expense budget unpredicted costs totaling \$133,000 have developed, i.e., transfer and replacement of the EXO, departure of PDO, posting of an RCO, costs associated with the DC-7 shutdown, AID/W reinstatement of employee's entitlements and TDY costs for the emergency locust project. In addition, the Mission is seeking reinstatement of \$31,000 for office furniture and fixtures and \$40,000 to enter into an office maintenance contract, services which have been provided at a higher cost under the JAO FAAS. In total we are seeking an increase of \$264,150 in our approved FY 1989 operating expense budget from \$2,148,700 to \$2,412,850 as explained above, 12% over our original FY 1989 request.

For the past three years we have been upgrading our office with a limited furniture and equipment replacement program to provide an acceptable work place for our employees. Additional funds for minimal renovation and additional furniture and fixtures are needed to continue this program. The Mission plans to install partial air conditioning and limited floor covering in the office building and make other improvements which are necessary to bring the building up to minimum standards. Visitors from ANE say that the staff of USAID Morocco works in a substandard environment compared to other ANE Missions.

The FY 1989 operating expense budget of \$2,412,850 requested above will not permit the Mission to increase its Moroccan PSC personnel consistent with increased FY 1989 project implementation activities. Unlike many Missions, with the new ESF earmark for Morocco, project design work and implementation monitoring are increasing. We believe we can justify three additional Moroccan PSCs (\$40,000) in FY 1989 to better implement our project activities. In the absence of these additional staff our vulnerability to implementation and financial problems will increase. In this regard, our review of work force levels (USDH, Moroccan FSN and PSC) to new annual commitments and active total portfolio (DA, ESF, Titles I and II, plus HGs) suggests we are understaffed relative to other ANE Missions.

JAO - FAAS

USAID continues to be concerned with the high cost and poor quality of JAO services. Steps have been taken to withdraw from certain JAO services and to the extent we can perform other services in-house or contract them out, at a lesser cost, we intend to do so.

We have been able to contain costs of JAO services by withdrawing from certain FAAS items: leasing; American personnel management; contracting and procurement. USAID is exploring the merits of withdrawing from JAO office building maintenance services. Several proposals are now under consideration to contract for this service. Once the proposals are evaluated, USAID will decide if it is in our interest to withdraw from this service now provided by JAO. Our preliminary estimate is that about \$30,000 per year can be saved by this one measure.

Yet JAO costs are rising. Had we not withdrawn from the above mentioned services, our JAO/FAAS costs would have exceeded the \$550,000 mark. Our FY 1988 FAAS costs were pegged at \$425,000. Despite our efforts, FY 1989 costs are expected to be approximately \$490,000. Until efficiency is improved in JAO, our objective will be to continue our FAAS cost containment approach. To that end, we will be requesting TDY support of PFM/FM/BUD to assist us in determining the appropriateness and accuracy of FAAS billing and in ascertaining what, if any, additional support services we should be providing directly and what, if any, savings can be made within the current JAO structure. The timing of such assistance is dependent on the recruitment, selection and arrival of a qualified EXO to lead an independent Management Office in USAID Morocco.

In FY 1988 the Embassy entered into a contract with Wackenhut International Inc. to provide local guard services for American facilities and residences in Morocco. At the time, we offered our expert RCO services to the Embassy but our offer was not taken up. In FY 1987, USAID managed its own local guard program (LGP) at a cost of approximately \$50,000. The costs for providing a professional LGP for USAID residences and the office building under the Wackenhut contract have increased sixfold.

In FY 1988, USAID provided \$50,000, the level of funding included in our budget submission of 1987, for guard services, to augment Diplomatic Security (DS) funding for the Wackenhut contract. The price of the Wackenhut contract continued to climb during FY 1989 to \$320,000 for USAID services. During FY 1989 USAID will provide \$55,000 to augment DS funding of the contract.

Severe cutbacks in services took place effective 3/1/89 in an effort to reduce contract costs to available DS (plus the AID contribution) funding levels. A shortfall of \$107,000 required curtailment of essential services thus increasing our exposure to security threats. The reduction in services include: a) combining residences under roving security patrols, b) discontinuing guard services during the absence of occupants of residences, and c) discontinuing guard services for vacant residences. There are two apparent problems in the contract. First, the cost per unit of guard service is excessive. Second, the only way to cut costs is to reduce the level of service--while "overhead", etc., remains untouched. Thus, it would appear the Embassy is in a downward spiral of continuously reducing guard services while the cost per unit of service increases.

We are aware that this is an issue with important OE implications in many Missions. For 1990, we intend to maintain our contribution to the guard services contract at its present level with a minimal inflation factor. Several alternatives to the present guard services contract are of course possible - but this is an IG/SEC and DS issue. We await Washington guidance.

On the positive side, with the decision that USAID will remain at its present location for the foreseeable future, a building security enhancement program, funded by IG-SEC will begin in 1990. An AID security team completed plans and preliminary designs in March 1989.

III. STRATEGIC ISSUES

This section of the Action Plan addresses specific issues raised by the Bureau in 88 State 373352. Five topics were identified: Macroeconomic Reform, Agriculture, Private Sector, PL 480 Title II, and Local Currency Management.

