



**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**

**COUNTRY FIELD SUBMISSION
FY 1971**

MOROCCO

**DEPARTMENT
OF
STATE**

AUGUST 1969



[REDACTED]

FY 1971 COUNTRY FIELD SUBMISSION - MOROCCO

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Note: The following material is in preparation and will be submitted separately in the near future:

Table C-3 - Central Government Finances

Form AID 10-74 - Consolidated Statement of Central Government Finances




EMBASSY OF THE
UNITED STATES OF AMERICA

Rabat, Morocco

August 1, 1969

The Honorable
John A. Hannah
Administrator
Agency for International Development
Washington, D. C.

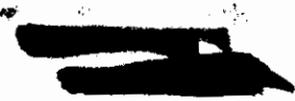
Dear Dr. Hannah:

I fully endorse the recommendations of the attached FY 1971 Country Field Submission and the recommended levels of U.S. assistance for FY 71 and 72 as essential for the realization of U.S. foreign policy objectives in Morocco.

The U.S. is achieving its basic strategic and economic assistance objectives in Morocco. The U.S. presence in Morocco is helping to assure free access into the Mediterranean of the Sixth Fleet which protects the southern flank of NATO. Important U.S. military communication facilities needed for effective air and sea operations in the Atlantic and Mediterranean and the VOA transmitter to Eastern Europe continue to operate in Morocco without impediment. Morocco is playing a constructive moderating role in Arab-African councils. The Government of Morocco is still supporting the Jarring Mission and a peaceful resolution of the Arab-Israeli confrontation despite growing pressure from the Palestinian resistance movement. Morocco has called for an end to the arms race with Algeria and has agreed to regional economic cooperation with Algeria to build a greater Maghreb.

On the economic side, a vigorous acceleration of government investment accompanied by a dynamic monetary and credit policy has resulted in an impressive GNP growth rate of 8% in 1967 and 12% in 1968 which rivals that of any other country in Africa. Between 1966 and 1968 total investment has risen by 1/3 and public investment by over 50%. Morocco is enjoying its best period of growth since independence. Another contributing and encouraging factor is the sharp rise in private investment. This includes substantial amounts of American investment and reflects the Government's support of free enterprise.





However, there are increasing pressures on the U.S. position in Morocco. The Soviet drive into the Western Mediterranean continues unabated. Despite the 20 year treaty of mutual cooperation signed in January 1969 between Algeria and Morocco, the substantial inflow of Russian military aid and technicians into Algeria is strengthening a basically hostile revolutionary regime. With the continuation of the Arab-Israeli conflict, the Soviets' efforts to polarize the problem into Soviet-Arab versus U.S.-Israeli lines could seriously damage the U.S. position in Morocco. Furthermore, despite the impressive progress to date, the time-frame of the current Five Year Plan 1968-72 is too short to resolve long-term problems of assuring adequate food production, gainful employment, and education for a rapidly expanding population.

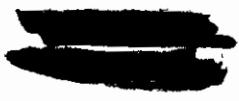
It is imperative that U.S. policies respond to these problems and that our AID program is designed to meet Morocco's needs.

Morocco's strategic importance, its very impressive self-help efforts and its economic potential fully justify the continuation of Morocco as an AID development emphasis country. Sustained high levels of U.S. and other Western donor assistance which accelerate Morocco's economic and social development will help to offset Soviet penetration, strengthen Morocco's existing preference for association with the Free World and help to preserve the vital U.S. objectives in Morocco and in the Western Mediterranean.

Sincerely yours,



Henry J. Tasca
American Ambassador



[REDACTED]

FY 1971 Country Field Submission - Morocco

PART I

COUNTRY DEVELOPMENT PROGRAM AND
EXTERNAL ASSISTANCE REQUIREMENTS

A. U.S. Foreign Policy Objectives

United States foreign policy interests in Morocco are: (a) to maintain a friendly, stable government on the southern shores of the Straits of Gibraltar, thereby protecting NATO's flank and assuring free access to the Mediterranean for U.S. forces; (b) to continue to operate important military and civilian communications facilities on Moroccan soil; (c) to maintain and strengthen Morocco's moderating influence in Arab and African councils in an effort to reduce growing Soviet influence in these areas and to work towards a resolution of the Arab-Israel problem; and (d) to encourage cooperation and political stability among all the countries of the Maghreb.

The achievement of these objectives requires rapid economic and social development in Morocco. Failing this, the country's political stability and its present western orientation, together with achievement of the U.S. objectives, will be threatened. The U.S. faces a difficult period ahead with the conjunction of Moroccan domestic economic and social problems, expanding Soviet influence in the Mediterranean, and with the continuation of the Arab-Israel conflict. Meaningful U.S. support

[REDACTED]

of Morocco's efforts to accelerate its economic and social development will enable the U.S. to take maximum advantage of existing assets, such as the preference of King Hassan and his people for cooperation with the West, and Morocco's demonstrated willingness to work closely with the IBRD, IMF, and private investors in carrying out a far-reaching development program. A dynamic and free enterprise-oriented economy will enable Morocco to offset the influence of revolutionary socialism in Algeria and to continue to exert leadership in Arab and African affairs.

Moreover, Morocco, unlike many African and Middle Eastern countries, has the human and material resources necessary for successful transition from underdevelopment to economic viability in the modern world. Morocco's very considerable self-help efforts, its substantial economic potential and the manageable size of its economic problems argue that the U.S. should continue supporting Morocco as an AID development emphasis country.

B. Country Development Program and External Assistance Requirements

Morocco's current Five-Year Plan (1968-1972) provides the setting and framework for examining Morocco's development goals and for assessing the resource requirements necessary for their full realization. In the IBRD's view: "The new plan represents an important

[REDACTED]
[REDACTED]

[REDACTED]

landmark in the Moroccan development efforts. It is based on the evident desire to reduce the constraints to a more rapid growth rate and thus lead to rises in per capita income.... It is also a realistic document in that it recognizes the shortcomings of the last plan and what must be done to improve performance in implementing the new plan."

Accelerating Growth and Investment. The basic goal of the current Five-Year Plan is to raise the economy's overall growth rate from an average of less than 2.5% per annum realized during the last plan to an annual rate of nearly 5% by the end of the period 1968-1972. The average growth rate for the period is projected at 4.3% annually. While this represents a very ambitious goal in relation to past experience, it constitutes a realistic estimate of what the economy is capable of achieving and corresponds closely to the recommendations of AID, IBRD and the Consultative Group.

Translating the overall growth rate into terms of investment effort, the Plan calls for a total capital outlay of nearly \$2.3 billion during the five-year period. On a yearly basis, the total investment is scheduled to rise from slightly less than \$400 million in 1968 to nearly \$550 million by 1972, raising the ratio of investment to GNP from a level of less than 12% to about 17% by the end of the period. Of total planned capital outlay, central government investment will amount to nearly \$1 billion or 44%.

[REDACTED]

The average annual investment outlay for the government represents an impressive increase over authorized budget levels of recent years and a quantum jump over actual expenditures under the last plan.

Comparison of Government Investment
1965-1967 Plan and 1968-1972 Plan
(\$ Millions)

	<u>Annual Average</u>	
	<u>1965-67 Plan</u>	<u>1968-72 Plan</u>
Agriculture	39	91
Industry, mining, energy, handicrafts	36	33
Transport and communications	27	29
Education, health, housing	21	23
Administrative facilities	10	8
Tourism	4	7
Other	4	10
Total	<u>141</u>	<u>200</u>

The discussion in Part II of this Submission clearly indicates that the actual figures for economic growth, domestic savings, and investment for CY 1968 and CY 1969 (the first two years of the Plan) will attain if not surpass the Plan targets.

Expanding Agricultural Production. Agriculture is of foremost importance in the Plan's stated priorities. The vital necessity of increasing food production and modernizing rural life has been emphatically recognized by the GOM. The planning authorities have stated that full effort will be devoted to agriculture even if subsequent financing

difficulties make it necessary to reduce expenditures in other sectors. During the five-year period, the Plan calls for public investment in agriculture of over \$300 million, with \$150 million in addition slated for dam construction which will benefit primarily agriculture through flood control and irrigation.

The Plan itself forecasts only a 2% per annum average growth rate for agricultural production. The major reason for the low projection is that a significant portion of investment, and especially the heavy irrigation works, will not come into production until after the horizon year of the current Plan, and therefore will not affect the growth rate during the period 1968-1972. Examination of the unpublished working documents used for the Plan projections, however, shows that a strong conservative bias was deliberately incorporated in the output estimates. Moreover, several recent developments in dryland farming such as the acceleration of the Mexican wheat program, which have taken place subsequently to the formulation of the Plan, will affect the input side of the Plan's equations, providing an additional stimulus and increase in output. Therefore, even without counting the 1968 bumper cereals harvest, it is reasonable to expect at least a 3% per annum average growth for agriculture during the period 1968-1972, and an acceleration to better than 4% per annum during the following five years.

