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Country Development Strategy Statement

FY 1988

MOROCCO

ANNEX A

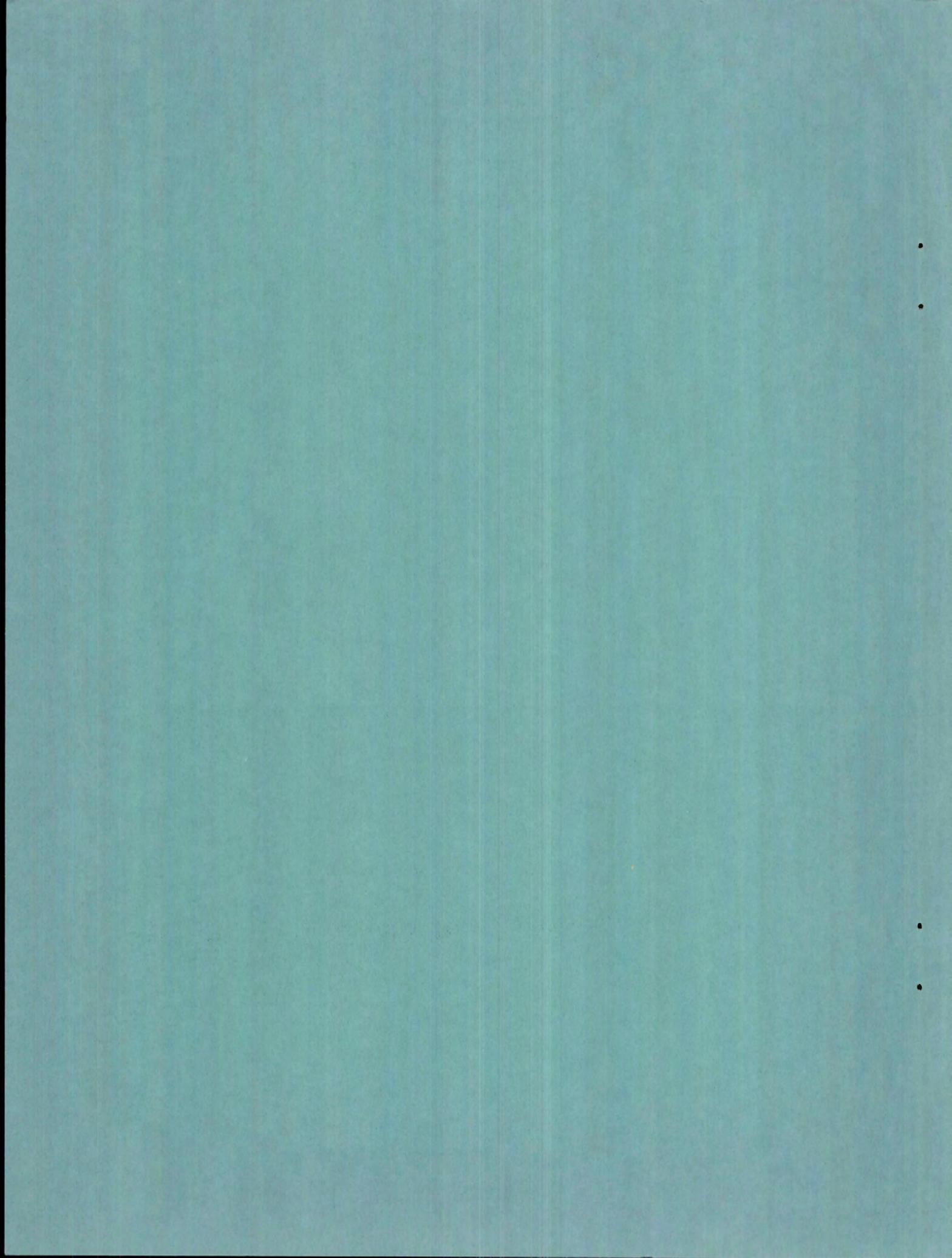
**TOUGH CHOICES:
THE ROADS NOT TAKEN**



February, 1986

Agency for International Development
Washington, D.C. 20523

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A N N E X A

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COUNTRY DEVELOPMENT STRATEGY STATEMENT