Questions posed on the Agriculture topic have been addressed in Section II.B.2 pages 10-13 of the Action Plan. The remaining issues are examined in the following pages under three headings: Macroeconomic Reform, pages 61-63; Private Sector, pages 64-67; and, Food Aid, pages 68-76. The Food Aid discussion has been broadened to encompass both the Title II and Local Currency Management issues raised by the Bureau, as well as a new Title I proposal which the Mission wishes to discuss with AID/W.

III.A. MACROECONOMIC REFORM

Economic growth has been strong over the period 1986-1988 with good harvests in 1986 and 1988, low crude oil prices, and rapid growth of exports, particularly textiles and leather goods. Prospects for further growth are good, in spite of fears about the effect of EEC integration and regardless of the speed at which the Maghreb Union brings about greater trade flows in North Africa.

Much of Morocco's success is due to the economic restructuring program. Dirham devaluation and simplification of customs procedures have resulted in rapid export growth, closing the trade gap in spite of tariff reduction and gradual elimination of most import licensing requirements. Remaining quantitative restrictions on imports will be eliminated as part of the World Bank's Structural Adjustment Loan (SAL). In parallel with the restoration of current account equilibrium, Morocco reduced its budget deficit to the 4.5% of GDP target for 1988 in the IMF Stand-By Arrangement. It achieved this target while reducing its stock of domestic payment arrears by almost \$300 million due to greater than expected growth in Value Added Tax collections. Morocco's desire to cut the budget deficit no further in 1989 resulted in suspension of the Stand-By in March, 1989. This desire is partly driven by the conditionality of the Bank's SAL which requires Morocco to achieve a target level of public investment amounting to 3.1% of GDP in 1989, 3.3% in 1990 and 3.7% in 1991. This constraint combined with long overdue raises to public service employees in the 1989 budget puts the GOM into a real squeeze, particularly given its desire to begin major investment projects such as the M'Jara dam, an American-style University at Ifrane, the Agadir airport and others which lie outside the SAL's target investment program while completing construction of the second largest mosque in the world in Casablanca.

The consequences of falling out of compliance with the IMF Stand-By due to disagreement over the appropriate budget deficit target for 1989 are minimal in the short term and repeat a familiar pattern. Resources needed for 1989 have largely been lined up already with the Paris Club rescheduling agreement, and the Structural Adjustment Loan in place and a hefty balance of payments surplus (for Morocco) anticipated at 250 million dollars. The London Club will be unwilling to sign a rescheduling if Morocco is out of compliance with an IMF which private creditors view as softer than it was in the old days. However, Morocco does not really need a London Club agreement since the banks have provided no new credit since 1983 but are not likely to pull out old credit lines either. Morocco got along without a London Club agreement for more than two years from early 1985 to late 1987. Given its short-term financial cushion, Morocco is likely to negotiate as hard as possible for more favorable conditions under the IMF Stand-By. As long as export growth proceeds apace, the country can afford to "hold out" throughout the summer and next Fall if it chooses to do so.

For the medium-term, on the other hand, the Moroccan debt and debt-servicing are a serious drag on economic growth due to (1) the real resource cost of

external debt service before debt relief equal to 40 to 45 percent of the value of exports and worker remittances through 1991 and (2) the reluctance it induces among commercial creditors to provide fresh money. Several more years (at least through 1991) of a balanced current account, partially achieved through debt rescheduling in 1990-91, and further liberalization of financial and foreign exchange markets combined with reforms to simplify the investment process and reduce the drag of bureaucracy in the conduct of business, will all contribute to full restoration of confidence in and credibility of the still young Moroccan economic recovery. In the meantime, Morocco will continue to transfer resources (net) to its creditors, as it has done for the past few years, transferring nearly 3% of GDP abroad in 1987.

Given this medium-term outlook, Morocco's structural adjustment process should come to an end in 1991. The IMF had planned for the current Stand-By to be the last one given Morocco's achievement and likely continuation of a balance of payments surplus. However, the debt service burden and the need for further reform to solidify the substantial gains made will make additional debt rescheduling necessary in 1990-91 following the expiration of the 1988-89 Paris Club rescheduling. In order for the Paris Club to agree to another debt rescheduling, there will have to be another IMF Stand-By in place to guarantee a sound macroeconomic approach by the GOM. Finally, the World Bank is planning a second Structural Adjustment Loan for 1990-91. If external factors do not turn unexpectedly against Morocco, 1990-91 could mark the formal end of the structural adjustment process and the final debt rescheduling.

Morocco was a target country for the Baker Plan when it was first announced. Treasury Secretary Brady announced that his plan was a continuation of the Baker plan stressing appropriate reforms to achieve economic growth, with the added element of debt reduction and restructuring. This would be useful to Morocco since about 30% of the Moroccan debt (approximately \$6 billion) is held by private creditors, many of whom would like to participate in a debt restructuring plan. Morocco has resisted the implementation of a debt-equity swap program, pointing to its risks and potentially inflationary nature and saying that investors should provide new money. However, the GOM is now prepared to put forward a proposal for a program and is seeking support from the USG and new money from the banks. Since Morocco has demonstrated its willingness and ability to undertake successful policy reforms, this may be the occasion to put together a program of additional reforms, a debt restructuring program and new money from the commercial banks and the World Bank to show the value of the Brady Plan concept. USG support for such a plan for Morocco would of course have to be contingent on the GOM coming to terms with both the IMF and the London Club.