[REDACTED]

[REDACTED]

See Part II-C, "Agricultural Sector Analysis", for a detailed analysis of the growth rate for the Agricultural Sector.

Development of Industry and Tourism. As in the last plan, tourism remains one of Morocco's top development priorities. The Plan views it as an effective means of increasing foreign exchange earnings. In addition, the Plan states that the development of manufacturing industry will receive priority attention, particularly where it provides means to increase employment and Moroccan exports. In both the tourism and industry sectors, however, the largest share of new undertakings will be left to private initiative. The Government effort will concentrate primarily on infrastructure, limiting direct intervention to areas where private initiative appears inadequate. An intensive range of fiscal and other incentives, credit facilities and subsidies will be used to encourage private investment in areas deemed most important in the overall development strategy.

Family Planning. Family planning constitutes one of the most significant and perhaps the boldest innovations in the 1968-1972 Plan. Despite its political sensitivity, the planners have provided for the first time in Morocco a candid and realistic treatment of population growth. The Plan recognizes that efforts to raise the standard of living of Moroccans will yield meager results unless a companion program is undertaken to reduce Morocco's 3.2% [REDACTED] population growth.

[REDACTED]

Therefore, the Plan asserts that the demographic problem must be given priority attention and calls for a family planning program designed to reduce the crude birth rate from 50 per 1000 to 45 per 1000 by 1972. After an initial slow start owing to delays in establishing an effective organizational structure, the program is now underway. While it will have no direct impact on the labor force before 1985, benefits should begin to be felt within a few years in terms of slower growth of demand for new housing, schooling and food requirements.

Resource Requirements. The total resource requirement is beyond the capacity of the Moroccan economy, and the full realization of the investment targets is, therefore, heavily dependent on the availability of foreign capital and development assistance.

The Plan indicated the level of resources which could be reasonably assured and identified the resource gap. Against the investment level of approximately \$1 billion for the Government investment budget, assured domestic resources, before any major changes in taxes, were estimated at 30% of the total. Foreign borrowing, including undisbursed funds under existing loans, plus assured new loans and estimated additional commitments, amounted to another 38% of requirements. This left a resource gap of 31% of the projected investment outlay.

New developments regarding domestic financing capacity and foreign assistance prospects now provide reassurance that the targets

[REDACTED]

are within range and the necessary financing can be raised. On the domestic side the Moroccan Government is now making a determined effort to increase domestic savings, and to channel additional resources to investment purposes through long-term internal borrowing and increased taxation. As a result of measures initiated in 1968 and major tax increases introduced in the 1969 budget, domestic financing can now be expected through progressive increases to cover between 50% and 55% of public investment outlay. The external resource requirement can thus be estimated at between 45% and 50% of planned capital expenditure, or at an average gross level of approximately \$95 million annually.

Total foreign assistance, however, will have to be higher than this figure since a substantial portion of foreign loans and grants do not have a direct budgetary impact. Estimating the external resource requirement in the context of balance of payments equilibrium, suggest a gross foreign assistance requirement averaging \$135 million annually, rising from \$130 million in 1969 to \$140 million in 1971. Fortunately, foreign assistance prospects have recently improved considerably. In particular, better relations with France have led to sizeable new economic assistance commitments in 1968 and again in 1969. Satisfaction with recent Moroccan performance has encouraged the World Bank to seek out new lending areas, such as the Sebou irrigation project, hotel construction, domestic water supply, and electrical energy development.

[REDACTED]

Overall the outlook now suggests that an adequate level of foreign assistance may be forthcoming. If new commitments are maintained at projected levels, and if new loans are sufficiently flexible to cover a larger share of the indirect foreign exchange costs of investment with terms easy enough to hold debt servicing within manageable limits, total budgetary financing and balance of payments support will be adequate to permit full attainment of the investment targets of the 1968-1972 Plan.

C. U.S. Assistance Objectives

The U.S. AID program is the major instrument for advancing U.S. foreign policy objectives in Morocco through the acceleration of economic and social development. The U.S. assistance objectives are keyed to the priorities of the Moroccan Five-Year Plan 1968-72 and to those fields of activity in which the U.S. has special competence. Listed below are the major U.S. assistance objectives.

1. To assist Morocco in mobilizing its human and financial resources to realize the targets outlined in the Plan including an annual average growth rate of 4.3% for the period 1968-72 with total investment increasing from the pre-Plan level of 12% of GNP to nearly 17% by the end of the Plan period.

[REDACTED]

[REDACTED]

2. To increase other donor assistance with special emphasis on: (a) raising the level of IBRD assistance, and (b) strengthening the IBRD Consultative Group.

 3. To assist with the attainment of a 3% to 4% annual growth rate for the agricultural sector via improvement in production techniques, modernization of key agricultural institutions and by reducing the skilled manpower bottleneck.

 4. To promote the growth of private enterprise and investment in Morocco.

 5. To support the acceleration of the GOM's family planning program in order to meet Plan target of reducing the birth rate from 50/1000 to 45/1000 by 1972.

 6. To assist with the modernization of the traditional sector so that it can participate in the development process and help alleviate the effects of growing unemployment.
- [REDACTED]

FY 1971 Country Field Submission - Morocco

PART II

ANALYSIS OF MAJOR U.S. PROGRAM ISSUES

A. Analysis of Major Issues

Issue A: What should be the strategy and level of U.S. assistance to Morocco as a development emphasis country given its recent performance and other donor prospects?

Determination of the appropriate level and composition of U.S. assistance to Morocco involves consideration of the economy's self-help performance, aggregate resource requirements, and other donor prospects.

1. Self-Help

Morocco's development performance during the past two years offers a convincing demonstration of its self-help commitment and an impressive list of accomplishments. On the eve of the 1968-1972 Plan, a vigorous acceleration of government investment activity accompanied by a flexible monetary policy provided a strong boost to the economy, restoring confidence in the private sector, raising GNP in 1967 by 8% in real terms and establishing a firm basis for the current Plan.

In 1968, the determination shown in carrying out the first tranche of the new Plan was rewarded by a further 12% growth in GNP and a striking 30% increase in agricultural output, the basic priority of

[REDACTED]

of Morocco's development effort. While favorable weather conditions take first credit for the bumper cereals harvest and jump in total agricultural output, the results stand as an eloquent tribute to improved agricultural administration and project implementation. In this regard, the latest IMF Article XIV review notes that "a considerable part of the increase may be attributed to the government's agricultural policies" and "to government action which helped raise acreage under cultivation and productivity."

Improved agricultural output, however, has by no means been the only encouraging aspect of recent performance. Growth in other sectors was in line with Plan forecasts. Throughout the economy, moreover, improved output performance was associated with a highly satisfactory acceleration in the level of investment activity. Gross capital outlay, public and private combined, after rising nearly 25% in 1967, increased by another 5% in 1968 to a level of \$390 million in line with aggregate investment requirements of the Plan. Most of the increase can be attributed to intensified government investment efforts which, in accordance with Plan targets, rose to \$195 million in 1968, or nearly 40% over the average level of the 1965-67 Plan. At the same time, extremely liberal inducements from the government and growing awareness of investment opportunities in Morocco began to attract a greater number of foreign investors, whose increasing presence provides the best illustration of the economy's basic soundness and growth potential.

[REDACTED]

a. Price Level Stability

Despite the acceleration of investment expenditure and the rapid expansion of money supply needed to finance the bumper cereals harvest, there has been no significant pressure on the general price level. Apart from seasonal variations, the retail price index has remained remarkably stable, and wholesale prices have actually declined because of increased cereals stocks. Rather than affecting prices, the expansion in rural purchasing power and in aggregate demand has stimulated manufacturing activity, taking up the slack in lagging industries such as textiles, while contributing very favorably to increased urban employment. Any excess demand which has not been met through domestic production has been effectively absorbed by a greater volume of imports partially offset by foreign assistance.

b. Increased Domestic Savings

The GOM has given full recognition to the fact that if the economy is to continue with its ambitious investment programs and is to do so without generating inflationary pressure, it is essential for Morocco to increase the rate of domestic savings in addition to obtaining large inputs of foreign resources. In 1968, the government's determination to raise domestic financing and channel additional resources to productive investment resulted in a modest surplus on the current budget. With the presentation of the 1969 budget, the government introduced a whole gamut of new tax increases on ^{the} salaried income, corporate profits as well as

[REDACTED]

on a variety of indirect taxes. The additional annual yield has been estimated to be as high as \$50 million and with these new measures total revenues are expected to increase to 18% of GDP which compares favorably with other developing countries. With growth in current expenditure held under close surveillance, domestic resources will accordingly be able to cover an increasing proportion of the public investment budget.