(FYs 1987 - 1991)

FEBRUARY 1986

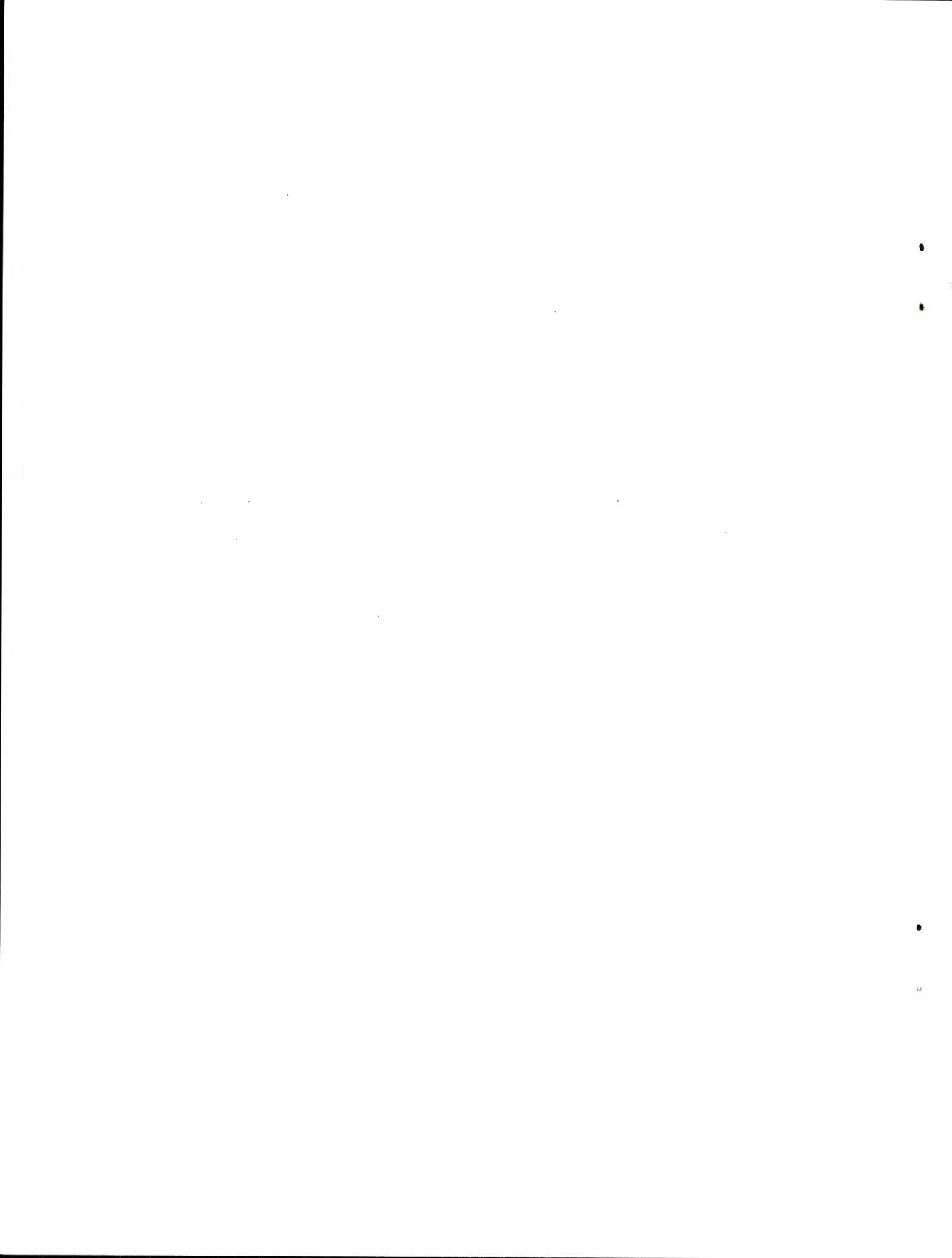
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TOUGH CHOICES: THE ROADS NOT TAKEN

Over the past two years (since the preparation of the Mission's last CDSS submission), USAID Morocco has seriously considered a large number of possibilities for development activities in Morocco beyond the scope of its existing program. Requests and ideas for AID assistance come from many sources, with varying degrees of force. As described in the text of the CDSS, the Mission's program has been deliberately crafted to concentrate limited financial and human resources into addressing a few key development problems. This selective approach is not only Washington "gospel"; it also makes sense from a developmental point of view. A sustained and focused effort -- a "critical mass", if you will -- is required to make a measurable difference.

