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Action Plan

FY 1992-1995

MOROCCO

DECEMBER 1991

Agency for International Development
Washington, D.C. 20523

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
RABAT, MOROCCO

United States Address :
USAID - Morocco
APO New York 09284

العنوان المحلي :
137، شارع علال بن عبد الله
صندوق البريد 120
الرباط ـ المغرب
الهاتف : 76-22-65

Adresse locale :
137, Avenue Allal Ben Abdellah
B. P. 120
Rabat - Maroc
Téléphone : 76-22-65
Téléfax : 76-79-30
Télèx : 31005 M

OFFICE OF THE DIRECTOR

November 29, 1991

MEMORANDUM

TO: Reginald Brown, Assistant Administrator, NE Bureau

FROM: Dennis M. Chandler, USAID/Director

SUBJECT: USAID/Morocco Action Plan: 1992-1995

I am pleased to forward to you Morocco's Action Plan for FY 1992-1995. It is a document which reflects many exchanges between the Mission and AID/Washington. It also has the concurrence of the Government of Morocco, key Moroccan private groups, and the U.S. Country Team. It concentrates A.I.D.'s programs under three strategic objectives: increasing employment, increasing market competitiveness, and improving delivery of selected social services. We believe that this Action Plan better focuses our efforts on a manageable number of activities which the Mission can do well.

This document builds on the results of previous USAID programs in Morocco which were largely public sector oriented, but which helped encourage the GOM to make needed economic reforms. The Government's structural adjustment program, carried out with important policy support from USAID, has been impressive. Agricultural production has increased and exports have grown. Economic reforms have worked. This new Action Plan is designed to encourage Morocco to concentrate on the next steps. How can USAID, with its limited resources, continue to have a positive impact on Moroccan policy reforms? Now that the economy has opened up, how can Morocco use its resources to develop and capture a share of markets in Europe and North America? How can the nation promote entrepreneurship through a combination of credit, advice and skills training, and create jobs for its citizens? What role can we play

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to help bring this about? How best can USAID and Moroccans work together to address concerns regarding democratic pluralism, women and the environment? We believe the Action Plan offers a focused approach to these issues.

Following my numerous discussions with AID/W, we reviewed all the options carefully. In some cases, we made several decisions to completely eliminate or substantially delay projects that we had earlier planned to develop. In other cases, we concluded that the merits of the projects and the realities of our work in Morocco warranted that we move ahead with them. In one case, we concluded that after three years of difficult discussions with the Government of Morocco,the costs of not supporting the project, would be unacceptably high.

We believe this Action Plan is totally consistent with the Agency's renewed initiatives, and with the Bureau's desires to concentrate programs in a few areas, while ensuring that Missions can clearly demonstrate progress against objectives. To this latter end, the Action Plan includes a detailed set of performance indicators which will permit us, more than ever before, to measure the results of our efforts, and to be able to demonstrate --decisively-- the impact which our projects make on various groups of beneficiaries.

It will be a challenging Action Plan to implement, but, with reasonable assumptions, it is clearly achievable. We look forward to the task with enthusiasm.

MOROCCO ACTION PLAN

FY 1992-1995

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EXECUTIVE SUMMARY

Morocco has made important progress since beginning a structural adjustment program in the early 1980's. It has opened its markets, liberalized the marketing of a large number of commodities, and begun making many of the hard decisions countries must make in order to progress economically. There have been positive results, as evidenced by: increased investment and growth in exports, reduced tariff levels, elimination of producer price supports, reduced government subsidies and transfers, lowered corporate and individual tax rates, and increased employment in selected industries. Morocco now permits up to 100% foreign ownership of business and productive enterprises, removing one of the important barriers to attracting foreign investment. Commercial banking practices have also been liberalized, leading to substantial increases in domestic borrowing for business and related purposes.

At the same time, however, even though per capita income indicates that it is a Middle Income Country, Morocco is plagued by social indicators that rank it with, or in several instances, lower than some Less Developed Countries. Illiteracy, access to drinking water, and infant mortality are much higher than they should be, much higher even than many countries with less than half of Morocco's $830 per capita income. Morocco also faces continuing high unemployment, rapid urbanization, persistent population growth, and inadequate supplies of low-income housing.

USAID's FY 1992-FY 1995 Action Plan is designed to help Morocco address some of these problems, within the framework of three strategic objectives: increasing employment, improving market competitiveness, and improving selected social services delivery. These strategic objectives are buttressed by three cross-cutting themes that permeate the program. These are concern for improving the lives of women, democratic pluralism, and the environment.

Concerning employment, USAID's program directly addresses, in very concrete ways, many of the employment constraints Morocco is facing. It will support measures to help reduce barriers and decrease market segmentation between the large, formal, modern sector and the small enterprise and informal sectors. It will help to create and expand small and medium-sized enterprises, and improve access to credit. In addition, USAID is proposing to the Ministry of Commerce and Industry a major policy study of industrial protection and the structure of industrial incentives. The results and recommendations from this study will pinpoint industrial policy areas that need reform and propose changes, which will help reduce the impact of policies that impede job creation.

As Morocco works to find markets for its products and to increase its market share for those products it already exports, it must increase its competitiveness. It needs to continue to take advantage of its relatively low wage structure. With the creation of a uniform 400 million inhabitant European market after 1992,

Morocco will lose its special position in the French market and will have to compete against other Mediterranean suppliers in the unified EEC/EFTA market. Morocco's newer exports in garments, leather goods, textiles, agribusiness products, other light manufactures, and such services as tourism tend to be relatively labor intensive, which gives Morocco a cost advantage and helps to absorb new entrants into the Moroccan labor market. Morocco also needs to train more managers and business experts in order to be able to compete with competitive suppliers emerging in Eastern Europe. While the creation of a uniform European market and the emergence of market-driven economies in Eastern Europe means that Morocco will face stiffer competition in the EEC, it is also likely that these very same developments will increase European growth and demand for imports. Morocco also needs to move ahead with its privatization program, which in the long-run will make several of the country's larger firms more competitive. USAID will support Morocco's privatization program, and also help Morocco to make its internal markets function more efficiently, acquire the marketing know-how it needs, maintain export incentives, build up effective production technologies, and develop necessary business management skills.

Finally, in the social services areas, USAID is focusing specifically on child survival and family planning, and low-income housing. We propose to continue improving the efficiency of service delivery, and to help Morocco search out ways to increase private sector involvement in both of these areas. Concerning child survival and family planning, the private sector should be more actively involved in providing services, and, individuals -- who can afford to do so-- should increasingly bear the cost of these services, either directly or through health care provider schemes for which they pay. USAID believes its programs can help Moroccans access various health provider alternatives and begin to address in a comprehensive way the looming questions of how the country can afford to provide better quality services, on a sustained basis, to every Moroccan in need of health care. With respect to low-income housing, by the end of this decade, 60% of Moroccans will live in urban areas. The rapid growth of urban centers will continue to be accompanied, as it has been in the past several years, by severe housing shortages and inadequate levels of public services, creating slum neighborhoods and illegal, under-serviced squatter developments. USAID programs will help increase production levels of low-cost housing. These programs will also ensure that housing is constructed in a sustainable, rational and planned manner, ensuring that the basics of water, drainage, waste disposal, and electricity are made available at the same time.

POLITICAL AND ECONOMIC SETTING

Morocco combines features of a constitutional and an absolute monarchy. King Hassan II, who has led the country since 1961, is both temporal head of state, with vast powers vested by the constitution, and spiritual leader of Morocco's Muslims by virtue of the ruling Alaouite Dynasty's direct descent from the Prophet Mohammed. Power flows from the palace down, and all major decisions are made there.

Alongside this traditional, palace-based power structure, a parallel system of modern political institutions, including a parliament, judicial system, ideologically diverse political parties, trade unions, and professional associations, operate relatively freely. The political system provides opportunities for the expression of dissent, and prior sensitivities appear to be relaxing slowly. The current atmosphere of enhanced freedom of expression allows for journalistic exposure of some aspects of official corruption and abuses of authority. Yet, despite these constructive features, full political participation remains restricted. The majority of the population, particularly the young, and residents of rural and urban low-income areas, feel little sense of involvement in the political process. This political isolation and feelings of hopelessness contributed to the frustration which led to the social unrest of mid-December 1990 in Fès and other cities. Because of the growing pressures of unemployment, there is increasing frustration and a tendency to be more outspoken, or even critical, of the political and economic situation.

King Hassan has indicated interest in further liberalization of the political and economic system, as well as institutionalizing measures designed to protect citizens from human rights abuses, and concrete steps have been taken in numerous areas. Decentralization plans also fit this scenario of a more liberal political and economic system. How far the process will develop remains an open question. The King reiterated in recent speeches his support for decentralization and specifically called for the proceeds of privatized firms to benefit the area in which the privatization occurs. As a result of a fiscal restructuring, since 1988 local governments now have benefitted from revenue sharing, receiving 30 percent of national value added tax receipts.

More specifically on the economic front, Morocco began a structural adjustment program in 1983. Since then, the country has entered into five Stand-by Agreements with the IMF (of which one was canceled) and seven Structural Adjustment Loan Agreements with the World Bank. Morocco's debt to governments has been rescheduled by the Paris Club five times, and its commercial debt rescheduled by the London Club three times. Through the financial support furnished by these agreements, Morocco has undertaken a major

program of reform designed to open and make the economy more competitive, increase economic efficiency by removing factor and product pricing distortions, boost exports, reduce the government deficit, privatize state-owned enterprises, and improve financial market intermediation. Despite obstacles (drought, war in the Sahara, a locust plague, stagnant world trade, the Gulf Crisis) Morocco has improved its basic economic structure and put in place a solid basis for further economic growth. The prospects for continued successful economic liberalization are closely linked, however, to political reform.

The Government must also come to grips with reform of its current investment policies which are skewed in favor of non-productive sectors and "glamour" investments. While the political imperatives of these decisions may be demanding, the practical consequences are that they leave fewer resources available for investment in the social sectors (particularly education, health, and housing), which continue to lag behind. These policies also tend to exacerbate feelings of disenchantment with the political system. At the same time, they make redistribution of existing wealth even more difficult.

The United Nations-sponsored Referendum on the Western Sahara scheduled for early 1992 and the national elections expected in the fall of 1992, offer opportunities for Morocco to reorient its domestic investment policies and, through the election process, to open up political participation to an unprecedented level.

IMPACT OF CURRENT PROGRAM AGAINST FY 1989 ACTION PLAN

Assessment of Progress During Last Action Plan Period

The FY 1989 Action Plan identified four programmatic objectives: 1) Increased Economic Growth, 2) Increased Food Supply, 3) Reduced Population Growth and Improved Primary Health Care, and 4) Improved Management of Energy and Natural Resources. Each of these objectives was augmented through an aggressive policy agenda, designed to seek specific policy changes in each of the programmatic areas. A tabular presentation of the objectives and the supporting policy agenda are found in Annex E. During the two and one half years that have passed since these objectives were identified, much has transpired. Considerable progress has been made toward achieving the objectives. In some cases, progress has exceeded expectation. A brief assessment follows of progress against each of these objectives.

Increased Economic Growth

To support the major strategic objective of increasing economic growth, the FY 1989 Action Plan stipulated assistance in price liberalization, financial market reform, removal of barriers to market entry and new business formation, privatization, increased financing for small and medium-sized exporters, and technical assistance to exporters as well as encouragement of U.S.-Moroccan joint ventures. USAID expressed the belief that helping Morocco to expand exports, remove barriers to investment and mobilize capital for such investment were key to placing Morocco on a path to sustainable growth. Furthermore, given the nation's rapid urban migration and social problems, the Mission was convinced that supporting improvements in urban financial management and cost recovery, acquisition of plots of land suitable for housing, and titling to encourage private sector development of low income housing, were important measures which would increase the contribution to growth in the urban sector, particularly for housing.

Since 1989, policy changes have progressed further than had been anticipated in critical areas that affect the investment climate, particularly in the areas of financial market reform and privatization. For instance, in December 1990, the prior system of bank-by-bank, administratively set annual ceilings on credit growth, was eliminated. These annual ceilings, known as encadrement, had been the principal instruments limiting the availability of credit throughout Morocco. Since the lifting of these ceilings (encouraged by the IMF), the demand for credit has increased markedly, and commercial lending increased by nearly 20 percent in the first half of 1991.

PRINCIPAL POLICY MEASURES TAKEN RECENTLY BY MOROCCO

- Dropped Average Tariff Level
- Joined GATT
- Devalued Dirham
- Allowed 100% Foreign Ownership
- Eliminated Producer Price Supports
- Reduced Government Subsidies & Transfers
- Lowered Corporate & Individual Tax Rates
- Developed Privatization Program for 112 Firms

In tandem with this major change, the Government of Morocco significantly liberalized controls on interest rates. These reforms have promoted greater competition among banks for clients, a competition which should be enhanced since tighter limits have also been placed on the maximum exposure a bank may have with any one customer (7% of the bank's total loans vs. the prior 10%, with the maximum now applicable to holding companies as well as individual firms). Such competition should lower the costs of financial intermediation and increase the private sector's access to capital finance, thereby helping to increase private sector investment and economic growth.

USAID has encouraged Morocco to use indirect measures to influence monetary aggregates. In this connection, USAID has provided technical assistance to the Ministry of Finance to examine the creation of a secondary debt market for treasury bills, an essential prerequisite for conducting open market operations and thereby securing an additional means of influencing the growth of money supply. In addition, institutional contractor selection is well advanced for a long-term financial sector advisor and further technical assistance and training for financial market reform.

In late 1989, the Moroccan Parliament passed a privatization law which specifically identified 112 enterprises --75 state owned industrial entities and 37 public hotel properties-- to be privatized over six years. A USAID-financed long-term resident advisor in the Ministry of Economic Affairs and Privatization assisted in the drafting of implementing regulations for this new privatization program. Furthermore, under a buy-in to A.I.D.'s centrally-funded contract with the International Privatization Group Project (led by Price Waterhouse), USAID has furnished long-term technical assistance and short-term transactions-based assistance to help implement Morocco's privatization program. Discussions are currently underway to develop non-project assistance, designed to accelerate the GOM's implementation of its privatization program.

Progress in pricing policy reform has been less dramatic. Over the prior Action Plan period, only a few commodities were removed from the price control list. Nonetheless, controlling ministries have become, with USAID technical assistance, fully conversant with utility cost and price modelling developed for the water, electricity, and petroleum sectors. To reflect underlying cost growth, periodic price increases have been announced in public transport, utilities, bread and subsidized products such as vegetable oil, sugar, and flour. In any case, the level of tariff protection afforded industry has been a key determinant in price setting in the domestic market and in the degree of competitiveness of Moroccan industry. In this regard, Morocco has remained committed to liberalizing trade further, reducing the number of items subject to prior import licensing, and agreeing in the World Bank's forthcoming Second Structural Adjustment Loan to lowering

the maximum nominal tariff level from 45% to 35%.

Recognizing that unwieldy bureaucratic procedures were impeding new business formation and investment, the King in July 1989 decreed that businesses (domestic as well as foreign joint ventures) seeking investment approvals could henceforth assume they had such approval if their applications were not approved by appropriate government authorities within two months. This announcement has helped to spur efforts to remove administrative barriers to new investment. In 1990, the Moroccanization Law, which limited foreign ownership to a minority share in designated industries, was abrogated, thereby opening new sectors more fully to foreign investment and allowing up to 100 percent foreign ownership and repatriation of profits.

USAID's Export Promotion Project established the Société Marocaine d'Assurance à l'Exportation (SMAEX) as a private sector export insurance facility which has expanded its coverage significantly, thereby helping exporters to increase their production and sales. Small and medium enterprise credit lines from this project, as well as through the Mission's PL 480 Section 108 credit program, and utilization of A.I.D.'s PRE Bureau Loan Portfolio Guarantee program, have increased access to credit for small and medium businesses.

In an August 1990 amendment to the Export Promotion project, USAID created a Morocco-based guarantee facility to stimulate commercial bank, medium-term lending to small and medium-sized exporters lacking suitable collateral or real assets to secure needed investment financing. This $10.5 million facility, managed by Citibank in Casablanca, was publicly launched in June 1991 during A.I.D. Administrator Roskens' visit to Morocco. Most Moroccan commercial banks have committed to participate in this fund, and the first guarantees have been issued. The Export Promotion project has also supported the International Executive Services Corps' (IESC) Trade and Investment Service, which successfully arranged in 1990 and 1991 nearly $7 million in exports from Moroccan firms to U.S. markets. The IESC Volunteer Executive program has also completed over 100 assignments to assist Moroccan export-related industries.

To increase the contribution of private sector housing and urban development to economic growth, USAID began implementing a land development program with the National Housing Upgrading Agency (ANHI) which has increased availability of serviced land for low income families and reduced the number of families living in shantytowns. The ANHI land development programs have stimulated private sector provision of low income housing by providing new business opportunities for small and medium-size private builders and developers without requisite resources to acquire and service large tracts of land on the urban periphery. Without relying on external budgetary resources, the ANHI production levels have grown

from 4,500 serviced plot starts in 1985 to a projected 12,000 serviced plots in 1991. ANHI has projected that measures it has already taken will lead to construction of nearly 30,000 housing units (165,000 beneficiaries) per year by private builders and developers. ANHI has already become the largest land developer in Morocco, producing serviced plots for nearly 18% of the total annual housing production target (164,000 housing units). The success of USAID's collaboration with ANHI has included breakthroughs in land development and pricing policies, a commitment for increased collaboration with the private sector, and a recognition by GOM officials that government should get out of the construction process.

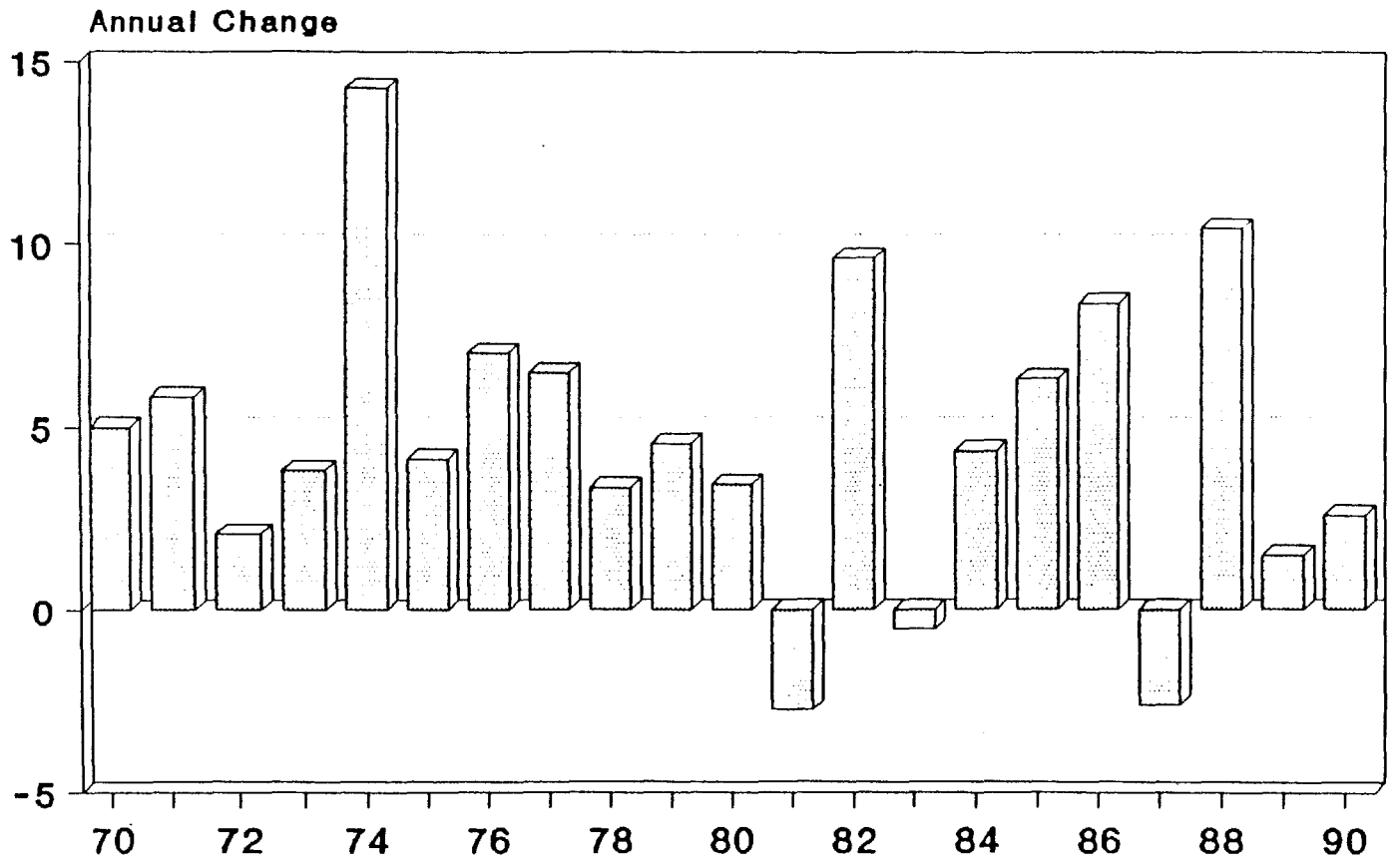
The Tetouan Urban Development Program in northern Morocco has created a model for local governments and specialized agencies to address the challenges of urbanization, produce serviced land affordable to low income families, and upgrade under-serviced neighborhoods. The model has also demonstrated how local governments can finance and deliver public services, and stimulate the private sector to produce housing and services. USAID, through the Tetouan Project, has taken the lead in introducing privatization of public services (solid waste collection), initiating joint public/private land development ventures and addressing urban environmental issues. This project has had a direct impact on 200,000 beneficiaries (80,000 persons who live in the upgrading site and 120,000 persons who benefit from the various land development programs).

USAID-supported housing activities have also had a direct impact at the national level, as evidenced by the intensity of the Directorate of Local Governments to introduce to several other municipalities the Property Tax Records Software System developed for Tetouan. Also, a recent USAID-sponsored seminar on financial analysis for central government institutions involved in local government budget preparation and analysis has had an important positive impact. In the area of environmental planning, the USAID-financed Sewerage Master Plan for the Sewerage System in Tetouan has introduced elements of impact analysis, an area not given serious consideration in the past.

The impact of government policy, and USAID's contributions in this area, have been positive. There is growing evidence that Morocco's structural adjustment program and USAID's projects have had a beneficial effect on export growth and investment, and thereby on sustainable economic growth. After declining steadily between 1982 and 1987, the level of fixed investment, and most especially, private sector investment began to expand during the last Action Plan period. From a low of 20% of GDP, total investment recovered to 24% of GDP, and private investment from 15% to 19% of GDP, reflecting investor confidence that structural adjustment policies will continue and that there will be growing opportunities to produce for the domestic and export market. In this regard,

CONSTANT GDP GROWTH RATE

BASE 100 = 1985



exports as a whole expanded by 11% annually in dollar terms from 1983 through mid-1991. This growth was led by exports of textiles and clothing (up at an average annual rate of 19%), assorted light manufactures (up 16% per year), and agribusiness products (up 11% per annum since 1983). The impact of these developments on long-term growth has been important. However, actual GDP growth in recent years has been uneven. Following 10% growth in 1988 reflecting an exceptional agricultural harvest and rapid growth in export earnings, GDP increased by only 1.3% in 1989 and 2.6% in 1990. In these latter two years, external developments, including a contract dispute with India on phosphate shipments and the disruptions caused by the Gulf Crisis, adversely affected growth.

Increased Food Production

In the FY 1989 Action Plan, key elements of the strategy to increase food production included the reinforcement of the structural adjustment program in agriculture, improved decision-making on agricultural investments, progress in development of new technologies for dryland agriculture, and continued training of agricultural sector professionals. USAID played a significant role in providing the analytical underpinning for structural adjustment in agriculture, which, in turn, has had a beneficial effect on overall agricultural production levels. USAID-financed post-graduate degree training for key individuals in the policy analysis and investment planning areas of the Ministry of Agriculture helped pave the way for reform.

USAID financed the original agricultural pricing and incentives study and its 1990 update. Those analyses of Morocco's comparative advantage, of international price trends, and the structure of production and distribution in terms of adequacy of competition, informed the GOM of the actions needed to limit the protection afforded domestic production of sugar, cereals, dairy products, meat and vegetable oil, and the need to develop and implement action plans for liberalization of production, distribution, and processing for such key commodities as sugar and vegetable oil. The GOM's list of 112 enterprises to be privatized, include parastatals involved in cereal seed production and distribution, oil seed storage, and fertilizer distribution, reinforcing a drive to remove government from input distribution. Irrigation authorities have also continually improved cost recovery levels by increasing irrigation water fees and removing most cropping requirements for irrigated agriculture. In June 1991, price controls on fertilizer were eliminated. Irrigation authorities also embarked on a process of gradual disengagement from the provision of commercial agricultural services better met by the private sector. As a result of these changes, producers have increasingly faced economic, as opposed to administered, prices for inputs and outputs, thus gradually redirecting production to crops in which Morocco has a decided comparative advantage. This has been most evident in the strong growth in agribusiness exports, up

an average annual rate of 11% per annum in dollar terms since the start of Morocco's agricultural adjustment program.

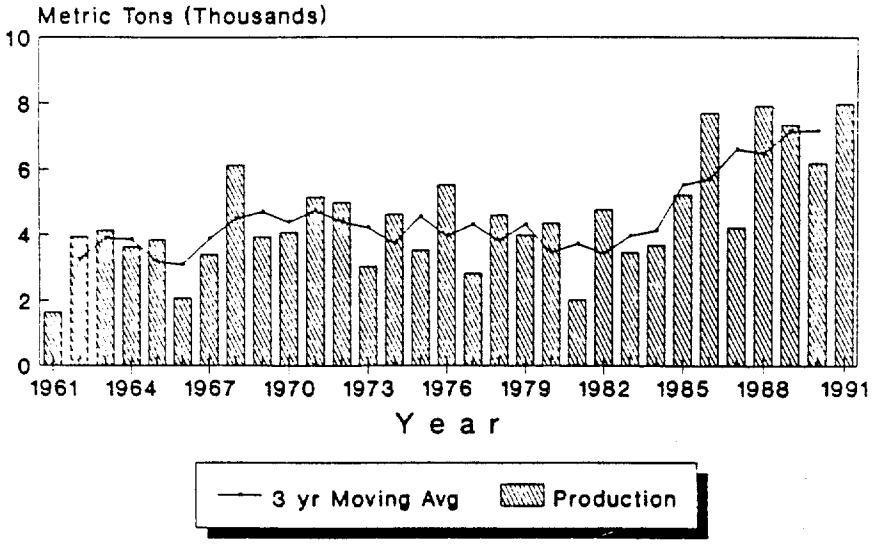
USAID support to the development of improved production technologies for rainfed agriculture has been a major means of attaining the strategic objective of increased food supply and associated cereals marketing reforms. A recent evaluation of the Dryland Applied Agricultural Research Project concluded that USAID has successfully established an applied agronomic research capacity for drylands farming systems. The project participated in or has been wholly responsible for the development of approximately 40 new technologies and/or improved seed varieties, a number of which impact importantly on agricultural production in the dryland zone, which accounts for some 50% of Morocco's rural population. (The project has also identified genetic material now being used in U.S. cereals breeding programs.)

In the summer of 1991, a sub-project to examine possible improvements to cereal marketing began implementation. The achievement of higher marketing, storage, and processing efficiencies by reducing government intervention in cereals marketing, will enhance farmer revenues as well as eventually lower consumer prices.

During the FY 1989 Action Plan period, direct USAID support to the Institut Agronomique et Vétérinaire (IAV) Hassan II, the principal Moroccan higher education institute for agriculture, resulted in an IAV capability to provide high-quality graduate level education in a range of agriculture-related disciplines. This capability has helped to lay the foundation for the long-term achievement of USAID's strategic objective of increasing Morocco's ability to feed itself. To date, ninety IAV faculty (of whom 10 percent were women) have completed doctoral programs, facilities have been well-equipped, a range of outreach and applied research programs have been developed and are underway, and a number of institutional linkages have been developed with U.S. institutions. IAV is now widely recognized as a regional "center of excellence" in agricultural education and research.