2. Foreign Assistance Requirements

A high level of foreign assistance remains absolutely essential if investment targets are to be realized and if the balance of payments situation is not to jeopardize Morocco's development efforts. Already, as a result of accelerated investment activity during the past two years, Morocco's imports of capital equipment have increased considerably. With the additional impact of import liberalization measures carried out in conjunction with IMF recommendations, and with exceptional wheat import and repayment requirements, Morocco's overall balance of payments deficit increased to \$21 million in 1967 and to \$29 million in 1968. To meet these deficits, Morocco utilized its scarce foreign exchange reserves and also drew \$60 million under the IMF Stand-By Agreement rather than reimpose import restrictions.

Import requirements over the next several years will remain exceptionally high despite the anticipated savings in wheat imports. To meet these requirements, even with the projected increase in Morocco's

[REDACTED]

export earnings, will necessitate gross foreign assistance expenditures estimated at a level of \$130 million in 1969 rising to \$140 million in 1971 and 1972.

Fortunately, other donor prospects, notably France and the IBRD, have recently improved and can now be projected to provide nearly two-thirds of the estimated annual foreign resource requirement. The projected disbursement schedules for the principal donor countries are shown below in the accompanying balance of payments summary table along with estimated disbursements under existing and proposed U.S. loans and grants. On an expenditure basis, the U.S. will remain as the major donor, largely because of the substantial PL 480 exports projected through 1972. However, in terms of new obligations for capital projects, the IBRD will surpass the DL levels indicated for FY 1970 through FY 1972. IBRD has under intensive review a \$30 to \$40 million loan for the Sebou irrigation project; \$15 million for tourism (CIH); another \$15 million for industrial development (BNDE); and \$8 to \$10 million for the improvement of the Rabat-Kenitra water supply system. The Bank is also studying major loans for the electrical energy sector and for the internal transportation system and ports. If the projected U.S. expenditure level of \$50 million annually, of which approximately half is PL 480 assistance, is maintained during the next several years,

[REDACTED]

MOROCCAN BALANCE OF PAYMENTS AND PROJECTED LEVELS OF FOREIGN ASSISTANCE EXPENDITURES
(\$ millions)

	Actual		Actual		1969	1970	1971	1972	1968/1972 Total
	1967	1968	1967	1968					
1. Exports	424	450	465	480	500	525	2420		
2. Imports	- 489	- 511	- 530	- 550	- 570	- 585	- 2746		
Trade Balance ...	- 56	- 61	- 65	- 70	- 70	- 60	- 326		
3. Services	- 48	- 48	- 45	- 40	- 35	- 30	- 198		
Balance of Goods & Services ...	- 104	- 109	- 110	- 110	- 105	- 90	- 524		
4. Private Transfers and Capital	5	4	10	17	22	27	80		
5. Estimated Foreign Assistance Gross	108	132	130	138	140	140	680		
U.S. Total	38	55	51	51	48	50	255		
AID Grants and Loans	(5)	(3)	(15)	(16)	(19)	(21)	(74)		
PL 480 Title I & II	(25)	(49)	(31)	(30)	(24)	(24)	(158)		
Ex-Im Bank, CCC	(8)	(3)	(5)	(5)	(5)	(5)	(23)		
Other Donor, Total	70	77	79	87	92	90	425		
France	(41)	(21)	(31)	(34)	(34)	(34)	(154)		
West Germany	(21)	(34)	(15)	(15)	(15)	(15)	(94)		
IBRD/IDA	(8)	(12)	(20)	(25)	(30)	(35)	(122)		
Koweit/Iran	-	(5)	(7)	(7)	(7)	-	(26)		
Others	-	(5)	(6)	(6)	(6)	(6)	(29)		
6. Loan Repayments	- 25	- 51	- 35	- 40	- 45	- 50	- 221		
7. L/C Variation	- 7	- 3	- 10	- 10	- 2	- 2	- 27		
8. Overall Balance	- 21	- 27	- 15	- 5	10	25	- 12		
TO BE FINANCED BY:									
IMF Stand-by	-	50	10	-	- 30	- 30	0		
Reserves, Other (Increase -)	21	- 23	5	5	20	5	12		

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total foreign support should be adequate, in conjunction with Morocco's own efforts to meet the minimum resource requirements of the Five-Year Plan.

It must be noted, however, that the projected level of foreign inputs presupposes that the major share of U.S. and other donor assistance will be provided on concessional terms and that a portion of non-U.S. assistance will be un-tied and flexible enough to cover some of the indirect foreign exchange costs associated with new investment projects. Even so, the projected levels of assistance will not permit Morocco to repurchase the \$60 million IMF Stand-By drawing without totally depleting available foreign exchange reserves. Since a minimum foreign exchange level is necessary to meet monthly payment fluctuations, Morocco will have to obtain by 1971/72 some additional financing beyond projected levels, or be granted partial deferment of the IMF repurchase obligation.

[REDACTED]

3. Level and Mix of U.S. Assistance

The key elements in the recommended AID budget levels of approximately \$50 million per annum for FY 1971 and FY 1972 are as follows:

a. PL 480

Slightly more than half or \$26.5 million of the projected \$50 million annually for FY 1971 and FY 1972 is PL 480 assistance. Within PL 480 assistance, approximately \$18 million a year is earmarked for on-going grant programs almost equally divided between the food-for-work program (Promotion Nationale) and Voluntary Agency programs. The Promotion Nationale is projected to continue at 25 million man-work days per annum through FY 1972 and represents the most effective means for providing labor intensive capital development as well as reducing rural unemployment. The Voluntary Agency program reaches some 850,000 recipients, many of whom are in school feeding and maternal care programs, thereby making a very important contribution to the nutritional well-being of Moroccan youth.

The PL 480 sales program has been scaled down markedly to only about \$8 million per year in recognition that the continued success

[REDACTED]

of the Moroccan cereals program should obviate the need for large imports of wheat.

b. Development Loans

Development Loans for FY 1971 and 1972 are projected at an annual rate of \$20 million reflecting approximately a \$5 million annual increase in expenditures above the average level of FY 69 and 70 (see Balance of Payments Table above). This projected increase in the level of DL expenditures is essential to offset the expected fall in PL Title I sales mentioned above so as to maintain total U.S. input of about \$50 million per annum for FY 1971 and 72.

The key components in development lending are as follows: The Agricultural Sector Loan of \$6 million in both FY 1971 and 72. The Agricultural Sector Loan is an extremely useful vehicle for providing the essential commodity imports for the modernization of the agricultural sector and for providing general balance of payments support. Furthermore, the counter value in dirhams derived from these loans is required to finance the increasing local costs of the Government's investment budget. In the next few years, Morocco will require increasing amounts of commodity import assistance to meet rising demands from high levels of investment and to help with the financing of local cost for essential capital projects such as the Sebou River Development. In addition, the Agricultural Sector Loan provides continuing U.S. leverage for influencing

[REDACTED]

important policy changes in the agricultural sector, especially through the programming of the local currency generation.

With the elimination of the additionality and with the possibilities of expanding positive lists to permit the importation of a broader category of commodities, we see little advantage in switching from an Agricultural Sector Loan to a Program Loan.

Additional smaller DLs have been projected for both FY 1971 and 72 for priority areas within the Moroccan Five-Year Plan such as loans to assist the Industrial Development Bank (BNDE) to stimulate private investment in industry and tourism; investment in cereal storage facilities and the key infrastructure areas such as water supply, electrical energy generation, and transportation facilities. With regard to these latter three infrastructure areas, it is assumed that the World Bank will make the major loans and AID will pick up an element appropriate for U.S. financing.

c. Technical Assistance/DG

The recommended TC/DG level for FY 1971 and FY 1972 is approximately \$2.4 million and \$2.1 million, respectively, and represents the additional inputs required in support of key institutional development including the Agronomic Institute, the planning cells in the Ministry

[REDACTED]

[REDACTED]

of Agriculture and the Ministry of Plan as well as supporting the continuation of cereal and livestock programs, family planning and technical assistance for the food-for-work programs.

See Section D. for a more detailed discussion of recommended AID budget levels for FY 1971 and FY 1972.

4. Recommendation

The major U.S. assistance objectives in Morocco are being realized. The Five-Year Plan 1968-72, as it approaches the end of its second year, is fulfilling its targets, the economy is moving forward, projected increases in domestic savings and other donor assistance are being realized. Such substantial self-help efforts warrant continued support. In order to provide the total resource requirements to maintain this growth momentum, it is essential that the aid budget levels of \$48 million for FY 1971 and \$49.9 million for FY 1972 be realized.

[REDACTED]

Issue B: The need for local currency financing and how we can best utilize available US-owned local currency for development purposes.