Opinions are divided over the effects to be expected from the Union of the Arab Maghreb. Trade flows are modest between these states now and differences in economic systems will make economic integration a complex task. With the exception of gains from the building of a gas pipeline

across Morocco, there are likely to be only modest short-term advantages from this Union. The gains to be expected from greater specialization and trade depend upon the speed with which barriers to additional trade are dismantled (e.g. absence of a convertible currency in Algeria, competition from European suppliers on potential import substitutes, etc.).

The effect of Europe's 1992 internal unification on relations with its North African neighbors is even more of a question mark. There is no question Moroccan producers will have to become more competitive with other producers as special relationships built on old protectorate or colonial ties are replaced with more equal treatment for all non-European trading partners. To the extent Moroccan businesses are tied to French businesses, they will share in the fate of their French trading partners in the enlarged Europe. As for aid flows, the French generosity toward its former colonies may be curtailed somewhat in an EEC policy framework, but this too remains purely speculative. The Moroccan Minister of Finance believes Moroccan businessmen will respond as they have responded to the new export incentives of the past five years. The Director of Foreign Trade believes new opportunities for trade in intermediate goods will develop with the EEC, citing Moroccan export of pistons to the British as an early example of unexpected developments. In any case, the Maghreb Union will pay close attention to the policies of Europe and will attempt to bring its collective influence to bear on these policies. The ultimate effect, we agree with the Minister and the Trade Director, should be beneficial if Morocco continues to work on improving the efficiency of its economy.

Morocco's economic restructuring has relied on the types of policy changes described above, but it depended for its success on a private sector which responded to the new incentives. Private sector investment has taken up the slack left by the cut in public investment with total investment equal to about 20 percent of GDP. The private sector has also responded vigorously to the prospects for expanding export markets with export growth dominated by the non-traditional categories which are primarily privately owned and operated businesses carrying out their own marketing activities abroad. Further growth of the private sector is called for in the national development plan which is indicative and not directive. What remains unclear in the evolution of this liberalizing economy is how the large parastatal sector, accounting for nearly 20 percent of GDP, will be privatized. The GOM has proposed to make all but six strategic companies eligible for privatization. However, it remains a closely guarded secret how and at what pace the GOM will actually carry out privatizations. The recently announced sale of two state-owned hotels to the highest bidder, foreign or national, shows that the rhetoric is not hollow words. However, skeptics fear that more lucrative businesses may be sold under less than optimal conditions and the opposition has already warned about giving away the country's patrimony. The private sector will prosper as liberalization proceeds. The pace of future reforms and privatizations which will benefit the private sector is less well understood.

III.B. PRIVATE SECTOR

Strategic Issues

Substantial progress has been made in recent years in policy reform and deregulation. The donor community has worked closely with GOM to develop an appropriate set of policies to help stabilize the economy and provide incentives for rapid growth. In 1988 Morocco surpassed the economic performance targets agreed to under the IMF Standby and IBRD structural adjustment loan (SAL). Economic growth reached an impressive 8 percent in real terms, stimulated by unusually bountiful harvests and vigorous export growth. GDP rose to an estimated 176 billion Dirhams or approximately \$900 per capita at current exchange rates. The adoption of flexible, market-oriented exchange rates has led to more competitive pricing and improvements in allocational efficiency. The subsequent improvements in the balance-of-trade and current accounts now permit the private sector to obtain foreign exchange from the Central Bank with little or no delay. Tariff reforms have led to a reduction in the average rate of protection and quantitative restrictions on imports are being dismantled. In the fiscal area, the value-added tax has replaced the former sales tax, thereby removing an anti-export bias and improving tax neutrality.

The apparent success of the structural adjustment program in transforming the Moroccan economy into a more open and competitive one, suggests significant opportunities for private sector development. The AID goal in this larger context should be to foster "broad-based growth" within a market framework. Given the impressive recent growth in the export sector, AID support to small and medium "export oriented" enterprises would be consistent with increasing productive employment opportunities while broadening the economic base. Assuming a stabilized macroeconomic environment and continuation of the pro-growth incentive structure attained in recent years e.g. positive real interest rates, fiscal reforms, realistic exchange rate, tariff reforms etc.; the focus of AID interventions should be on the supply side i.e. removing barriers to market entry and stimulating labor intensive technology investments.