USAID Morocco's program strategy (CDSS) has therefore been focused on addressing four fundamental problems in Morocco: (1) inadequate economic growth; (2) inadequate food production; (3) rapid population growth and early child mortality; and (4) inadequate energy supply. USAID's approaches to these problems are selective and concentrate on those activities in which AID has expertise and substantial positive experience elsewhere. Many of the problems being addressed by the Mission are technical or institutional, and thus long-term in nature. Concrete results from USAID efforts are only beginning to be visible in some cases. This is especially true of efforts being made in the "traditional" sectors of agriculture, population and energy. More recently designed programs have focused on more near term "pay-outs". In the future, the maximization of return in the relative near term and the minimization of "staff intensity" will be guiding principles. But whatever the activity, decisions to undertake or not to undertake (or continue) any of them are difficult, and made only after full consideration of the trade-offs involved.

USAID Morocco believes its "absorptive capacity" for wholly new initiatives in the near term to be low, unless increased financial and/or staff resources unexpectedly become available. Resources are stretched thin, and a decision to become involved in a new sector would strongly suggest a decision to discontinue an existing one. The Mission does not intend to stray outside the four strategic areas described below. However, it is possible that as circumstances change and targets of opportunity arise, the Mission will adapt and alter the mix of interventions it has set forth in the CDSS. Changing the mix of activities within a sector may actually increase efficiency in the use of limited financial and human resources, since interventions are often mutually reinforcing and carried out with the same implementing institution. The paperwork and staff costs of such expansion are thus limited to acceptable levels. It is rather "proliferation" into new sectors, involving new implementing agencies and requiring new staff, that can sap the strength of a development program's impact. This we intend to consciously avoid, even in the face of pressures which can (and have) become strong. The effective pursuit of the four strategic objectives described in the CDSS are anticipated to be capable of stretching our resources, energies, intelligence and creativity to their limits, and maybe beyond. Thus, the problems and areas of potential USAID interventions discussed below are beyond the reach of our current and planned program.

1. Degradation of Land and Related Natural Resources

The degradation of Morocco's natural resources is a serious long-term threat to the nation's economy and to the productive potential of the agricultural sector. It has been estimated that, based upon current rates, up to 20 percent of existing forest and shrub cover will be lost by the year 2000. Extensive soil erosion, as a result of overuse and poor watershed management practices, is permanently reducing the amount of topsoil available and thus the productivity of the land. The siltation that results is reducing the capacity of the reservoirs upon which Morocco's critical irrigation sector, and its urban areas, depend. Some of the major reservoirs constructed before 1960 have already lost more than half of their original capacity. The principal causes of this degradation include:

(a) Overgrazing by livestock, particularly on collectively-owned range and forest lands. Sustainable forage production only meets an estimated 80 percent of the nutritional needs of Morocco's livestock population. The remaining 20 percent of forage needs is being met by overgrazing. Heavy livestock pressure limits the natural regeneration of forest and shrublands.

(b) Excessive consumption of fuelwood. Sustainable wood production covers only 30 percent of annual fuelwood consumption in Morocco. The remaining 70 percent of annual demand is met by deforestation and devegetation.

USAID Morocco has sought solutions to the overgrazing problem on collective lands through its Range Management Improvement Project, which will reach its completion in August, 1986. A final evaluation of this project, carried out in October 1985 by a team of independent consultants, concluded that the project had contributed significantly to the development of the GOM's range management capacity in terms of institutional development within the Ministry of Agriculture. At the present time, however, USAID is not planning to follow up its range management efforts with continued assistance to the sector. This is for two reasons:

(a) The absence, on the part of the GOM of a feasible long-term strategy for the development of the extensive (open range) livestock sector and the protection of the country's grazing resources. The GOM has not yet evidenced the commitment or resources necessary for a adequate range improvement and control effort; and

(b) The absence of adequate institutional mechanisms, particularly at the local level, for managing the use of collective range lands to avoid overgrazing, destructive cultivation, and devegetation. Neither USAID's Project nor the IBRD's integrated rural development projects have been successful in dealing effectively with the management and control of collective resources.