Through a PVO-administered Title II program, USAID has helped distribute food to one million recipients in Ministry of Social Affairs health and training centers, Ministry of Public Health dispensaries, and Ministry of Interior food-for-work programs. These additional food supplies helped to assure adequacy of food among lower income and disadvantaged groups at a time when

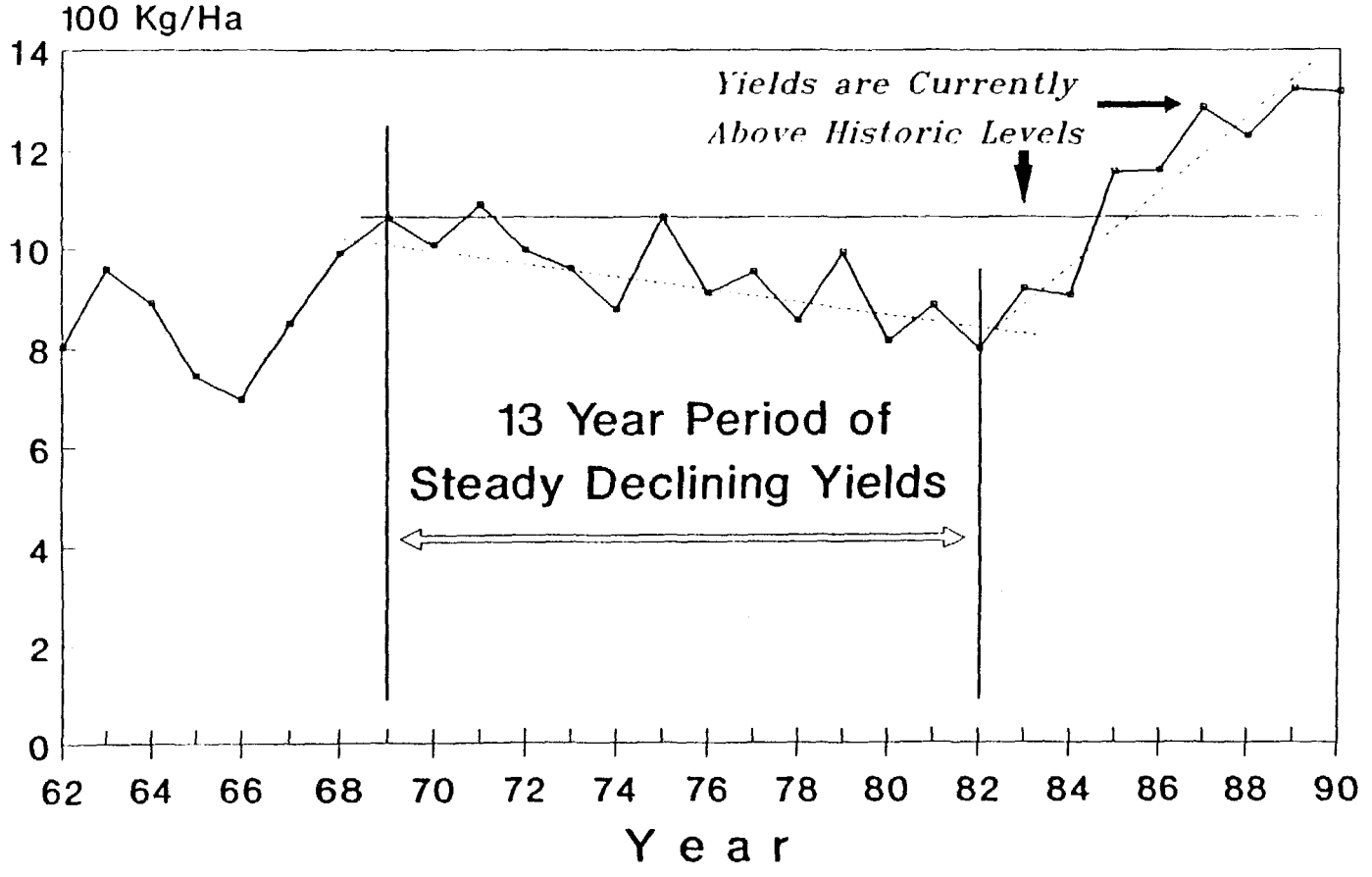
Cereal Production
1961 - 1991



In the last 5 years, production of cereals, the main stable crop in Morocco, is averaging almost 75% higher than the average of the 24 year period from 1961 - 85.

Cereal Yields

3 Year Moving Average*



*Durum Wheat, Bread Wheat, Barley, Corn

structural adjustment policies may have placed some lower socio-economic groups at greater risk. This program was terminated as scheduled and the Government has begun to re-examine activities that provide assistance to disadvantaged groups.

Overall, there has been increasing evidence that the implementation of liberal economic policies in agriculture, combined with technological developments in dryland agriculture and improved quality of personnel, are having a very positive impact on production. Recently, average yields for cereals have been established well above historic average levels. For example, during the 1990/1991 crop year, Morocco experienced a record cereals crop of over 8 million tons, a 29% increase over the previous year. Favorable weather conditions were a major factor accounting for the increase, but it also reflected higher per unit yields which resulted from the development and acceptance of new improved production technologies and crop varieties. The improved incentive structure which has resulted from favorable policy changes was another factor. USAID has played a very important role in this process.

Reduced Population Growth and Improved Primary Health Care

The FY 1989 Action Plan adopted a strategy of expanding and improving public sector delivery of family planning and maternal child health services as well as development of private sector mechanisms to expand the availability of such services. National immunization programs were also deemed important to raising child survival rates and reducing child health deficiencies.

With USAID technical and financial assistance, Morocco has achieved considerable success in the past decade in decreasing infant and child mortality, and lowering fertility and population growth rates. Morocco's Ministry of Public Health (MOPH) has established a program with a comprehensive national health infrastructure, a strong commitment to family planning and maternal and child health, and a pragmatic approach to service delivery. The GOM's program has used multiple outreach approaches, including household visits, mobile units, and delivery of services at community service sites. The outreach program, developed originally as a pilot household-based contraceptive distribution project, has begun to provide a national integrated package of key services: family planning, immunization, diarrheal disease control and nutrition surveillance. A recent USAID-sponsored evaluation of the child survival program found consistently more favorable health practices (i.e., immunization, attended births, use of Oral Rehydration Salts, etc.) and lower fertility among rural uneducated women in areas served by the GOM's outreach program.

In addition to its own program, the MOPH has sought alternatives to government-supported service delivery mechanisms and has encouraged the social marketing of contraceptives and other health products

through the commercial sector. It has also encouraged provision of services by private providers and non-governmental organizations.

Notable accomplishments in the population and primary health fields have included the following:

-- Using both the public and private sector, Morocco has built an effective nationwide maternal and child health delivery system, providing a comprehensive MCH service package to nearly 80 percent of the population.

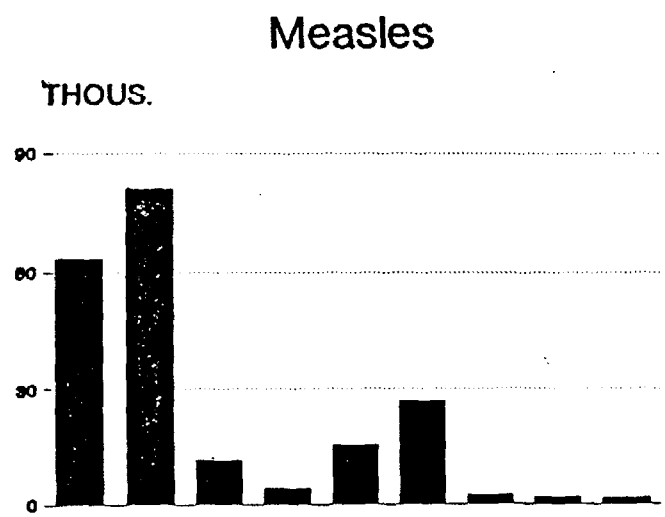
-- Moroccan leadership has increased high level policy and financial support for the population and child survival program, as evidenced by recent national budget increases for the health sector (3.0% of national budget in 1986 to 5.6% in 1990).

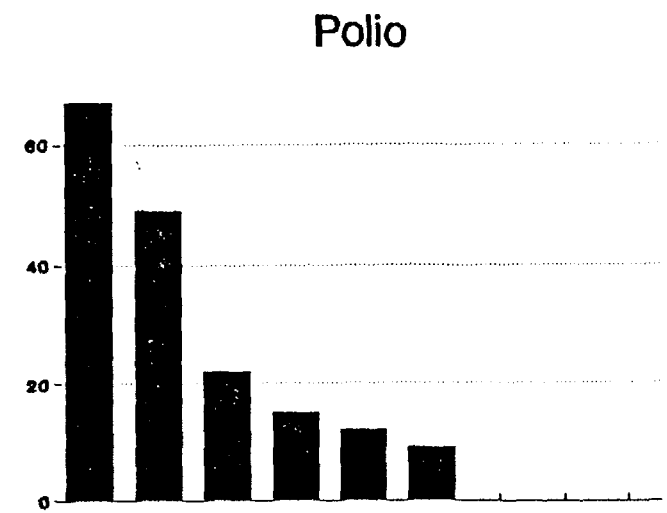
-- Vaccination coverage has surpassed the global goal of 80 percent. Ninety percent of children aged 12-23 months have been fully vaccinated against measles, diphtheria, whooping cough, polio tetanus and tuberculosis. The incidence of these diseases has been significantly reduced and, in some cases, virtually eliminated. For example, there have only been two cases of polio since 1988.

-- The infant mortality rate (IMR) declined from an estimated 122 deaths per 1,000 live births in the early 1970's to 73 in 1989. Child mortality fell from 77 deaths per 1,000 children aged 1-4 years to 19 per 1,000.

-- Contraceptive prevalence increased from approximately 19% in 1978 to 36% in 1987; by 1991, contraceptive prevalence had risen to approximately 40%. The total fertility rate (TFR) declined from 5.8 children per mother in 1980 to 4.6 in 1987. The annual population growth rate declined from 3.2% in 1980 to 2.6% in 1990.

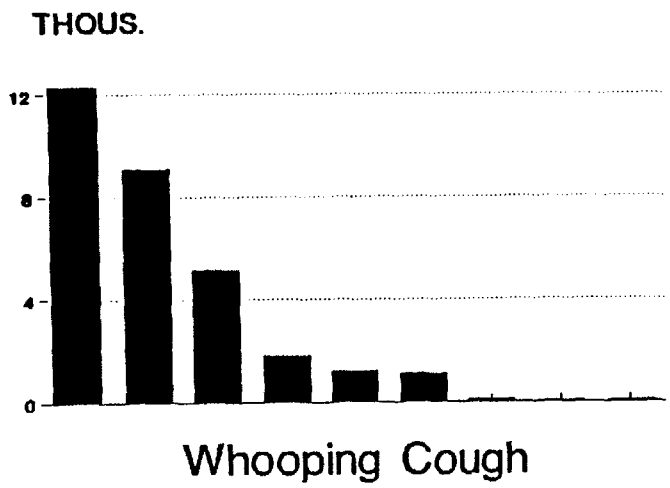
These impressive results have been possible because the Moroccans have placed emphasis, with USAID technical and financial assistance, on improving access to and use of family planning/maternal child health (FP/MCH) services, increasing program efficiency and effectiveness, and promoting program sustainability. Specifically, the MOPH has increased the supply of FP/MCH services through continued support for the delivery of the full range of family planning services and key maternal and child health services. The MOPH has also expanded its outreach and educational programs, and provided greater access to clinical services, including permanent and long-acting methods of contraception within the MOPH health system. Also, it has increased emphasis on pre-natal care, delivery and post-partum care, sexually transmitted disease prevention and control --

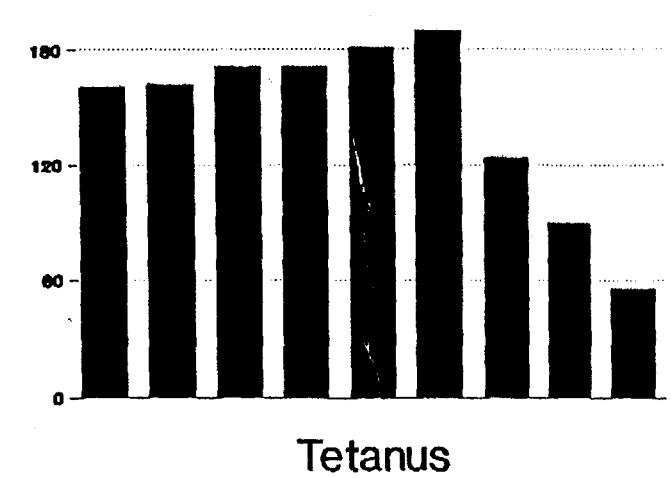




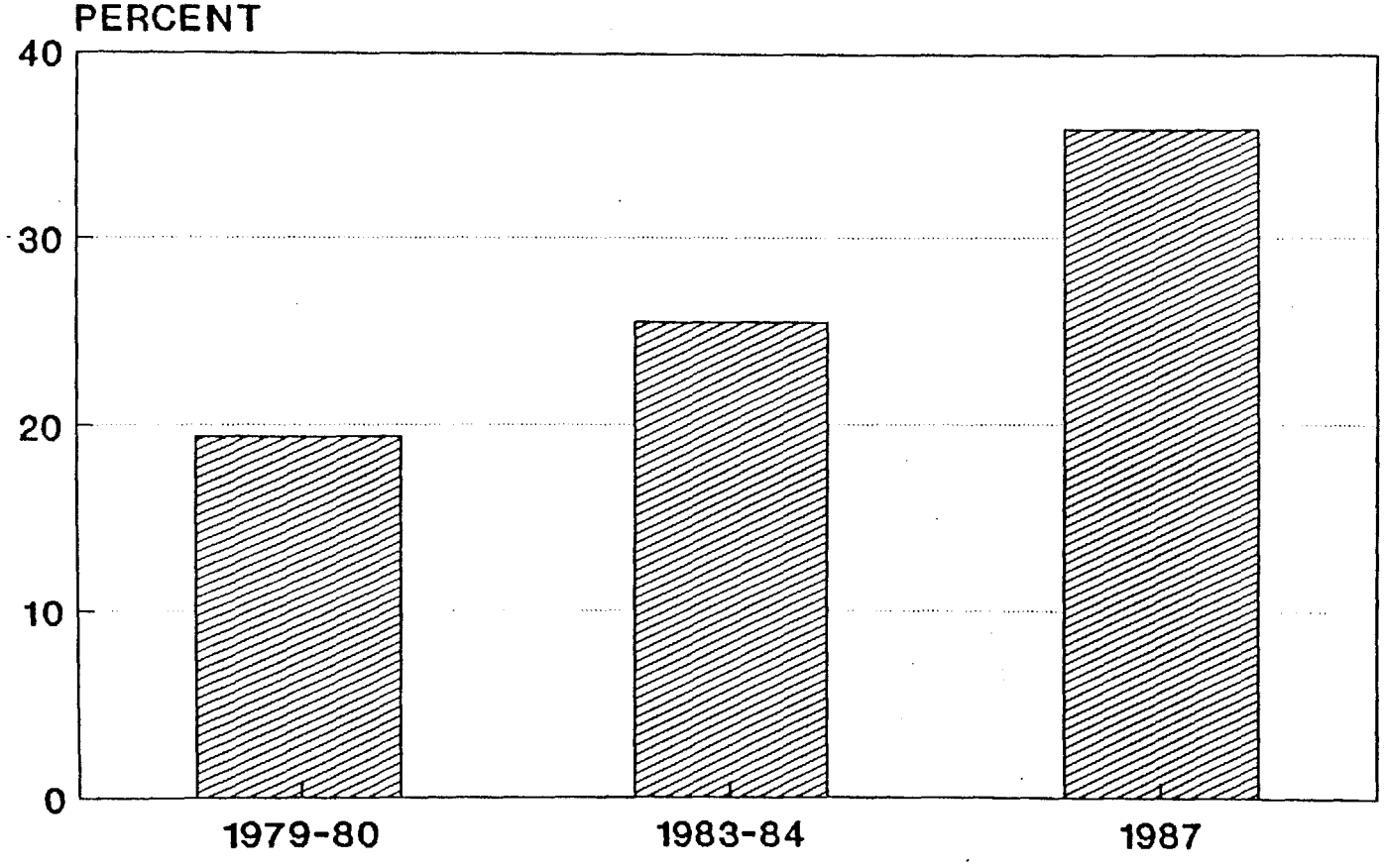
CASES REPORTED BY PUBLIC HEALTH FACILITIES

1982 - 1990





CONTRACEPTIVE PREVALENCE RATE
% OF MARRIED WOMEN



including AIDS-- and other critical maternal or child health services, such as high-risk pregnancy screening, and acute respiratory diseases.

The GOM has strengthened key management and training units and institutions such as the National Institute for Public Health, the Information and Studies Service and the National Training Center for Reproductive Health. It has also developed a plan for the decentralization of training and research through the nine regional centers. The MOPH has also built a logistics management system, which effectively delivers supplies and materials to 2,200 MCH/FP facilities throughout the country.

The MOPH has actively encouraged greater involvement of the private sector by exploring the removal of legal or regulatory constraints, and by promoting social marketing programs for the sale of contraceptive commodities through the private sector and work place services. Within the major urban areas, a social marketing program was established for the sale of condoms, with sales reaching one million condoms in 1990, its first year of operation, and almost doubling in the second year of operation. In late 1991, the MOPH commissioned a study to investigate further possibilities of expanding the private health sector.

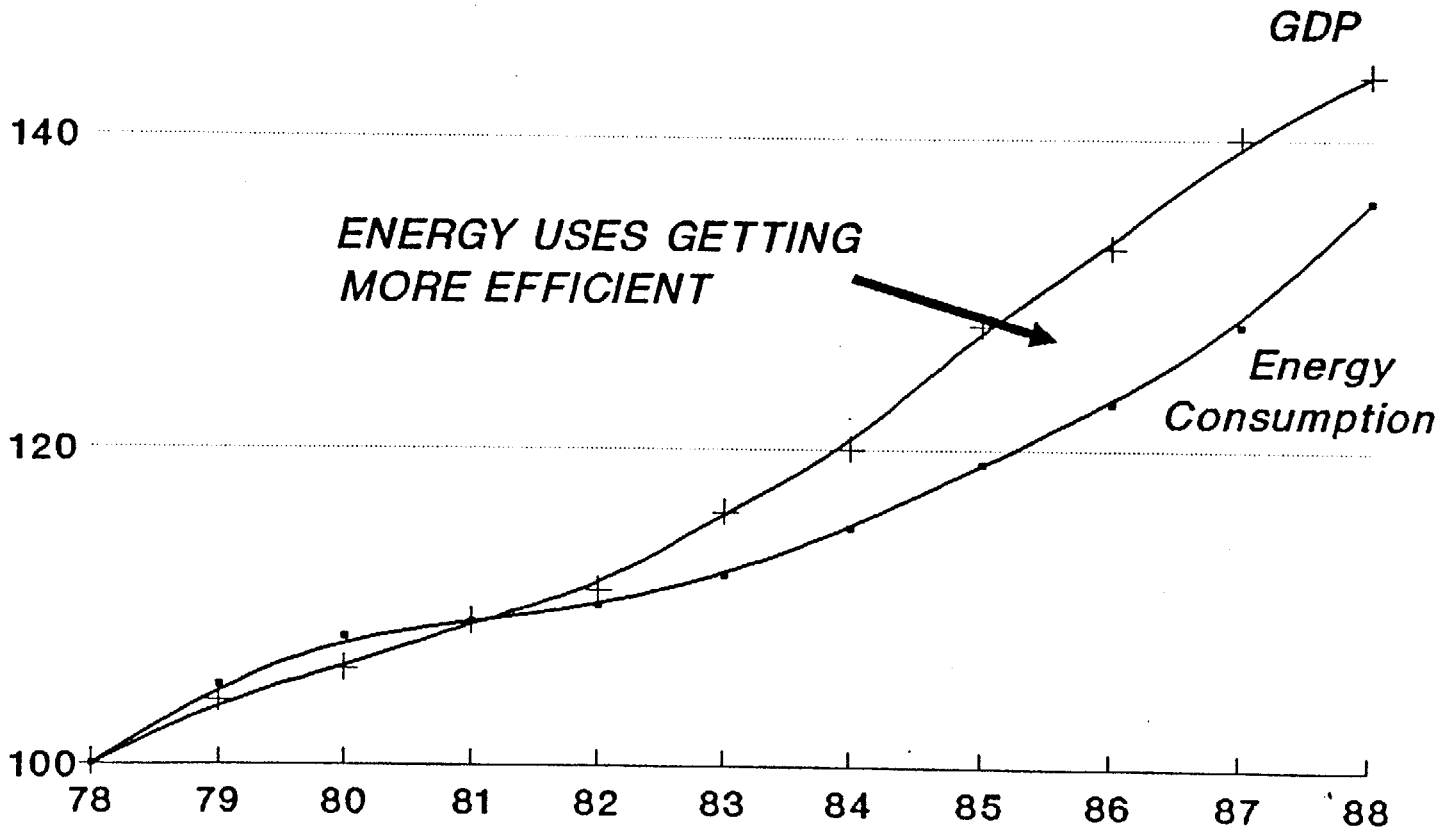
To increase program efficiency, the MOPH has improved planning and management systems. It has enhanced the information available to decision makers at the national, regional and provincial levels. The GOM has undertaken major research to provide baseline data critical to program planning, including the 1987 Demographic and Health Survey (which will be repeated in 1992), and the 1988 National Survey on Causes and Circumstances of Infant and Child Deaths. The GOM conducted several cost/benefit studies and analyses of program cost effectiveness. Morocco has moved well ahead of many countries, thanks largely to USAID technical assistance, to improve data collection and analysis, which has resulted in better identification of needs and targeting of resources.

Improved Management of Energy and Natural Resources

To achieve this strategic objective, the FY 1989 Action Plan proposed to continue USAID's efforts to strengthen energy sector policy analysis, planning and management capacity and to increase development and use of Morocco's renewable energy resources. USAID completed its major interventions in energy planning, policy formulation and demonstration of renewable energy technologies in 1990.

Over the 1989 Action Plan period, Morocco continued to maintain energy prices at above world levels, thereby insuring that the price mechanism provides incentive for conservation and rational

GDP & ENERGY GROWTH
(3 YEAR MOVING AVERAGE)



use of energy. USAID strengthened the energy planning capacity of the Ministry of Energy and Mines by creating an energy model to assess impacts of different energy scenarios and by establishing a computerized data system. Policy studies highlighted the need to harmonize tax treatment of coal and fuel oil so as to reduce the uneconomic bias against usage of Moroccan refinery-produced fuel oil and to allow importation of refined petroleum products when their purchase price is less than Moroccan refinery production costs. In addition, USAID encouraged senior energy sector officials to promote independent power generation, with the result that the Government of Morocco agreed to consider exception to its monopoly production position to undertake purchase of power from co-generators and independent producers. For the latter, USAID increased appreciation for cost savings that would accrue from combined cycle gas turbines fueled by natural gas delivered from Algeria under a proposed pipeline to Spain. Also, USAID assistance was instrumental in helping to establish a Moroccan center for renewable energy technologies, including facilities for conducting pilot projects using wind systems, photo-voltaics to power rural water pumps, and private sector demonstration of solar hot water heaters. On the other hand, due to institutional weaknesses in the cooperating ministry, USAID projects in this area were only partially successful, and funds were de-obligated from two of the three Mission-supported projects in the energy sector.

The continuing Energy Demand Management project has made progress in creating a commercial sector capacity to help private industry implement techniques to improve energy efficiency. It has already begun to create a noticeable Moroccan private sector capacity to conduct energy audits of industrial firms, with a number of Moroccan engineering consulting firms having attended training sessions. An evaluation of this project was recently completed, concluding that a core of a national energy management capacity has already been created by the project. In addition, twenty hotels and enterprises have benefitted from energy audits, resulting in recommendations estimated to save 6,000 tons of oil equivalent annually, as well as significant cost savings for the individual firms. These savings should increase ten-fold as the project expands the number of energy audits and improves dissemination of energy conservation information and practices.

Implications for the Future

There is no question that Morocco has progressed economically since undertaking a significant program of economic policy reform. It has substantially opened its economy, making it more competitive. It has increased economic efficiency by removing factor and product pricing distortions, boosted exports, reduced the government deficit, and improved financial market intermediation. Morocco has also made good use of the Paris and London Club debt reschedulings.

Yet, despite the laudable progress Morocco has made over the past years, important challenges remain. With a per capita income of $830, Morocco has reached the status of Middle Income Country. However, it still has a number of social indicators one would expect to find in a Less Developed Country. For example, Morocco's illiteracy rate, at 67%, is two and one half times higher than the average for other Middle Income countries, and access to potable water is little more than half that of the same group of countries.

These disturbing statistics reflect several continuing problems, principal among which are:

- Under-investment in health, education, and housing and governmental structures and roles which impede private sector provision of such services
- Chronically high unemployment
- Insufficient foreign and domestic investment
- Unbalanced investment policies
- Limited access to external markets
- A staggering debt burden

Clearly, these are the problems Morocco must address in the 1990's, and depending on the country's success, perhaps beyond. Also, these problems will clearly take on greater significance as Morocco makes its bid to benefit from the changes taking place in Europe which may offer tremendous opportunities, if Morocco is able to prepare itself adequately to take advantage of the opportunities.

Given the size of the USAID program and the scale of the Moroccan economy and its problems, it is clear that our programs cannot completely solve problems on which we choose to focus our resources. We are, however, addressing selected critical issues in a number of different ways, all of which impact on Morocco's investment policies, access to external markets, or social infrastructure --especially in health and housing.

USAID projects can and do serve, realistically, as important catalysts to help focus Moroccan policy in some cases, to help break structural bottlenecks in others, to help stay the course to implement difficult decisions, and in many cases to provide the intellectual encouragement Morocco needs to bring true reform to elements of its economy. In a very real sense, USAID is working with Moroccans, in both the public and private sectors, on some of the most important economic and social problems Morocco will face during this decade.

First, let's look at some of the areas in which USAID can be helpful:

USAID continues to focus increasingly on opening up markets and generating employment. For this reason, USAID has reoriented its programs, beginning in FY 1991, to much more direct involvement with the private sector, providing technical expertise, loan guarantees, and training. While USAID will continue to work with the public sector in selected areas, during the current Action Plan period we are shifting to a joint private-public sector program, with increasing emphasis on the private sector portion of the equation. In this way, we believe we can assist Morocco in efforts focused on market creation, exports, employment generation, market competitiveness, and building greater efficiency into selected public sector delivery systems.

Also, having successfully reached substantial segments of the better educated and more urban population with its health and family planning programs, Morocco must find ways to make services and information more broadly available. There remain significant urban-rural differences in the use of family planning, the health status of children and maternal health care. Contraceptive prevalence is twice as high among urban women (52%) as among rural women (25%). The total fertility rate in rural areas (5.9) is almost double that in urban areas (3.2). The infant mortality rate is 91 deaths per 1,000 in the rural areas, as opposed to only 66 in urban areas. More than half of urban births are medically supervised, while only 10 percent are medically supervised in rural areas. The statistics show about the same split for rural and urban women who receive pre-natal care. The GOM is expected to continue to provide a substantial proportion of these expanded services, but it is still heavily dependent on outside donor support. The GOM has initiated several approaches to reduce this dependency and the burden on public resources, including revising its health policies to emphasize cost recovery so that those who can pay, do pay, and so that more funds are available for primary health care. USAID population and child survival programs can help to bring about this needed expansion of services and help Morocco find ways to rationalize the system of long-term health care financing.

High rates of in-migration to urban centers have created unmet demands for low-income housing. Shantytowns have spread, but these pay no tax revenue to municipalities, nor do inhabitants receive even minimal levels of municipal services. There is also no opportunity for "sweat equity" to develop from such housing since the occupiers have no land title. Coupled with high unemployment among the young, inadequate access to health services, the unmet demand for low-income housing creates an explosive combination which can jeopardize many of the economic policy changes that have been implemented. We can help alleviate some of these problems through USAID's low-income housing projects.

On the other hand, there are a number of equally important areas in which USAID has a very limited ability to assist Morocco:

Basic education is a key element of the social structure in need of reform and a major infusion of investment. The Government of Morocco simply has to do more in education in order to stimulate further the nation's development and to provide more opportunities to the Moroccan people. USAID does not have, however, either the resources or the expertise to directly make a meaningful impact on basic education, despite the importance of the problem. We do not have sufficient historical background and language skills in French or Arabic to address substantive problems at the primary and secondary school level where the most difficult problems exist. We have, however, encouraged other donors to become more involved in the sector, especially the French, the African Development Bank and the World Bank. In this regard, we note with interest that both the World Bank and the African Development Bank recently agreed with the Government of Morocco to provide the bulk of the funding ($190 million) of a $238 million basic rural education project which will construct and provide equipment for some 250 schools in rural areas. Several other donors are also supporting education projects in Morocco, including the United Nations Development Programme, UNICEF, Canada, France, and several other European countries. Therefore, for the above reasons, USAID has no plans to become involved in basic education, except in a relatively minor way in health education under our health and population projects.

USAID is aware of the GOM's acute interest in creating a high quality "American style" institution of higher education in Morocco. This is an idea that has been taking form for several years. A team of Moroccan experts and architects visited several American colleges and universities in 1986 and produced architectural plans for the proposed institution to be located at Ifrane, some 200 kilometers (120 miles) east of Rabat. While King Hassan II was in New York, following his state visit to the United States in September 1991, the idea became the topic of increased discussion. In a well-publicized interview, the King expressed his interest in developing a university at Ifrane that would imbue Moroccans with the skills required to participate fully in the world of the future, and which would also serve as a Maghrebian center of excellence where "all the brothers of Abraham" could come together. During the same interview, the American-Moroccan Foundation, led prominently by Dr. Henry Kissinger, pledged to do all possible to help make Ifrane University a reality.

USAID understands the importance such a university could have for Morocco, particularly if the institution were developed to play a role similar to that played by the American University of Beirut for many years. The importance of such an institution in Morocco is enhanced if one assumes --as is probably the case-- that fewer opportunities will exist for Maghrebians in the future to attend European universities, especially in France, as Europe faces

increasing internal pressures to reduce higher education training opportunities for non-Europeans. Nevertheless, USAID must look realistically at budget and staff availabilities when assessing whether it could offer assistance in such an area.

It is important to stress that USAID has not been asked by the GOM even to consider higher education, or for support to help establish Ifrane University. USAID is convinced, therefore, that except for agricultural education, which we are phasing out in FY 1992 at IAV Hassan II, and our training projects, USAID should not get involved in higher education. There are several very practical reasons for this judgment. First, development of a major higher education institution is a long-term undertaking. IAV Hassan II, for example, has been a twenty-year project. USAID has the same experience in other countries as well. Second, creation of such an institution is expensive, and given the size and staff make-up of the current USAID program, it would mean dropping at least one of our strategic objectives to make room for higher education, and it would require staffing changes, at least to add an education officer. Finally, given Morocco's dismal literacy rate of 33% (half that for women), if USAID initiated a program in the education sector at all in Morocco, basic education --with all of its attendant problems-- probably ought to receive higher priority.