Export growth has been particularly rapid with private sector exports of goods topping \$2 billion in 1987 compared to only \$1.2 billion in 1980 while public sector exports remained at around \$950 million, virtually the same value as in 1980. The AID private sector initiative in Morocco has directly supported the export drive under the Export Promotion Project (-0189) providing pre-export credit, export insurance, and technical assistance in export production and marketing. The liberalization of the export sector has created new investment opportunities, particularly in labor intensive industries. The AID strategy will be to encourage greater exports and broaden the number of participating enterprises and to help diversify both products and markets over the next five years. The AID private sector strategy will assist the GOM in meeting SAL targets by stimulating increased private fixed capital formation and real growth of manufactured exports. The New Enterprise Development Project (FY 90) will introduce innovative approaches to removing barriers to market entry

and formation of new enterprises as well as access to investment capital. Intensive project review will focus on specific constraints to creation of small and medium enterprises, within the context of an improving macroeconomic environment. The analysis will cover policy, regulations, legal and administrative hurdles as well as access to capital. It is the Mission's view that the pace of reforms is satisfactory to create an investment environment conducive to new and expanded private enterprise development.

Furthermore, we would anticipate greater liberalization in the financial sector in light of the current restructuring of the industrial and agricultural sectors. USAID will position itself now to support banking reforms and improvements in financial intermediation through selected studies under subproject II of the Economic Policy Analysis Support Project (-0191). The financial sector studies will investigate the areas where financial specialization might improve banking services and mobilize credit as well as equity capital to sectors and subsectors of the economy which offer significant growth potential. This may well involve interest rate reform, removal of the credit rationing system, and development of new financial instruments as well as financial markets. In the recent past, the GOM has shown itself to be receptive to policy change provided the analysis is complete, up-to-date and proposes coherent, time phased efforts to bring about orderly reform.

Progress to Date

USAID's Private Enterprise Section (PE) during the past year has been engaged in two principal areas of activity:

1. **Export Promotion:** Management of the ongoing project (0189).
2. **Strategy & New Project Development:** Surveying the Moroccan private sector as a basis for developing a private sector strategy and projects to implement it.

In addition, PE has maintained liaison with USAID's other divisions (Energy and Natural Resources, Agriculture, Population-Health and Human Resources, Housing, and Program), providing advice and assistance as required relative to their private sector activities. PE has maintained contact with GOM's privatization program, and sources of privatization assistance in AID/W, so as to be in a position to offer major assistance if and when requested to do so by the GOM.

Future Directions

The focus of activities for the coming year will be:

1. Export Promotion Project (0189):
 - a) Export credit insurance subproject (\$8 million loan and \$1.2 million T.A. grant to establish private insurance company).
 - i) Conclude the arrangements now in process with GOM for resolution soon of the problems obstructing the \$8 million loan disbursement.

- ii) Maintain efficient operation of the technical assistance program.
- b) IESC technical assistance subproject: (\$2.8 million grant to supply T.A. to Moroccan private firms)
 - i) Conclude a \$1.5 million amendment to the IESC Cooperative Agreement which will establish a trade and investment program involving cooperation between Moroccan and U.S. firms to stimulate joint ventures and develop Moroccan exports.
 - ii) Maintain, and improve where possible, the efficiency of the present IESC program of technical assistance to Moroccan firms.
- c) Export pre-financing subproject (\$8 million loan to provide working capital to exporters not currently having access to it)
 - Based on a recent assessment, either modify the Project Agreement to achieve greater impact as a pre-condition for obligation and disbursement of the remaining \$3.5 million, or (pending completion of a formal evaluation) reprogram the funds for other purposes.

2. Advice and Assistance to USAID's other units:

- a) Advise and assist the Agriculture Division regarding agribusiness solutions to agricultural development problems as exemplified by the current discussions on commercializing the technology of farm implements developed under the Dryland Agriculture Applied Research project. Assist the Agriculture Division in their preparation of the NPD and PID for the Private Extension project.
- b) Advise and assist the Population-Health-Human Resources (PHR) Division regarding health financing, also, as required, regarding establishment of specially private health clinics, marketing of contraceptives, use of Title II funds, and entrepreneurial and other private sector training.

3. Constraint Analysis and New Project Development:

USAID Morocco is convinced that regulatory, legal, and administrative hurdles, and difficulties in accessing capital, are important obstacles to the creation of new enterprises and the expansion and restructuring of existing firms in the formal sector, and that these are the most fruitful areas on which to focus the energy of the Mission over the Action Plan period. Therefore, we will first deepen our knowledge about these constraints and then develop a FY 91 project to address them.

Certain ministries of the GOM have begun looking at administrative reform, for example the Ministry of Commerce and Industry is conducting a rigorous study of the length of time required to start up a new business. The Ministry of Economic Affairs has requested USAID assistance to determine how long it takes to complete investments which have been approved, and the portion of approved investments which are realized. The Ministry of Plan has requested assistance to carry out a study of the informal sector.

The Mission's next steps will be to survey all relevant ministries to review the types of studies which have already been completed, to determine what additional information is required and the best way to gather it, and to identify appropriate counterparts to oversee the analyses. We will also look into enlisting non-governmental organizations to study the same questions from the point of view of the firm.

III.C. FOOD AID

I. PL 480 Title I

Title I has given the Mission a platform from which to pursue a broad policy agenda in agriculture. A shift in GOM priorities from a concentration on irrigated agriculture to a concentration on rainfed agriculture has been achieved, as one example of success. Title I funds and self-help measures have been of great assistance to USAID dollar-funded agricultural projects. However, we believe that a greater development impact could be achieved and we desire to work together with AID/W to prepare a negotiating strategy that will bring this about.