1. Continuing Need for Local Currency Financing

Tables Va and Vb summarize actual and projected generations and uses of US-owned and Country-owned local currencies for the five-year period FY 1968-72. It is evident from these tables that US-generated local currencies played an important role in the last few years in supporting Morocco's development effort. For example, in FY 1969, \$25 million in dirham equivalent for both 104(f) development loans and country-owned dirhams were obligated amounting to almost 15% of central government investment expenditures.

With the sharp reduction in PL 480 Title I wheat sales, it will not be possible for the U.S. to continue as high a level of local currency support for valid country uses in FY 71 and 72. However, the GOM's requirements for local currency financing will remain high. In recent discussions with the World Bank, the GOM has stressed the need for local currency financing for new major capital projects, such as the Sebou, either through the financing of indirect foreign exchange costs or via program or sector loans for general commodity imports. This problem should be discussed at the forthcoming IBRD/CG meeting

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in October. France has recently included commodity import financing in its economic assistance and other donors should be similarly encouraged. One of the factors for recommending the continuation of U.S. agricultural sector loans through FY 1972 is precisely because they will provide local currency counterpart to offset the decline in the PL 480 sales program.

2. Reallocating PL 480 Title I Repayments for Country-Use Development Projects

Discussion: In discussing uses of US-owned local currency for development purposes, the following facts should be borne in mind:

- a. The U.S. Treasury has declared Morocco an excess local currency country for U.S. fiscal years 70 and 71;
- b. Repayments under PL 480 Title I local currency sales (20FT400 account) are the only US-owned local currency repayments which, under Section 104 of Public Law 480, may be used in excess and near-excess countries for valid country use development purposes without a covering dollar appropriation;
- c. Since February 1969, new PL 480 sales agreements are to be made exclusively on dollar sales terms, thereby eliminating future generations of US-owned local currencies for country use, i.e. Cooley loans and 104(f) development loans;
- d. The majority of US-owned local currency generations arises from repayment of DLF loans, Supporting Assistance Loans and [REDACTED]

402 repayments. There is no legal provision for the reallocation of these currencies for country use without either a dollar appropriation or special Congressional legislation.

The table below indicates projected availabilities and recommended uses for Title I repayments through FY1972.

<u>Availabilities</u>	<u>\$ Millions</u>
Balance End FY 69	0.1
Generations FY 70	1.9
- FY 71	2.9
- FY 72	3.1
	<hr/>
	8.0
 <u>Uses</u>	
Transfers to 72FT760 for Cooley Loans in FY 70-72	5.5
Transfers to 72FT745 for Family Planning in FY 70-72	1.4
Section 204 Grant to Promotion Nationale in FY 70	0.5
	<hr/>
	7.4

The priority development uses for which AID is requesting allocations of PL 480 repayments are:

a. Cooley Loans

Beginning in FY 69, the Cooley loan program became operational with the obligation of the equivalent of \$1.5 million for two joint US-Moroccan enterprises, one for commercial seed production, the other for the construction of the first satellite relay station in Morocco. A considerable number of applications for other Cooley projects

[REDACTED]

was also received during FY 69, resulting in net requirements for applications of \$5.6 million for the three fiscal years FY 70-72 over and above an unobligated balance of only \$2.1 million on June 30, 1969. The availability of Cooley funds is essential to meeting a primary U.S. assistance objective in Morocco of encouraging the growth of U.S. private investment. The table below lists Cooley loan obligations in FY 69, and estimated requirements for FY 70-72.

Cooley Loan Requirements for FY 70-72
(in \$ Thousands)

<u>Project Title</u>	<u>Obligations</u>	<u>Estimated Requirements</u>		
	<u>FY 69</u>	<u>FY 70</u>	<u>FY 71</u>	<u>FY 72</u>
SVA	658	-	-	-
Kings Ranch	-	1,545	400	500
Pacific Veg. Oil	-	100	100	-
Brown's Ledbrest	-	250	250	-
Arizona Agro-Chem.	-	100	100	-
Basic Foods	-	500	-	-
Duda Farms	-	350	400	-
DeI Monte	-	1,000	1,000	-
Somatelsat	810	-	-	-
Others	-	-	500	500
Total	<u>1,468</u>	<u>3,845</u>	<u>2,850</u>	<u>1,000</u>

b. Grants for Family Planning

A first such grant for \$300,000 was made in FY 69. Other grants, projected at \$400-\$500,000 annually, are programmed for FY 70-72. This is another GOM/AID priority program whose budgetary

costs will mount rapidly as the program accelerates. The GOM has requested US-owned local currency support through FY 1972 to help offset these costs.

c. Grants to Promotion Nationale

A shortage of funds to finance the costs of project materials has in some cases limited both the scope and effectiveness of the P.N. projects. In order to provide additional resources earmarked for project materials, USAID is requesting approval of a PL 480 Section 204 grant of \$500,000 in 1970. These funds are to be used to purchase items like cement, reinforcing steel, hand tools and other locally available commodities required to complete the Promotion Nationale projects.

d. Section 104(f) Development Loans

\$9.3 million in 104(f) Development Loans was obligated in FY 69, principally to finance the local costs of the Lower Moulouya Irrigation project and other agricultural projects. The unobligated balance in this account from previous years amounts to only \$1.6 million, and no further deposits are anticipated. The disappearance of this account would hamper the USAID in its efforts to influence allocation of scarce GOM resources to agricultural projects sponsored by AID.

[REDACTED]

3. Recommended Changes in Legislation to Make DLF and SA Loan Local Currency Repayments Available for Country-Uses

Projected Availabilities and Uses for FY 70-72
Account 20FT100 (DL/SA/402 Repayments)

<u>Availabilities</u>	<u>\$ Millions</u>
Balance End FY 69	9.5
Generations FY 70	9.4
- FY 71	9.5
- FY 72	9.4
	<hr/>
	37.8
 <u>Uses</u>	
USG Expenditures FY 70-72 (1)	22.5
Dirham Costs of Development Loans FY 70-72	10.4
Transfers to 72FT550 for UNAA (2)	3.9
	<hr/>
	36.8

(1) Including sales to American tourists.

(2) Includes \$1.9 million equivalent authorized in FY 1969 authorization under Section 214(d) for University of North Africa Association which is to be reauthorized in FY 1970 plus an equivalent additional amount in FY 1971.

This account can only be used against dollar appropriations.

The dirhams in this account are used (against dollar payments) for USG official expenditures in Morocco, and for financing local costs under AID Development Loans through the purchase of US-owned dirhams from the USDO.

Availabilities in this account, including the \$9.5 million balance on June 30, 1969, are calculated at \$37.8 million through FY 72.

Requirements for U.S. uses in the same period total \$36.8 million, which include an estimated \$22.5 million for USG expenditures (including purchases of dirhams by American tourists), and \$10.4 million for local costs of Development Loans. Of this amount, \$7.2 million or almost 70% represents commitments (Nouasseur and RAM) and options (Lower Moulouya and BNDE) to fund local costs in existing loan agreements.

The balance of \$3.2 million consists of new possibilities for: (a) continued DL financing of up to 50% of the local costs of loans to the BNDE as in the FY 69 loan, and (b) \$0.5 million for installation and services costs of equipment to be supplied under the Electric Transmission loan. There also remains an unprogrammed amount of \$1.0 million.

The GOM is very reluctant to continue financing local currency costs of DL projects by purchasing US-owned dirhams from the USDD with DL dollars. The net effect of these purchases is that the GOM is incurring dollar obligations to obtain local currency financing without the input of any additional external resources.

The GOM would prefer that legislation be introduced that would permit the U.S. Treasury to relend DLF and SA loan local currency dirham repayments on the same terms as under Section 104, i.e. similar to 104(f) loans with the repayment of interest and principal in dirhams.

[REDACTED]

[REDACTED]
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As a second best position, the GOM has shown some interest in legislation permitting long-term (40 years) borrowing of these SA and DLF dirham repayments if they were repayable in dollars.

The foreign exchange cost to Morocco of legislation requiring repayment in dollars for borrowing SA and DLF dirhams would be similar to the present system of financing local costs of DL projects through purchases from the USDO. However, there is the one real difference that the latter system presupposes availability of DL funds and the approval of a DL project prior to obtaining local currency financing. Whereas new legislation could provide that the recipient country could borrow SA and DLF dirhams for any valid development project mutually agreed to by the U.S. and the host country.