The GOM must take the lead in addressing these issues and USAID has strongly urged it to do so. During the remaining months of the Range Management Improvement Project, the senior U.S. consultants will focus their attention on assisting the GOM in examining these fundamental issues. Nevertheless, until the GOM indicates a greatly commitment to addressing these issues, the Mission does not believe that further USAID project efforts in range management and the extensive livestock sector are warranted. USAID does intend to remain abreast of the situation and, where appropriate, will continue to support efforts in the livestock development through other interventions, such as the general training project.

Similar issues regarding control over collectively-owned resources and absence of a viable long-term resource management strategy also complicate efforts to address the question of deforestation. As indicated in the CDSS, USAID plans to more thoroughly explore the household energy issue in general, and fuelwood demand and supply, in particular, during the CDSS period. These future analyses may identify activities/interventions involving the resource degradation issue which would be appropriate for AID to explore further.

2. Water Resource Policy and Management

One consequence of the recent drought has been to sensitize Moroccan decision-makers to the fragility of the country's agriculture and to the fact that periodic drought is, and will be, a continuing phenomenon which must be planned for and managed. Drought should not be viewed as just a deficiency in precipitation. Rather, it is an excess in demand over supply. The demand for water has grown significantly in recent years, as a consequence of rapid population growth, increasing urbanization and industrialization and large investments in irrigation systems. Together, these factors have increased water usage by more than 200 percent since the last multi-year drought in the late 1950s. The necessity of improved long-run planning for the conservation and use of Morocco's limited water resources is increasingly perceived as a necessity. Whether this concern will be sustained after the return of "normal" rainfall levels and the alleviation of the drought is unknown. USAID has worked with other donors in sensitizing the GOM to this problem. USAID has been involved in water resource issues through the Doukkala Sprinkler Irrigation Project (terminated in 1984) and the current Winter Snowpack Augmentation Project. In addition, USAID was instrumental bringing about (though not directly financing) a National Water Resource Conference, held in November 1985 and organized by a renowned U.S. water resource specialist (Dr. Charles Stockton of the University of Arizona) under the sponsorship of the Royal Academy. This conference brought together a significant number of U.S. and other international experts on water resource management, and was attended by representatives of all GOM agencies concerned with water resources. The principal recommendation of this conference was the need for a national water policy.

The issues affecting water resource management, especially given its multi-sectoral nature, are complex, and meeting the future water resource needs of Morocco will require large-scale capital investments. Thus, while the Mission supports GOM efforts to develop a national policy and strategy, it has neither the personnel nor the financial resources to become actively involved in this sector, at this time.

3. Irrigation

Since independence and especially in the 1970s, Morocco invested heavily in developing its large-scale irrigation system. Irrigated agriculture, which accounts for only 10 percent of the arable land in Morocco, now contributes about 45 percent of the agricultural value-added and produces 65 percent of Morocco's agricultural exports. Nevertheless, only 75 percent of the land that could be economically irrigated in Morocco is currently irrigated. And about 20 percent of the irrigation potential already developed is not used due to a lack of complementary infrastructure. In addition, improved maintenance and rehabilitation of existing systems could significantly increase output.

According to some estimates, an expansion of the amount of land irrigated to full economic potential, together with improvements in irrigation system management maintenance and rehabilitation, could almost double the amount of crop under irrigation today.