Recently, AID/W has reemphasized its desire that Missions use Title I in ways which will maximize its development impact. We strongly support this position, but suggest that in Morocco this will require some very difficult negotiations to change the GOM's basic understandings with respect to how the Title I program should function. Such delicate negotiations will not result in a definitive program until FY 91. The intervening period will be necessary to gain AID/W support, reach a consensus with the DCC and undertake negotiations with the GOM. USAID Morocco presents a proposal below which will ensure that Title I will be used in the future to leverage policy reforms and provide local currency in a way which can be more tightly controlled. We request AID/W concurrence.

1. Review of the current program

Self-Help Measures

The Mission has used Title I self-help measures as a means of getting the GOM to provide adequate resources to the rainfed agriculture sector and to remove the policy constraints on its development. Our efforts have been coordinated with the World Bank, which has been closely following agriculture through its agricultural sector adjustment loan.

As an outgrowth of USAID's agricultural policy strategy, we have helped focus the attention of the GOM on funding only those agricultural projects that are bankable and quick payouts. We also have supported World Bank efforts to deregulate the domestic cereals market, use the world market price as the basis for domestic cereal prices, and eliminate consumer subsidies on flour. The GOM has made adequate progress on most of the self-help measures agreed to in the past several years. Examples of effective self-help measures over the past five years include:

- 1) Identification and prioritization of investment line items and a shift in investment priorities to programs affecting rainfed agriculture;
- 2) Deregulation of the markets for all cereals except bread wheat;
- 3) Elimination of subsidies on fertilizer;
- 4) Evaluation of one major integrated rural development program, toward applying economic criteria to such public investments.

Progress on self help measures is adequate where there is real commitment on the part of the GOM from the beginning. We really aren't offering much of a carrot to make changes faster than planned or consider new policy areas because Title I levels are seen as politically determined. Unless Title I levels are linked to policy performance, policy dialogue tends to be hortatory in nature.

Local Currency Use Programming

Local Currency from Title I sales (about \$40 million annually) has been used for two major purposes: to insure that AID dollar-funded agricultural projects receive adequate local currency funding and to insure that the GOM gives more intention to rainfed agriculture.

Title I local currency represents approximately 30 percent of the Ministry of Agriculture's budget. By agreeing to the project line items in the Title I MOU, the Ministry of Finance agrees to give higher priority to those projects than to other GOM projects. Although Title I doesn't guarantee adequate local currency for selected projects, it does provide the Ministry of Agriculture with leverage to argue for funding from the Ministry of Finance.

The GOM attributes Title I local currency to individual projects. While Title I local currencies are attributed to projects, they are not attributed to sub-activities or line items. The currencies therefore can be considered to support all project activities. Activities supported by Title I have included:

- the construction and furnishing of research stations (USAID project);
- the furnishing of equipment for the GOM unit for agricultural policy analysis (USAID project);
- rangeland improvement (USAID project);
- support for agricultural extension services;
- reforestation; and,
- small scale irrigation.

The GOM has lived up to the requirements for transfer of the CCC value of Title I commodities into eligible projects, but has not always given USAID - funded projects the priority we believe they deserve. Nevertheless, the availability of local currency has enabled AID - funded projects such as the Agronomic Institute and the National Agricultural Research Institute to progress at an adequate pace. As to non-USAID funded projects, while the allocation is done by attribution, it is evident that our policy of insisting that only projects relating to rainfed agriculture be funded from local currency proceeds is influencing the GOM's budgeting process. The key rainfed projects continue to be funded at agreed levels each year. Moreover, under additional policy pressure from the World Bank, a real shift in investment away from the irrigated sector to the rainfed sector has occurred, perhaps owing in part to the consistent requirement that PL 480 Title I, local currencies be allocated to projects in the rainfed zone.

Nevertheless, it is clear that more control over the programming of local currencies would be desirable. In fact, the Ministry of Agriculture officials maintain that Title I local currency will not be truly additional to its budget unless procedures are changed. One way, which we have unsuccessfully proposed in recent years, would be to establish a special account for these local currencies. The GOM's Ministry of Finance has steadfastly refused to establish such an account, and pressure for early programming has made our bargaining task on this issue impossible.

Monitoring Generation and Use of Local Currency

Title I commodities are sold to private firms and the funds from the sales are deposited by a GOM-controlled bank into the general Treasury account. Prior to FY 88, reports on deposits to the Treasury and disbursements to project accounts were required on a semi-annual basis. In an effort to more closely control and account for Title I local currency, USAID required that the reports be submitted quarterly. These reports have not been as good as we would like, and we are working with the Ministry of Finance to improve their format. The reports are required no later than three months after the quarter has ended. Since the majority of funds are transferred to the project accounts during the last quarter, the reports for the first three quarters do not allow USAID to feel confident that the GOM will meet its funding targets by the end of the year. The report for the last quarter arrives up to three months after the year has ended, when it is too late for USAID to affect the local currency transfers.