4. Recommendations:

a. In view of Morocco having been declared an excess currency country for FY 1970 and 1971 and in view of the other factors stated above, it is recommended that the BOB/U.S. Treasury determination of April 1969 establishing the order of priorities for sales of US-owned dirhams be continued through FY1971. This would provide that non-PL 480 currencies (account 20FT100) would be sold first and PL 480

[REDACTED]
[REDACTED]

loan repayments (account 20FT400) would be earmarked for the Cooley loans, Family Planning and Promotion Nationale as indicated above and in keeping with the intent of the provisions of Section 104 of PL 480.

b. It is recommended that consideration be given to the introduction of legislation which would permit the U.S. Treasury to relend local currency repayments arising from SA and DLF loans with repayment in dirhams as provided under Section 104 of PL 480. This recommendation is made in recognition of the continuing need of developing countries for local currency financing and their rising debt service problem.

[REDACTED]

Issue C: What additional technical assistance, if any, should the U.S. consider?

1. Discussion

The U.S. technical assistance program will continue to concentrate on agriculture through FY 1972. Priority attention will also be focused on expanding activities in family planning, stimulating private investment, improving the effectiveness of the food-for-work program, and for selected training in line with the priorities of the Moroccan Five-Year Plan.

a. Agriculture

The major thrust of U.S. technical assistance is agriculture including increasing production, modernizing agricultural institutions and reducing the skilled manpower gap. Concentrating our assistance efforts in agriculture is justified on the basis that although 70% of Morocco's population derives its livelihood from agriculture, it only accounts for about 30% of the GNP. Morocco's future development depends in large measure upon increasing production and exports from the agricultural sector which will provide the resources for developing the economy.

AID is assisting with the Government of Morocco's major agricultural production programs such as Operation Cereals which will cover from 500,000 to 600,000 hectares by 1972-73, and range

[REDACTED]

management and livestock improvement which will involve over 300,000 hectares by 1972. Increasingly our efforts are being devoted to the institutions and manpower development that are required to make these production programs effective.

With regard to cereal production, we are stepping up the number of Moroccan participants who are being trained at the CIMMYT Center in Mexico and we are increasing the CIMMYT staff at the Moroccan Agriculture Research Center to help insure that cereal research, plant breeding and disease control keep abreast of the developments in production. In FY 1970 a multi-year contract will be initiated with the University of Minnesota to assist the Agronomic Institute which is the key institution for training top-level agricultural technicians and research personnel. The Ford Foundation is considering a thoroughgoing examination of the need to modernize agricultural training and education in Morocco and it is intended that our efforts will be coordinated.

Another dimension of the cereal program concerns increased attention to storage and marketing problems. A preliminary study in this area has been completed by Kansas State University, and the Ministry of Agriculture has requested a study in depth for FY 70 which will outline a long-range storage and marketing program in Morocco.

[REDACTED]

Another new activity, Development Planning Assistance, scheduled for FY 70 is the establishment of a planning and budget unit in the Ministry of Agriculture as recommended by the World Bank. A U.S. agriculture/management firm under a multi-year contract will train Moroccans in the techniques of economic analysis, planning and budgeting so as to improve agricultural planning and policy decision making.

A second phase of Development Planning Assistance is projected for FY 1970 involving the University of Michigan's Development Center providing assistance to the Ministries of Plan and Finance to integrate planning, budgeting and evaluation techniques.

b. Family Planning

In FY 69 a four-year U.S. program of assistance to the on-going Moroccan population/family planning program was initiated in conjunction with the U.S. Population Council and the Ford Foundation.

This year the tempo of the program has been increased through the assigning of a high-ranking Moroccan M.D. as the head of the program and responsible for coordinating foreign assistance in P/FP. Regional seminars have been organized, training accelerated and the use of contraceptive devices has increased markedly in 1969. Although the program is still considerably behind Plan targets, there is a new atmosphere and momentum which are encouraging.

[REDACTED]

In the Moroccan Ministry of Health, family planning is an integral part of preventive health services, including maternal and child care, and the Moroccan Government is asking the U.S. for technical assistance in these areas as well as in infant diseases, such as measles immunization. U.S. assistance to family planning is involved in other related activities. A three-man team from the U.S. Bureau of the Census is assisting in the preparation and the execution of the Moroccan 1970 Census. One aspect of this census project is to provide valuable demographic data needed for effective implementation and evaluation of the family planning program. It is also proposed that in FY 70 that the University of North Carolina working with the Moroccan Institute for Applied Statistics and Economics will help develop training programs in training Moroccans in the demographic methods and research.

c. Private Enterprise

The Moroccan Government attaches great importance to the role of private investors, both foreign and domestic, in contributing to Morocco's rapid economic development. The U.S.AID program is involved in a variety of ways in stimulating private investment in Morocco. In a continuing program to improve and enlarge Morocco's pool of entrepreneurial talent, fourteen participants were enrolled in management or engineering courses in the U.S. and another twelve students

[REDACTED]

are following B.S. degree programs in business and engineering at the American University of Beirut.

We assisted with the establishment of an Investment Promotion Center which is the clearing house and coordinating point for all new foreign investors in Morocco. In FY 70 we intend to assist the Center in enlarging its staff and in streamlining its operations so that it can effectively cope with the increasing number of private investors. In addition, we are assisting a private organization of young Moroccan top executives who have established a center for the advancement of management techniques in Morocco. This Moroccan group is working with CIPM, Council for International Progress in Management.

The most exciting and encouraging private investment endeavor has been AID agro-business investment promotion. Four joint US-Moroccan enterprises have been initiated and are either seeking or have received Cooley loans and AID investment guarantees. These firms include King Ranch for beef cattle raising; Garvey Grain/World Homes for commercial seed production; Pacific Vegetable Oil for vegetable oil production, and Brown Ledbrest for commercial broiler production. A score of other U.S. companies have expressed interest in investing in Morocco, including Del Monte Corporation, Duda & Sons, Arizona Agro-Chemical, and Pfizer Pharmaceutical.

[REDACTED]

Lastly, in FY 70 we intend to initiate a new and imaginative venture which combines U.S. Government financing and private investment for the development of a major irrigation perimeter. Under a Development Loan a U.S. agricultural/management firm will be engaged in a multi-purpose contract in two phases. The first phase will be a study phase of market possibilities, farmer training requirements, and agro-investment opportunities. The second phase will be the execution phase which will involve assisting with the agricultural production and farmer training within the perimeter as well as seeking the private investment funds for the agro-business development. We believe this is a new concept for total agricultural development for an irrigated perimeter, combining public and private funds, which if proven successful can be used for accelerating the payoff of a number of irrigation perimeters in Morocco and other countries.

d. Food-for-Work Program

In FY 1970 and 71 it is intended that our technical assistance input in the food-for-work program, i.e. Promotion Nationale, will be increased. There is increasing evidence that this program is one of the most economic means for labor intensive capital development in the rural areas in support of general agricultural development. This program not only provides a means of worthwhile employment but also enables the individual to participate in the development process, associate himself

[REDACTED]

with the Central Government and its development aims, and helps improve the traditional way of life through such programs as small irrigation, farm-to-market roads, school and village center construction, terracing, etc.

Through the International Voluntary Services we have introduced an element of technical assistance in an effort to identify its PN projects which have the best benefit/cost ratio and provide more technical direction. It is our intention to increase the number of IVS engineers and to encourage other aid donors, e.g. the Canadians, to provide such assistance. It is also intended that closer examination be given to the possibilities of finding meaningful food-for-work programs in the urban areas with such projects as a selective housing program. Urban hard-core unemployment remains one of the most difficult social and political problems in Morocco.

e. Education and Training for Development

The major constraint to Morocco's development is the lack of skilled manpower. In terms of opportunity costs, investment in education and training to increase production probably has a payoff or marginal rate of return equal to that of investment in capital projects. Morocco's educational system needs to be modernized. The present system is heavily French oriented with emphasis on training of an elite and places great value on theoretical and classical training. In Morocco and

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and elsewhere in the developing world, education and training has to be made more pragmatic and train people for the priority jobs.

The efforts of the University of North Africa Association (UNAA) to create a college-level developmental institute at Tangier which will emphasize pragmatic training to meet Moroccan needs, but using modern American techniques, deserves full support. The King and the Moroccan Government recognize this need as well as the special competence of the U.S., and are strongly supporting the UNAA project. This proposed developmental institute adds a new dimension to the Moroccan education scene, i.e. the concept of private participation in education.

The UNAA is being supported by a distinguished group of private U.S. businessmen and U.S. universities. The Moroccan Government has already provided land and will install the major infrastructure. The Moroccan private business community has offered its support.

For the foregoing reasons, U.S. Government support via additional Section 214 grants of US-owned local currency is strongly recommended with the amount of additional funding to be determined in relation to the requirements of the school, UNAA ability to effectively utilize additional resources and the contributions obtained from the GOM and private U.S. and Moroccan sources.