Likewise, USAID has not been able to have much direct impact on Morocco's debt problem. USAID has raised the question of debt-for-development and debt-for-nature swaps with the GOM on several occasions, but the GOM prefers to carry the debt at its rescheduled cost, rather than "buy" it back. Such approaches would have very little real impact on reducing a $20.5 billion debt, and involve substantial workload and staff requirements for USAID, as new projects would have to be created to use the local currencies. Moreover, debt relief for Morocco is a multi-agency question for the U.S. So far, we have not found a much enthusiasm for non-conventional debt relief for Morocco on either side of the Atlantic. We are, however, having some indirect impact on Morocco's debt problem through our assistance to increase the country's foreign exchange earnings.

In Part IV, the Action Plan develops USAID's approach in pursuing three strategic initiatives for the first half of the 1990's: 1) increased employment, 2) improved market competitiveness, and 3) improved delivery of selected social services.

USAID STRATEGY FOR FY 1992-1995

Strategic Elements of the Program During the Action Plan

Building on the success and lessons of the past, USAID has identified, through an extended process of analysis and re-examination, three strategic areas where it would expect to make a positive impact in the near to medium term. An interim conclusion on program focus was reached in mid-1990 and expressed in the document "Programming for the 1990's: A Concept Paper " (submitted to AID/W in June 1990). That document cited eight "areas of involvement to achieve program objectives" (See Annex F). At about the same time (August 1990), drawing heavily on AID/W inputs, USAID developed a set of program objectives and progress indicators, along with baseline data (See Annex D). During the past twelve to fifteen months, this process of analysis and re-examination has continued, even as the Mission experienced major program disruptions and staff evacuations related to the Gulf Crisis and still carried out a heavy design schedule, which moved the program aggressively into the private sector. There now exists a much better balance of direct USAID activities in both the public and private sectors, aimed at achieving progress for each of its objectives. This approach will be maintained throughout the new Action Plan period.

USAID has simplified its strategic objectives, identifying three mutually-supportive objectives toward which all of our efforts will be focused. We believe these objectives capture the essence of USAID's plans for the coming years.

Accordingly, USAID strategic objectives for the 1992-1995 Action Plan period are to:

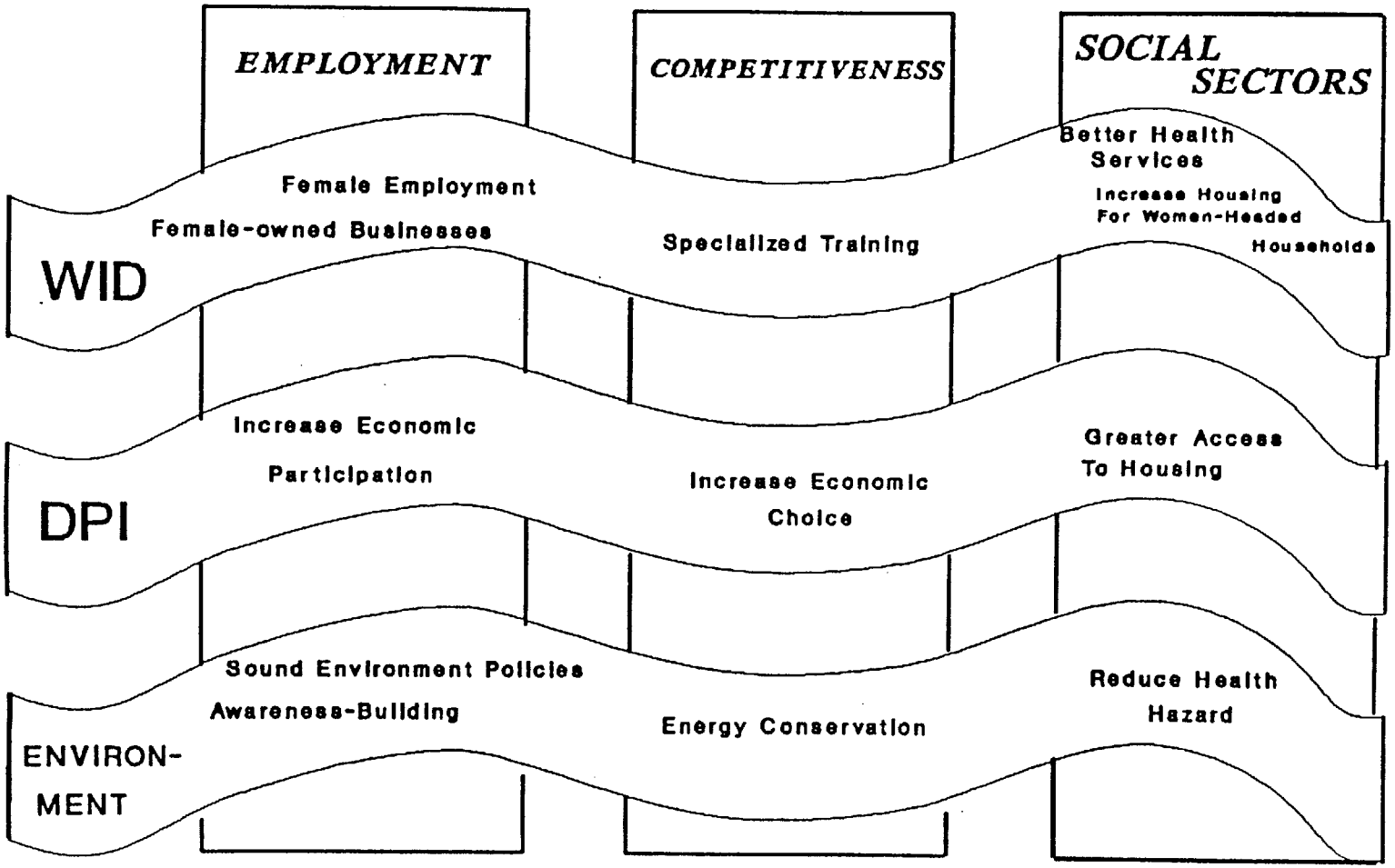
- **Increase Employment**
- **Improve Market Competitiveness**
- **Improve Delivery of Selected Social Services**

Clearly, these three objectives are closely inter-linked. Increasing employment opportunities, for example, will mean little unless Morocco is able to develop and maintain external markets. This will require exploiting its comparative labor advantage, tailoring production to meet customer expectations for quality and appearance, and becoming a more efficient exporter of its products. In other words, it must improve its competitiveness. Likewise, increased employment depends on a healthy workforce that can depend on adequate health services, and that has access to decent and reasonably priced housing. Also, we have identified three cross-cutting themes which will receive attention throughout the Mission

portfolio. These are democratic pluralism, gender issues, and concern for the environment. (See graphic presentation of the overall strategy on the following page.)

USAID is convinced that these objectives are key to Morocco's sustainable economic development, and that they are the ones in which USAID will be most able to implement effective programs that will have positive, measurable impact in Morocco over the life of the 1992-1995 Action Plan. The rationale for our selection, and the specific expectations of each of these objectives, are addressed in the following sections.

USAID MOROCCO'S STRATEGIC OBJECTIVES



Focus and Rationale of the AID Program

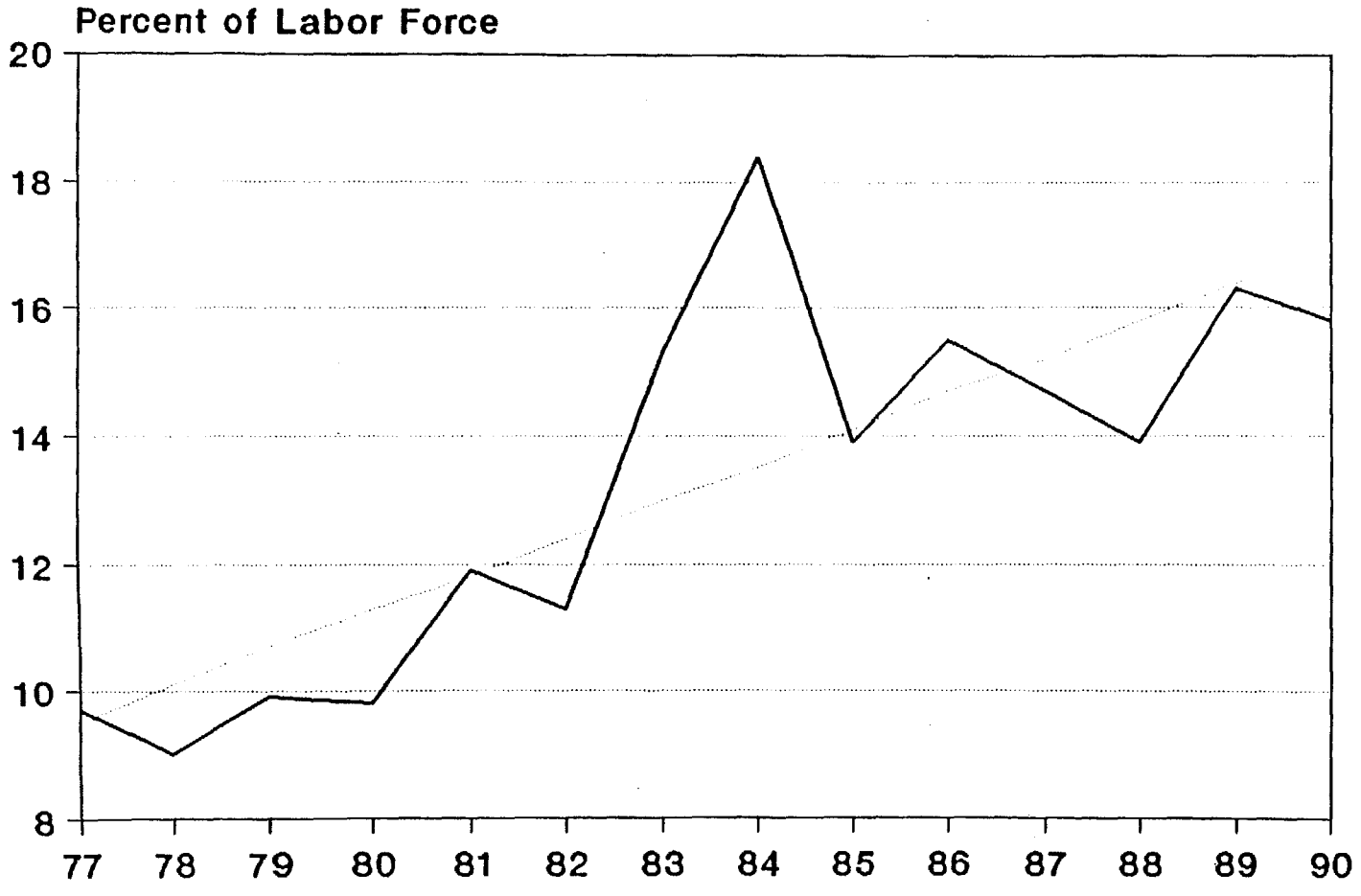
STRATEGIC OBJECTIVE NUMBER ONE: INCREASE EMPLOYMENT

Roughly half of Morocco's labor force is employed in agriculture, but not all of this employment is full-time, given the pronounced seasonality of Morocco's agriculture in dryland areas and the low level of cropping intensity in irrigated areas. As in other developing countries, the Moroccan economy is beginning to expand and become less dependent on farm-level agricultural production and the rural areas as the major sources and locus of employment and income. Despite this change, the agricultural sector will remain a very important employer since marketing, distribution, services, agro-processing and agro-industrial activities are beginning to grow rapidly and become major sources of economic growth, employment and income.

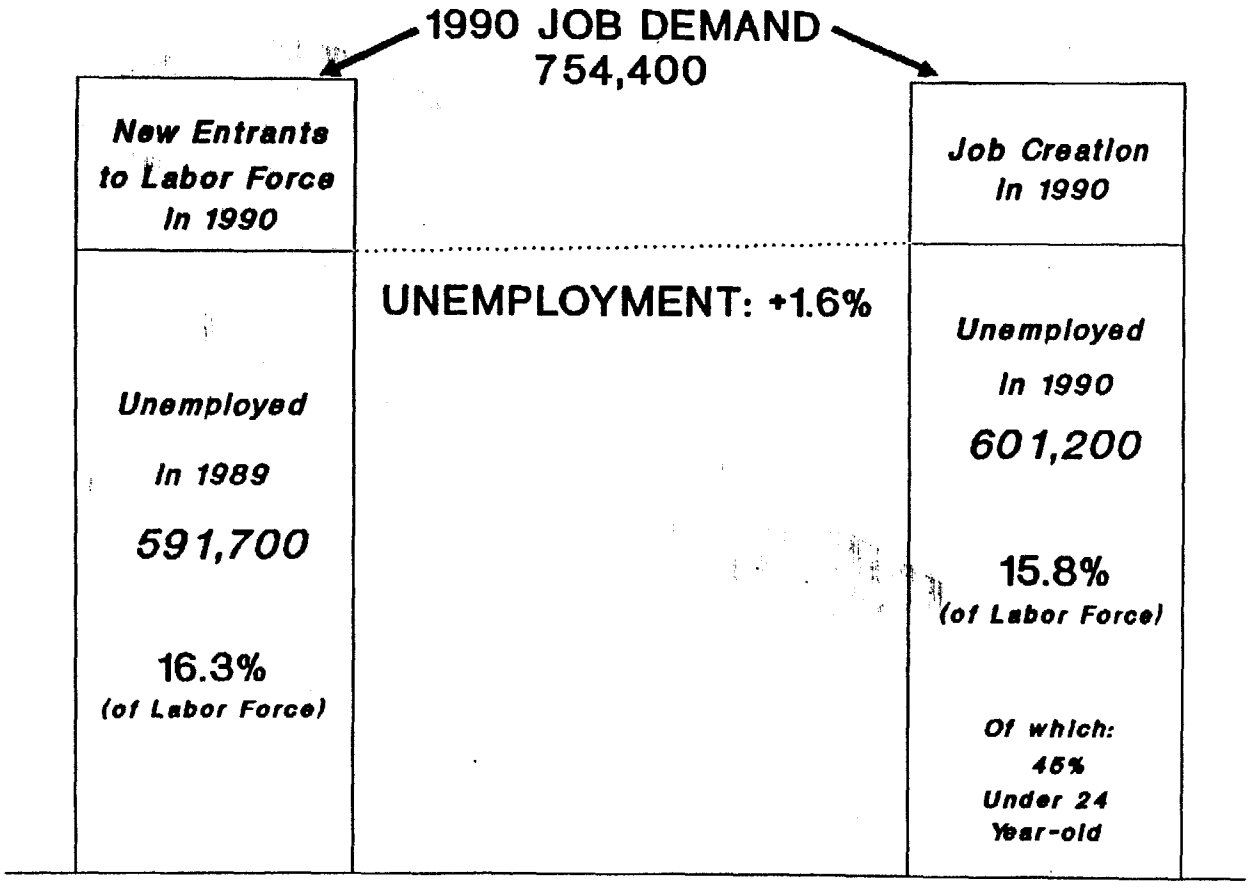
At the same time, Morocco is becoming increasingly urban, and creating jobs for the urban unemployed has become and will remain the most pressing social and economic challenge facing Morocco in the near to medium term. In past years, high migration to France and other European countries served as a safety valve for all levels of Moroccan workers (skilled and unskilled). Now, as Europe adjusts to the tremendous changes it is undergoing (planned as in the EEC steps to harmonize migration laws as part of its efforts to create a uniform market after 1992, and unplanned as in the effects of the break-up of the USSR and Yugoslavia), the migration safety valve is increasingly being reduced.

Based on the 1982 Census and analyses of urban-rural migration, it is expected that more than half of Morocco's population will live in urban areas by the mid-1990's, and as a result, population will be growing more than twice as fast in urban areas (3.3% per annum), as in rural areas (1.4%). Growth in the urban labor force is considerably larger than even these population growth rates indicate because rural-urban migrants tend to be largely male, searching for employment. At the same time, women are increasingly becoming active members of the labor force, resulting both from extension of education for females and the growing opportunities for women in such labor-intensive manufacturing industries as textiles, garments, and agro-processing. Furthermore, based on recent annual employment surveys, the urban unemployment rate is now 16% and that among new entrants (the 15-24 year old category) is 31%. With the urban labor force expanding at 4% annually, just to keep unemployment levels as they are will require that the Moroccan economy expand by an average of at least 5% annually, assuming productivity improvements on the order of 1% per year. Sustaining growth rates of this magnitude will necessitate higher and more efficient levels of investment and increased attention to improving Morocco's competitiveness so that it may increase sales abroad.

URBAN UNEMPLOYMENT RATE



EMPLOYMENT IN 1990



For the long-term, reducing birth rates will help to solve Morocco's employment problem. In the near term, however, the ability of the Moroccan economy to respond adequately to the demand for jobs is impeded by a number of economic policy and structural constraints. These include the following:

-- The lack of competition within the financial sector and of alternative instruments for debt and equity finance have led to a high cost of financial intermediation which has raised the cost of financing for plant and equipment and thus lowered the rate of private sector investment and employment creation. This is particularly true for small and medium enterprises, which are the least able to access the capital needed to establish or expand.

-- Barriers to market entry and to new business establishment and expansion dampen the rate of new enterprise formation with consequent negative effects on employment generation. Again, this is particularly damaging to small and medium enterprises, which are generally involved in more labor intensive endeavors.

-- The cost of capital and labor differ markedly between the formal, modern sector and the small enterprise and informal sectors. In the large, modern sector, employers are too visible and large to ignore the provisions of Morocco's labor laws and are compelled to register and pay hefty contributions to Morocco's social security system. Large producers are also sufficiently well organized to take advantage of investment incentives, which effectively exempt payment of duties on items of capital equipment. The combination of tight labor laws and investment tax holidays tends to skew incentives toward capital usage as against use of more labor. At the opposite extreme, in the informal and small enterprise sectors, the labor code and provisions for social security are by and large ignored. Wages are thus lower, and fuller use is made of labor in production processes.

-- Skills provided by educational and training institutions do not match employer requirements, with a resultant mismatch between supply and demand at different skill levels. This mismatch is now especially pronounced for managers and skilled production workers.

-- Lack of information regarding investment and marketing alternatives is another barrier. Potential entrepreneurs simply are not equipped to take advantage of investment opportunities because they do not know about and can not apply the latest technological innovations.

Over the new Action Plan period, USAID will be working to ease a number of these constraints to employment creation through existing and planned activities. Many of these activities are focused on the private sector, reflecting an important change in Morocco recently which makes possible greater reliance on private sector remedies to the employment problem. For years the public sector was considered the employer of choice for university and high school graduates. That attitude is changing rapidly, offering opportunities that did not exist previously. Paralleling worldwide changes, entrepreneurship and related employment in the private sector in Morocco are now seen as among the most desirable career choices.

The Government, itself, is contributing to this new confidence that is being placed on the private sector. King Hassan II has taken a personal interest in reducing the current levels of unemployment. His appointment of the National Council on Youth and the Future is an example. This council has developed an action program to help young, unemployed workers find jobs. The major thrusts of this plan are to remove barriers to new and expanded investment, improve access to finance for new, small enterprises, and reform education to provide new entrants with the skills they require. While creation of this council is a recognition that the problem of unemployment is acute, its announced solutions have so far done little more than draw attention to the problem. The King has also announced that the Government will find 100,000 new jobs each year for recent graduates. In this connection, there is a push to create new business opportunities and to find employment either in the public or private sectors (particularly the latter) for new graduates. Creation of the new council and the attempts to create employment send important signals that the government considers unemployment a serious issue. However, in the short-run, the actions, if not handled carefully, may actually distort the job situation by pressuring employers to hire more people than actually needed.

USAID's program directly addresses in very concrete ways many of the employment constraints Morocco is facing. The program is designed to focus specifically on measures which will help reduce barriers and decrease market segmentation between the large, formal, modern sector and the small enterprise and informal sectors. For example, the New Enterprise Development project (NED), initiated in late FY 1991, has a policy component which will focus on removing administrative and other barriers to small and medium enterprise creation and expansion. NED will also expand business services needed by small and medium-sized enterprises (SMEs) and improve their access to credit. Also, USAID is proposing for the Ministry of Commerce and Industry a major policy study of industrial protection and the structure of industrial incentives. Its results and recommendations will pinpoint industrial policy areas that need reform, thereby reducing the impact of policies that impede job creation.

A proposed Microenterprise project (1993 start) will further assist in developing this sector by providing credit and technical assistance to urban microentrepreneurs, with a particular emphasis on women. Surveys show that a high percentage of microenterprises already exists in Morocco, and that there is the potential to expand such programs. A.I.D.'s accumulated experiences in other countries indicate the feasibility of helping to develop microenterprises and of putting them on a self-financing basis after a reasonable period.

The Financial Markets project (FY 1994 start) will build upon current efforts to help deepen and broaden financial markets and promote such financing instruments as commercial paper, corporate bonds, and equity issues. By creating greater competition and alternative means of financing working capital and fixed investment, the costs of financial intermediation will be lowered and the incentive to invest in productive endeavors raised.

Specific programmatic objectives aimed at increasing employment are to:

- -- Create and Expand Small and Medium Enterprises (SMEs)
- -- Improve Access to Finance for Business
- -- Expand/Strengthen Microenterprises
- -- Ease the Policy Environment for SME Investment
- -- Improve Business Information Services for Small and Medium Enterprises
- -- Deepen and Diversify Financing Available for Business Investment

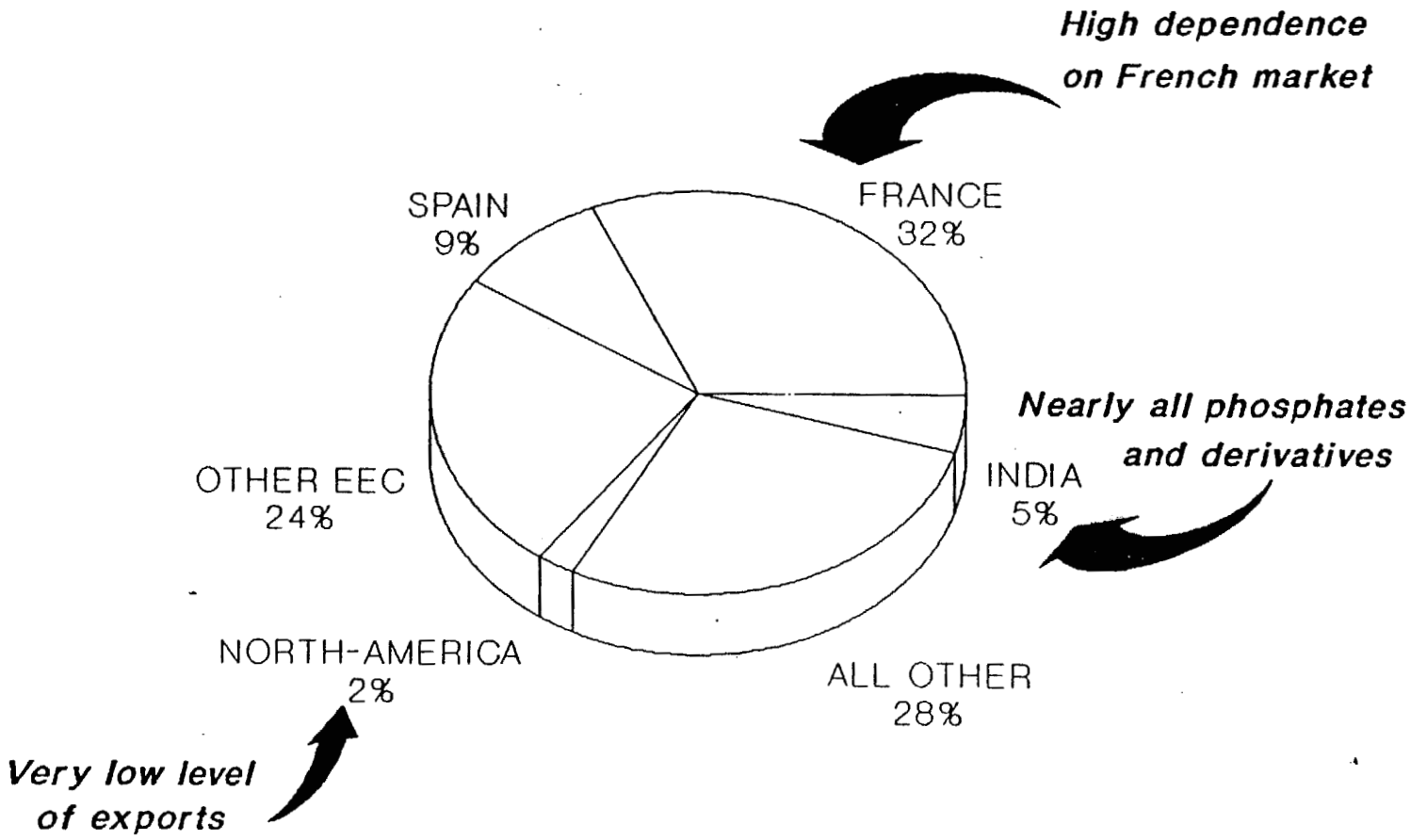
STRATEGIC OBJECTIVE NUMBER TWO: IMPROVE MARKET COMPETITIVENESS

USAID's program is designed to help Morocco develop and maintain its competitiveness. Relying on the internal market will not be sufficient to provide the growth needed to absorb new entrants into the labor market. Morocco also needs to continue to improve export performance, taking advantage of its relatively low wage structure. Morocco's newer exports in garments, leather goods, textiles, agribusiness products, other light manufactures, and such services as tourism tend to be relatively labor intensive, which gives Morocco a cost advantage and helps to absorb new entrants into the Moroccan labor market. Within the EEC, Morocco has benefitted from certain tariff and entry concessions in the French market for garments, fruit, and vegetables and, hence, enjoyed a privileged position within that market.

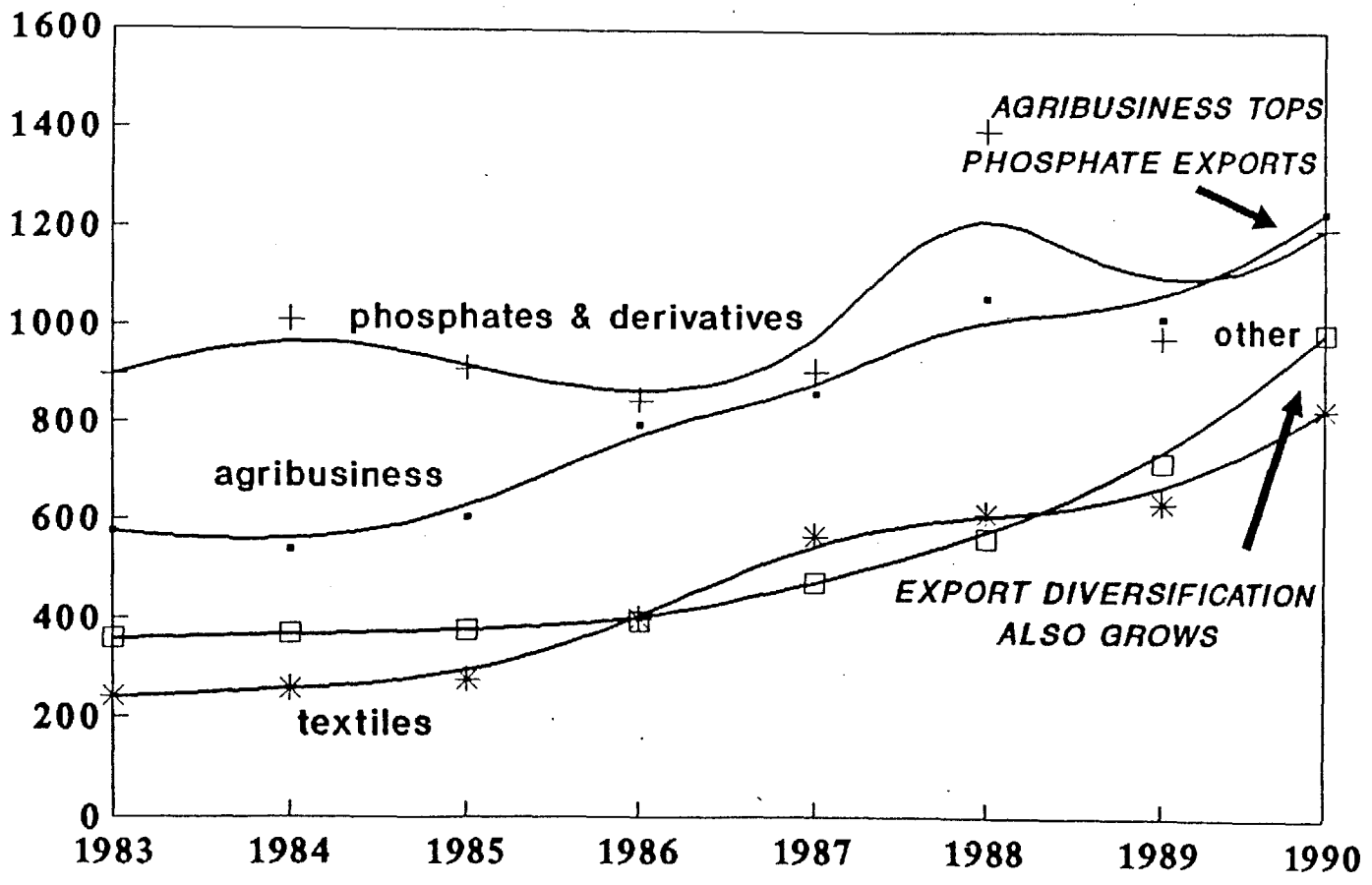
In the course of the 1980's, Morocco experienced strong growth in export industries, but the international environment in the 1990's and beyond will make it harder for Morocco to maintain such growth. With the creation of a uniform European market after 1992, Morocco will lose its special position in the French market and will have to compete against other Mediterranean suppliers in the unified EEC market. In addition, new cost competitive suppliers are emerging in Eastern Europe. While the creation of a uniform, 400 million strong European market and the emergence of market-driven economies in Eastern Europe will mean that Morocco will face stiffer competition in the Europe, it is also likely that these very same developments will increase European growth and demand for imports. To respond to these challenges and to develop new markets in, for example, the United States, to which Morocco exports very little, Moroccan enterprises will need to improve their marketing abilities and competitiveness.