It is for the above reasons that USAID has encouraged the GOM to establish a special account. While the GOM has refused to establish the account, its performance in FY 88 in transferring funds to USAID-funded projects was much better than it was in 1987. For example in 1987, the Agronomic Institute received only 6 percent of its budgeted local currency while in FY 88, it received 100 percent. Nevertheless, we are not certain that the GOM performance will continue to be good, and we believe the current system does not give USAID the control that is necessary over allocation of local currency.

USAID project managers closely monitor the performance of USAID-funded projects, both in Rabat and through site visits. Through the work of these managers, the Mission can verify the local currency provided and how well the funding is used.

For non - USAID funded projects, Mission staff irregularly make field visits. Many of these projects are supported by other donors, who do their own monitoring. Our knowledge of these projects is not extensive, however.

The Title I memorandum of understanding for each fiscal year provides a budget and a short description of the activities of each project. The annual physical progress report submitted by the GOM summarizes the projects' performance. Until FY 89, the MOU project descriptions have had quantitative benchmarks both for USAID and non - USAID projects. In order to comply with AID Guidance on local currency programming (PD 5), the progress report must be just as specific as the MOU, and if the targets are not met, the report must justify the insufficient progress. In addition, USAID is responsible for

assuring that Title I funds are used for the purposes indicated in the MOU, a task that would require much closer monitoring and more frequent field visits than we have been able to do. Therefore, for the FY 89 program, we have requested that the GOM provide specific project descriptions for the USAID-funded projects and more general project descriptions for the non-USAID funded projects. This change will make USAID responsible for closely monitoring the Ministry of Agriculture projects it cares most about.

The GOM has refused to allow AID auditors the right to examine its accounting records for the Title I program. We have been exploring with them the implications of PD 5 and are trying to develop language that both sides can live with for inclusion in the FY 90 Title I agreement. A possible solution will allow AID auditors to request and review an independent audit of the Title I program and to examine individual records if necessary. The Mission must have firm negotiating instructions on this issue soon.

2. Proposed Changes in the Program

Description of the new approach

In order to put some teeth into our policy-oriented self-help measures, increase the developmental impact of local currency, and improve our system for monitoring and accountability, we propose a substantial change in our approach to programming PL 480, Title I. The new approach would be comprised of three elements:

- A) Retain the practice of funding counterpart budgets for the USAID dollar-funded agricultural project portfolio, the local currency equivalent of approximately \$15 million per year. Self help measures for this part of the program would be project-related.
- B) Narrow additional self-help measures to critical policy reforms and condition the receipt of funds in excess of the "base" \$15 million to agreement to these more stringent policy conditions. \$35 million is proposed, for a total of \$50 million, in order to make the much more tightly controlled program more attractive to the GOM. The GOM has come to think of \$40 million as their political due. One or two major policy changes would be agreed to and included in each annual agreement. These policy changes would be directly linked to the plan of investment for local currency.

The self-help measure proposed for the first year (1991) of the new program is as follows: "While fertilizer subsidies have been greatly reduced, and some progress has been made in reducing the number of retail outlets for fertilizer that are controlled by the parastatal fertilizer marketing agency FERTIMA, prices remain officially controlled and FERTIMA operates a high percentage of total retail fertilizer outlets. Recognizing that controlled prices distort the price signals facing farmers, causing misallocation of resources and discourage private sector growth; recognizing further that the

existence of official retail outlets discourages entry by private firms; and recognizing that private competition leads to greater access by farmers at minimum possible cost, the GOM agrees to:

- 1) Eliminate price controls within one year, and
 - 2) Sell or close all remaining official retail outlets within three years, according to a plan mutually approved by GOM and USAID. Only those official outlets that are not in present or potential competition with private firms will remain in operation."
- C) Allocate all local currencies in the conditional category to programs that would increase the availability of agricultural inputs or improve marketing and processing of agricultural products.

The additional funds would be allocated to the Agricultural Credit Bank, establishing a special account, thereby improving accountability of funds and giving USAID more control over their use for development purposes. Focussing local currency use on increasing the availability of agricultural inputs and developing agricultural marketing would be accomplished by requiring elaboration of annual plans for use of the funds to be approved by USAID prior to signing each annual PL 480 agreement. A program of specific developmental uses of local currency would be jointly developed by USAID and the GOM. The broad outlines of this multiyear program would be included in the initial agreement. Annual accounting of local currency from the \$35 million would be kept by the Agricultural Credit Bank and closely monitored by USAID. The Bank would provide data on local currency use in sufficient detail to allow USAID to carry out an annual review of the program. Programs tentatively identified thus far that are likely to have high priority for use of local currencies include:

- 1) Credit funds for small farmers;
- 2) Drought insurance fund for refinancing agricultural loans;
- 3) Small business loans for producers and distributors of fertilizer, seeds, and machines;
- 4) Financing the privatization of retail fertilizer and seed distribution outlets;
- 5) Loans to private producers of improved seeds;
- 6) Loans to private agribusiness firms in the full range of marketing and processing of agricultural commodities;
- 7) A fund for feasibility and diagnostic studies related to establishing agribusiness firms; and

- 8) Studies for assessing constraints to expansion of private sector involvement in marketing and processing of agricultural inputs and products.