[REDACTED]

2. Recommendation

Following a prolonged period of intensive studies and planning, AID technical assistance has only begun to make a meaningful impact on increasing agricultural production, on family planning, and on improving the nation-wide food-for-work program. A series of new activities will be initiated in FY 70. In agriculture these activities are in the fields of research and education institution building, marketing and storage, and development planning. Family Planning will also be expanded including the possibility of assistance to maternity and child care. Technical assistance for Promotion Nationale and the Investment Promotion Center will be stepped up. Therefore, rather than add new fields of technical assistance, we recommend continued support and development through FY 1972 of the present areas of priority emphasis.

[REDACTED]

B. Special Topics

1. The Unemployment Problem

One of Morocco's most pressing and as yet largely unsolved development problems is to find the means of channeling the increasing numbers of unskilled, unemployed and underemployed laborers into economically productive activities.

Nationwide, the population is expanding at an annual rate estimated at about 3.2% and there is a steady migration from the rural areas to the cities. Urban population is expanding much faster than the national average, perhaps at a rate of over 5% per year and much of this influx goes to urban slums where the social and political consequences of unemployment are more difficult to manage.

While meaningful statistics are difficult to secure, even for the urban areas, the GOM estimates that an average of 20% of the working age urban population is unemployed. In the rural areas it is impossible to apply Western standards of unemployment. Almost all of the people are on the land with the majority engaged in a variety of traditional marginal farming and pastoral activities. Rather than being unemployed they are underemployed.

The real problem is with regard to future or new job creation. The P1an estimates that a total of 485,000 new jobs will be

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created during the period 1968-72 while the number of additional persons seeking employment during this period is estimated at 710,000. Dividing the Plan's projected total gross investment of \$2.3 billion by 485,000 jobs suggests that the per capita investment outlay is approximately \$5,000 per job. This appears to be a very low per capita investment figure. Even so, applying this figure against 710,000 persons seeking employment would require approximately \$3.6 billion in total investment for the period 1968-72. Obviously Morocco cannot find that amount of resources. Therefore for Morocco, as well as other countries who in the last few decades have experienced a tremendous increase in population, it must be recognized that it is impractical, except as a long-run goal, to set as a policy objective the provision of full-time employment to all new entrants to the labor force.

The GOM is fully cognizant and remarkably candid regarding both of the dimensions, and the need of finding some solution to the unemployment question. Their Five-Year Plan recognizes that even if all the economic development targets are met, unemployment will be greater at the end of the current plan period than it is now. The inability of the economy to produce enough jobs will most certainly continue to be a major economic and political concern, and there will be increasing pressure for the GOM to create jobs and expand welfare.

[REDACTED]

[REDACTED]

Short-Run

While the dimensions of the unemployment problem are apparent, there are no short-term solutions. Specialists from the UN, IMF, IBRD and AID who have examined the GOM Plan are in general agreement that it represents an intelligent use of the GOM resources while recognizing that an economically desirable and socially necessary rate of increase in employment will not be attained during the next four to five years.

The GOM is making a substantial effort to attack the unemployment problem through the Five-Year Plan. The agricultural sector will receive over 40% of the projected government investment budget in an effort to improve the standard of living of the rural population and reduce rural migration to the cities. Operation Cereals provided credits to 110,000 farmers last year for improved seed, fertilizer and small equipment. The Plan has also earmarked very substantial investments for irrigation both for expanding existing perimeters and the development of new perimeters. One of the factors in this decision was increased employment, i.e. five hectares of irrigation are considered sufficient to provide a family with an acceptable standard of living.

Moreover, through its emphasis on the development of human resources in the Five-Year Plan, the GOM hopes to decrease skilled and middle-level manpower shortages which inhibit the implementation of

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major projects, thus slowing down new job creation.

In the short run, the Promotion Nationale Food-for-Work program takes on tremendous importance in alleviating unemployment. This highly successful program, which constitutes the major GOM effort to combat unemployment, is concentrated in the rural areas and is directed to small labor-intensive development projects of demonstrated economic profitability such as soil conservation, land clearing and construction of small irrigation facilities. The 1968 program included about 2,100 projects totalling about 20,000,000 man-days or roughly the equivalent of 75,000 full-time jobs (based on an average 250-day man-year). AID's in-kind contribution, which is used as a portion of the salary payment, represents no more than 25% of the total project costs. GOM performance under this project has been good, and it is strongly recommended that the U.S. should continue to assist the PN program at the annual average of at least 25,000,000 man-day level projected in the Five-Year Plan.

Meeting the problems of unemployment in the urban setting with programs that contribute to Morocco's economic development has proven much more difficult. The PN approach is of only limited applicability since labor-intensive urban projects with an economic development rationale are more difficult to find. The GOM is justifiably

[REDACTED]

reluctant to use the unemployed urban manpower to launch any major expansion of urban social services since to do so would only accelerate the rural exodus which is already proving difficult to handle.

Some of the basic food needs of the urban unemployed are being met through the VolAgency/GOM "self-help" Food-for-Work program. This program provides food for about 50,000 people and their dependents. While much valuable work is being carried out, the orientation of this program is more social than economic. It should be frankly recognized that there are very real limitations to the productive capability of a work force that is paid entirely in-kind, and where cash resources for materials and technical planning and supervision are extremely limited. Therefore, consideration should be given to obtaining additional inputs of external (CRS, AID or other donors) financing and technical assistance which could upgrade the economic value of the urban Food-for-Work program. In spite of these constraints, the VolAgency "self-help" program is making an important and constructive contribution to meeting some of the most basic human needs in the urban areas and deserves continued USG support.

The Ministry of Interior which is responsible for urban development is preparing a very selective self-help housing program for the urban areas. The basic idea is to help those people in the

[REDACTED]

"bidonvilles" or slums, who have some means to build modest housing either themselves or to use the Promotion Nationale approach in which workers will be paid half in cash and half in wheat. The program will be restricted initially to 25,000 units per year because of budgetary limitations and the policy to discourage further migration to the cities.

At the same time, new methods should be explored to involve urban unemployed in economic activity. In this connection we have requested that the DAC worldwide study of unemployment (a portion of which is being carried out in Morocco) pay particular attention to the question of urban unemployment and to finding imaginative ways to use food resources to advance economic development in urban areas.

Longer-Run

A more definitive solution for Morocco's unemployment problem lies one to two decades away. By that time, the family planning program will have reduced the size of the labor force in relation to the availability of resources necessary for providing full-time gainful employment.

Another possibility for future improvement will arise from the effect of Morocco's recent association with the EEC. Although the agreement does not specifically include labor movement to EEC, the Moroccans have already indicated that they intend to negotiate such a

[REDACTED]

policy when the agreement with the EEC will be reviewed in three years. In the meantime, the free entry of Moroccan products into the Common Market is expected to result in attracting increasing amounts of foreign capital investment to Morocco to take advantage of the relatively inexpensive labor supply and thus providing substantial additional employment.

Since the movement of capital rather than labor avoids all the economic and social costs of absorbing large numbers of emigrants into European society, the greatest benefit of EEC association may indeed lie in its impact on increased investment and employment in Morocco.

2. The Role of the U.S. in Strengthening the IBRD Consultative Group for Morocco

An essential element of U.S. strategy is to strengthen a multilateral assistance framework via the Consultative Group (CG). The twelve-nation CG for Morocco was established under IBRD sponsorship in 1967. A meeting of the CG is scheduled for October 21 and 22 in Paris. The World Bank has a pivotal role to play in providing leadership to the CG. Recent reports of the Bank acknowledge that during the past two years Morocco has made very significant progress both in terms of improving its domestic financing capacity and in successfully addressing many of the administrative and management problems identified by the Bank. We understand that the Bank is considering announcing at the

[REDACTED]

forthcoming meeting a pledge of funds similar to the \$100 million "commitment" made by the Bank in support of Tunisia's development efforts.

We recommend that AID undertake high level discussions with the Bank immediately in an effort to assure that the following items are included in the agenda for the CG meeting:

a. The CG under the leadership of the IBRD should work with the Moroccan Government to establish agreed upon monetary and fiscal policies required to implement the Plan which would also serve as the self-help criteria to which foreign assistance could be linked.

b. Identify possibilities for multilateral financing of capital projects such as the Sebou River Basin. It is recommended that the U.S. representatives to the CG announce that AID is prepared to participate in the Sebou project as outlined in the FY 70 Congressional Presentation and encourage other donors to do so.

c. Discussion of the need for financing increased amounts of indirect foreign exchange costs of development projects and the provision of program/sector loans to provide balance of payments support via the importation of essential non-project raw materials, equipment, machinery and spare parts. As the level of investment in Morocco accelerates, the need for non-project financing which also generates

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local currency counterpart will assume increasing importance.

d. That the IBRD and IMF undertake a study of Morocco's debt-servicing problem. It is apparent that if Morocco's debt-servicing is not to become a critical impediment to development in the near future, new assistance must be provided on soft terms.