Until recently, Morocco has not had to work very hard to sell its products to a limited foreign market. Because of traditional ties to France, Morocco has enjoyed a protected niche in the French market. Over time, however, Morocco has come to depend on the French market, in part because of the ease of language, and former colonial ties, and also because it has been an easy market to penetrate due to special consideration given to selected Moroccan products exported to France. Morocco has a well-developed capacity to produce a wide variety of products. It has skilled, relatively cheap and abundant labor. But it has a very limited marketing system, even for trade with France. Morocco needs to break the past tendency to rely on France. At the same time, it needs to aggressively develop a market system, in a number of non-traditional countries, as well as throughout Europe. In short, Morocco must increase its exports in the future at a much faster pace than it has in the past.

EXPORTS IN 1990
Highly Concentrated



MOROCCAN EXPORTS
Dollar Millions



Developing and maintaining Morocco's competitiveness in external markets will require improvements in many areas, the most important of which are:

-- Morocco's internal markets need to function efficiently so that raw materials, labor, capital, and other inputs to production are delivered to producers at least cost and output transported and marketed in external markets at competitive prices.

-- Export incentives must be maintained, both in relation to competing suppliers from other nations and in relation to the returns gained from producing for the local market.

-- Marketing know-how of Moroccan exporting firms must be improved by giving firms better knowledge of market opportunities and expertise to access and compete in external markets. Moreover, Moroccan product design, packaging, and quality assurance need to meet the standards demanded by consumers in these markets.

-- On the production floor, efficiency of plant layout must be improved as well as management of equipment, raw material, and labor usage, so that Moroccan cost advantages are maintained.

-- Capacities to develop, adapt and improve production and other technologies will be critical to maintaining cost and quality advantages over competitors. In this regard, access to foreign technology must be made easier in order to diversify and improve the range of Moroccan products. Direct foreign investment can play an important role in introducing Moroccan producers into new export markets, and inject new technology, production, and management methods.

-- Human resource development in modern marketing and business management skills need to be upgraded if Moroccan enterprises are to identify opportunities in external markets and produce goods and services that meet price and quality standards demanded in these markets.

-- In recognition of the global marketing strategies of firms in major trading economies (the U.S., Japan, and Europe), Moroccan enterprises must increase their attractiveness for establishing strategic alliances with those firms.

Morocco has passed and is beginning to implement a specific privatization law, which identified 112 public enterprises to be privatized within the next several years. These include fourteen

financial institutions (including two of the country's largest banks), nine sugar mills, thirty-seven hotels, and public enterprises dominant in cellulose production, oil seed marketing, petroleum distribution, machine tool manufacture, foundry, and automobile assembly industries. Privatization of these state-owned enterprises will increase their efficiency and induce greater competition among suppliers and buyers of the goods and services to and from the enterprises that are privatized. Many of the state-owned enterprises to be privatized are producers of intermediate goods, and the efficiency gains from privatization will thus redound quickly to other producers.

Implementation of the Government's privatization program will substantially improve the climate for private sector investment, both domestic and foreign. Privatization will remove the threat that the state will pre-empt for itself or compete directly in certain areas of the economy and open new areas for private investment. Also, by increasing the number of shares available and distributed broadly, privatization will promote development of the stock market and, hence, equity finance. Related measures to create a better functioning equity market will serve to improve access to and provide alternative means of financing for new business creation and expansion. Further, through privatization, actual and potential transfers to state-owned enterprises will be reduced, thereby lowering government deficit financing needs which crowd out credit to the private sector.

USAID is providing support to the Moroccan privatization program through the provision of a long-term specialist, short-term technical advisers, and training. The long-term specialist has already helped to conceptualize exactly how the program will be implemented and to prepare some of the implementing procedures. USAID also plans to provide major support, beginning in FY 1992, to Morocco's privatization efforts through non-project sector assistance, which will assure more rapid and constant implementation of the Government's program, with consequent beneficial effects on both internal market competition and development of financial markets.

Through a new International Executive Services Corps (IESC) project, assistance will be provided to firms to improve marketing, product design, packaging, production processes, exports, and overall management. The Trade and Investment Services component of the IESC project will continue to provide direct assistance to help Moroccans export to the U.S. and other markets, and to stimulate U.S./Moroccan joint ventures.

Energy costs in Morocco are higher than in many competitor countries and represent a considerable fraction of total production costs. The Energy Demand Management Project is developing a self-sustaining private sector capacity to assist Moroccan enterprises, including hotels, to reduce their energy consumption and thus

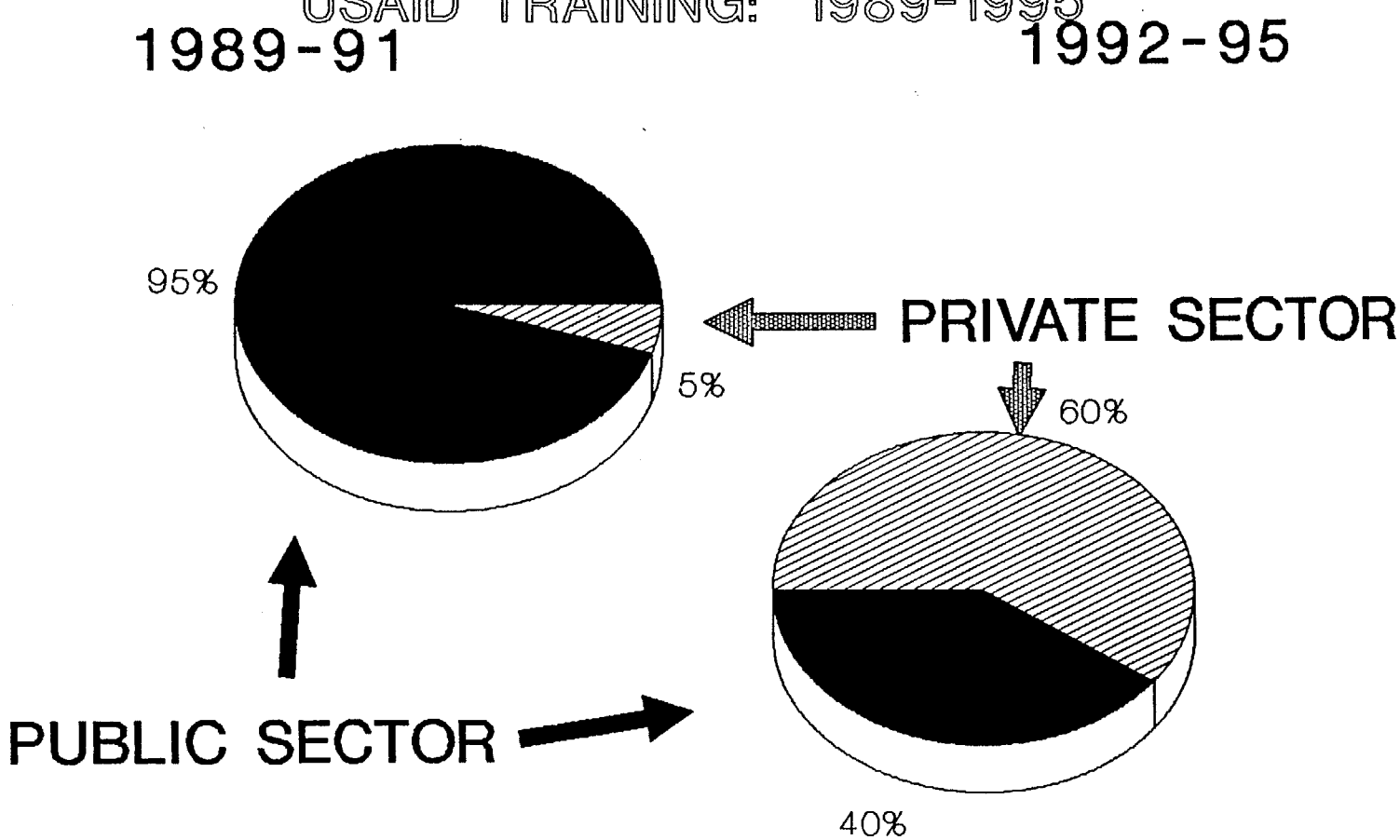
improve their cost competitiveness.

On the policy level, we have already mentioned (p.35) that we will be financing a major study of industrial protection and incentives. This study will also assess whether current levels of protection unduly skew the incentive toward production for the domestic market and sustain uneconomic production. Certain results of the study are expected to provide the analytical underpinnings for the next round of tariff reform and industrial policy change.

The agriculture sector deserves special note with respect to improving Morocco's competitiveness. USAID assistance to this sector over the past several years has been devoted primarily to education, research, and institutional development, with particular emphasis on the arid and semi-arid areas of the country. The Hassan II Institute of Agronomy and Veterinary Medicine in Rabat and the Aridoculture Center in Settat are now research institutions of regional and international acclaim. They were both supported for many years by USAID, and are now in a position to make major contributions to the technological advances required to make Morocco increasingly competitive in existing and new markets. These institutions were designed to provide their research findings to the public sector entities which have supported them in the past and which had the principal responsibilities and networks to disseminate new technologies. They must now re-orient their practices to identify and reach clients directly, with a greater emphasis on marketing their work, in response to the demand for commercial application of new technologies. These institutions will have to respond to demands from the private sector, and be able to make their research and outreach profitable. USAID has a role in helping these institutions make the necessary adjustments, and in getting Government to realize that questions of agricultural productivity do not all flow through the public sector.

The Agribusiness Promotion project is a key element of USAID's effort to help Morocco develop and maintain its competitiveness. This project is a logical follow-on activity to the years Morocco has devoted to agricultural research and to stimulating production. A principal concern in Morocco now is how best to develop and maintain markets for its increased agricultural products. The Agribusiness Promotion project will provide assistance to Moroccan agribusiness through seminars, applied training, and technical assistance. In addition, a small grant fund will be provided to help individual enterprises and professional and trade associations to meet international standards, develop new products, adopt more modern processing techniques, and identify and penetrate new markets. Analysis and dialogue will be undertaken on major policy barriers to agribusiness growth, particularly in exports. The ability of indigenous educational institutions to provide improved agribusiness training and outreach services to the private sector will be upgraded, along with key support services (e.g., in plant

USAID TRAINING: 1989-1995



Women: 20%

Women: 30%

-43-

inspection, quality control, grades and standards, market information) of the Ministry of Agriculture.

Training is an important element of improving Morocco's competitiveness. Under the Training for Development project, USAID will provide U.S. and in-country training in relevant fields to 15,000 Moroccans, the majority of whom will be from the private sector. This new project will help to address some of the inadequacies of training institutions in business management and related skills. Also, USAID plans to work with the country's new private schools, by lending support to the development of improved curriculum and teaching methods in the host of new private sector business, management, and other professional schools. This project will, thus, help to alleviate the mismatch between labor demand and supply for qualified management personnel. Special attention will continue to be placed on training women.

The Government has recently created a new Ministry for External Trade and a new Ministry for Foreign Investment. The Moroccan Center for Export Promotion has been placed under new and more dynamic leadership. USAID will selectively help these new or reorganized agencies, as well as emerging institutions in the private sector, to improve their abilities to attract foreign direct investment and inform current and potential Moroccan exporters of external market opportunities on how better to market their products and meet foreign standards.

Finally, competitiveness requires efficiency in the use of scarce natural resources. For Morocco to take full advantage of its abundant low-cost labor resources, it is necessary that limiting factors be used most efficiently. The major limiting factor on the natural resource side is water; hence, efforts to improve the efficiency of the use of this resource will be an important element of program efforts to improve competitiveness. The new project in Water and Soil Resources Conservation will serve as a model for rationalized, efficient use of critical natural resources and the associated commercial and economic returns.

Specific programmatic objectives are to:

- -- Improve Export Performance
- -- Enhance Market Competition
- -- Increase Competitiveness of Individual Firms
- -- Increase Foreign Investment

- -- Improve Agricultural Information Collection, Dissemination, and Policy Development
- -- Provide Needed Management and Business Training
- -- Strengthen Business, Management, and Agribusiness Training Institutions
- -- Encourage Sustainable Natural Resource Management Practices, Especially for Water

STRATEGIC OBJECTIVE NUMBER THREE: IMPROVE DELIVERY OF SELECTED SOCIAL SERVICES

Morocco does not have a consistently effective social services delivery system, particularly with respect to education, health and housing. This is due in part to a lack of adequate technical skills, but also to domestic policies which are inappropriate to provide the investment in these areas that would improve services delivery. Clearly, social services have suffered in the past as a result of decisions to invest scarce resources in other sectors. While every nation must decide on the proper balance between resources for "guns" or "butter", the choice in Morocco has often been between "guns, butter, planes, bridges or mosques", with "butter" --a euphemism for social services-- coming out on the short end of the bargain. We can expect to have only limited influence on Morocco's choice of investments, but we can --and do-- point out the costs to the social sector of those choices.

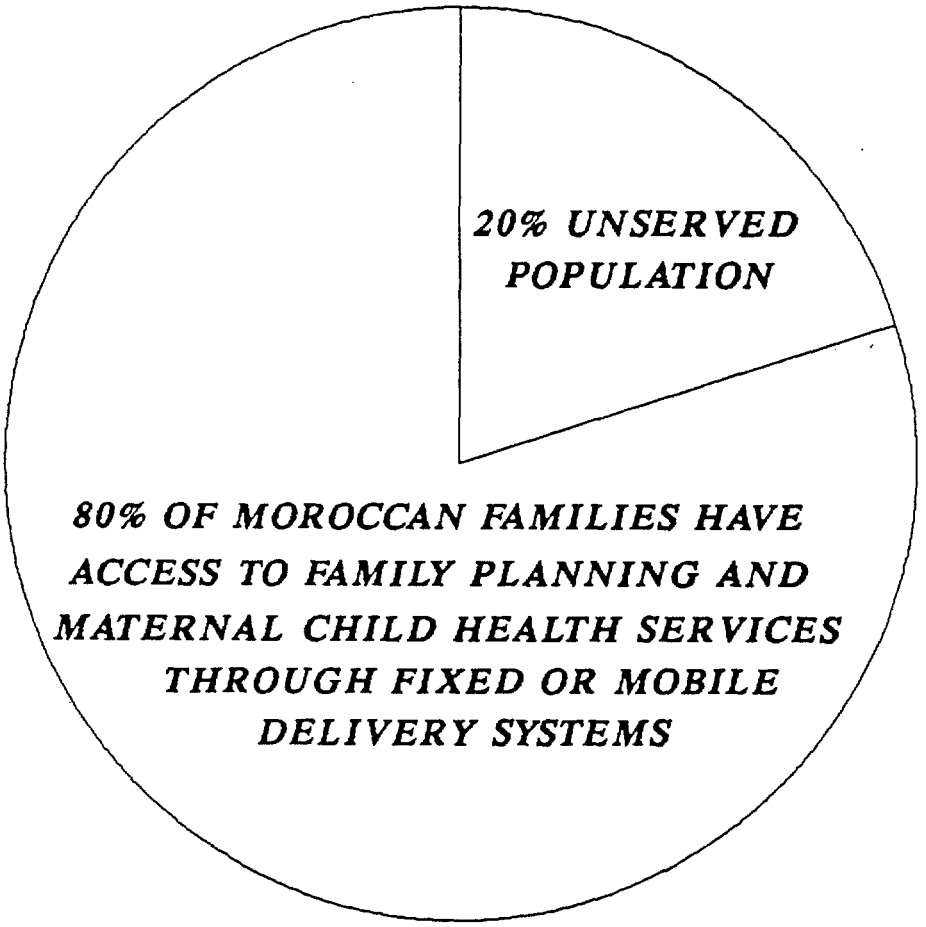
On the other hand, there are some things the Government of Morocco does with the investments it makes, key parts of which would be better left to the private sector. This is true with respect to health and housing. Also, USAID can be of assistance in helping to design and implement the smooth transfer of these functions to the private sector.

In both the health and housing areas, the private sector is already active, but it could be more so. USAID programs are helping to transfer some of the burden for providing health and housing services to the private sector. We are also continuing to work closely with the public sector at the policy level to ensure that the incentive structure supports this transfer.

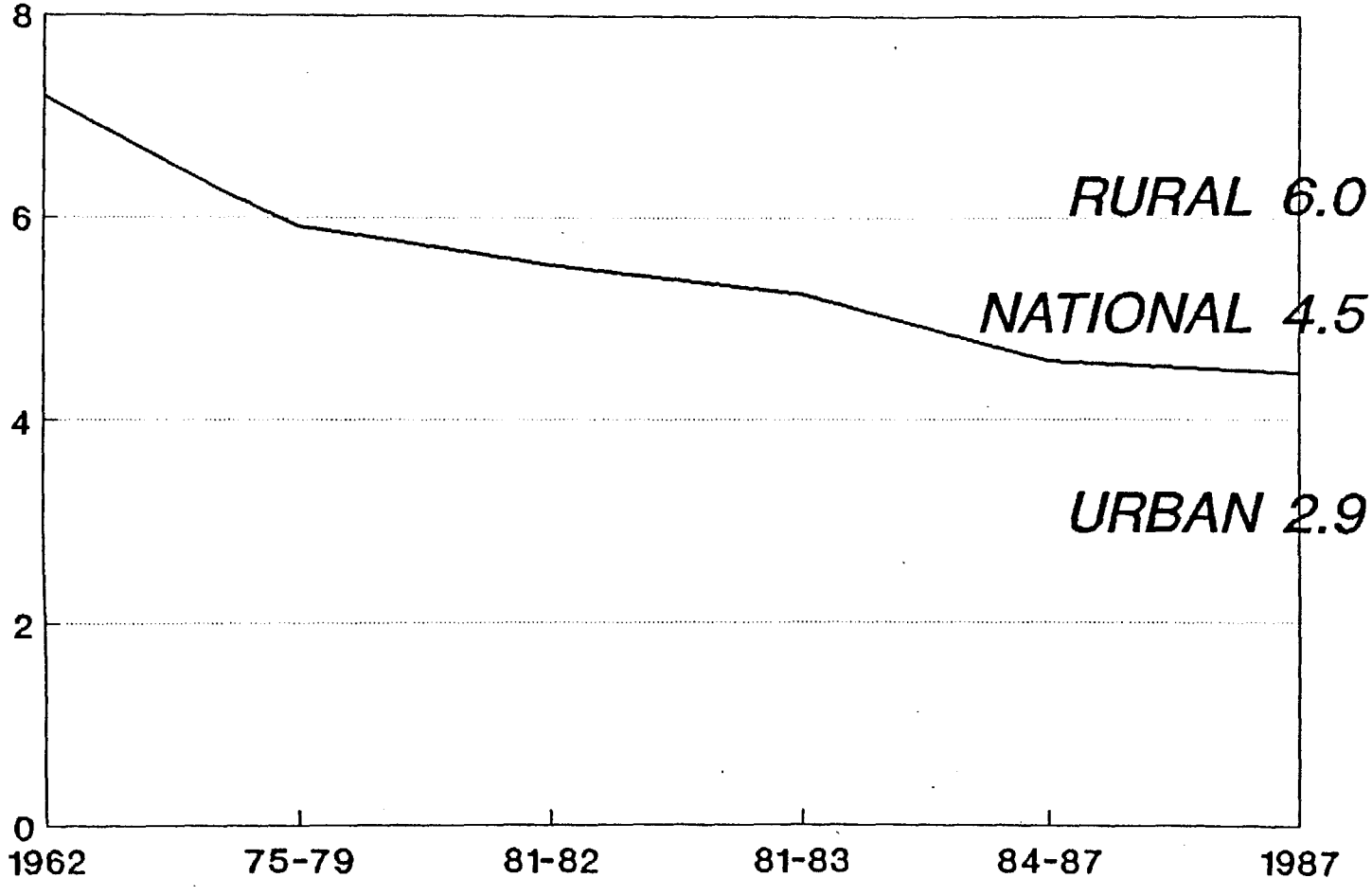
Child Survival and Family Planning

The child survival and family planning sector touches every Moroccan in some way. The country has made tremendous strides over the last decade, but more difficult problems remain. These problems are principally ones of long-term sustainability. One problem is that rural areas are still relatively less well serviced than urban areas (see charts on the following two pages). Morocco must make a concerted effort to improve rural delivery systems. Other difficult problems include, for example, shifting the principal burden of supplying the increasing demand for contraceptive commodities from the public sector to the private sector, except, of course, for the poorer segments of the population. Likewise, as Morocco has increased its national health care coverage, the cost of providing these increasingly valued services weighs heavily on the government budget. The Government of Morocco already realizes that it simply cannot continue to carry the burden. Furthermore, the private sector should be more of a factor in providing these services, and individuals --who can

ACCESS TO HEALTH SERVICES



TOTAL FERTILITY RATE



afford to do so-- should increasingly bear the cost of the services, either directly or through health care provider schemes for which they pay. USAID believes its programs can help Morocco access various health provider alternatives and begin to address in a comprehensive way the looming questions of how the country can afford to provide quality services, on a sustained basis, to every Moroccan in need of health care.

Low-Income Housing and Urban Development

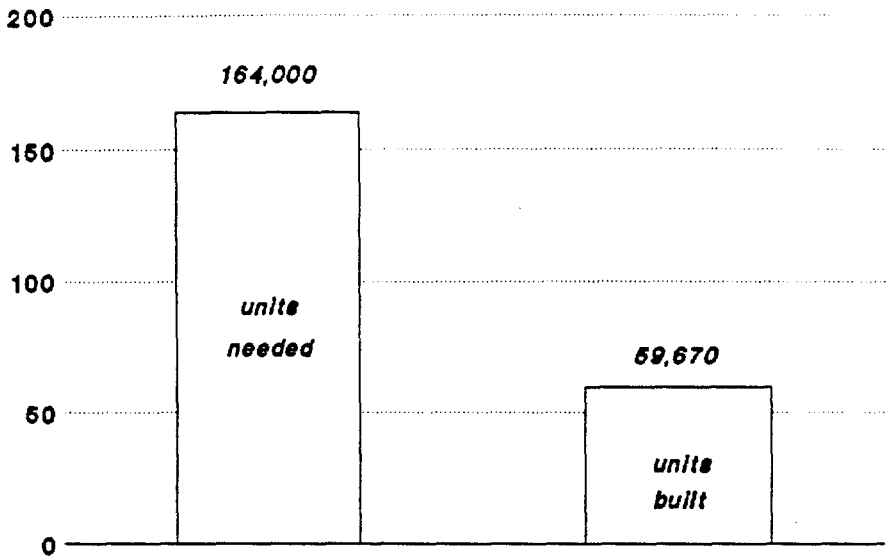
Housing and urban development are priority sectors of investment to assure the success of the economic and social development being carried out by the GOM. Morocco has rapidly become an urbanized country. In 1960, 29% of the population was located in urban areas; today over 50% are in urban centers. By the end of this decade, the number will rise to 60%. There are 15 cities with populations already over 250,000 and two metropolitan areas with populations over one million.

Investment in urban infrastructure and the resulting supply of land served by water, sewerage, roads, and electricity are not meeting current demand. As a result, serviced land prices have increased rapidly to levels beyond what low-income families can afford. This situation contributes to the proliferation of substandard housing that characterizes much of the urbanization in Morocco. The housing deficit in 1990 was estimated to be 875,000 units, while the annual housing production target was established at only 164,000 units per year. To meet the challenges of rapid urbanization (and provide an adequate infrastructure base to stimulate private sector investment) and tremendous demand for decent and affordable housing, the GOM is rapidly shifting low-income housing production from the public to the private sector and has decided to implement a very ambitious program of decentralization of local government affairs.

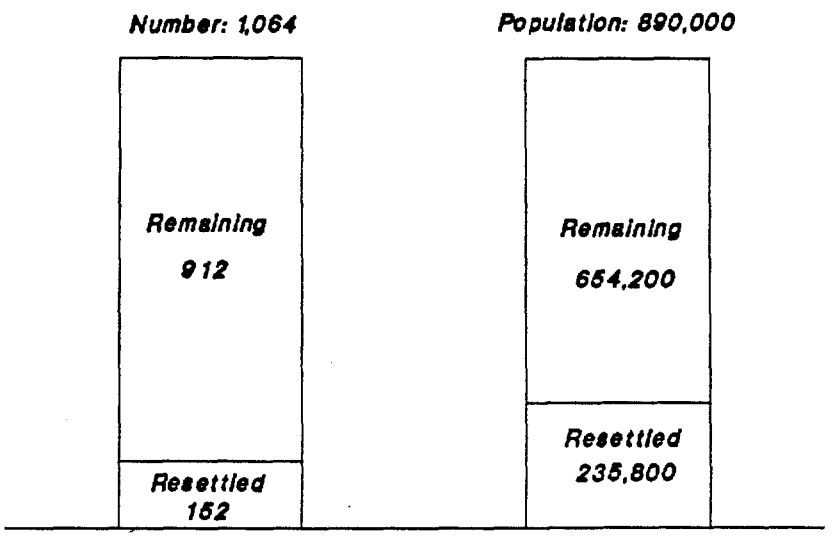
Private investors are unable to devote the resources and time necessary to acquire large tracts of land for urban development. They have neither the financial resources to undertake large-scale land acquisition operations nor the patience and ability to work directly with municipalities or local authorities to secure and oversee the installation of roads, sewerage systems, water, and electricity to such land. Thus, because of the long-term capital requirements and slow turnover, these types of investments are usually beyond the financial reach of small, private developers and less attractive than many other types of investments. The absence of adequate land investments to spur housing construction results in severe shortages of serviced land, leading to proliferation of substandard housing.

A second problem relates to the recovery of the costs incurred in building necessary infrastructure. These "overhead" costs are hard to recover directly from beneficiaries, particularly from low-

HOUSING IN 1989
(Thousands of Housing Units)



SHANTY TOWNS IN 1989



income beneficiaries. The amortization of such large investments requires the development of sufficiently large tracts of land that medium and small scale land developers are normally excluded from entering the process.

The GOM has struggled with both of these problems and created several specialized public enterprises to break the impasse. These efforts were largely ineffectual until USAID began helping Morocco's National Housing Upgrading Agency (ANHI), charged with assembling economically viable tracts of land, with the necessary capital and technical know-how necessary to build the primary infrastructure, and by introducing the systematic titling of property. This approach has created opportunities for small-scale private developers and builders, and begun to meet the demands of the lower income market.

As municipalities begin to make progress in meeting the low-income housing demand, they may have come upon a possible solution to another, long-term, funding issue. The shantytowns constitute illegal housing units, outside the legal jurisdiction of the cities. In the city of Tetouan, for example, illegal housing accounts for some 100,000 people, one-third of the city's total population. Yet only 800 of the estimated 10,000 houses in the illegal areas are on the city's tax roles. As existing houses are upgraded and new planned neighborhoods are developed --both groups with sewage hook-ups, roads, water and electricity-- these houses are being registered, land titling issues are being settled, and the houses are being added to the city's tax roles. The inhabitants are willing to pay taxes in return for ownership and services, neither of which they had previously. Elected officials argue that inhabitants would prefer to pay taxes, which are less costly than "fees" residents must pay currently to maintain their illegal "rights", and from which the city does not benefit.

USAID has become an important partner in helping Morocco introduce new and effective means to support these important mandates which also impact on other sectors important to Morocco and to USAID, such as provision of potable water, waste management, and increasing the availability of serviced land to the private sector. During the Action Plan period, USAID will increase the supply of serviced urban land for families below the median income level, through the extension of primary urban infrastructure accessible by these groups. Such extensions will increase opportunities for land owners, small-scale developers and low-income households to undertake housing construction projects. It will discourage the proliferation of substandard housing. The construction of primary urban infrastructure will allow municipalities to plan and control urban development. It will alleviate much of the anarchic urbanization which marked the past, by providing efficient municipal services to already established informal neighborhoods. It will provide serviced land that the private sector can develop and market to low-income clients. The increased supply of serviced

land is also expected to decrease inflationary pressure on land prices and, accordingly, improve opportunities for low-income households to access decent shelter. The effectiveness of this approach has been demonstrated in project sites where illegal development and land development prices have dropped dramatically as a result of the supply of affordable serviced land.

The USAID-supported housing programs are among the most visible USG bilateral projects in Morocco. In mid-December 1990, several urban areas, notably Fès (some 150 miles east of Rabat) and Tangiers (on the Mediterranean) experienced violent, although fortunately short-lived, civil disturbances. One of the principal reasons (acknowledged by the government) which led to the unrest was the lack of adequate affordable housing. An important element of the USAID program is to increase production levels of low-cost housing in a sustainable, rational and planned way, ensuring that the basics of water, drainage, waste disposal, and electricity are made available at the same time. It is interesting to note that USAID-supported housing programs in the areas of cities affected by the disturbances, were left untouched during the disturbances. In fact, in a recent meeting with the Governor of Tetouan, the USAID Director was told that "not a stone was lifted" during the December disturbances or during the Gulf War because citizens saw project activities underway and real improvements occurring.

USAID's efforts in the housing area, supported by the Housing Guaranty program, draw heavily on both the public sector (in the policy arena) and the private sector (developers and builders benefit from the availability of serviced land).