Other donors, particularly the World Bank, are assisting Morocco in further developing its irrigation capacity. Because of the existence of substantial support by other donors, the magnitude of capital requirements in the subsector, and considerations of equity and the maximization of return on existing and planned investments, USAID Morocco's agricultural strategy during the CDSS period will remain focused on rainfed agriculture. The latter accounts for the bulk of domestic food production and supports the majority of the rural population. Nevertheless, the distinction between irrigated and rainfed agriculture is not always crystal clear. Many farmers in rainfed areas depend on small-scale and traditional irrigation systems, or on partial irrigation, to produce a crop. New technologies (eg, "portable" center pivot sprinklers) are being developed for use in "water supplementation" for rainfed crops during dry periods. USAID will not become involved in extending the reach or improving the management of major irrigation systems. However, it will consider possibilities for limited assistance in areas related to on-farm water management efficiency and small-scale irrigation or water supplementation, where such assistance is related to its rainfed strategy (and does not require substantial capital investment). For example, if the responsibility for providing extension services to rainfed areas is transferred to the regional irrigation offices (ORMVAs), as has been proposed, USAID would examine ways of assisting those offices in examining water efficiency and use in the new rainfed areas under their jurisdiction. Consideration may also be given within the framework of the Agronomique Institute Project for strengthened education and training in water management.

4. Marine Fisheries

USAID Morocco has received a number of general requests from the GOM's Ministry of Maritime Fisheries for assistance at the project level in the development of Morocco's marine fisheries resources. Inquiries have also been made by U.S. consultants hoping to promote American investment in the sector. Economically, marine fisheries are a minor source of employment in Morocco but are considered by many to be a major potential source of foreign exchange earnings. Most employment in the sector is generated through the traditional, small-boat coastal fishing subsector for which the economic future is in doubt. The more highly lucrative high seas fleet is capital-intensive and operates principally in the internationally-disputed economic zone adjacent to the Western Sahara. This zone is also heavily fished by Spanish and Soviet fleets, and Morocco has a limited capacity -- technical and legal -- to assert exclusive or licensed exploitation rights. Notwithstanding, private Moroccan investment in the high seas subsector is quite substantial. The reasons for USAID's decision not to become directly involved in marine fisheries at the project level are numerous and varied:

(a) As with common land and other natural resources there remains a major issue of GOM capacity to develop and implement an effective strategy for the rational exploitation of the resource. The absence of such a capacity and strategy has inhibited active involvement in the sector by the World Bank as well. Without them USAID project level assistance would leave little impact.

(b) AID has a very limited technical capacity and experience in the sector. USAID Morocco has no technical capacity or experience. Any significant marine fisheries initiative would constitute a new "sector" for USAID Morocco, requiring new and qualified staff to work closely with a new implementing agency. In the absence of additional financial and staff resources, this would require the elimination or serious constriction of an existing program, none of which we believe to be less important than what we might be able to accomplish in marine fisheries development.

(c) The Moroccan private sector has already made substantial investment in the sector, and USAID investment thus appears unnecessary to stimulate such interest. Other types of U.S. cooperation to increase American investment or joint ventures may be appropriate through the programs of OPIC, the Department of Commerce and the Trade and Development Program.

Nevertheless, USAID Morocco has been and will continue to be especially responsive to GOM requests for long or short term U.S. training in marine fisheries, through our general training project. Special in-country technical training could also be arranged under the auspices of this project, if the GOM so desires.

5. Literacy, Basic Education and Vocational Training

Illiteracy and a lack of basic education continue to constrain Morocco's development prospects. While overall literacy is estimated at 35%, female literacy in rural areas is often less than 5%, and nationwide barely exceeds 20%. However, almost 80% of the eligible age group in Morocco is enrolled in primary school, in part as a result of the major emphasis given by the GOM to increasing "social infrastructure" and the availability of public education. Nevertheless this includes only half of the females in the primary school age group. Further, drop-outs and repeaters have been a particularly serious aspect of the problem; nearly 300,000 young people leave school annually and one-half of the school population is made up of repeaters.

In recent years the GOM has made a particular effort to broaden its educational base, most recently through institution of a nationwide "Education Reform". Under this reform, emphasis on higher education is being reduced with a simultaneous increase in resources to strengthen technical and vocational training. The latter is designed to remedy the drop-out problem. The World Bank has been closely associated with the GOM's education improvement efforts. An IBRD education sector loan has been made to the GOM, tied to the reform and to measures designed to control the spiraling public education expenditures.

USAID has declined requests for assistance in the education or vocational training since mid-1983, when it eliminated the Education Division in the Mission. USAID believes that under current circumstances, there are higher returns available to its limited resources elsewhere, and that a coherent approach to the problem can best be obtained under the auspices of a single major donor. However, given the linkage of the success of the educational reform with USAID efforts in other domains, the Mission will continue to monitor the effectiveness of the reform, particularly its impact on literacy and employment.