Lastly, it is suggested that AID urge representatives of the World Bank to visit the capitals of the major donor countries prior to the forthcoming meeting to discuss the agenda in order that the meeting in October will produce some meaningful discussions and recommendations.

3. The U.S. Assistance Strategy Should Recognize the Economic Development Importance of the Moroccan-EEC Association Agreement.

On March 31, 1969, Morocco concluded an agreement of association with the European Economic Community which will become effective September 1, 1969, providing tariff concessions for various Moroccan exports to the Common Market. While the present agreement is of limited scope and will have only a modest impact during the next few years, it raises an issue involving conflicting U.S. policy interests. U.S. commercial policy, on the one hand, is opposed in general principle to the proliferation of such trading arrangements. Concern is also felt that the agreement may eventually have a prejudicial effect on certain U.S. exports to Europe, such as citrus, for which preferential treatment is

[REDACTED]

being accorded to Morocco. Against the possible damage to U.S. trading interests, however, must be balanced the favorable impact of EEC association on Morocco's efforts to further its economic development-- also a fundamental U.S. policy objective.

a. Difficult Transition from Protectorate Status to a Competitive Position

From Morocco's viewpoint, the EEC association offers significant advantages. First and of most immediate importance, the agreement improves Morocco's export prospects by granting concessions on Moroccan sales of citrus, olive oil and processed agricultural products as well as fish and fish products.

These concessions cover a broad segment of Morocco's agricultural exports; but it is important to note that the concessions do not represent a total net addition to Morocco's existing export advantages, since the new concessions in large measure are a substitute for preferences here-to-fore provided by France for over 50 years. Morocco's export production was originally developed under a system of French preferences and would be extremely hard pressed to compete in world markets if no substitute were now provided for the terminating French protection. This is evident in the case of mounting stocks of unsold Moroccan wine which have lost their quotas on the French market and are excluded from the new agreement. As an indication of the benefit afforded by the preferences, Moroccan authorities have estimated that under the new

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agreement, the duties payable on 1968 exports to all the Common Market countries would have amounted to less than \$5 million, while in the absence of such an agreement, and given the termination of the French preferential status, such payments would have amounted to nearly \$22 million.

b. New Opportunities for Investment and Employment
Reducing Need for Aid

Secondly, but of great potential advantage, the EEC has agreed to admit without quantitative restrictions and free of import duties all industrial goods (except refined petroleum, coal and steel). The only requirement is that such exports meet the country of origin concept based on at least 50% Moroccan raw material content. Initially, this concession will have slight impact, since with the exception of handicrafts, certain textiles and leather goods, Morocco currently produces little in the way of manufactured goods that could find a market in Europe even under preferential treatment. However, in the longer run, the concessions on industrial goods may prove to be the most significant in terms of benefiting the Moroccan economy. Morocco's abundant labor supply, the inducements the GOM is already offering to attract foreign investors, plus the additional advantage of duty free entry to the Common Market should provide a strong stimulus to new foreign investment and to domestic production and employment which could set Morocco on the path of self-sustaining growth.

[REDACTED]

Thirdly, while the present agreement is valid for a period of five years, it provides that negotiations may be undertaken during the next three years with a view to more complete association. Aside from additional trade concessions, Morocco also intends to negotiate questions concerning financial and technical assistance and labor migration. In the latter regard, particularly, Morocco expects a favorable response and hopes to work out a policy governing the movement of labor from Morocco to short-supply areas in the Common Market. If Morocco is successful in establishing such a policy, it will create, together with the anticipated expansion of domestic industry and local job opportunities, a greatly improved prospect for alleviating Morocco's long-term problem of unemployment.

c. Very Minimal Reverse Preferences

In return for the concessions granted by the EEC, Morocco is providing the most minimal steps in the direction of reverse preferences. Morocco has granted tariff reductions on certain imports; but as a result of hard GOM bargaining, these reductions will be applicable to all countries on a MFN basis. Moreover, Morocco will maintain its list of liberalized imports, i.e., those not subject to a quota; and any withdrawal from this list will be compensated for by the liberalization of other commodities for which the import value from the EEC countries is equivalent to that of the commodity being withdrawn. Only in respect to goods still

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subject to a quota have any real concessions been made. For the latter, subquotas have been established for imports from the EEC, but even in this case, the subquotas have been determined on the basis of the EEC share of imports during the past three years, and accordingly, their establishment will not involve any change in the direction of Moroccan import trade in the immediate future. Moreover, the subquotas do not involve purchase commitments and the GOM has stated that it will issue import licences on a first come first served basis, exceeding the non-EEC subquotas to the extent that the EEC subquotas remain unfilled. After studying the agreement, the recent IMF Article XIV review concluded that the tariff reductions "will not constitute a discriminatory practice," and that the subquota system "will not constitute additional restrictions on trade or discrimination."

Given the relatively small level of U.S. commercial sales to Morocco, the minimal reverse preferences that Morocco has accorded to the EEC will have a negligible effect on Moroccan imports from the U.S.

d. Increasing Soviet Penetration via Clearing Agreements

Among Moroccan exports to the EEC, only citrus fruits are known to pose anything that may be considered a problem for U.S. export promotion. In this case, it is important in determining the

[REDACTED]

[REDACTED]

appropriate course of U.S. action to recognize the strategic importance that citrus exports hold for the Moroccan economy.

Citrus exports now account for 15% of Morocco's total commodity exports and represent one of the economy's strongest export growth potentials. New citrus groves now reaching maturity will increase total citrus production by an estimated 10% per annum over the next five years. Morocco has a domestic requirement for only a small fraction of the total citrus production. The bulk of the crop must therefore be exported. But, in the absence of greatly expanded sales to the Common Market, the only major alternative that will provide an adequate market for citrus is that offered by the Soviet Union and other East European countries. The Soviet Union is seeking opportunities for increased trade and took roughly a quarter of the total 1968 crop. However, these are not cash sales, but rather bilateral clearing arrangements which are contrary to U.S. interests and to the principles of GATT. Morocco is thus put in the undesirable situation of either building up credit balances which represent a very poor allocation of resources, or alternatively, making equivalent offsetting purchases which pre-empt sales from the free world and provide a vehicle for increasing Soviet economic penetration of Morocco.

[REDACTED]

[REDACTED]

e. Recommendation

Careful consideration must be given to weighing the effects of the alternative U.S. responses to the Moroccan-EEC association. Vital U.S. interests are at stake in the rapid growth and Western-oriented development of the Moroccan economy. Having depended for so long on preferential treatment from France, Morocco's export and growth potential could not be realized if no substitute were provided for the terminating French preferential status. Association with the EEC will be highly effective in serving Morocco's development efforts both in terms of raising the economy's earning capacity, and in the longer-run through attracting foreign investment, stimulating production and increasing employment.

So long as the Moroccan-EEC association does not involve any significant reverse preferences and entails increasing amounts of technical and economic assistance, there is a net gain for the U.S.-- it will permit in time an elimination of Morocco's reliance on heavy inputs of concessional assistance.

Lastly, obstructing Morocco's exports to EEC will in all probability result in forcing Morocco into deeper bilateral clearing arrangements with the Soviet Bloc which will only reinforce significant Soviet Union penetration in the Western Mediterranean.

[REDACTED]

[REDACTED]

C. Agricultural Sector Analysis

Agriculture is the primary sector in the Moroccan economy supporting about 70 percent of the population and producing currently about 50 to 60 percent of total exports. A detailed analysis of Agricultural Sector problems, performance and prospects is attached to this Submission as Annex II. There follow below some of the highlights of this analysis.

1. Growth Rate of Agriculture

A fundamental concern has been expressed in regard to the adequacy of the growth rate. The agricultural growth rate for the period 1960 through 1967 has been on the order of 3 to 3.5 percent per annum. This period is a better indicator of Morocco's performance and capabilities than the post-independence period (1956-60) with its attendant dislocations when the growth rate was very low and averaged only about 1.5 percent per annum. If the bumper crop of 1968 is included, the growth rate for the whole period 1960-68 equals almost 4 percent per annum.