Specific programmatic objectives for improving selected social services delivery are:

<u>Child Survival and Family Planning</u>

-- Increase Access to Health and Family Planning Services

-- Diversify Service Delivery Strategies

-- Improve Program Quality and Efficiency

-- Mobilize Resources for Health Care Financing

-- Increase the Role of the Private Sector

-- Implement Pilot Potable Water Activities (through Title II/CRS and Peace Corps)

<u>Housing</u>

-- Increase Availability of Affordable Housing for Low-Income

Families

-- Strengthen Private Developer Provision of Low-Income Housing

-- Improve Local Governments' Ability to Deliver Services on a Cost-Effective Basis

-- Reduce Proliferation of Informal (Sub-Standard) Housing Settlements

-- Address Environmental Issues that Result from Rapid Urbanization

MAKING THE STRATEGY WORK

Portfolio Selection

Following the Near East Bureau's review of USAID's FY 1993 Annual Budget Submission, the Mission Director went to AID/W in late August 1991 to provide additional information about USAID's plans for FY 1992 and FY 1993. The principal concern of the Bureau at that time was that there appeared to be a proliferation of new projects, beginning with the four new projects for which the designs were already completed, AID/W approval provided, negotiations conducted, and initial obligations made in FY 1991. Subsequently, USAID reviewed each proposed activity which will require management attention or funding during the Action Plan period. Each activity has been assessed based on the following assumptions:

-- The strategic thrust of the USAID program will be focused in the three areas described in this Action Plan, and will not be expanded to accommodate other special interests.

-- Staff levels will remain at 25 USDH, 19 FNDH, and 39 FNPSC.

-- Annual program levels (DA and ESF) will remain in the range of $35-40 million.

-- The Operating Expense Budget will be adequate to support the USAID, roughly of an order of magnitude as described in the FY 1993 ABS.

-- USAID will not need to divert any of its dollar or staff resources to activities in the Western Sahara following a political settlement of that issue.

As USAID continues to focus its activities in the three strategic areas previously discussed, there will be only seven new projects planned during the first three years of the Action Plan period. These new projects (see chart on following page) are indicated for three reasons: 1) the absence of a significant project mortgage at the start of FY 1991; 2) the need for sufficient projects to absorb a continuing projected (DA and ESF) program level of $35-40 million a year; and 3) a desire to design projects of appropriate size, rather than artificially large multi-faceted projects that could absorb large amounts of funding but would lack effective concentration on specific problems.

NEW PROJECT STARTS
FY 1992-95

FY 1992

Privatization Support (Non-project Assistance)
IESC
Water Soil Management and Conservation
Water and Health - PL 480 Title II

FY 1993

Microenterprises Development
Health Care Financing

FY 1994

Financial Markets
Urban Infrastructure Development/HG

FY 1995

None

USAID has decided to move ahead with final design of a Water and Soil Resources Conservation project, based on a series of analyses, PID approval, and intensive discussions over the past three years with the GOM and AID/W. USAID took into serious account the concern expressed about initiating this project, which has had a long and difficult history but had been endorsed and encouraged by AID/W management. It is USAID's conclusion that not only is the project technically and economically sound, but that the political costs of not proceeding with the project after gaining the specific

backing of key GOM officials over such a prolonged period of discussion, would be unacceptably high. It is our judgment that another change now would significantly decrease USAID credibility with the Ministry of Agriculture. Moreover, the project will be a discrete, region-specific effort, but with rich potential for nationwide replicability. In this respect, the potential benefit to Morocco is enormous. Following the Bureau's approval of the revised PID in the summer of 1991, a Project Paper design team arrived in Morocco in mid-September 1991; and, the project has reached the final stages of design and discussion with the GOM. USAID expects to be ready to obligate the project in mid-FY 1992, using funds we intend to de-obligate from the Morocco Locust Control project (Project 608-0196).

We have also decided to move forward with the PL 480, Title II monetization Water and Health project. USAID demonstrated in 91 State 6704 and 92 State 8866 that this project supports USAID's emphasis on child survival under the strategic objective of improving the delivery of social services. It will contribute to increasing child survival, reducing child morbidity and restructuring the health care system. The project is also directly responsive to a recent request by the Prime Minister of Morocco (made to Administrator Roskens during his visit to Morocco in June 1991) to help address the problems of basic health education and sanitation. This project can be seen as a timely response to the GOM's request. In addition, this is the only project in which both an American Private Voluntary Organization --Catholic Relief Services (CRS)-- and the Peace Corps are jointly involved. Their participation in this project is important, since the bulk of project implementation will fall to them, particularly to CRS, thereby reducing USAID's workload to the bare minimum.

The role of CRS in this project deserves particular note. Despite the fact that CRS has extensive experience in Morocco, this is not an easy country for American PVO's working in development. Few American PVO's maintain offices in Morocco, and local PVO's are encouraged only if there is considerable Government control. Yet, CRS has maintained offices in Morocco since 1956. It was able to develop systems for financial and project control for the PL 480 Title II Compensatory Food Program, which has just terminated, and will build upon these systems to implement the Water and Health project. Given past experience, we are confident that CRS will be able to effectively manage the project with minimal oversight from USAID. Moreover, USAID wants to support independent PVO activities in Morocco that are consistent with our strategic objectives. We believe it is in the interest of Morocco and the U.S. to facilitate a continuing CRS role in important development activities in Morocco, a category into which the CRS Water and Health project clearly falls.

In further assessing our plans since preparation of the Annual Budget Submission in mid-1991, USAID has concluded that despite

months of discussions with the Government of Morocco concerning health care financing issues, we cannot begin the new Health Care Financing project in FY 1992, as planned. Because of the complexity of the subject matter, it will be necessary to delay the start-up of this project for at least a year, which will allow the Mission to learn more about the existing health care financing system, and how we can best focus our assistance to address these problems. Three studies of the status of health care financing in Morocco will go forward and will be completed during FY 1992. The studies are: Private Medical Sector Study, Health Insurance Sector Study, and Pre-feasibility Study on Managed Care.

At the same time, USAID will continue discussions with the Government of Morocco about a basic health education prevention proposal (estimated by the GOM at $100 million over 5 years) which was submitted to the AID Administrator by the Prime Minister of Morocco during the Roskens visit to Morocco in June 1991. We have advised the Prime Minister that we can address problems of preventive health care under child survival activities of our existing Population and Child Survival project which includes programs to improve the health delivery system in Morocco. We have also pointed out to the Prime Minister and to other members of the Cabinet (the Minister of Economic Affairs and Privatization, and the Minister of Health) that the types of interventions addressed in the GOM proposal should not be very expensive, certainly much less than the proposal indicates. However, it is very clear that the GOM wants to continue a dialogue with USAID on basic preventive health and on maintaining historic U.S. economic assistance levels in Morocco as other programs --such as food assistance-- phase out.

While we must await the outcome of the three studies and of the continuing dialogue concerning basic preventive health, we plan to amend the Population and Child Survival project, expanding the existing health financing component and expanding the child survival activities to include more of an emphasis on basic preventive health. The amendment will address decisively the Prime Minister's concern by placing greater emphasis on basic preventive health, using whatever additional funding that materializes in FY 1992. Accordingly, we will delay beginning a new Health Care Financing project until FY 1993.

USAID has decided not to proceed with development of the Commercialization of Agriculture Project (No. 608-0221). There will, however, remain the need to assure the continuing development and dissemination to the private sector of new technologies required to achieve and maintain competitiveness in the international marketplace, along with a real interest in the supply of new technologies on the part of the private sector. This constitutes an area of opportunity which USAID will explore, perhaps through modifying the new Agribusiness Promotion project (608-0210) to include a specific focus on technology development and diffusion. We would not anticipate such a modification,

however, until FY 1994.

USAID has also decided to delay the start of a new Financial Markets project until FY 1994, rather than begin it in FY 1993. We also believe this will be another a prime candidate (after the FY 1992 start-up in privatization) for using the non-project assistance modality, which will permit us to engage the GOM on specific policy issues. This possibility will be discussed with the GOM over the coming months, but we do not anticipate full negotiations to begin on a new Financial Markets project until FY 1993. Since the issue of financial markets is such a major part of our strategy, we have, however, already begun significant assistance in this important area. Under the Economic Policy Analysis project, we commissioned three important and influential studies --one on financial market options, another on revising the Casablanca Stock Market, and a third on creating a secondary debt market. We are also in the final stages of selecting a long-term financial markets advisor who will oversee several important additional studies and supervise critically needed training. To maintain this momentum, we anticipate amending the Economic Policy Analysis project, adding additional funding to pursue the financial markets issue, and extending the project two years to the end of FY 1994.

RESOURCE REQUIREMENTS - FY 1991-FY 1995
($000)

Account/Project, Title	1991	1992	1993	1994	1995
ARDN					
136 Dryland Agriculture	6,193	4,900	1,507		
160 Agriculture Institute	807				
182 Ag. Planning & Statistics		600			
210 Agribusiness ('91)	18,300 *				5,441
POP					
198 Population/Child Survival	4,500	2,700	8,193		3,259
HE					
207 Health Care Financing ('93)			9,800	12,000	3,300
CS					
198 Population/Child Survival	2,000	2,300	3,500		
SDA					
213 Water Resources ('92)		**		4,000	
219 IESC ('92)		2,000			3,000
220 Urban Infrastructure ('94)				4,000	
Sub-Total DA	31,800	12,500	23,000	20,000	15,000
APPL'S		12,500	23,000	20,000	15,000
Economic Support Funds					
191 Economic Analysis Support		1,720			
193 Energy Demand Management		2,000			
198 Population/Child Survival		5,000			
204 New Enterprise Development ('91)	14,000		5,000	2,000	4,000
208 Training IV ('91)	3,000	7,280			3,000
214 Studies and Support ('91)	3,000				2,000
218 Microenterprises			2,000		3,000
Non-Project Assistance ('92)		9,000	8,000	8,000	
217 Financial Markets ('94)				10,000	8,000
Sub-Total ESF	20,000	25,000	15,000	20,000	20,000
APPL'S	20,000	25,000	15,000	20,000	20,000
TOTAL FUNDING (DA & ESF)	51,800	37,500	38,000	40,000	35,000

* Includes $8.3 million in re-ob from Supp. Irrigation.

** USAID plans to re-ob $8 million in de-ob from Locust Project.

11

MORTGAGE ANALYSIS ($000)

Project	Authorized or Planned	Obligated Thru FY 90	FY 91 Oblig	Mortgage End FY 91	FY 92 Oblig	Mortgage End FY 92	FY 93 Oblig	Mortgage End FY 93	FY 94 Oblig	Mortgage End FY 94	FY 95 Oblig	Mortgage End FY 95
136 Dryland Ag	50,000	37,400	6,193	6,407	4,900	1,507	1,507	0	0	0		0
160 Agronomic Institute	28,508	27,701	807									
182 Ag Planning & Stat	12,567	12,567			600							
191 Econ. Policy Anal	8,600	6,880		1,720	1,720							
193 Energy Demand Mgt	7,000	5,000		2,000	2,000							
198 Pop & Child Survival	46,000	9,573	6,500	29,927	10,000	19,927	11,693	8,234		8,234	3,259	4,975
204 New Enterprise Dev.	25,000		14,000	11,000		11,000	5,000	6,000	2,000	4,000	4,000	0
207 Health Care Fin	30,000						9,800	20,200	12,000	8,200	3,300	4,900
208 Trgn for Dev	28,000		3,000	25,000	7,280	17,720		17,720		17,720	3,000	14,720
210 Agribus Promotion	30,000		18,300	11,700		11,700		11,700		11,700	5,441	6,259
213 Water Res. Management	12,000				(*)	4,000		4,000	4,000			
214 Studies & Support	10,000		3,000	7,000		7,000		7,000		7,000	2,000	5,000
215 Privatization Sup	25,000				9,000	16,000	8,000	8,000	8,000			
217 Financial Markets	26,000								10,000	16,000	8,000	8,000
218 Microenterprise Dev	14,000						2,000	12,000		12,000	3,000	9,000
219 IESC	7,000				2,000	5,000		5,000		5,000	3,000	2,000
220 Urb Infra Development	5,000								4,000	1,000		
	TOTALS		51,800 (**)	94,754	37,500	93,854	38,000	99,854	40,000	90,854	35,000	54,854

USAID plans to re-ob $8 million in de-obs from Locust Project.

Includes $8.3 million re-ob from Supplemental Irrigation Project.

Cross-Cutting Concerns

Democratic Pluralism

The dual nature of the political system in Morocco has already been described, pointing out that major decision making is still firmly centered in the Palace, despite the co-existence of a Prime Minister and cabinet ministries. The Ministry of Interior appoints provincial governors, although municipal councils are elected.

There is some change underway, albeit slowly. The Government of Morocco has begun a new program, providing local governments with additional funding, staff and authorities to allocate and expend resources for public services. The King also indicated recently that Parliament is to be given an increased voice in the central government. For the first time since the early 1960's, the Parliament was permitted in May 1990 to hold a vote of censure of the Council of Ministries. Although the motion failed, the televised debate in the Parliament and the editorials in the opposition press were unprecedented in Morocco.

National elections were to have been held in 1990, but were postponed for 2 years by a referendum initiated by the Palace. In explaining this action, the Government indicated that the delay was motivated by a desire to provide adequate time to resolve the status of the Western Sahara by a UN-organized referendum. This would permit "all Moroccans" (including Saharans) to participate in the next elections. King Hassan II completed an extensive tour of the Sahara in the summer of 1991, and an official cease-fire between Morocco and the Polisario went into effect in early September 1991. The long-awaited referendum on the Sahara is scheduled to take place in January 1992.

There are also other indications that the King wants to improve Morocco's human rights situation. The King created a Consultative Council for Human Rights in April 1990, although it has yet to publish a report of its findings. In August 1991, the GOM released a number of political prisoners, some of whom had reportedly been held for several years. The following month, just prior to making a state visit to the United States (the first in ten years), he released a notable dissident, who had been held under house arrest for nearly seventeen years. Furthermore, the King has made himself available to numerous public interviews recently with European and American media, in which he has been quite willing to discuss human rights issues, as well as to discuss other criticisms of his regime.

As it implements its strategy during the Action Plan period, USAID, within a Country Team context, will enhance its Democratic Pluralism Initiatives (DPI) strategy. We have developed and are already implementing a number of elements of this strategy. Much of USAID's project portfolio is designed to increase participation

in decisions that affect the lives of the beneficiaries of these projects. For instance, USAID is very much involved in a wide range of activities related to expanding the freedom of economic choice of Moroccans, through several projects. For example, USAID's emphasis on the private sector is specifically designed to eliminate barriers that will increase the number of groups and individuals who have previously been excluded from full and active economic participation. The New Enterprise Development, Training for Development, Morocco Agribusiness Promotion, and Export Promotion projects, all contribute to this goal. USAID's Housing Guaranty programs help to improve access of Moroccans to housing and help give substance to decentralization. In the health and family planning area, the primary purpose of USAID assistance is to provide individuals, particularly women and children, with greater choice of and access to medical services. USAID training programs, which sponsor 300-400 people each year in a wide variety of fields, and our encouragement of women into all aspects of economic endeavors, lead directly to increased opportunities and enhanced social mobility. These are all elements of our DPI strategy, which contribute to a more equitable and open society.

In addition, we plan to follow up on the openings the Government of Morocco has made recently in this important area. One step will be to participate, along with the Embassy and USIS, in supporting a Rule of Law Conference which is being organized for January 1992 in Tunisia. We believe this is a good topic around which to engage the Government of Morocco on DPI. The conference should also be a good forum in which to expose key Moroccans to DPI issues. Another step for USAID will be to commission a study of the Moroccan legal and judiciary system. The findings of the study are expected to provide much of the input we will need to more precisely articulate a comprehensive DPI strategy. It is our belief, to be verified by the study of the legal system and practices, that we can refine and continue to implement a DPI strategy which highlights specific interventions of existing or planned USAID projects. We do not believe it necessary, nor do we believe it would be effective, to develop a free-standing DPI project. Yet, we believe strongly that both the economic and political systems must continue to liberalize if Morocco is to experience genuine economic and social development for a greater proportion of the Moroccan people. Greater participation is also needed if Morocco as a nation is to continue to develop effectively as a strong competitor for a share of the new European Market and for non-traditional markets in the U.S. and elsewhere.

Gender Concerns

USAID ensures that all its economic development programs help to increase the participation, effectiveness, and potential of women in realizing development objectives in Morocco. This is a principal concern throughout the USAID portfolio, as we strive to

make sure that women in both rural and urban areas are active participants and beneficiaries of initiatives in all subject areas and locations.

One of the principal ways that USAID promotes the role of women is through various training programs. USAID has successfully negotiated an agreement with the Government of Morocco, requiring that at least 30 percent of all training candidates, both from the Government and from the private sector, be women. The Canadians have followed the USAID lead by adopting the same policy. Recently, USAID explained the policy to a representative of the EEC who expressed interest in adopting a similar approach for EEC-supported development programs. USAID currently has two projects devoted exclusively to training: the Sector Support Training project (which will terminate in 1993), and the eight-year Training for Development project which began late in FY 1991. In addition, most of the Mission's other projects have various levels of specialized training components. We apply the 30 percent rule across the board to all training activities.

In the social services areas, women are important beneficiaries, as well as deliverers of services. Women with children are the principal focus of USAID programs in the health and population sector. The main objective of the Family Planning and Child Survival project is to improve the health of women and their children and, by so doing, remove one of the key constraints to women's more active participation in the economy. The project has now been extended nationally, touching virtually all the populated areas of the country and providing services and information to women living in rural areas as well as in urban areas. In the housing sector, USAID gives priority to housing issues which affect women, particularly women who are heads of household.

USAID also ensures that women participate in and benefit from development activities promoted under our expanding private sector programs. These programs give specific attention to improving women's ownership, management and employment in small and medium sized enterprises. They increase women's access to credit, market information, and business advisory services for a variety of enterprises, particularly those which are export-oriented. These programs also provide opportunities for women to participate in business development training available under the Training for Development, the Moroccan Agribusiness Promotion, and the New Enterprises Development projects. To target more precisely opportunities that will maximize women's access, participation, and benefits from the private sector, USAID commissioned a study, to be conducted in FY 1992, to look specifically at business activities under two of USAID's new projects.

At a policy level, USAID is commited to carry out several studies and analyses which will attempt to identify and recommend measures to remove administrative and other barriers to small and medium

sized enterprise creation and expansion. The results of these efforts should focus specific attention on reviewing economic, financial and legal barriers which specifically affect women's control and access to resources .

As part of USAID's monitoring and evaluation system, we maintain gender-specific data. These data are tracked through contractor work plans, Project Implementation Reviews, Mission Impact Statements, and evaluations. This permits effective disaggregation of project elements so that USAID can measure and demonstrate the impact of project implementation, by beneficiary group, and by gender.

Increased women's participation in the development of Morocco is a constant concern. We ensure that the issue is actively addressed at all levels, with Government and with private sector groups. USAID is convinced that it is more effective to integrate gender concerns in all aspects of our programs than to develop separate "women's" activities. The message that we constantly reinforce is that USAID-supported projects encourage the involvement of Moroccan women, enhance their economic and social opportunities for improved livelihood and well-being, and strengthen women's capacity to make full use of their productive potential. We are also convinced that Morocco needs the fully developed potential of all its citizens, and we intend to make these opportunities available to the maximum extent possible in all development program activities, regardless of gender.

Environment

Mission environmental activities are designed to accomplish two main objectives: (1) to mitigate any potential adverse environmental impacts resulting from Moroccan bilateral program activities; and, (2) to promote a better appreciation for and application of sound environmental policies, practices and procedures among both public and private sector Moroccan development counterparts and project participants. Thus, USAID's environmental program consists of a number of small-scale interventions being undertaken as integral components of priority program activities, rather than stand-alone environmental projects. USAID believes that this cross-cutting approach towards the environment is appropriate for Morocco, given competing program priorities and current Moroccan capacity and resource constraints for addressing environmental concerns. Examples of this approach include: the environmental mitigation and awareness-building components for the new Moroccan Agribusiness Promotion and New Enterprise Development projects, the environmental impact assessment component of the Tetouan Urban Development Sewerage Master Planning activity, the Tetouan Program Solid Waste Management and Land Use Planning work, the pesticides disposal and environmental monitoring/research components of the Morocco Locust

Control project, and various smaller training and assessment activities.

In addition to this cross-cutting approach, USAID has two projects which specifically address environmental resource issues. These are the private sector-oriented Energy Demand Management project and the new Water and Soil Resources Conservation project, through which, as a result of the critical importance to Morocco of the natural resources in question, i.e., energy and water, respectively, USAID has opted for a more visible and direct approach.

Management Concerns

Staffing

As in any organization, this USAID's staffing levels relate directly to program content, the level of assistance resources and management responsibilities. Any reduction in staffing levels necessitates a decrease in the aforementioned functions. That is a simple fact of life and a dictum of responsible management.

To fully appreciate USAID's staffing during the current Action Plan, one must look first at the numbers and skills mix of USAID, and the changes which have occurred over the past several months. In FY 1990, USAID had a total of 29 USDH, 19 FNDH, and 38 FNPSC. These numbers, however, mask the fact that during the year, the Mission experienced a turnover in USDH personnel of 8 out of the 29 positions (when the period is extended by six months -- to include the last quarter of FY 1989 and the first quarter of FY 1991-- the turnover jumps to 15 out of 29, or 52%). In one of these changes, we dismantled the USAID Energy Office and deleted the Energy Officer's position, after phasing out most of the energy portfolio. We also deleted an engineering position, greatly strengthened our private sector capability and added a number of project development officers, placing greater emphasis on project design capabilities. Thus, the transition left the USAID much better able to design and manage its project portfolio, even as a number of new projects were added.

In FY 1991, other important changes in "personnel mix" took place. These changes resulted from the following: a) shift to a heavily

private sector oriented program, b) the phase-out of USAID involvement in PL 480 Title I (dictated by new legislation), c) and the planned completion of the PL 480 Title II Compensatory Feeding Program. As a result, the Food for Peace Officer's position was deleted. In addition, the Regional Legal Advisor position was transferred to Tunisia in order to afford USAID more flexibility to reassign USDH positions to address key program and management constraints. In summary, not only has the level of USDH has been reduced to 25, but the skills currently on board are much better suited to the requirements of this Action Plan.

USAID is proposing to use non-project assistance for the first time, beginning in FY 1992. It is a modality that has been discussed several times for Morocco, but never used. However, we are now looking to the use of non-project assistance as a relatively fast-disbursing mode of assistance which may reduce the number of USDH employees needed to implement programs in the future. We do not want to create an unwarranted impression by assuming that the use of non-project assistance will necessarily result in the need for fewer Direct Hire or contract employees. It will not, at least not in the near term. However, the strong possibility of a smaller staff requirement for non-project assistance as a future way of doing business in Morocco warrants a close look at this modality. The design of the activities for which non-project assistance would be used is important. In the case of privatization, implementation of this non-project assistance will still require a high level of direct involvement by USAID, but it is being designed in such a way that USAID will be able to manage it without need for additional staff. Also, in this case the Mission is able to take advantage of a strong working relationship which has been developed between USAID staff and key Government of Morocco officials who are expected to make this activity work smoothly. Another possibility for use of non-project assistance is for the planned Financial Markets project (FY 1994 start).

USAID, like most AID missions, has a long history of working with the public sector. Traditionally, all projects have been designed and implemented through a government entity, even those which supported the private sector. USAID plans to continue working with the public sector in the future, but, at the same time, we are exploring a number of assistance modalities which may result in lower staff requirements. One such modality is the use of sector assistance, already discussed. Also, beginning in FY 1991, a distinct relationship has been formed directly with the private sector, with new implementation mechanisms which may have some impact on future staffing requirements. For example, the New Enterprises Development, the Morocco Agribusiness Promotion and the Training for Development projects will be administered by steering

committees comprised of significant private sector representation. These committees form key elements of the new projects, taking responsibility for important decisions. Clearly, these are "private sector" projects because the benefits flow to the private sector, not because of the make-up of the committees. However, it is still unclear exactly how these new project administration mechanisms may impact on future personnel requirements.

Operating Expenses

As with staffing, minimum Operating Expenses (OE) resources are required to carry out the tasks assigned. Without these resources, USAID cannot fulfill its mandate as assigned by AID/W and as required in a Moroccan context. With this very much in mind, USAID has sought to achieve maximum efficiencies in its operation.

The Operating Expense Budget, as projected through 1994, is realistic. Most of the costs are fixed, and reflect the number of people --both Moroccan and U.S.-- we believe necessary to effectively manage a DA/ESF program of $35-40 million annually, plus a PL 480 Title II program and a Housing Guaranty program. The number of personnel required has been conservatively estimated since both the number of USDH and FNPSC are reduced during the FY 1991-1994 period from the base year of FY 1990. Close examination of the numbers reveal that the majority of cost increases over the five-year period are related directly to USDH and contractor personnel (see chart below).

OPERATING EXPENSE BUDGET ($ THOUSANDS)

	1990	1991	1992	1993	1994
	2,794.00	3,229.00	2,835.00	3,348.00	3,720.00
USDH	418.3	798.4	488.4	643.0	807.5
FNDH	403.4	447.0	515.0	568.7	626.9
CONTRACTORS PERS.	498.4	548.0	679.7	761.8	843.3
HOUSING	446.2	483.7	515.8	555.5	592.6
OFFICE OPS	1,146.2	1,201.4	1,008.0	1,085.4	1,163.1
NXP	313.7	213.9	91.2	229.1	217.0
FAAS	(432.7)	(463.3)	(463.3)	(495.7)	(530.4)

NUMBER OF PERSONNEL

	1990	1991	1992	1993	1994
USDH	27	25	25	25	25
FNDH	19	19	19	19	19
FNPSC	41	37	39	40	40
USPSC	-	2	1	2	2
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TOTALS	87	83	84	86	86

These costs reflect the movement of people and effects, increases in education allowances as well as a recent State Department decision to approve Morocco for "R and R" travel. The contractor personnel costs are primarily a result of a major revision of the local compensation plan which increased some pay levels as much as 45%. These costs, however, also reflect the addition of two FNPSCs in FY 1992 and another one in FY 1993, as USAID indicated in its FY 1993 Annual Budget Submission (July 1991).

Monitoring and Evaluation

USAID has several levels of project monitoring and evaluation, which provide the basis for assessing whether projects are being effectively implemented or are achieving their objectives. These processes also yield valuable information for the design of new activities.

Monitoring

Monitoring is the set of activities which USAID Project Officers use to determine if a project is proceeding as planned. The project officer is the key person in this process. The Project Officer depends on the Project Paper, the Project Agreement, Project Implementation Letters, contractor workplans and reports (if a contractor is involved), frequent contact with GOM or private sector personnel involved in project implementation, and frequent site visits to help assess whether a project is proceeding as planned. It is the project officer's responsibility to keep Mission management appraised of project progress, and to alert management of significant developments, whether positive or adverse to project implementation.

The Mission conducts formal semi-annual Project Implementation Reviews, usually in October and April, to review the progress of

each active project within the mission. Both the Director and Deputy Director are actively involved in these reviews, and the Mission assesses the impact of these projects in achieving strategic objectives. A report of the fall review is forwarded to AID/W for information, as a way to keep the Bureau current on project implementation.

Evaluation

At the project level, each year the Mission prepares an Evaluation Plan, normally included as an integral part of the Annual Budget Submission. The evaluations are planned such that each project is evaluated at least once during its life. Often there is at least one interim and a final evaluation for each project. Interim evaluations are carried out to measure progress in achieving important benchmarks during the life of a project, at which point the Mission may wish to assess whether conditions are continuing or developing that are conducive to realizing the project's purpose, or whether we need to completely re-think a project concept in response to changing conditions. Both the interim and final evaluations are often conducted by external evaluators, since USAID wants to obtain the most objective assessment possible. As a general rule, we also try to ensure that Moroccan experts are members of the evaluation teams. The exceptions are in cases where Moroccan expertise is not available in one of the required disciplines at the time the evaluation is to be conducted. USAID looks to these evaluations for much of the input needed to make decisions about continuing projects, to modify a particular project approach, to identify issues for further study or analysis, and to identify problems or issues for which new USAID-supported activities are likely to be particularly well or ill suited.

At a more programmatic level, the evaluative document is a semi-annual Mission Impact Statement (MIS), which will be prepared for the first time in January 1992. These documents (to be available in cable form) are planned for each January and June, and will provide a critical assessment of progress made (or lack thereof) against the Mission's programmatic objectives which are projected in the Annual Strategy Statement (or Action Plan). The MIS will provide the Mission, and AID/W, with a ready tool for measuring in the short-term whether implementation of the Mission's project portfolio is having the desired impact on the programmatic objectives on which the Mission expects to be assessed. This will constitute, in effect, a first-line "impact" assessment.

In short, it is largely through evaluations that USAID is able to demonstrate the <u>visible</u> impact of its development strategy and whether the results of USAID initiatives merit the expenditures of U.S. tax dollars.

Donor Coordination

Formal donor coordination does not exist in Morocco. Nonetheless, there is a fair amount of informal coordination and most donors have a good idea of the interests, if not the exact assistance, of other donors.

Shortly after arriving in Rabat in the fall of 1990, the Mission Director made a point of calling on other donors and attempting to increase the level of coordination. This effort has so far met with only limited success. While most donors are comfortable with occasional one-on-one meetings and have agreed --in principle-- that closer coordination is desirable, they have not been very responsive to specific requests for exchanges of information. None has been receptive to multi-donor meetings, even small ones. The EEC, in fact, has its own Community-wide meetings, but has made it clear in the past that these meetings are not open to non-EEC members and that they are not interested in active other donor coordination. While we have met with the French, at our request, it seems clear that we are unlikely to get much beyond rather perfunctory exchanges. We are hopeful, nonetheless, that as the EEC begins a new multi-year program in Morocco, under a new director, we will be able to develop a more cooperative relationship. Initial contacts have been promising in this regard.