6. Potable Water

The CDSS indicates that a major part of infant and child mortality is attributable to diarrheal disease, reflecting in large part serious deficiencies in potable water and sanitation. Although 55% of the total population is estimated to have reasonable access to safe water, less than a quarter of the rural population has such access.

While potable water improvement could be a fruitful area for a large-scale donor intervention, there is no single counterpart ministry or agency in Morocco capable of negotiating or implementing a unified project. The Ministries of Interior and Health, as well as the Office National de l'Eau Potable under the Ministry of Equipment, claim authority over aspects of the sector and have been unwilling to date to develop an overall strategy. Thus a piecemeal approach on the part of donors, (e.g., the Peace Corps with local municipalities and UNICEF with the Ministry of Health) is being carried out. USAID will continue to monitor the situation, but has determined that its resources are better channeled to more direct child health interventions, including oral rehydration therapy and vaccinations.

7. Remote Sensing for Mineral Exploration, etc.: One of the most persistent GOM requests for USAID assistance (primarily through the Joint Economic Commission) has been for U.S. Landsat and other remote sensing assistance in the exploration for strategic minerals. Broader and more ambitious schemes for remote sensing assistance to Morocco have also been discussed. A recent Arab world meeting hosted by Morocco emphasized the need for Arab countries to acquire satellite imagery and to build national capabilities to process and analyze data for mapping purposes. The Moroccan application of remote sensing techniques, which could require substantial U.S. technical assistance, equipment, and training, is also considered important by the GOM to enable the country to come to grips with other developmental problems including population growth and distribution, water and forest resource management, land use management and oil exploration.

At present, the Moroccan institutional commitment to acquiring and utilizing remote sensing technology is widely dispersed. Modest efforts are underway in several places to build a technical capability to apply remote sensing to national developmental problems. The national petroleum exploration and development agency (ONAREP), through conventions with major oil companies, has taken an interest in remote sensing applications for hydrocarbon exploration. The Ministry of Energy and Mines has secured some external assistance in its efforts to apply remote sensing techniques to the location of Moroccan strategic mineral resources, and the Ministry of Agriculture is increasing its capacity to use remote sensing in crop surveillance.

Even relatively large-scale USAID assistance to strengthen GOM capability to acquire, process and analyze remote sensing technology would not assure an immediate or even a long term pay-off. While satellite imagery appears on the surface to be an attractive device for quick and accurate assessments of the natural resource potential, it remains but one tool for identifying problems areas and potential opportunities for action. Remote sensing, as such, would not warrant a significant USAID resource commitment

except where specific technical uses in existing priority areas are established and the institutional and the financial commitment of the GOM is clear

8. Science and Technology (General)

The effective application of modern science and technology in response to difficult developmental problems is weak in Morocco. The GOM, and in particular the Palace, look to American advancements in science and technology for solutions to problems now beyond the reach of Moroccan scientific and technological institutions. U.S. assistance has been requested by the Moroccans on a number of occasions, most recently at the July 1985 meeting of the Joint Economic Commission to help establish a Binational Industrial Research and Development program. Similarly, USAID receives perhaps a dozen requests in a year for science and technology interventions, seismological research, geological investigations, oceanography, dendrochnology (tree-ring analysis) and computerization (multiple types). USAID has limited ability at this time to respond directly and favorably to such requests, no matter how worthy.

Some official Moroccan requests for assistance in areas outside of the core program focus of USAID have been channeled to existing AID centrally-funded programs such as the AID/SCI/PSTC, and Moroccan scientists have had some success in receiving such centrally-funded support. Occasionally requests can be accomodated through the research or TA component of an existing project.

Through the Mission's continuing emphasis on agriculture, population/health and energy, USAID is providing the GOM with state-of-the-art science and technology. In addition, outside those fields a strong USAID "sector support" training program provides scholarships for qualified Moroccans to attain Masters degrees from American universities, enhancing technical capability at the individual level to pursue scientific and technological careers. Other kinds of Cooperation between Moroccan and American scientific and technical agencies is encouraged by both the GOM and USAID, and the Mission has served as a liaison in the past to bring scientists from the two countries together. Further, the AID PASA with the Department of Commerce's National Technical Information Service (NTIS) offers a mechanism to provide scientific and technical information to Moroccan researchers. This role will continue, but no direct Mission involvement in an "S and T" project is foreseen.