The above are purely illustrative. A final program mix for use of local currency must await assessment of the subsector and agreement by the GOM.

The proposed program can only be effective if the DCC would agree to allocating commodities in excess of the "base" amount of \$15 million strictly on the basis of performance against conditions set on the use of local currencies. USAID must be able to negotiate from strength. The "carrot" is of course additional resources and the "stick" is the possibility of withdrawing the resources if conditions are not met.

Proposed Action Agenda

It is proposed that the new approach be developed over the course of the coming year, with a view to installing it for the 1991 agreement. Attempting to make the change for the 1990 agreement would be extremely difficult for three reasons. First, time will be required to develop the self-help measures and the local currency use program. Jointly programming local currency use will require collaborative studies of problems and constraints and design of the program. Second, DCC agreement to these changes cannot realistically be obtained prior to July of this year, which would not leave enough time to get an early signing of the 1990 agreement. Third, the 1990 agreement will be difficult enough to negotiate with the inclusion of the audit clause.

II. PL 480 TITLE II

Introduction

The Title II Compensatory Food Program (CFP) has reached a stage where we can judge the success of its implementation, both in targeting and the quality of services provided. The program has helped expand the GOM's safety net during a time of budget reductions throughout the Government. The program has been less effective, however, in increasing the development impact of the GOM safety net, e.g. to improve the earning capacity of beneficiaries. USAID plans to terminate all elements of the CFP except the MCH feeding component as scheduled by the end of FY 90. The MCH component will revert to the already agreed phase-over plan of Title II assistance, under which it will continue at a diminishing level over FY 91 and 92. No food will be provided during FY 93. The Mission believes that as Title II assistance ends the GOM will be ready to continue all of the CFP programs, albeit at reduced levels, except the MCH program. We will use the next year to work with the GOM in developing a phase-over plan for the various components of the program, focusing on adapting the MCH program to GOM resources and administrative capabilities.

Program Success

The CFP is administered by three GOM ministries and monitored by Catholic Relief Services. Its major purpose is to provide resources to those Moroccans most seriously affected by the Government of Morocco's structural adjustment measures. The program also aims to help program beneficiaries gain the skills needed to find employment as the economy improves and to help the Government of Morocco prepare for meeting the basic needs of those who are unable to take advantage of improving economic conditions. CRS recently completed a baseline survey of the program, which closely examined the targeting and the quality of services provided in each of the subprograms. The survey showed that the program was well targeted on the poorest population. Problems in providing food regularly to the beneficiaries persist, however. USAID and CRS have helped the GOM improve its accountability for Title II commodities, but have been unsuccessful in getting the Ministry of Social Affairs in particular to take the necessary actions to deliver food on schedule. Nor has the CFP program shown significant progress in improving the employment skills of its beneficiaries or in installing a sustainable welfare system for the poorest. These issues will be addressed during discussions on the phase-out of Title II assistance and the use of the Development Support Fund.

Targeting

The baseline survey determined the program was well targeted upon the poor and children at risk, with some subprograms better targeted than others. The beneficiaries of the food for work and the maternal-child health programs were found to be the poorest, most illiterate, and most poorly housed inhabitants of Morocco. The weaning food distribution program targeted well children at risk of malnutrition, while the MCH program was well targeted on children with poor growth. The training schools reached a slightly better off segment of Moroccan society, although one that was still quite poor and uneducated. The

orphanages or boarding houses for students reached children from rural areas, regardless of their income level. The handicraft cooperative program beneficiaries were the least poor of those in any subprogram, with better housing, better education, and the largest number of employed per family.

Quality of Services

Although the baseline survey indicated targeting was generally good, it noted a number of problems with the quality of services, several of which were already a focus of USAID, CRS and, in many cases, GOM attention. The survey found that food was not being distributed regularly in Ministry of Social Affairs programs. This reflects in part a gap in the pipeline due to the DCC's delay in approving the FY 88 program, and in part continuing problems with the Ministry's logistics system. In the meantime control of commodities has improved through strengthened monitoring and accounting procedures.

The survey also surfaced problems with the services other than food provided by the various programs. These include:

- broken scales and inadequate nutrition lessons at MCH centers;
- poor training and irrelevant curriculum at training schools;
- inadequate advice provided with distribution of weaning food;
- short enrollment periods for workers in the Food for Work program, providing them with minimal income;

USAID and CRS are working closely with the GOM on some of these problems, such as the broken scales at the MCH centers. Funding is available from monetization, mothers' contributions, and proceeds from sales of empty bags. Other problems, such as the training and curriculum at the training schools cannot be resolved during the time left in the Compensatory Food Program. We are working with CRS to encourage the GOM to address such problems in the context of the phase-out of Title II assistance. Specifically, the GOM needs to decide what support it will provide to the various components of the program. On the basis of those decisions, activities to be supported by the Development Support Fund, \$2.5 million from monetization of Title II wheat, can be programmed.

Need for Program Continuation

The GOM supported almost all of the CFP programs prior to receiving Title II support and will continue to support them after the Title II program ends. The food for work program will likely revert to a cash for work program reaching ten percent fewer beneficiaries. The Ministry of Health will continue to distribute weaning food. The orphanages and boarding houses will rely upon GOM and private contributions to purchase the flour and vegoil provided by Title II. The training schools will continue, perhaps with smaller enrollments because they will not provide food to the needier students. The handicraft cooperatives will continue, but members will no longer receive food.