Still, a reasonable amount of donor coordination does take place in Morocco. For example, we meet frequently with the World Bank at a number of levels. We see the Bank's Program Coordinator for Morocco whenever he visits Morocco, or when top Mission representatives are in Washington. We also meet regularly with most World Bank Assessment teams when they visit Morocco, either through USAID technical offices, or through various staff offices.

Also, there is a large amount of informal, working level coordination with other donors. The most frequent exchanges take place between USAID technical staff and Bank Appraisal or Technical teams working on or developing projects in areas where USAID is active. In the health and population fields, for example, USAID technical officers meet regularly with WHO, UNICEF, UNFPA, UNESCO, and World Bank teams. Health officers also have contact with bilateral donors, such as the French, Canadians, British, and Japanese. Other offices follow similar patterns. In the agriculture and natural resources areas, USAID technical officers meet frequently with World Bank officials on a variety of topics including irrigation, forestry, watershed management, environment, and pest and pesticides control. In the Housing and Urban Development area, USAID has established very open and direct channels of coordination with Caisse de Dépots de la France, which is the primary conduit of French government technical assistance to the Moroccan Municipal Development Bank, and with the Caisse Central de Cooperation Economique, which has launched a new program in private sector investment promotion. We also meet on specific

issues with the International Monetary Fund, the Germans (GTZ, the Fredric Ebert Foundation, the Hans-Seidel Foundation), and the African Development Bank.

We have begun to work increasingly with the Maghrebian countries on regional activities such as a Maghreb-wide vaccination campaign, and conferences on "Safe Motherhood", and "Acute Respiratory Problems". USAID recently funded the participation of Moroccan women in a women's conference which brought together women from Algeria, Tunisia, and Morocco. We are also planning to fund Moroccan participants to a Maghrebian "Rule of Law" conference which is to held in Tunisia in January 1992. We also work actively with the Algerians who fund a number of training programs for Moroccans.

This coordination is very important. USAID has earned a reputation over the years of being knowledgeable in Morocco about a wide variety of development issues, so the World Bank and others seek out USAID to elicit our views. The growing participation in regional issues affecting Morocco is also important. Both give USAID an opportunity to exchange information, so that both we and others have a better idea of the full range of development activities, the critical problems facing Morocco, and their probable solutions. It also ensures that duplication of effort is kept to a minimum and that scarce resources, regardless of origin, are put to best advantage.

FOOD ASSISTANCE

PL 480 Title I

On January 1, 1991, the U.S. Department of Agriculture (USDA) assumed full responsibility for Title I programs worldwide. USAID continues to monitor levels of Title I in Morocco as a key part of U.S. Government economic assistance and in terms of its impact on the agricultural sector. However, as instructed by AID/W, we do not participate in USDA's administration of the Title I program in Morocco.

It is of note that, even though there was no "Self-Help" agreement negotiated in 1991, the GOM procedures on utilization of local currencies continued to be followed. That is to say that procedures worked out under previous Self-Help agreements to ensure that USAID-funded projects were provided sufficient local currency to operate effectively are still being followed by the GOM. However, the Self-Help agreement no longer serves as an instrument through which important changes can be introduced, negotiated, and respected such that changes once made will be implemented effectively.

In 1987, USAID was able to successfully negotiate and begin implementation of a Section 108 program. It is, in fact, one of the few successful Section 108 programs AID has been able to develop anywhere in the world. By the end of this year, we expect to have up to $3.5 million in local currency repayments from commercial banks participating in the program. These funds will be reprogrammed for further on-lending by banks for mutually agreed development activities.

PL 480 Title II

Compensatory Food Program

The Compensatory Food Program (CFP) has been an important resource for the USAID/Morocco program. It began in 1987 and is managed by Catholic Relief Services. The program was designed to protect the poor throughout Morocco from the negative effects of the Government's structural adjustment program, and was launched in cooperation with the World Bank. Over $58 million of Title II commodities were imported for distribution to almost one million poor Moroccans. Food delivery under the Compensatory Food Program was completed in FY 1990, but a declining quantity of Title II food was distributed in FY 91 and into FY 92 as part of a phase-out plan agreed with the Moroccan Government. No additional Title II food will be distributed under this program beyond FY 1992.

Another 63,000 metric tons of Title II wheat was sold to provide $10 million in local currency for program logistics and management

as well as to improve the Moroccan Government's capacity to provide high quality social services for the poor. CFP local currency is supporting the following two activities:

-- The Ministry of Public Health is developing its nutrition education program with $440,000 in CFP local currency. The Ministry is researching and preparing a media campaign promoting breast feeding and child growth surveillance. Monetization funds are also paying for the repair, disinfection and equiping of fourteen provincial warehouses used to hold weaning food, the training of central office and field personnel, and the supervision and evaluation of the Ministry's program for the prevention of nutritional deficiency diseases.

-- The Ministry of Handicrafts and Social Affairs is benefitting from CFP local currency in its efforts to improve resource management, create a rational social welfare investment model and provide graduates of vocational training centers with the skills demanded by private sector employers. The Development Support Fund (DSF), as this $2.5 million effort is known, will finance the development of 24 model centers. Through training sessions and studies over three years, DSF will help the Ministry to become more efficient, self-sufficient, and a better manager of resources. By developing links with the private sector, the DSF will ensure that revised curricula will reflect the current job market and that students will have access to on-the job training.

Monetization

In addition to the activities funded by Compensatory Food Program local currency, USAID proposes to support the CRS Water and Health Development Program with Title II monetization proceeds equivalent to $2.35 million. This three-year project will be funded in FY 92. It will provide potable water, sanitation facilities and related health education to the inhabitants of rural villages in two provinces of southern Morocco. The project will work closely with locally elected officials to decrease the problems of water-borne disease which are a significant cause of infant mortality and morbidity. This project proposal, as previously noted, will be a collaborative effort involving USAID, the Peace Corps and CRS, working with private and public Moroccan counterparts.

ANNEX A

PROGRAMMATIC OBJECTIVES AND VERIFIABLE INDICATORS[1]

I. STRATEGIC OBJECTIVE NUMBER ONE: INCREASE EMPLOYMENT

Create and Expand Small and Medium Enterprises (SMEs)

-- At least 730 small and medium enterprises directly assisted in their start-up and/or expansion, resulting in the creation of approximately 12,800 jobs.

Improve Access to Finance for Business

-- Finance to 275 small and medium enterprises through credit provided and credit guarantee mechanisms, resulting in the creation of 6,700 new jobs.

Expand/Strengthen Microenterprises

-- Credit and/or technical assistance provided to 200 micro-enterprises, resulting in the creation of 1,000 new jobs.

Ease the Policy Environment for SME Investment

-- Administrative reforms carried out in such areas as creating uniform procedures for business registration, one-window investment approval, simplification and transparency of investment benefits, simplification of corporate taxation.

Improve Business Information Services for Small and Medium Enterprises

-- The Moroccan Business Center established and providing business orientation/information services to small and medium enterprises.

Deepen and Diversify Financing Available for Business Investment

-- Reforms carried out to increase financing from non-bank sectors, e.g. relaxation of mandatory investment requirements in government securities for insurance companies, new authorizing legislation for corporate bonds, tax harmonization among government and private sector debt instruments and debt and equity, stock market reform.

-- Self-sustaining private sector loan guarantee facility established to support financing by commercial banks for small enterprise sector.

-- New financial instruments developed for mobilizing

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[1]Unless otherwise noted, all indicators reflect status as of the end of FY 1995.

savings and financing business creation and expansion, such as corporate bonds, commercial paper, venture capital, convertible bonds, mutual funds.

II. STRATEGIC OBJECTIVE NUMBER TWO: IMPROVE MARKET COMPETITIVENESS

Improve Export Performance

-- At least 190 exporting firms directly provided with technical assistance and/or credit. The assisted firms will have increased their exports by at least $225 million.

Enhance Market Competition

-- Privatization completed for at least 24 of the 112 state-owned enterprises which are to be privatized.

-- Changes made in regulations that improve the financial and economic viability of agribusiness firms, such as transportation price rate structures and shipping procedures, the system of export taxes and check-off system, etc.

-- 20% decrease in gross national cereal marketing margin.

-- 20% increase in volume of wheat flour processed by unregulated and artisanal mills.

Increase Competitiveness of Individual Firms

-- At least 840 firms assisted to improve efficiency (cost reductions, energy savings, introduction of new technology, management improvements, etc.)

Increase Foreign Investment

-- At least 14 new direct foreign investments stimulated, representing $100 million in total new investment.

Improve Agricultural Information Collection, Dissemination, and Policy Development

-- Foreign Market Statistics Service established and in use.

-- Central agribusiness database established and in use.

-- A national protocol agreement with USDA/APHIS in place and functioning for Moroccan agricultural exports to

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the U.S.

Provide Needed Management and Business Training

-- Training in management and business skills provided for 45 long-term and 230 short-term trainees. In-country training in the skills provided to 7,500 trainees.

Strengthen Business, Management, and Agribusiness Training institutions

-- Four institutions aided in improving business education and three formal institutional linkages created with U.S. institutions.

Encourage Sustainable Natural Resource Management Practices, Especially for Water

-- Complete a pilot project in Tadla Province to test whether increased water efficiency will result in reduced water prices

III. STRATEGIC OBJECTIVE NUMBER THREE

Child Survival and Family Planning

Increase Access to Health and Family Planning Services

-- Total Fertility Rate in urban areas reduced from 3.2 (1987 DHS) to 2.7 and in rural areas from 5.9 (1987 Demographic and Health Survey) to 4.9 for a global average Total Fertility Rate of 3.8 (Based on assumptions of linear progressions from 1983).

-- Infant Mortality reduced from 73/1000 to less than 50/1000.

-- Contraceptive Prevalence Rate increased to 45%, with the number of couples practicing family planning increased from 1,145,000 (1988) to 2,194,000 (1995) (Based on assumptions of linear progressions from 1983).

-- Proportion of women receiving prenatal care increased from 25% to 50%; proportion of medically-supervised births increased from 26% to 50%.

-- FP/MCH outreach programs maintained, providing coverage to a minimum of 85% of the population.

-- Improve hygiene and sanitation for 60 of the 91 villages in Tata and Tiznit provinces (with CRS and Peace Corps assistance).

-- At least 100 Health care professionals trained in identification, treatment and prevention of eye disease and equipped with necessary materials to conduct eye examinations.

-- A national survey completed on causes and prevalence of eye disease and blindness.

Diversify Service Delivery Strategies

-- New contraceptive method Norplant will have been evaluated through a pre-introduction trial in three cities. If these trials indicate the appropriateness of this method for Morocco, it will be available in all 9 regional training centers.

-- VSC services available at a minimum of 51 centers and the contraceptive prevalence rate of VSC services among married women of reproductive age increased from 2.2% to 10%.

Improve Program Quality and Efficiency

-- Decentralization of reproductive health training programs implemented at 9 regional training centers which have curriculums, materials and carry out training programs in general reproductive health, IUD insertion, IEC and interpersonal communication in Family Planning, and Genital Tract Infections. Four centers in operation with experience in implementing training in laparascopic tubal ligation.

-- Comprehensive IE&C Plan developed and implemented, which includes both family planning and child survival components.

-- 60 physician health administrators trained in Morocco-based MPH-equivalent diploma program at the Institute National d'Administration Sanitaire. In addition, 200 health providers will be trained in specialized health program management subjects.

-- A comprehensive operations research plan developed and implemented with research findings forming the basis for refining and focusing ongoing activities.

Mobilize Resources for Health Care Financing

-- An investment code promulgated to provide incentives for private sector investment in the health sector and which annuls current restrictions of such investment

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to medical professionals, in large part due to USAID policy dialogue.

-- At least one private managed care practice under development.

-- Bed occupancy rates in public hospitals raised from the baseline of 57% in 1987 to 71%.

-- Management information system, accounting systems and cost recovery procedures in place in at least three provincial, non-university hospitals.

Increase the Role of the Private Sector

-- Oral contraceptive users who obtain their contraceptives in the private sector increased from 30% to 50%, and sales of oral contraceptives increased from 3.5 million cycles (1990) to 10 million cycles.

-- Protex (condoms) sales program self-sufficient in both media advertising and commodities.

-- Social marketing program for weaning food designed and launched with a weaning food available for purchase at 2,500 private outlets.

Housing

Increase availability of affordable housing for low-income families

-- Beginning in CY 1992 ANHI maintains an annual land production level of not less than 10,000 serviced homesites per year (equivalent to 30,000 housing units for 150,000 beneficiaries).

Strengthen Private Developer Provision of Low-Income Housing

-- Serviced land set aside by the ANHI for wholesaling to private developers increased from less than 5% in 1990 to 25% of total homesite production.

-- Prefinanced infrastructure (ie. water, sewer, electricity, roads) available to the Municipality Tetouan on a 240 hectare privately-owned land site, allowing private developers and builders to subsequently provide housing opportunities for 125,000 people.

Improve Local Governments' Ability to Deliver Services on a Cost-Effective Basis

-- Revenue collection for key local taxes in Tetouan, including real estate, increased from a current average collection rate of 50% to 75%.

-- Solid waste collection and disposal for the downtown and Medina areas of Tetouan contracted to the private sector.

Reduce Proliferation of Informal (Sub-Standard) Housing Settlements

-- The number of people living in shantytowns (860,000 in 1989) reduced by 50%, as measured through annual GOM programs, local government data, specialized neighborhood upgrading, and new land development programs.

Address Environmental Issues That Result From Rapid Urbanization

-- At least 90% of the Tetouan project beneficiaries in the upgrading sites have household hookup to sewer and potable water.

-- Feasibility studies for construction of a city-wide waste water treatment facility completed.

ANNEX B

PROJECT PORTFOLIO BY STRATEGIC FOCUS

Many of the projects in the USAID portfolio support more than a single strategic objective. This is particularly true for the employment and competitiveness objectives. However, the following list identifies projects only by their primary objective. The essential distinction between whether a project is primarily focused on increasing employment or enhancing competitiveness is as follows: if a project contributes principally to job creation and/or expansion or to removing barriers to business investments, it is considered under the employment objective. If a project contributes principally to policy reform, resource efficiency, technology transfer, or marketing, it is considered under the competitiveness objective. In the former (employment), the number of jobs created is the primary indicator. For competitiveness, the level of exports and foreign investment are primary indicators.

I. STRATEGIC OBJECTIVE ONE: INCREASE EMPLOYMENT

A. Continuing Projects:

NEW ENTERPRISE DEVELOPMENT (Project 608-0204)

The project is putting into place a program of business services, financing and administrative reform designed to reduce barriers to entry for new enterprises and to facilitate the expansion of existing small and medium businesses. It is composed of three interrelated components, each designed to meet a specific constraint related to the creation and expansion of small and medium-sized enterprises:

-- business support services
-- a loan guarantee facility
-- policy and administrative reform

MOROCCO AGRIBUSINESS PROMOTION PROJECT (Project 608-0210)

This project is increasing the capacity of the private agribusiness sector in Morocco to produce, package, and market a wide variety of demand-driven, value-added agricultural activities. It provides technical assistance, training and grants for research and development.

B. Projects Beginning in FY 1992: None

C. Plans: FY 1993-1995

MICROENTERPRISE DEVELOPMENT -- (Project 608-0218) -- FY 1993 Start

This project will provide credit and technical assistance to urban microentrepreneurs who operate in the informal sector in Morocco. With the proliferation of microenterprises and increasingly severe unemployment problems, this effort will be important in addressing issues of job creation and absorption of new entrants into the labor force.

FINANCIAL MARKETS DEVELOPMENT (Project 608-0217) -FY 1994 Start

The focus of this project will be to help Morocco develop its equity and financial markets, which will widen and deepen the country's capital markets. Current formal sources of medium and long-term finance for business creation and expansion are extremely limited. As a result, most entrepreneurs depend on their own private savings, and those of friends, to finance even basic investments. Development of a more active equity market would offer entrepreneurs alternative, market-driven, sources of finance for business endeavors.

II. STRATEGIC OBJECTIVE TWO: IMPROVING MARKET COMPETITIVENESS

A. Continuing Projects:

ECONOMIC POLICY ANALYSIS (Project 608-0191)

This project is the principal means for supporting USAID's policy dialogue on privatization, financial sector reform, industrial and agricultural pricing and trade liberalization. There are three sub-projects. The Pricing Policy sub-project, now completed, provided long and short-term technical assistance to support pricing reform. The Economic Policy Development Support sub-project provides a variety of technical assistance to the GOM and supports major activities in privatization and financial markets development. The Cereals Marketing Reform sub-project provides assistance to reduce government intervention in cereals marketing.

ENERGY DEMAND MANAGEMENT (Project 608-0193)

The goal of this project is to commercialize energy management techniques by simultaneously stimulating the demand for high quality energy management consulting services and, through intensive practical training of local engineers inside and outside the project, creating a supply of qualified Moroccan engineers able to respond to the needs of Moroccan industry. Efforts are concentrated on three sectors: agro-industry, building materials

and hotels.

PRIVATE SECTOR EXPORT PROMOTION PROJECT (Project 608-0189)

The purpose of the Private Sector Export Promotion Project is to assist Morocco to increase its export earnings through the promotion of private sector exports. The project has four major components which deal with different constraints to the expansion of exports.

-- Export Credit Insurance

-- Export Pre-Financing Credit

-- Export Production and Marketing Assistance

-- Export Loan Guarantee Fund

DRYLAND AGRICULTURE APPLIED RESEARCH PROJECT (Project 608-0136)

The project's purpose is to establish a regional agricultural research institution (the Aridoculture Center) that will (a) develop applied agronomic, mechanization, and socio-economic research programs; and (b) train adequate Moroccan scientists and support staff to manage research and technology transfer activities.

PLANNING, ECONOMICS AND STATISTICS FOR AGRICULTURE (Project 608-0182)

The purpose of the project is to improve the GOM's ability to collect data and publish timely agricultural statistics, undertake economic policy analyses, and plan, monitor and evaluate agricultural projects.

TRAINING FOR DEVELOPMENT (Project 608-0208)

This eight year $28 million project is both strengthening Morocco's in-country training capacity and improving Moroccan managerial and technical skills for economic growth and private sector expansion. It funds technical assistance to improve the financial viability and quality of private sector training. Four types of training activities are provided to private and public sector employees: short-term management and technical training in-country; short-term management and technical training in the US; graduate level training in the US and English language training in-country.

SECTOR SUPPORT TRAINING PROJECT (Project 608-0178)

This project was designed to assist the GOM in meeting training needs in certain high priority areas not met through other A.I.D. projects or by other donors. The principal purposes of the project is to upgrade the managerial, analytical and technical expertise of Moroccans in the public and private sectors who are involved in planning, developing and implementing social and economic programs.

DEVELOPMENT STUDIES AND TECHNICAL SUPPORT (Project 608-0214)

This project provides USAID, the GOM and the private sector with the mechanism to mobilize needed technical advisory services and equipment for activities consistent with USAID and GOM development priorities. It funds project design and evaluation, equipment, analytical studies and private sector promotion activities. Project activities will lay a solid foundation for the transition to a more liberal economic environment that encourages private sector growth.

PEACE CORPS SMALL PROJECT ACTIVITIES (Project 608-0181)

The Peace Corps/Small Project Assistance (SPA) Project makes possible the implementation of small community development projects in Morocco supervised by Peace Corps Volunteers (PCVs). The project, in effect, capitalizes on the technical and managerial ability of PCVs present "in the field" by financing materials and other costs of small projects designed and implemented by the volunteers.

B. Projects Beginning in FY 1992:

PRIVATIZATION SUPPORT (Project 608-0215)

USAID will provide non-project assistance to help the Government of Morocco implement its privatization program, under which Morocco will private 112 public enterprises within the next six years. This assistance will provide an incentive to the Government of Morocco to move expeditiously on implementing the privatization program it has already announced.

INTERNATIONAL EXECUTIVE SERVICES CORPS (Project 608-0219)

This project will provide technical assistance to the Moroccan private sector through the International Executive Service Corps. The Trade and Investment Service component of the project will help to promote Moroccan exports to new markets, particularly North America, and broker U.S./Moroccan joint ventures.

WATER RESOURCES MANAGEMENT (Project 608-0213)

This project will promote the efficient, economic and environmentally sustainable management and use of Morocco's water and soil resources within the Tadla large-scale irrigation perimeter in the Oum Er Rbia River basin. It will help to develop: (1) an improved water and soil resources management policy framework; (2) improved regional water and soil resources conservation and production practices at both the system and farm levels; (3) increased private regional participation in water and soil resources allocation, management; and, (4) enhanced environmental sustainability of water and soil resources management and use in the Tadla irrigation perimeter. The integrated resources management approach promoted under the project will serve as a model for other irrigated perimeters throughout Morocco, and project results will be widely disseminated to ensure maximum opportunity for replication and effective impact.

C. Plans: FY 1993-1995: None

III. STRATEGIC OBJECTIVE THREE: IMPROVE DELIVERY OF SELECTED SOCIAL SERVICES

A. Continuing Projects:

POPULATION AND FAMILY PLANNING SUPPORT III (Project 608-0171)

The Population/Family Planning Support III Grant, a 7 year project signed in August 1984, strengthens the Government of Morocco's (GOM) capacity to plan, implement and evaluate cost-effective population and child survival programs. These programs have focused on the extension of the successful family planning/child survival outreach program, Visites à Domicile de Motivation Systématique (VDMS), increasing accessibility at fixed facilities, improving training and management capabilities of the Ministry of Public Health (MOPH) and utilizing research for program planning and development.

POPULATION AND CHILD SURVIVAL IV (Project 608-0198)

The Population and Child Survival IV project is a seven year follow-on project to the Phase III Population and Family Planning Support Project, 608-0171. This grant moves away from direct service subsidies toward improving impact and sustainability of family planning (FP) and maternal child health (MCH) programs in Morocco. Objectives include increasing overall contraceptive prevalence (modern methods) among married women of reproductive age from 30% in 1987 to 45% by 1994.

TETOUAN URBAN DEVELOPMENT (Projects 608-0194 and 608-HG-001)

Through the Housing Guaranty Program, A.I.D. is providing the Government of Morocco with access to U.S. private financial markets by guaranteeing GOM payback on borrowings by the Municipal Development Bank (acronym in French, FEC) of up to $25 million for the infrastructural improvement of select neighborhoods in the City of Tetouan. The $25 million, combined with $10 million from FEC, is providing upgrading, street lighting, roadways, a sewerage trunk line, system hookups and potable water to the benefit of 100,000 low-income people. It is also providing financing to carry out the first public-private land development venture that will provide shelter for another 100,000 people of an illegal settlement. An A.I.D. grant of $3.6 million through Project 608-0194 provides assistance to strengthen the implementation capability of the participating institutions. Technical assistance and training, on-the-job training, and seminars are conducted to address project management and monitoring, municipal financial management and budgeting, cost recovery, revenue generation, and provision of municipal services. In addition, a sewerage system master plan study is also financed under the project.

ANHI LOW INCOME HOUSING PROGRAM (Projects 608-0200 and 608-HG-003)

In an attempt to address the needs of lower income families, in 1984 the Government of Morocco created the National Substandard Housing Agency (ANHI). The $20 million dollar Housing Guaranty Program (HG-003) and its accompanying $1.3 million grant component (608-0200) are building ANHI's financial and managerial capabilities for carrying out its own land development program and for pilot testing and implementing policies and procedures leading to: higher production levels of serviced land; lower costs and more affordable serviced plots; increased participation by private developers and local governments in the production of low income shelter; and increased access for low-income beneficiaries to existing housing finance programs. Since project approval in 1988, the ANHI has increased its annual land development production levels to reach 12,000 by 1992 (creating 30,000 homes) and producing 18% of the national production level targets.

P.L. 480 Title II PROGRAM

The Compensatory Food Program (CFP) monitored by Catholic Relief Services is now using funds from the sale of Title II food to improve the services provided to the poor by GOM Ministries. CFP funds are helping the Ministry of Public Health to develop its nutrition program. The Ministry of Handicraft and Social Affairs will use almost $3 million in CFP funds to ensure that its programs provide poor Moroccans with skills they can use to find employment.

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B. Projects Beginning in FY 1992:

PL 480 TITLE II MONETIZATION PROJECT

This project, which will be implemented by Catholic Relief Services, will provide potable water, sanitation facilities and related health education to the inhabitants of rural villages in two provinces of southern Morocco.

C. Plans: FY 1993-1995

HEALTH CARE FINANCING (Project 608-0207) -- FY 1993 Start

USAID will provide a PL 480 Title II monetization grant to Catholic Relief Services to develop a pilot potable water and sanitation project. This project, which relies on a PVO to work with local authorities and the private sector to address the severe water-related health problems of southern Morocco, conforms well with element of USAID strategy which focuses on health and child survival concerns. It also affords one of the few opportunities to work with the U.S. voluntary community in Morocco.

URBAN INFRASTRUCTURE DEVELOPMENT (Project 608-0220 and 608-HG-004) -- FY 1994 Start

USAID is proposing a grant (which would provide technical assistance to the relevant housing agencies in Morocco) and a $50 million Housing Investment Guaranty to increase the supply of serviceable urban land for families below the median income level. The TA project and the HG would add approximately 2500 hectares of serviceable land that would provide homes for 850,000 families over a five-year period. The proposed project will build on previous USAID efforts in low-income housing and dovetail with IBRD support to the housing financing system.

ANNEX C

USAID MOROCCO
PROJECT DESIGN SCHEDULE

PROJECT NUMBER	TITLE	LOP FUNDING (000s)	FUNDING SOURCE	COMPLETION DATE PID	PP	PROAG	LEAD OFFICE
FY92							
0213	WATER/SOIL RES CONS	15,000	ESF	6/91	2/92	3/92	ANR
0215	PRIVAT'N SUPPORT	25,000	ESF	12/91	3/92	4/92	PROG/PDPE
0219	IESC	7,000	SD	N/A	3/92	5/92	PDPE
FY93							
0218	MICROENTERPRISE DEVT	14,000	SD	11/91	4/93	6/93	PDPE
0214	HEALTH CARE FINANCING	15,000	DA				PHR
FY94							
0217	FINANCIAL MARKETS DEV	14,000	ESF	11/92	4/93	6/93	PROG
0220	URBAN INFRASTRUCTURE	5,000	ESF				RHUDO

kjf 29-Nov-91

ANNEX D

USAID MOROCCO

P R O G R A M O B J E C T I V E S

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P R O G R E S S I N D I C A T O R S

JUNE 1990

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USAID MOROCCO

PROGRAM OBJECTIVES AND PROGRESS INDICATORS
PROGRAM STATUS AND BASELINE DATA

June 1990

INTRODUCTION

Up-to-date objectives and progress indicators for the United States economic assistance program to Morocco have been developed over the past few months in collaboration with ANE Bureau staff. The purpose of this paper is to document a data base for the objective indicators.

USAID's four principal program objectives and associated progress indicators are summarized on the next page in tabular format. Baseline data is specified and current program status is described for each objective in the following pages.

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June 1990

USAID MOROCCO

PROGRAM OBJECTIVES AND PROGRESS INDICATORS

OBJECTIVE #1	OBJECTIVE #2	OBJECTIVE #3	OBJECTIVE #4
: barriers to the .on and expansion of and medium sized :rise.	Broaden access to and increase variety of sources of family planning and maternal and child health services.	Increase productivity of rainfed agriculture in the Settat Command Area.	Increase the production of low-cost shelter.
:ual increase in : of exporting firms, :siness starts, and assisted by USAID.	A. Maintenance of vaccination coverage with new cohort of children.	A. Policy Benchmarks. i) Trade Liberalization Program ii) Cereals Marketing Reform Strategy	A. Policy Benchmarks. i) Cost Recovery Strategy ii) Joint public/private land development iii) Reduction of infrastructure norms
:duction in the gap :n the number of people :ply for a business :e and those who obtain :ication to initiate :eration.	B. Increase number of family planning users.	B. Standard productivity index for yield response.	B. Increase delivery of serviced plots of land.
	C. Increase percentage of contraceptives and MCH supplies provided through private sector.	C. Adoption of improved production technology for cereals and food legumes.	C. Increase percentage of land wholesaled to private developers.

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Objective No. 1

Reduce Barriers to the Creation and Expansion of Small and Medium Sized Enterprise

A. Data Base (for the year ending 12/1989)

1. Annual increase in the number of exporting firms, new business starts, and firms directly assisted by USAID programs.

a) Number of exporting firms: 2,100
b) New business starts: 2,300
c) Number of firms directly assisted by USAID programs: 89

SMAEX	:	new policies	30
Export Pre-financing	:	Loans	29
IESC	:	firms assisted	18
TIS	:	firms assisted	7
Section 108	:	loans	5
Energy Demand Mgt	:	firms assisted	0

2. Reduction in the gap between the number of people who apply for a business license and those who obtain authorization to initiate the operation.

- Applications minus authorizations: 13,555
  Number of applications: 15,855
  New authorizations : 2,300

B. Current Program Status

USAID's major efforts in promoting the creation and expansion of small and medium sized enterprises in Morocco have, to date, been concentrated on the expansion of export industries. This is consistent with the GOM's strategy of export-led economic growth.