9. Private Sector Development

Even in a critical area like private sector development, USAID Morocco has felt it necessary to limit its involvement to certain specific activities promising a high payoff in the relative near-term. For Morocco, our analysis has been that resources should be concentrated on export development above all. We expect to maintain a concentrated focus on private sector export, but have not ruled out other types of assistance to Moroccos indigenous private sector during the CDSS period. The extent to which efforts are made in other areas depends upon the success or failure of our initial efforts through the Private Sector Export Promotion project, the direction and extent of GOM policy reforms in related areas such as capital markets and privatization of

state-owned enterprises, and our own assessment of the return available on investments of AID resources (especially ESF) in other types of assistance to the private sector. Open competition, increased foreign exchange earnings and a reduced balance of trade deficit will be the guiding principles of this assistance.

We have, to date, refrained from becoming involved in several kinds of private sector development assistance, and will continue to refrain or limit such activity for the foreseeable future. These include:

(a) Investment Promotion: This would appear on its face to be an attractive area for USAID involvement, since increasing investment levels (both foreign and domestic) is critical to the achievement of adjustment objectives and sustainable growth. USAID assistance has been requested several times in the past both in the JEC context and separately, by the GOM's National Office of Industrial Development (ODI). For a variety of reasons including again the need to concentrate limited resources, USAID has only monitored developments in this area and retained its focus on trade. The results to date of GOM initiatives to increase the attractiveness of Morocco as a site for foreign investment, such as liberalizing its investment codes, have been limited. USAID participated in a seminar last April at which impediments to investment in Morocco were debated at length. American investors apparently are still not satisfied with the investment climate in Morocco. The U.S. Department of Commerce Attaché in Casablanca is taking the lead on U.S. involvement in addressing this problem, and several successful individual initiatives have also been taken by OPIC and the Trade and Development Program. USAID believes this to be adequate U.S. involvement at this time and an appropriate division of labor. The return on supplemental USAID efforts is highly uncertain. Nevertheless, USAID remains interested in investment issues as instrumental to the achievement of its economic growth objectives, and as noted in the CDSS plans to study the potential for strengthening domestic capital markets. Private Sector development activities could expand in the investment area if financial and staff resources permit and if it become clear that USAID interventions could make a significant difference.

(b) Small Business Development: USAID Morocco presently has a limited involvement in small business development through a \$300,000 OPG to Catholic Relief Services. CRS is working with the national business school (ISCAE) to develop a system for the establishment and extension of small business management consultancies. This grant is not management-intensive and serves to increase the private sector focus of the CRS program in Morocco. At the same time, it provides USAID with an opportunity to improve its knowledge base with respect to small business development constraints. However, this effort is not central to USAID's focus of addressing the need for growth of exports in the private sector. Smaller and newer exporters are, nevertheless, targetted in the export promotion project for special access to pre-export credit. This size businesses was found to have the greatest difficulty in obtaining pre-export credit, and of offering substantial potential for export expansion. Further, small exporters will receive technical and managerial assistance through the IESC subproject. However, USAID does not anticipate developing a larger program for small business development per se.

(c) Employment/Job Creation: As with small business development, USAID has chosen to address the fundamental variables of economic growth partly on the assumption that new jobs will be generated as a consequence of the overall economic adjustment and growth program. This is akin to addressing a cause rather than the symptom. The GOM's program for structural adjustment involves trade liberalization and "de-protection" of the capital-intensive activities which have benefitted from barriers. The program will tend to increase the returns to more labor-intensive activities, thereby encouraging investment in them. As Morocco's economic structure shifts to take advantage of its relative comparative advantage in labor-intensive activities, jobs will be generated. In fact, most of the manufacturing export industries which will benefit from trade liberalization and USAID's export promotion efforts have a high labor-intensity (as part of their relative comparative advantage). Greater investment in exporting activities will mean increases in jobs available in the private sector. USAID believes this to be the optimal approach to the employment problem at this time.