The MCH program was established as a means of providing Title II food to mothers and children, and the GOM has regarded it as a USAID activity. We believe that the only way to get the GOM to face the question of whether it is prepared to take over responsibility for the MCH program is to be absolutely firm about our intentions to maintain the Title II phase-out schedule.

Given our conviction that the GOM will continue to support most of the programs meeting the needs of the poor and our interest in getting the GOM to be responsible for the MCH program, USAID and CRS do not support continuing the CFP past FY 90 or extending the phase-out of the MCH program beyond FY 92. Our position is based not on the hope that the need for assistance to the poor will have ended, but rather on our belief that the GOM can and should take over this responsibility.

The CFP was designed to benefit poor Moroccans who are suffering from reduced employment opportunities and an increased cost of living as the GOM takes the steps necessary to improve the economy. According to the CRS Operational Plan, as the economy improves, there should be increased employment and the CFP beneficiaries should be able to better afford the higher costs of basic necessities. The actual relation between structural adjustment and CFP beneficiaries is far more complicated than the above scenario, however. Many CFP beneficiaries are poor because they are either physically incapable of work or they do not have the skills to find adequately paying jobs. Most were poor before the structural adjustment process began and remain poor after the economy improves. Some will be able to take advantage of an improving economic climate, but many will continue to suffer from the higher cost of living.

USAID sees no signs that 1991 or even 1993 will be the year that the economy improves enough that CFP beneficiaries will no longer need assistance. Even if the economic situation is extremely good at that time, the need for assistance to many CFP beneficiaries will continue, a need that now and for the future should be met by the GOM. The CFP's approval in the middle of a planned phase-out of Title II assistance sent mixed signals to the GOM, and allowed it to postpone making decisions on how to meet the needs of the poor in the long run.

USAID is pressuring the GOM to determine its priorities regarding assistance to the poor - unemployables, those with poor job skills and the unemployed. We are not insisting that local food replace Title II food, but we are encouraging the GOM to provide adequate financing to well managed and effective programs. The GOM may put political pressure on the US to continue Title II assistance to the program as it did during the phase-out discussions in 1985 and 1986. In that light, we will need not only Washington's support of our position, but also its help in engaging other donors, namely the World Food Program, in the effort to convince the GOM to take the necessary measures, in terms of allocating resources, to meet the needs of the poor.

IV. OTHER DONORS

A. Coordination

Formal donor coordination in Morocco is infrequent. The best example has been the coordination by Moroccan authorities of donor countries and international organizations to control invading desert locusts.

Informal working level coordination is however common and similarly effective. Contacts between USAID and multi-lateral agencies are particularly routine, and occur in every area of USAID strategic interest. For example, in agriculture, USAID's proposed assistance in domestic cereals market reform is directly linked to the IBRD's Agriculture Sectoral Adjustment Loan. In the health sector, USAID Child Survival activities are linked with those of UNICEF, and regular meetings are held by USAID and UNFPA to coordinate activities for complementarity in the family planning subsector. Service financing issues and possibilities for expanded private sector delivery are being examined jointly by IBRD and USAID. In energy and natural resources management, coordination is particularly strong with the World Bank in the fuelwood, forestry and watershed management topic areas. At the macroeconomic level, USAID involvement in exports promotion was instigated by the World Bank as critical to the structural adjustment effort.

Although working level contacts among the bilateral donors are deemed adequate, the UNDP resident representative is interested in increasing donor coordination with informal meetings dedicated to a specific sector or development constraint. However, the GOM does not encourage propositions of this sort. The EEC member countries are, nevertheless, meeting each month. The last consultative group meeting was held in March 1987 with little evident follow-up.

The GOM relates to most significant bilateral donors through the means of the Joint Commission. Economic development, trade and investment, and cultural exchange issues are discussed, and resource commitments are determined. The next U.S./Morocco Joint Commission meeting is being scheduled to occur in 1989, although no date has yet been fixed. USAID discourages the inclusion of economic assistance and funding levels as items on the agenda.

B. Program Levels

The IBRD continues to be the principal multilateral donor, followed by the African Development Bank with annual lending levels exceeding \$500 and \$250 million respectively. IBRD plans call for the lending program to shift from adjustment loans to projects after 1990. More cofinancing between the IBRD, AfDB and possibly some bilateral donors, particularly Japan, may be expected too.

OPEC donor assistance to Morocco is sizable, and may compare in magnitude to the AfDB levels. Most Arab donor assistance is received off-budget, in the form of balance of payments relief for oil or military equipment purchases.

France is the principal OECD donor, followed by the U.S. and Spain. The priority sectors targeted for technical assistance are agriculture and vocational training. Concessional loans and commercial credits account for approximately two-thirds of all official bilateral aid. Food aid levels vary widely from year to year, with the U.S., France and Canada as the regular sources.

ACTION PLAN : MOROCCO

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**MOROCCO
ACTION PLAN**

1989