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The vehicle for USAID's efforts in this area has been the Private Sector Export Promotion project (608-0189). The project was initiated in 1986 with objectives to a) promote institutionalized private sector export-oriented changes in the banking and insurance fields, and b) increase access of Moroccan exporters to credit, export insurance and technical assistance. The project was evaluated in April 1990. The major mid-term conclusions are:

1) SMAEX, the export credit insurance institution established under the project, has demonstrated strong progress in its first full year of operation, demonstrating effectiveness in helping exporters obtain credit, minimize risk and penetrate new markets;

2) The $4.5 million export pre-financing credit has registered partial success, but been limited in usage;

3) The IESC firm specific assistance and Trade and Investment Services programs have been successful in efforts, even if limited in impact.

USAID is now amending the Private Sector Export Promotion project to offer medium term investment guarantees in lieu of any further funding provisions for short term export pre-financing. A $10.5 million export investment guarantee facility will address the financial constraint of high collateral requirements imposed on under-capitalized small and medium sized firms, and increase the impact of USAID's export promotion activities.

USAID's proposed New Enterprise Development project, now under design for FY 91 authorization, will broaden USAID program scope beyond exporting firms to address constraints to SME formation and growth generally. Policy reform, SME financing and business support services are the three components of the new project.

In regard to the PL 480 Section 108 program loan agreements with five participating banks were finalized and signed in February 1989. Only three of the five banks have completed all the pre-conditions in the agreement for drawing funds. To date, only DH 19.8 million ($2.3 million) of the DH 75 million ($8.7 million) total available has been requested for on-lending by participating banks.

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Objective No. 2

Broaden Access to and Increase Variety of Sources of Family Planning and Maternal and Child Health Services

A. Data Base

1. Maintain vaccination coverage rates for children between 12 and 59 months of age.

   - 1989 survey: 93%

2. Increase number of family planning users.

   - 1990 estimate: 1.0 million

3. Increase percentage of contraceptives and MCH supplies provided through the private sector.

   - Oral contraceptives (1989 survey): 26%
     Number of cycles distributed: 11.5 M
     Private sector: 3M
     Public Sector: 8.5M
   - Condoms : TBD

B. Current Program Status

Since the late 1970's, population growth in Morocco has declined from an annual rate of 3.2% to a current rate of 2.6%; and, since 1987, complete immunization of children under five against six diseases has increased from about 50% to 93%. USAID assistance to the Ministry of Public Health has been critical to these achievements. USAID is by far the leading donor to the Moroccan health sector.

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USAID assistance is currently being delivered through two major bilateral projects - Population/Family Planning Support III (608-0171) and, Population and Child Survival IV (608-0198) - with authorized LOP assistance levels of $27.2 million and $31 million respectively. A new project with an aim to improved financial sustainability of the Maternal and Child Health and Family Planning programs is planned for FY 91 authorization.

Base line date for the progress indicators on the Mission's family planning and child survival programs are explained in the following paragraphs.

1. Vaccination Coverage

In April 1988, the Ministry of Public Health (MOPH) completed a national vaccination coverage survey to determine actual levels of vaccination coverage for infants between 12 to 59 months of age following the completion of the National Vaccination Campaign completed in July 1987. Based on a nationwide sample of over 30,000 infants, approximately 17,000 of which were 12 to 17 months, the survey reported an estimated vaccination coverage rate of 69% with documentation and 87% overall. Data was collected for both urban and rural areas. In order to track progress in maintaining these coverage levels, the MOPH has instituted an annual vaccination coverage survey program which is disaggregated for each of the six major childhood diseases as well as for infants with and without documentation. These surveys also include both urban and rural coverage rate data. The 1989 survey, based on a sample of just under 700 infants, reported coverage levels for infants 12 to 17 months of 88%, 73% with documentation. Children in the 12 to 59 month age group had coverage rates of 93%, 69% of which were documented. The Mission will use this annual survey as the source of data for tracking accomplishment against the progress indicator.

2. Family Planning Users

Using projections from the MOPH, the Centre d'Etude et Recherche sur L'Economique et Démographique (CERED) and the Bongaarts/Stover "TARGET model,"

USAID estimates that the Morocco Family Planning Program is serving an estimated 1.0 million modern method family planning users in 1990. This number will increase to 1.5 million contraceptive users by 1996. The baseline number (1.0 million) of married women of reproductive age (MWRA) currently using contraceptives is calculated as follows: CERED 1990 projections of women of age 15-49 (6.10 million) is multiplied by 55.7% of married women creating a total of 3.39 million MWRA. The proportion of MWRA is then multiplied by the estimated prevalence of modern contraceptive users (32.5%) producing the current number of contraceptive users. This indicator can be measured annually using the same method as described above. This annual measurement will be verified in an actual Moroccan Demographic and Health (DHS) survey to be conducted in 1992 and 1997. Annual numbers of actual modern family planning methods (IUD's, pills, condoms, foam and tubal ligations) distributed or provided will also be verified against private sector contraceptive sales records and the MOPH service statistics.

3. Private Sector Provision of Supplies

Based on findings of the 1987 Morocco DHS survey, an estimated 70% of Moroccan couples rely on public sector programs as the principal source for family planning commodities and services, with the remaining couples supplied through private sector providers. During 1989, this resulted in the distribution of approximately 8.5 million cycles of oral contraceptives by the MOPH. Private pharmaceutical laboratories were responsible for the sale of an additional 3 million cycles during 1989. The Mission projects an overall increase in the number of cycles distributed, from an estimated 11.5 million cycles in 1989 to an estimated 15 million per year in 1993, or approximately 7.5 million each for both the public and the private sector. Data on MOPH distribution were compiled through a review of MOPH family planning service statistics, while private sector sales data were reported in the International Marketing Statistics (IMS) report. These two reporting systems will serve as the principal sources of data to track Mission progress under this indicator. The Mission will also monitor the growth of condom sales under the Moroccan social marketing program, as compared to increases in overall public sector condom distribution.

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Objective No. 3

Increase Productivity of Rainfed Agriculture in the Settat Command Area of Morocco

A. Data Base

1. Improvements in the agricultural policy environment.

   a) Trade Liberalization Program
   Total number of possible 800 agricultural commodities transferred from a licensed and quota import system to a tariff based system (through 1988): 10

   b) Cereals Marketing Reform Strategy by 1992 - MOU signed in 1989 which provides plan for completing the necessary studies.

2. Increase in productivity of cereals, food legumes and forage/livestock farming systems in the Settat Command Area.

   - Three year moving average yield figures for the 1987/1988 crop year.

Bread Wheat	1.15 MT/ha
Durham Wheat	1.16 MT/ha
Barley	1.15 MT/ha
Maize	0.62 MT/ha
Faba Beans	0.60 MT/ha
Peas	0.49 MT/ha
Chickpeas	0.41 MT/ha

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3. Adoption of improved production technology for cereals and food legumes in the Sefrian Control Area.

- Hectares of Saada bread wheat variety harvested (1987/88 crop year): 0.0

B. Current Program Status

Production in the Moroccan agricultural sector, as a whole, is far below capacity. Employing 40% of Morocco's labor force, the sector produces only 19% of GDP.

The causes for the sector's relatively poor performance are both structural and technical. The sector is still heavily manipulated by parastatal monopolies and price controls; and, faulty crop and soil management practices and inferior crop varieties are too often employed.

USAID is working with the Ministry of Agriculture to increase productivity through an integrated program of 1) policy reform, 2) education and technical, socioeconomic research, and 3) production increasing technologies and improved availability of inputs.

USAID and the ANE Bureau have agreed upon three progress indicators for the annual assessment of achievements toward the stated objective of improved productivity. These are examined below.

1. Policy Improvements

a) Trade Liberalization. Until the mid 80's, GOM policy had been to protect domestic industry from outside competition, by taxing imports and placing quantitative restrictions on both imports and exports. The Trade Liberalization Program calls for shifting some 800 agricultural commodities from a licensed and quota import system to a tariff system. The importation of these commodities will then be subject to an ad valorem tariff but not subject to the quotas, licenses, authorizations and import monopolies which presently effect some of these commodities.

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The analysis behind the Trade Liberalization Program is being conducted by the Planning and Economic Analysis Division of the Ministry of Agriculture. This is one of two divisions within the Ministry receiving support under USAID's Planning, Economics and Statistics for Agriculture project (608-0182).

b) Cereals Marketing Reform. The GOM has agreed to produce, with USAID assistance, a cereals marketing strategy by 1992. A U.S. contractor is due to begin working with the Ministry of Agriculture in September 1990.

2. Productivity Increases

The baseline figures were furnished by DPAE/MARA from their provincial level data contained in their annual publication Enquête Agricole. DPAE/MARA will make these yield figures available annually.

The baseline for yield changes in relationship to the use of other inputs is being developed by the Agricultural Economics and Rural Sociology Sections of the Aridoculture Center in Settat (a research center receiving USAID assistance through the Dryland Agriculture Research Project, 608-0136). The baseline survey will use the whole-farm model for analytical purposes. They have identified three primary agro-ecological zones based on soils, rainfall patterns and topography which will provide the initial baseline characterization of the bio-physical environment. This information will be combined with the provincial governmental structure to form the target zones for analysis. Seven economic parameters will be used to characterize farming activities, the first of which is cereal and food legume production. To date, the data points necessary to complete this later economic parameter have been collected for two of the three target zones.

3. Improved Technologies

The Saada bread wheat variety, developed at the Settat Aridoculture Center, is resistant to the hessian fly which has been estimated to cause at

least $23 million of crop damage and perhaps as much as $35-40 million. The GOM through MAEA's DPAE and INRA have agreed to develop a methodology to measure the rate of adoption of such new technology developed at the Settat Aridoculture Center as well as their economic impact in the Settat Command Area. These technologies may include other cereal varieties, improved nitrogen fertilization of cereals, an improved animal traction seeder, weed control, improved forages, new winter chickpea and lentil varieties, improved lentil production methods, new oilseed crops, improved crop rotations, and tillage sequences. The methodology report will be developed in 1990. Prior to the end of 1990, the DPAE in collaboration with INRA will make an assessment of the use of Saada variety by farmers.

Objective No. 4

Increase Production of Low-Cost Shelter

A. Data Base

1. Improvements in the low-cost shelter policy environment. Actions to be accomplished in 1990:

a) Cost Recovery Strategy

i) Cost recovery plan for Dersa Samsa Upgrading project to be adopted.

ii) Advance payments to be made for Tetouan Sites and Services Zone.

b) Joint public/private land development

i) Financing plan for private developer zone to be adopted by Municipality of Tetouan

ii) Initial private developer zone sites to be approved and first private developers to register sites for development.

c) Reduction of infrastructure norms

- ANHI to agree to increase density of land development sites from 45% to 50%.

2. Increase delivery of serviced plots of land.

- ANHI 1990 production level: 8800

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3. Increase percentage of public land allocated to private developers.

- ANHI sales in 1990; 220 lots: 2.5%

B. Current Program Status

1. Policy Development

a) Cost Recovery Strategy

i) Cost Recovery Plan for Dersa Samsa. The Municipality of Tetouan has approved the Upgrading Program for the Dersa-Semsa Project. Included in this program is the cost recovery strategy which defines the rational and procedures for calculating and implementing a program for full recovery of Municipality investments in the upgrading project. The ANHI Project Officer has already prepared a data base which identifies each of the nearly 10,000 beneficiaries in the upgrading site on the basis of the cadastral census carried out in 1987-88. In 1991 the Municipality will implement the collection program; beneficiaries will be required to pay 30% of the estimated total fee established for the upgrading site; the balance will be recovered on a monthly basis over a 10 year period.

ii) Advance Payments for Tetouan Sites and Services. The Municipality has launched a marketing program to identify beneficiaries for the sites and services program they are going to carry out in 1990. The Municipality has received over 2000 requests for the 1800 plots it intends to sell and has already contracted out the detailed engineering and architectural site study to local private consulting firms.

b) Public/Private Land Development

i) Financing of Tetouan Private Developer Zone. The comprehensive strategy for carrying out the Joint Public/Private Land Development Program of

240 hectares of privately owned land was completed by a US consulting firm in January 1990. The findings of the plan are under review by the Municipality of Tetouan and will be presented for City Council approval this fall (1990) or early in calendar year 1991.

ii) Initial Private Developer Sites. In the interim the City of Tetouan has approved one private developer program for 9 hectares. This site is now complete and plots are being sold to prospective individual home owners and small builders.

In 1991 the Municipality should begin to initiate local zoning controls that will encourage property owners in the project zone to carry out development programs within the framework of the Joint Venture Plan which will include prepayment to the City for primary infrastructure investments.

c) Reduction of Infrastructure Norms

A major objective of USAID's HG-003 program is to reduce norms and standards in site development in order to make serviced land more affordable to low income families. The ANHI has accepted to increase land densities in its project sites from 45 to 50%. The first group of new projects to be launched under the agreed upon norms will be designed this year; USAID will closely monitor compliance to this density increase.

2. Serviced Plots Delivery

The ANHI is currently producing 5500 serviced plots a year. The additional resources made available through the $10 M HG-003 financing will raise production level to 8000 serviced plots per year. This will be noted in the fourth year of the program (1994) when projects currently under development are sold and delivered to beneficiaries. USAID is currently preparing an amendment for the HG-003 program to add $10 million additional HG Loan financing. This would result, beginning in 1995 in an annual productin level of 10000 plots.

3. Wholesale of Urban Land to Private Developers

The ANHI has agreed to increase the number of hectares of land that it auctions off to private developers for construction of multi-story dwelling units. In 1990 the ANHI production target for the private sector is 220 plots of total production. In 1991 the production will be 260 plots of ongoing plots (less than 3%) plus 10% of the plots put into production under the new program.

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ANNEX E

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 in the long run

10) Food programs to mitigate 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

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POLICY AGENDA - REDUCED POPULATION GROWTH AND IMPROVED PRIMARY HEALTH CARE

Current Policy	Policy Sought	Next Steps	Benchmarks
Problem Area: Public Sector Health Financing			
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.	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.	Cost recovery system developed by April 1990.
		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.	Study contracted by November 1989; completed by December 1990.
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.

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POLICY AGENDA - INCREASED ECONOMIC GROWTH

Current Policy	Policy Sought	Next Steps	Benchmarks
Problem Area: Administered Prices			
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)
Problem Area: Overregulated Financial Sector			
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

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Current Policy	Policy Sought	Next Steps	Benchmarks
Problem Area: Lack of Competition			
High-level support for small enterprise; red tape and administrative barriers overwhelming for small investors	Ease of entry into economic activities	Eliminate unneeed 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 targetted 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
Problem Area: Clandestine Housing			
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.

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Current Policy	Policy Sought	Next Steps	Benchmarks
Problem area: Private sector share of low income shelter production is to low:		- 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.	- USAID funded ZAC studies completed May, 1989; National studies contracted 10/89.
The absence of a legal and institutional framework to promote public/private partnership for land assembly, financing of primary infrastructure;	- A legal and institutional framwork for undertaking joint public-private sector land development.		
In apropriate and outdated zoning standards and unrealistic infrastructure standards discourage private developers from actively participating in shelter production for the urban poor.	- 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.	GOM with USAID HG and Grant financing will seek to: a) lower the cost of serviced land through reduction in norms and standards; 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) .c) examine norms for land development.	- USAID will contract sector studies in norms and standards and private sector participation (608-0200).

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Current Policy	Policy Sought	Next Steps	Benchmarks
Problem area: Housing Finance			
Housing finance systems are not accessible to the urban poor and do not encourage private developers to produce shelter for the families earning below the median income.	- 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.	- 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.	Elaborate the TOR with ANHI and CIH on housing finance study (December 1989).

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Current Policy	Policy Sought	Next Steps	Benchmarks
Problem area: Inefficient Financial Intermediation for local governments			
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. 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.	- 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	- Comprehensive TA/Training program will be implemented to: a) support GOM initiatives in in municipal development and 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.	Contract 608-0194 TA and Training Program (Fall, 1989) Develop PID (June 89) for 608-0202 BDCL TA and ProAg (November 1989). Begin TA with BDCL (November 1989).

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POLICY AGENDA - INCREASED FOOD SUPPLY

Current Policy	Policy Sought	Next Steps	Benchmarks
Problem Area: Investment Policy			
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 ecoomic 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
Problem Area: Pricing Policy			
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 cost recovery becomes part of policy regarding supplemental irrigation

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Current Policy	Policy Sought	Next Steps	Benchmarks
Problem Area: Lack of dynamism in Private Health Care Sector			
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.	Policies and procedures developed and publicized to encourage greater private sector action in health delivery and financing.	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.	Profile of the Private Sector designed and contracted by November 1989; Legal and Administrative Restraints study designed and contracted by November 1989.

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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.	

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POLICY AGENDA - IMPROVED ENERGY AND NATURAL RESOURCES MANAGEMENT

Current Policy	Policy Sought	Next Steps	Benchmarks
Problem Area: Energy Efficiency			
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 end of CY 1989. Policy analysis study contracted by end of CY 1990.
Problem Area: Private Power Generation			
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	GOM organizes discussion with U.S. experts.
		Work with private sector investors(foreign and Moroccan) on project identification for wind farms, cogeneration, and combined cycle gas turbines.	ONE cooperates with foreign investors to implement wind farm feasibility study.
		Ongoing Short term study tours.	Two study tours organized in next year.
Problem Area: Natural Resource Management			
Inappropriate tenancy and management systems for natural resources.	TBD	TBD	TBD

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ANNEX F

USAID MOROCCO

PROGRAMMING FOR THE 1990S:

A Concept Paper

July 1990

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USAID MOROCCO

PROGRAMMING FOR THE 1990s:
A Concept Paper

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1. Moroccan Economic Reforms, Performance, Prospects
2. Agriculture - Now and Towards the Year 2000
3. Health and Family Planning - Now and Towards the Year 2000 (to be completed in August)

I. Introduction

USAID Morocco is in the fourth year of implementation of a five year CDSS (1987-1991). A new strategy will be prepared after the arrival of the new Mission Director in the fall of 1990. During ANE/DAA John Blackton's May 1990 visit to Morocco, he and the Mission engaged in a series of discussions on the socio-economic and political challenges which Morocco will face during the 1990's. It was decided during his visit that the Mission would prepare a short paper laying out its preliminary conclusions with respect to the development challenges faced by Morocco and potential areas of involvement for the Mission during the coming decade. The result is this paper which the Mission presents in the spirit of opening a more structured dialogue with ANE on the future directions of the USAID Morocco program. The paper is not exhaustive in the sense of covering every possible development issue, but attempts to look at what is important from an open markets - open society perspective. For those looking for in-depth discussion of the economy or the agriculture sector, annexes have been included on these topics. A third annex, on the health sector, will be the subject of a workshop in July and will be submitted immediately afterwards.

II. Morocco at the Beginning of the 1990s

A. The Economy

Morocco is a lower middle income country using IBRD terminology. GDP per capita ($610 in 1987) is similar to that of Senegal, the Philippines, Egypt, and the Dominican Republic. It is estimated that thirty percent of the population is poor, i.e. unable to afford a minimum basket of food and services.

The Government of Morocco launched a wide ranging economic structural adjustment program in 1983, well ahead of most countries that were forced into the structural adjustment process. The IBRD and IMF, the main financing organizations of the adjustment process, consider the program to have been largely successful. Over the 1983-89 period, economic growth has been good, but not outstanding with real GDP growth averaging 4.6%. The average growth rate conceals very great fluctuations largely reflecting rainfall variations and resulting in widely varying agricultural output. Morocco's huge debt (83% of

GDP in 1990) and almost total dependence on imported oil makes success somewhat fragile, and highly susceptible to changes in exogenous variables such as interest rates, and petroleum and phosphate prices.

Morocco has a relatively open foreign trade regime and is making good progress in moving from an import substitution based economy to a more export oriented economy. As a result of various structural adjustment measures, import restrictions have been greatly reduced and export performance of non-phosphate related goods has been very good. Morocco joined GATT as a full member in 1987. Its primary trading partner is France, followed by Spain. U.S. exports to Morocco have been chiefly aircraft, mining equipment, wheat, and vegetable oil. U.S. brand name merchandise (e.g. IBM computers and Xerox photocopiers) is available on the local market, but is usually of European source and origin.

Morocco's domestic economy is still highly regulated and administratively controlled, the playing field is not perceived to be level, and full competition is absent. It is difficult to get into business and ongoing businesses face continuous hassles. State-owned enterprises numbered 688 in 1985 (although only about half had majority state ownership), contributed about 17% of GDP, and make certain sectors unappealing for private sector investment. ONA--a palace holding company and one of the largest companies in Africa--is also active in several sectors of the economy and is seen by many to have a privileged position in those sectors. The banking community is highly regulated, but enjoys low risk and high profits, and does not search out new business agressively.

Foreign investment in Morocco has been hurt by the perception that the playing field is not level, and by arbitrary use of power and enforcement of regulations. Total U.S. investment is very small, perhaps $150 million. France, Saudia Arabia, and the United Arab Emirates head the list of investors, perhaps because they know better how to cope with the rules of the game. Foreign investment does appear to be climbing and the abrogation last year of the Moroccanization law of 1973 which required majority local ownership is a step in the right direction.

Morocco's economy is well diversified with significant manufacturing, agriculture, and service sectors. Agriculture provides some 19% of value added, manufacturing 17%, mines and energy each 3%, and transportation/ communications and construction each 5%. Commerce and other services account for the remaining 48% of the value added, with public administration contributing 16% to GDP. (See Table 1).

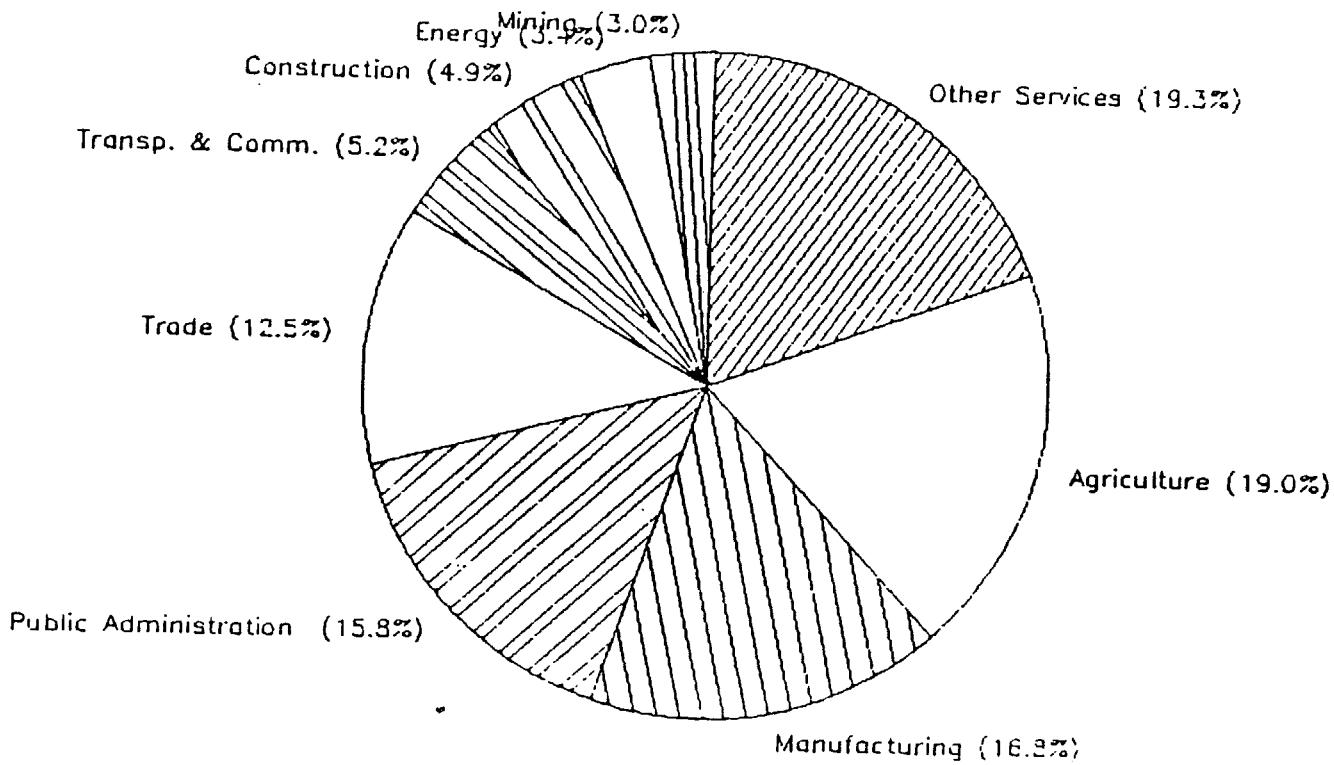
Morocco's economy is still heavily influenced by the agricultural sector, which contributes directly between 15 and 19% of total GDP depending on the year, and indirectly, as inputs for manufacturing industries, another 10%. Variations in annual total GDP are closely related to annual changes in agricultural production. Agriculture is a leading foreign exchange export earner, ranking as the fourth largest after phosphates, workers remittances, and tourism. Morocco is the second largest exporter of oranges and tangerines in the world. Agro-industries contribute 35% of manufacturing value-added, the largest single share. Some 40% of the Moroccan workforce is employed in agriculture.

The fastest growing part of the manufacturing sector has been light manufacturing for export of chiefly textiles, clothing, leather goods, and agroprocessing. Based on annual surveys, new jobs created in the formal manufacturing sector totalled 115,000 between 1983 and 1988. Of these, 100,000 were created in agroindustry, textiles, clothing, and leather goods industries.

B. The Social Sectors

Morocco is behind other lower middle income countries in terms of social statistics and ranks near the bottom when compared to other ANE countries. Adult literacy in 1985 was only 45% for males and 22% for females and primary school enrollments are still not keeping pace with population growth, which remains high at 2.5%. Maternal mortality may exceed 400/100,000--40 times the rate for developed countries. Approximately 60% of the rural population still does not have reasonable access to basic health care and all health indicators show significantly worse health status in rural areas as compared to the

1989 GDP BY SECTOR OF ORIGIN



national averages. Some 17% of Moroccan children exhibit some form of protein-calorie malnutrition; 75% of undernourished children are found in rural areas.

C. Political Scene

Morocco combines features of a constitutional and an absolute monarchy. King Hassan II is both temporal head of state, with almost unlimited powers vested by the constitution, and spiritual leader of Morocco's muslims by virtue of the ruling Alaouite Dynasty's claim to direct descent from the Prophet Muhammad. Power flows from the palace down, and all major decisions, as well as many minor ones, are made there.

Alongside this traditional, palace-based power structure, a parallel system of modern political institutions, including a parliament, ideologically diverse political parties, trade unions, and professional associations, operate relatively freely but within the constraints imposed from above. Building on the political opening initiated by the King in the mid-1970s, the Moroccan political system provides opportunities for the expression of dissent, and the current atmosphere of enhanced freedom of expression allows for journalistic exposure of official corruption and abuses of authority. Yet despite these constructive features, political participation remains restricted to a small elite; the majority of the population, particularly the young and residents of rural areas, feel little if any sense of involvement in the political process. The sense of playing on an uneven field is leading to rising frustration even in elite circles. Many believe the continued blockage of the political system serves to enhance the credibility of the Islamist movement as the only real political alternative.

King Hassan has indicated interest in further liberalization of the political system, as well as institutionalizing measures designed to protect citizens from human rights abuses. Decentralization plans also fit this scenario of a more liberal Morocco. How far the process will be allowed to develop remains an open question, and many powerful officials and interest groups have much to lose. The prospects for successful economic liberalization are closely linked

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to political reform. Without further movement to expand political participation and transfer power to the modern political sector, efforts to create a more dynamic, market-oriented economic system are likely to fall short of the mark.

D. Summation

Using an open markets and open society yardstick to measure Morocco, one finds a relatively open foreign trade regime, but a relatively closed domestic economy and political scene. Upward mobility depends chiefly on one's family's position in society and contacts. Merit is of lessor importance. People use their position in society to seek economic rents. Loyalty remains chiefly with the family.

However, there are many positive trends occuring in Morocco. The GOM has shown a much greater interest in recent years in stimulating the private sector. Individuals are now more likely to seek careers in business. (In the past, new graduates looked for a job in government.) There appears to be more interest in giving greater responsibility to local governments. Still, and especially among the young, one senses quiet desperation in society caused by a wide perception of lack of opportunities, lack of a future.

III. Morocco's Development Challenges in the 1990s

A. Introduction

Demographically, Morocco in the year 2000 will look somewhat different than the Morocco of 1990.

- Total population will rise from 25 to 32 million.
- The urban population will for the first time exceed the rural population.
- The under 15 age cohort will decrease slightly from 40% of the population to 37%.

- The 15-54 age cohort will increase from 51% to 54% of the population.

- The 55 and over age cohort will remain constant at 9%.

8. The Economic Challenge

The major economic challenge to Morocco between now and the year 2,000 will be to increase its growth rate from historic trend levels of 3 to 4% per year to at least 5% per year. A five percent growth rate will be the minimum required to absorb new entrants into the workforce and keep urban unemployment from rising from its estimated level of 14% overall and 28% for males between 15 and 24 years of age. Employment pressure will mount over the decade as: 1) a larger percentage of the population falls into the 15-54 age group, 2) the opportunities to emigrate to Europe diminish, and 3) female participation rates rise with increased urbanization.

Emigration to Europe has been a very important safety valve for those facing unemployment in Morocco. An estimated one million workers now work outside of Morocco. However, some European countries are reexamining their guest worker policies in the light of increasing societal tensions and Moroccans face increased job competition in Western Europe from Eastern European workers.

Where are the Future Sources of Growth and Employment?

In agriculture, there are opportunities for growth in both rainfed and irrigated agriculture. In rainfed agriculture, after stagnation in the 1970s cereal yields in the 1980s have risen dramatically as a result of changing cereal pricing policies, improved rainfall, and increased use of more productive inputs. Based on comparisons to rainfed agriculture in Tunisia and Turkey, a further 50% increase in yields is judged to be readily attainable over the next ten years. Unlike these countries, Morocco has only recently invested in rainfed agricultural research from which the payoffs are just beginning to be realized.

In irrigated agriculture, further reforms to abandon mandatory cropping patterns, privatize input supply, and link producer prices to world prices for major import substitution crops such as oilseeds and sugar could result in large efficiency gains and increased production of crops in which Morocco has a comparative advantage.

Sustained growth in exports will be key to maintaining high rates of growth in irrigated agriculture, manufacturing, and related services. The challenges here are formidable. Despite strong export performance in the 1980s, Morocco was only able to increase its market share in France, Denmark, and the United States. In all other countries, Morocco's market share dropped (Table 2). Creating a unified European Community (EC) market in 1992 may adversely affect Morocco's special access to the French market for textiles. The proposed 1995 changes in the EC may also adversely affect Morocco's access to what has been their most important market for agricultural exports. Further, the EC's common external immigration policy will result in far fewer possibilities for Moroccans to work in Europe, thereby reducing workers' remittances (now the number 2 earner of foreign exchange after phosphates and phosphate derivatives). This makes good performance in merchandise exports all the more important. Morocco will have to become more sophisticated and competitive to compete successfully for its share of traditional European markets. On the other hand, creating a unified EC market will undoubtedly bolster EC growth rates, heighten import demand, and thus open new opportunities for Morocco.

To maintain a high rate of growth in exports, Morocco needs to invest in new production capacity. This presents a major challenge. Since the 1970s overall investment levels have been reduced. Looking at the 1980s in detail, there has been a decline in public sector investment and rise in private investment. However, in the past four years, private investment has stagnated. A principal reason for this poor performance in private investment has been the continued crowding out by large public sector borrowing, and this despite declining public investment! Over the past seven years, government borrowing on average has taken 56% of all new credit creation (Table 3). Thus, despite the drop in public sector investment, further contraction in the government budget deficit will be needed so that the financial sector can mobilize savings for productive private sector investment.

In order for the financial sector to play its needed role in mobilizing domestic savings and financing private sector investment, a substantial reform program must be undertaken. Lifting of credit ceilings, elimination of interest rate controls, promotion of corporate bonds, revitalization of the stock market are important to this effort.

TABLE 2

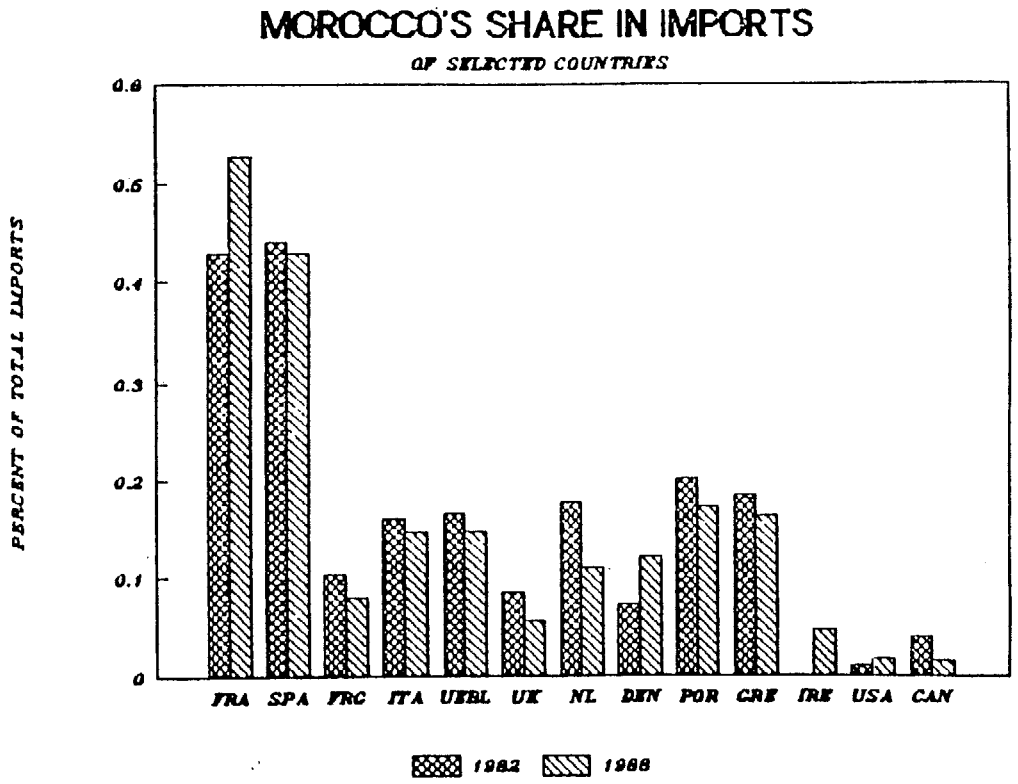
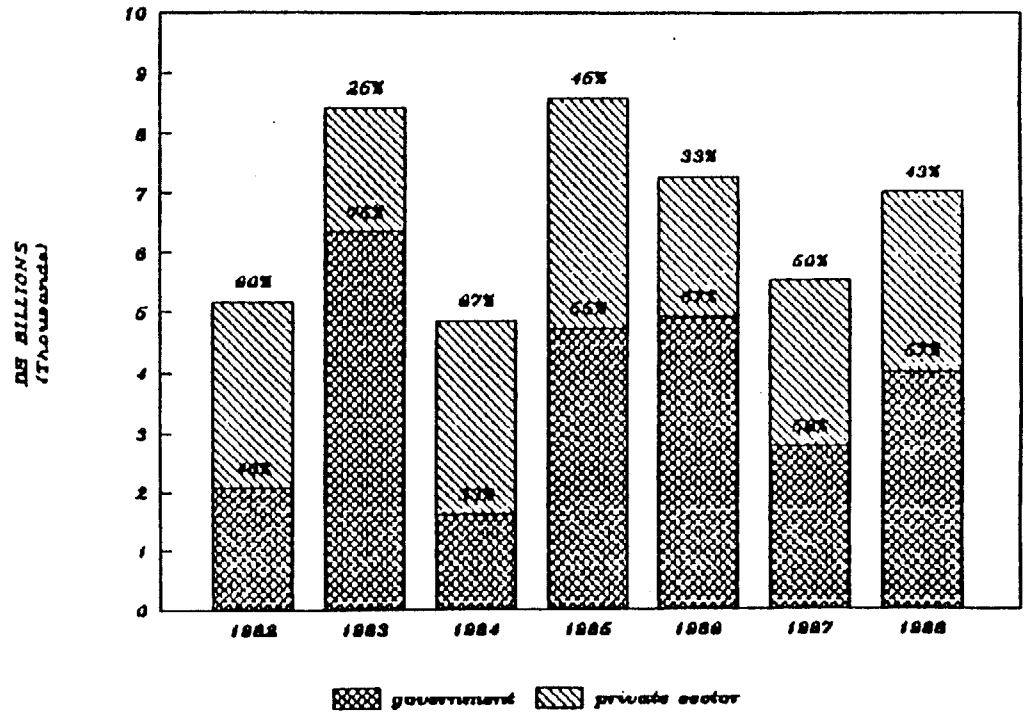

MOROCCO'S SHARE IN IMPORTS
OF SELECTED COUNTRIES
PERCENT OF TOTAL IMPORTS
0.6
0.5
0.4
0.3
0.2
0.1
0
FRA
SPA
FRG
ITA
UEBL
UK
NL
DEN
POR
GRE
IRE
USA
CAN
1982
1988

TABLE 3

DISTRIBUTION OF DOMESTIC CREDIT



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Morocco will have to complete its trade liberalization program and keep the dirham from becoming overvalued.

In addition, Morocco's overall business climate needs to be made more welcoming. Administrative barriers to business registration need to be reduced. Provisions of company law should be modernized. Investment incentives should be standardized, made more useful, and their award more automatic and transparent. Fiscal and other impediments to the graduation of informal sector firms to the formal sector need to be removed, and the threat of direct state entry into competition with the private sector diminished.

The Private Sector in the 1990s

The door is open for a major expansion of the private sector in Morocco, an expansion which could alter significantly the relative weight in the economy of the private sector vis-a-vis the public sector by the year 2000. The door is open because the GOM is strained financially and cannot provide the capital investments needed for growth out of its own resources. Thus it is looking to the private sector to pick up the slack.

The GOM is also beginning preparations to privatize some 112 state holdings over the next six years, including state owned firms which have dominant positions in important subsectors of the economy. For example, three parastatals are slated for privatization which have dominant roles in fertilizer, improved cereal seed, and other agricultural input distribution as well as in oilseed marketing. Two banks on the list account for 36% of all bank deposits. The mining enterprises to be privatized account for nearly 60% of total mining production (excluding phosphates). Other state holdings dominate Moroccan machine tool, steel, foundry, and auto assembly industries.

Whether the private sector is ready to play the leading role in the economy will depend in large measure on whether financial resources are increasingly channeled to the private sector, and whether the economic playing field is leveled enough to entice entrepreneurs who are not well connected into the game.

An improving domestic investment climate should stimulate foreign investment and provide opportunities for American firms to introduce modern technologies and managerial techniques on a broader scale in this market. Morocco is also well positioned to become a supplier of goods and services to the EC and an expanded market in North Africa with a total population of 100 million people if efforts to forge the Union of the Arab Maghreb are ultimately successful.

C. The Social Sectors in the 1990s

Morocco faces serious challenges to provide the basic and more sophisticated education, health and family services that will be demanded by its population in the 1990s. First, the health and educational status of Morocco's population is already behind that of countries at similar levels of GDP and Morocco has some catching up to do. Second, Morocco will need a healthier and more educated population if it is to achieve the kinds of productivity gains it will require to compete successfully in increasingly sophisticated export markets such as the EC and the U.S. Third, the GOM will continue to face budget constraints and will have to rely increasingly on the private sector to provide social services, especially for urban health care and higher education, to recover costs within the public sector, and to reallocate its own investment and operating funds to programs with the highest potential impact and programs for those least able to pay for services.

For example in education, primary school enrollments are still not keeping pace with population growth and adult literacy will remain below 50% past the year 2,000. The education budget is spent disproportionately on secondary and tertiary education, thus starving the base.

In health, the flow of public sector resources to the Ministry of Public Health is likely to be flat for the foreseeable future. Unless private sector delivery of health service expands rapidly and public sector cost-recovery is increased, both the overall supply and quality of health services is likely to decrease. In addition, child survival gains, especially for rural areas, may also be at risk unless family planning and maternal and child health programs can be put on a more sustainable basis.

D. Other Issues

1. Decentralization and Local Finance

Morocco is in a deconcentrating phase in which the central government is providing local governments additional staffing and funds. Thirty percent of VAT receipts has in fact been earmarked for local governments. There is also heightened interest in Rabat, due in part to the need to reduce central budget expenditures, in giving responsibility for constructing and maintaining school buildings and health clinics to local authorities. The coming decade will be a time of experimentation with decentralization. It is yet to be determined how much control local authorities will have over funds received from the central government and those collected locally, and how much local participation and transparency will be associated with the allocation and expenditure of funds.

2. Shelter

As Morocco becomes more urban and as low income people flock to the cities, there has been a proliferation of clandestine neighborhoods (housing built by individuals and small builders on unregistered land with only limited infrastructure) which now account for more than 40% of shelter production in many urban centers. While the GOM has recognized that public housing programs will not be able to meet demand for low-cost shelter and have assumed that the private sector will have to supply one-half of the necessary units in the future, much is left to be done to provide the private sector the incentives to become aggressive participants in supplying low-cost shelter.

3. Natural Resources and Environment

General

Morocco is just beginning to focus on environmental issues. The UNDP will be financing a country environmental profile to give an overview of environmental problems in Morocco. USAID Morocco has a contract with the World Resources Institute (WRI) to look at key environmental issues. A recent colloquium was

held on the Moroccan environment with the participation of several U.S. experts. One of the U.S. experts was asked by a palace advisor to help think through next steps. USAID will be able to support this work through WRI and hopes that the process will help clarify future directions for work on environmental issues over the decade. Two issues which may merit USAID attention are deforestation and water.

Water

The management of water resources, in the broad sense, will likely become the main natural resource concern in Morocco and an economic one as well since water availability could soon become a binding constraint on economic growth. Water availability is of primary concern for the country's agriculture, and especially export-oriented agriculture. In addition, the development of phosphate mining requires water. Water management is important for the energy sector, with 12% of electricity coming from hydropower. Increasing urbanization and industrialization are also placing ever rising demands on the country's water resources.

Forest and Rangeland Management

Water management issues in Morocco are closely linked to another important natural resource concern, that of forest and rangeland management. It is estimated that forests are being cleared, primarily for fuel wood, five times as fast as they are being replanted. In addition, much of the country's rangeland exhibits severe erosion damage. Because of silting caused by this environmental degradation of upland areas, Morocco's extensive investments in dams, reservoirs, irrigation works, and canals are threatened. This could impair the country's future economic growth in two ways: (a) the silting of reservoirs and other water works imposes extremely high costs for both maintenance (primarily dredging) and for (b) remedial measures (new construction). The absorption of limited funds for both recurrent costs (maintenance) and capital investments (new construction) will impose higher costs for all water users and limit investments, both public and private, in other areas. As a result, Morocco's economy will be less competitive than would otherwise be the case, and real economic growth will be lower.

E. Summation

As described above, Morocco faces a series of major development challenges over the 1990s. These can be grouped into the following five categories:

1. Employment

With unemployment already running at 14 percent in urban areas and fewer opportunities to immigrate to Europe, Moroccan society is experiencing rapidly increasing tensions, especially among young adults. Morocco must raise its growth rate, at a minimum, to the five percent figure estimated to be needed just to keep unemployment from rising, or even better, to the six to seven percent range needed to reduce unemployment.

2. Foreign Markets

Continued access to foreign markets will be a key to achieving higher growth rates, especially for the most dynamic parts of the manufacturing and agriculture sectors. Morocco will need to seek new export markets, diversify agricultural exports, as well as improve it's policy environment, management, and commercial practices in order to compete more effectively in world markets. How will Morocco be able to keep, or even increase, its market share in the EC, take advantage of potential new markets in Eastern Europe, and crack the U.S. market?

3. Political Economy

Further liberalization of the domestic economy and political system will be needed to create additional jobs, provide additional opportunities for upward mobility, and foster a sense of citizen participation. Will Morocco be able to loosen up the economy and political system without threatening the stability of the overall structure? Can a meritocracy ever take hold in Morocco?

4. Social

Morocco will have to revamp its health and education systems if it's populace is to contribute meaningfully to a more sophisticated economy and society.

What can Morocco do to catch up in terms of health and educational status? If Morocco does not move faster, what are the implications for upward mobility and productivity?

5. Natural Resources and the Environment

USAID Morocco has scheduled a thorough assessment of watershed management issues. The assessment should determine whether appropriate project intervention is feasible in the absolutely crucial areas of water policy and watershed management. If so, a new project will be designed toward the end of FY 1991. The Mission will also be exploring other areas of environmental and natural resource concern over the course of FY 91.

IV. Potential Areas of Involvement

A. Program Objectives and Potential Areas of Involvement

Clearly pursuit of an overarching open markets and open society goal in Morocco will be extremely difficult. In the Moroccan context, program objectives might be best stated as follows:

1. Growth. Projects should contribute to stimulating economic growth and expanding employment through the private sector; and

2. Equal opportunity. Projects should contribute to leveling the economic playing field, increasing the number of avenues available for upward mobility in society and expanding choice.

USAID Morocco proposes the following areas of involvement to achieve program objectives:

1. Policy reform;

2. Strengthening the private sector;

3. Restructuring the health care system;

4. Providing low-cost shelter;

5. Support for decentralization;

6. Women in development;

7. Addressing emerging problems in natural resources and the environment; and

8. Training.

1) Policy Reform

While Morocco is making the transition from an import substitution to an export oriented economy, further liberalization of the economy is needed to increase competition, broaden the base of the domestic economy, and increase the role of the private sector. Areas for involvement include:

a) regulatory and administrative reform to improve the business environment for small and medium sized enterprises (SMEs);

b) financial sector reform;

c) privatization; and

d) liberalization of domestic markets.

The Mission already has an active Economic Policy Analysis project which has financed studies in all of above areas and can provide further analysis and technical assistance for the implementation of policy reforms. For example, a team will be arriving this fall to deepen our knowledge of required next steps in financial sector reform. It is possible that further work on secondary debt or capital markets may result. The Mission is currently providing a full time privatization advisor to the Ministry of Economic Affairs and Privatization and is hopeful that requests for assistance to help privatize specific parastatals will be forthcoming. The Mission is also involved in studies of inefficiencies in cereals markets and domestic distribution systems.

The Mission is currently designing a component of a proposed FY91 project, New Enterprises Development, to focus on reform of the regulatory and administrative environment affecting small and medium sized enterprises. Implementation will take place over the next five years.

2) Strengthening the Private Sector

USAID Morocco's current private sector program focusses on export promotion through improving Morocco's export insurance program, facilitating exporter's access to investment credit, improving the production processes of exporters, assisting with export marketing, and promoting U.S.-Moroccan joint ventures. Over the next five years, in addition to helping improve the policy environment, the Mission will stimulate growth of the private sector through programs designed to:

a) strengthen private organizations which provide services to private businesses;

b) increase the availability of financing for small and medium enterprises (SMEs);

c) promote agribusiness; and

d) increase trade and investment opportunities.

The Mission's proposed FY91 New Enterprise Development project will begin activities with private sector organizations and expand financing programs for SMEs. An agribusiness assessment team has arrived to look at the constraints faced by agribusiness in both the cereals and agricultural export sub-sectors. To complete the transformation of the cereals sector and achieve realizable productivity increases, a combination of privatization of parastatals with monopolies on seed and fertilizer distribution and assistance to private sector suppliers to the cereals sector may be needed. The team will also be looking at the role of agribusiness in meeting the challenges

Morocco faces in marketing its export produce in the 1990s. The Mission has proposed that an FY91 Agribusiness Promotion project be considered for DPRP financing.

The Mission's trade and investment services program run through a grant to IESC is picking up steam and may be extended. Additional trade and investment activities are likely to surface as a result of the proposed Agribusiness Promotion project. The Embassy has also requested that USAID support the establishment of a U.S.-Moroccan Joint Business Council.

3) Restructuring the Health Care System

The Mission's current health and family planning portfolio is increasing access to basic health care and family planning services, especially in rural areas, improving program efficiency, and exploring health financing issues. Over the next five years, access to basic FP and MCH services will rise from 40 to 85% of the rural population and to virtually 100% of the urban population using a variety of public and private sector programs. This will be a major achievement.

At the same time, and recognizing the challenge of providing adequate health services to a growing population with constrained public resources, the Mission will undertake a major new initiative in health care financing. This new initiative will consist of three basic components:

a) Creating the conditions for a major expansion of health delivery through the private sector;

b) Introducing cost-recovery into the public sector curative health delivery system; and

c) Improving the sustainability of family planning and maternal and child health programs.

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Initial health financing activities are being funded under the Mission's Family Planning and Maternal and Child Health IV project. A new Health Financing project is planned for FY 1991.

4) Providing Low-Cost Shelter

The Mission's low-cost shelter program is increasing the production of serviced plots for low-cost shelter, introducing cost-recovery measures, stimulating public-private partnership in the production of serviced plots, and providing practical models for solving shelter issues. Over the next few years, USAID activities should focus on encouraging the private sector to become the major supplier of low-income shelter by:

a) removing government subsidies that give price advantages to government built shelter;

b) developing mechanisms whereby financial institutions provide construction financing to private developers for low income targetted projects;

c) creating new opportunities for access to credit for land acquisition and construction for low income beneficiaries from financial institutions;

d) shifting limited government resources from state run production to leveraging private sector development; and

e) encouraging the creation of non-subsidized primary and secondary mortgage markets.

5) Support for Decentralization

It is unlikely that the Mission will develop a decentralization portfolio *per se*, though decentralization ranks high in terms of ways to further an open-markets, open-society agenda in Morocco. To-date, it is the low-cost

shelter program working in the city of Tetouan which has contributed the most of any USAID project to decentralization. This project provides a good model of how to effectively promote decentralization in Morocco. The project works on specific problems faced by local governments and provides the TA and training necessary to develop new solutions and strengthen local capabilities. The result has been a shift in the locus of decision-making on local issues toward Tetouan and a willingness by the central government to pick up successful new ideas and replicate them with other local governments.

Over the next five years, decentralization can probably be best supported through the Mission's low-cost shelter, Family Planning and Child Survival IV, and health financing programs. Each program will be working on issues which involve the provision of services by local governments and will be designed to increase local participation in decision-making. The Mission's training program will also support decentralization, for example by providing in-country training for local government officials in areas such as finance.

6) Women in Development

The Mission FY 89-90 WID Action Agenda was approved by AID/W in November 1989. The primary WID goal of the Agenda is to integrate women's productive potential more fully into Morocco's development process. To date this has been translated primarily into efforts to increase the participation of women in USAID-funded training programs. As the overall training program becomes more oriented toward the private sector, the pool of women that can be affected will change and increase.

The WID Committee recently reviewed the WID Agenda to assess its validity and to identify directions for future action, particularly steps to be taken for the preparation of a WID strategy for the new CDSS period. It was determined that technical assistance from the PPC/WID Genesys Project is required to elaborate the Agenda and make it consistent with the Mission's overall program reorientation toward the private sector. The Genesys consultancy will also assist the Mission to integrate gender issues in the new CDSS document. A scope of work has been drafted and preliminary discussions are under way with PPC/WID.

7) Natural Resources and the Environment

The first phase of water policy studies will be conducted in the Fall of 1990. The second phase will be carried out during the first quarter of CY 1991. Assuming findings are positive with regard to the efficacy of a USAID project for water resources policy and management, the design work will be completed during the last half of FY'91.

8) Training

Training has been a very important cross-cutting theme of the USAID Morocco program for many years and will continue to be for the next five years. Morocco is looking increasingly to the United States, rather than to France, for new ideas and new technologies. As growing numbers of Moroccan trainees have completed their U.S. training and returned to their institutions, the impact of their training is increasingly felt and valued. This has resulted in a surge in demand for U.S. training, especially in such fields as management and computer science. The Mission's MBA program, begun just one year ago, is quickly running out of training slots.

A new training project will be designed in FY91 to respond to the increased interest in the U.S. While the project will build upon two previous training projects, it will also introduce new mechanisms to increase the proportion of participants from outside of the government, and from geographic areas other than Casablanca and Rabat. It will respond to the recommendations of a private sector training needs assessment which will be completed by the end of September 1990. It will also attempt to increase female participation above the current thirty percent target.

B. Paths Not Taken

The Mission does not propose to provide assistance to primary education, even though illiteracy will continue to be a constraint on development, equal opportunity, and citizen participation into the next century. AID does not have a comparative advantage in working in an arabic language environment on such topics as curriculum reform or educational efficiency, nor will the

Mission likely have a level of funding which would permit a focus on primary school construction. Furthermore, the World Bank is deeply involved in educational reform and primary school construction in Morocco.

USAID/Morocco promoted public sector institution building in the energy sector during the 1980s under projects for Energy Planning, Renewable Energy Development, and Conventional Energy Management and Training. The modest success of these programs and the importance of greater use of market forces led the USAID to reorient its energy activities toward the private sector, and to phase out the ENR Division. The Energy Demand Management project--which will run through 1993--will be implemented as part of the Mission's private sector portfolio, and the USAID may pursue private power and other interesting energy policy issues with support from AID/W.

Morocco appears on the list of drug producing countries which requires a yearly certification to Congress that progress in controlling drugs is being made. The Moroccan government has stated on several occasions that it would be happy to enlarge its law enforcement and crop substitution programs if the United States were forthcoming with the necessary financing. The GOM has also stated that such financing should be additional to planned economic assistance levels for Morocco. To date, the USG has provided modest amounts of assistance in drug interdiction, for example, a DEA training program on how to recognize drug trafficers was given in the spring of 1990. As Morocco is not a major supplier of drugs to the United States, we believe a continuation of modest assistance through central programs is the appropriate response.

C. A Program in Transition

The USG economic assistance program to Morocco is undergoing a period of rapid transition. The CDSS planning period is almost over and a series of projects begun in the 1980s will be coming to an end over the next few years. This is of course most apparent in the energy portfolio, where only one

project--energy demand management--remains after June 30, 1990. Fiscal year 1991 is a watershed with four new projects scheduled to be completed:

1. New Enterprise Development;

2. Agribusiness Promotion;

3. Health Financing; and

4. Training for Development.

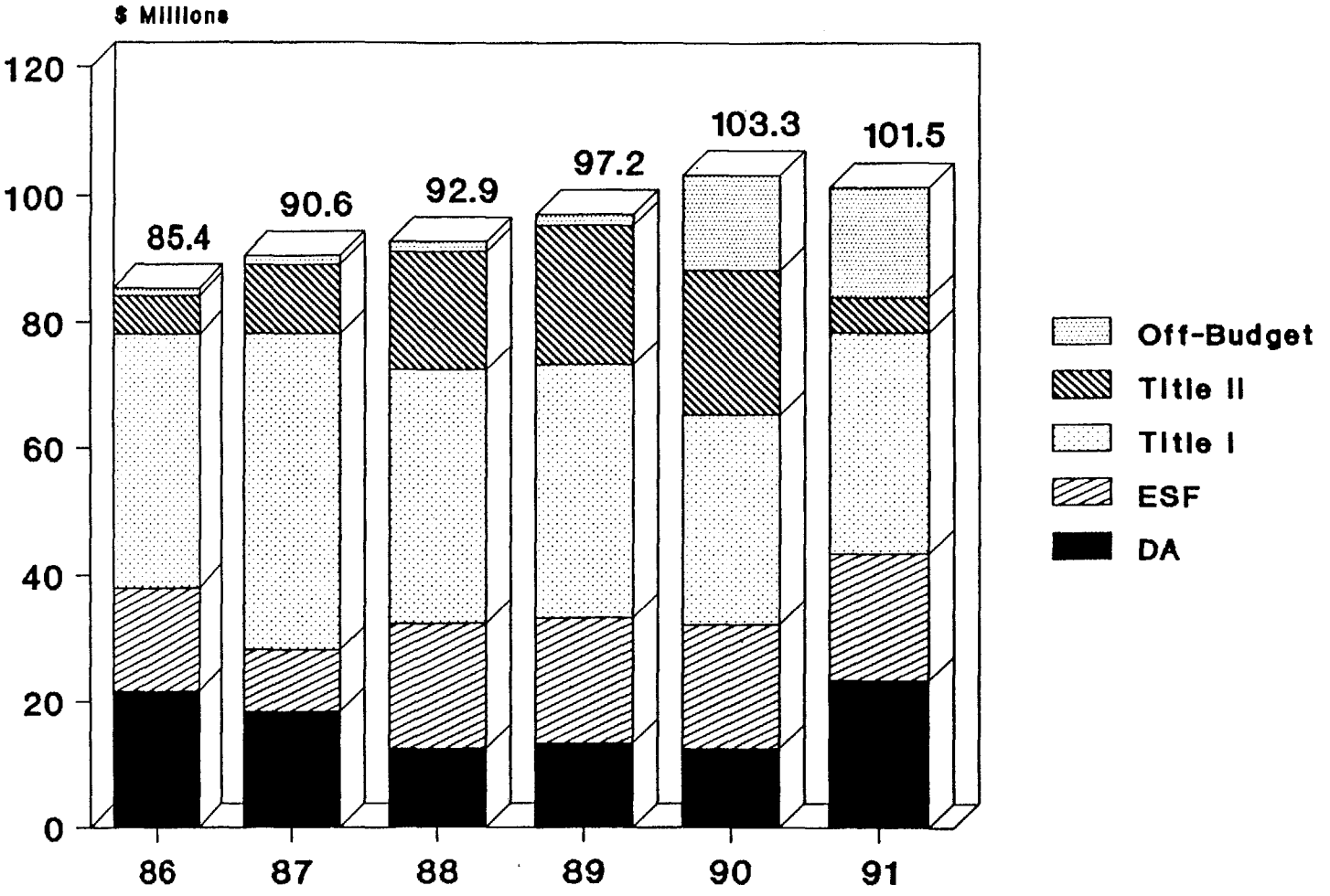
In a program which normally adds one or two new projects in a fiscal year, the design of four new projects announces the beginning of a new strategy period.

Of course, certain on-going programs will continue to be important during the next five years. The economic policy analysis project may be extended and expanded if opportunities in privatization and financial sector reform pan out. The Mission's shelter program will enter a period of intensive implementation and will have an even more palpable impact on the housing sector. The same will be true of the Dryland Applied Research Project which should complete its transition from U.S. to Moroccan management and achieve a large impact on cereals yields. The Family Planning and Child Survival IV project will extend basic health and family planning services into rural areas which have some of the worst health conditions in the country, completing the expansion of public, basic health programs.

Recent evaluations of long-term mission investments in three of Morocco's premiere agricultural institutions, the Agronomic and Veterinary Institute, the National Institute of Agronomic Research, and the Ministry of Agriculture's Planning and Statistics Department, indicate that these investments have met, and in many cases exceeded, their institutional development objectives. In the 1990s, the critical tasks for these institutions will be maintaining this outstanding capacity, using this capacity to provide information and technology to private sector actors and to promote policy formulation designed to increase private sector responsibilities for agricultural sector development, and exploiting

established relationships with the U.S. scientific community for the mutual benefit of the American and Moroccan economies.

All in all the next five years should be exciting as mature programs reach the point of maximum impact and new, more private sector oriented programs get underway.

ANNEX G

US ECONOMIC ASSISTANCE TO MOROCCO