The Moroccan planners consciously underestimated the annual growth rate at 2% for the period 1968-72 on the premise that, with actual results so highly subject to uncertain rainfall, it is better to underestimate and surpass the targets than the converse. Annex II indicates that even with average rainfall, as a result of the measures already under way in the dryland sector including the national cereals program and the introduction of new semi-dwarf wheat varieties, the

[REDACTED]

accelerated range management program, and the recent increase in foreign private investment in agriculture, the growth rate should average at least 3 percent per annum for the period 1968-72. For the period 1972-77, the annual growth rate should average more than 4 percent as the benefits from irrigation are realized on an increasing scale

2. Agricultural Investment Code

An important element in the GOM policy is the close link between increasing productivity and respect for the principle of private property. Private initiative and ownership of land is clearly recognized as the keystone to incentive and consequent production. In this connection, an important milestone was reached in 1969 when the Ministry of Agriculture completed an Agricultural Investment Code. The Code is divided into sections, one dealing with rainfed lands and the other with irrigated areas. In essence, the Code is intended to promote the development of agriculture by providing for certain services to farmers by the GOM in return for obligations on the part of the farmers to develop their land, to implement Government-prescribed cropping patterns and practices on part of their land, and to pay certain fees for given services, such as water, and a portion of the development costs of irrigated lands. Further details on this important new step in Morocco's self-help effort in agriculture are given in Annex III.

[REDACTED]

3. Wheat Improvement Project

Assistance to Moroccan cereals improvement has been a major USAID endeavor since the fall of 1966. Based on a study prepared by the TVA, a long-range project to increase wheat production called Operation Engrais was launched in 1966-67 on 180,000 hectares. The project concentrated mainly on fertilizer use but included agricultural extension improvement and the use of selected seeds. By 1968, the program had been extended to 330,000 hectares (reduced from 360,000-hectare goal because of weather conditions) and is one of the major GOM agricultural programs. A significant increase in USAID assistance was added to the program in 1968 with the introduction of 500 tons of high-yielding semi-dwarf soft wheat varieties from Mexico. The effort to increase high-yielding varieties is supported by a long-range research program to maintain a flow of new, resistant, high-yielding varieties. CIMMYT is assisting in this portion of the project and will have three wheat specialists in the Moroccan program by October 1969.

Testing of high-yielding Mexican varieties began in 1966 with seed from Mexico. In order to speed up the program, it was decided to start large-scale multiplication in 1968 based on results of more extensive testing in Tunisia and other Mediterranean countries. USAID financed the import of 500 tons of five varieties which were planted on 4,900 hectares for multiplication. An additional 150 hectares were planted in demonstration and research programs. Abnormally wet

[REDACTED]

weather during the 1968-69 season resulted in serious yield losses for two of the five varieties. The chief cause of the losses was Septoria leaf blotch (septoria tritici). This problem resulted in recommendations to shift the variety to lower rainfall areas and renewed efforts in Mexico to select Septoria-resistant wheat varieties.

Although certain Mexican varieties yielded three to four times that of local varieties, other varieties had severe disease losses resulting in over-all gains only slightly higher than local varieties. A program of indemnification is being prepared to cover farmers who had serious losses as the GOM is anxious to protect the wheat program from temporary setbacks. A nation-wide extension program on Moroccan TV and radio is being prepared prior to the 1969-70 wheat campaign. Two new summer nurseries were started and 35 new selected strains are being multiplied for fall planting. The national wheat committee will expand the multiplication program of semi-dwarf varieties this fall; the exact level for 1969-70 is to be decided upon the completion of the evaluation of the current campaign.

In addition to the above seed program, the USAID will expand its efforts to develop better crop management practices and fertilizer utilization for the national wheat production program, "Operation Engrais", which will probably be extended to about 400,000 hectares in 1969-70 and will reach over 100,000 farmers.

[REDACTED]

4. Major Developments

As indicated above, Morocco has now completed the third year of a major cereals production program (Operation Engrais) and the first year of an accelerated multiplication program. Certain major factors affecting agricultural production have been brought to light which parallel most of the recommendations contained in the AID Spring Review and are outlined below.

a. Price and Marketing

The Ministry of Agriculture has recognized the emerging problems which will result from anticipated cereals surpluses and attention is now being directed toward improved pricing, storage, and marketing policies and the need for diversification of cash crops for both modern and traditional farmers. The USAID has assisted in preliminary studies of these problems and plans further assistance as solutions are recommended. A study of wheat price policy in Morocco was completed by a USDA economist in April 1969 with recommendations on future price support programs for cereals reflecting the use of price as an incentive for production increase. At the request of the Minister of Agriculture, USAID provided a Kansas State University team to examine grain storage and marketing problems. This report will be completed in August and will recommend a comprehensive long-range program to improve and expand storage facilities. The study will also take into consideration future storage requirements as diversification of cash crops takes place.

[REDACTED]

Marketing problems resulting from shifts in agricultural policy and cropping patterns must also be studied.

b. Research

The GOM has recognized the need for increased input into agricultural research programs. Although handicapped by an insufficient supply of scientists, a serious effort has been made with USAID assistance to expand and improve the wheat research program. As an integral part of the national cereals program, the GOM is utilizing assistance from the CIMMYT. An agronomist from that organization has established a series of fertilizer trials and a new summer wheat nursery. His work is part of a USAID/GOM team effort which will be expanded this year by a plant breeder and production agronomist from the CIMMYT contract.

Future research assistance is planned in the fields of insect control (regional Mediterranean fruit fly project) and animal forage development for commercial beef.

Close liaison will be encouraged between the Agricultural Research Division and the new Agronomic Institute as graduate students emerge and agricultural research projects are undertaken. The University of Minnesota will play an important role as they will be assisting the Agronomic Institute through a USAID-sponsored project (see below-- Institutions).

[REDACTED]

The UN and third countries are being encouraged to assist in the agricultural research effort. Joint USAID/Canadian/GOM meetings have been recently concluded which may result in Canadian assistance to Moroccan agricultural research.

Future GOM research programs closely allied to USAID programs will include soil and plant research projects in irrigated and dryland areas. Commodities being considered for extensive research include corn, sorghum, animal forages, and semi-tropical horticultural crops.

c. Institutions

Most economic studies on agricultural development in Morocco have emphasized the constraint of inadequate skilled manpower. The GOM is fully cognizant of this problem and has taken steps to expand existing school facilities and construct new ones. The Five-Year Plan calls for an expenditure of Dh 5.4 million for expansion of facilities at four institutions and Dh 4.1 million for construction of three additional schools. The total budget planned for agricultural education during the Five-Year Plan amounts to Dh 13 million. Even with this effort, there will be a serious deficit of highly trained agricultural technicians in 1972. For top-level agricultural engineers (graduate degrees), there will be an estimated shortage of 135 and for middle-level technicians (college graduates) a deficit of 233. This obviously calls for increased effort to

[REDACTED]

expand local institutions for higher education. The superior school of agriculture (a four-year college) has already expanded its facilities and will graduate 76 students per year commencing in 1970.

Recognizing the need for high-level experts in agricultural research, the GOM has established a six-year agronomic institute which will eventually graduate 60 agricultural research specialists per year. Now in its third year of operation, the institute is looking to the USAID for assistance in the plant and soil science departments and eventually in agricultural economics. Through a contract with AID, the University of Minnesota will assist with professors and research laboratory assistants who will teach and assist in original agricultural research projects. The program will assure continuity for Moroccan agricultural research as it is planned for seven years.

d. Private Sector Participation

In the private sector, USAID is encouraging local agro-industries to participate in the development process. Private farm machinery dealers, feed producers, fertilizer distributors, pharmaceutical and farm supply firms are all expanding their activities due in part to the national cereals program. To further this effort, USAID is actively working with private U.S. agricultural firms in developing Moroccan investments. Four joint US/Moroccan agribusiness firms (two assisted by Cooley loans) have been started in the past year and several others are planned.

[REDACTED]

e. Socio-Political Effects

The Moroccan Government is attempting to maintain a balance between agricultural production requirements and social obligations to small farmers. GOM policies in this respect contribute considerably to Title IX objectives. The Agricultural Investment Code reflects the need to maintain economically viable plots of land. At the same time, the GOM has a program of direct actions to assist small farmers. These include special credit facilities for short and medium-term loans, a subsidy on small farm equipment, land preparation services, special credits for fertilizer and seeds, and a land redistribution policy for Government-owned land.

In USAID agricultural production projects (poultry, forage cereals, rangeland, livestock), attention has been given to both modern and traditional farmers. As an example, 40,000 farm families participated in the four-year forage improvement project and 110,000 farmers have participated in the cereals program. The USAID is assisting the private sector in the development of labor intensive enterprises. These include large-scale vegetable and vegetable-oil plantations and seed production farms. In addition, a series of local self-help projects, beneficial to small farmers, have been sponsored by USAID such as poultry raising, well projects, and small irrigation works.

Through the cereals project, a serious effort is being made to extend results of wheat research to all Moroccan farmers. This [REDACTED]

is being accomplished through agricultural extension programs in the provinces and on-farm demonstrations. A nation-wide TV and radio campaign will be launched this fall in support of the next cereals campaign.

Although late adopters will be slow to reach the productivity levels promised by new wheat varieties, they are being given serious attention by the GOM. The Ministry of Agriculture currently operates 2,000 tractors from provincial work centers and will add another 890 by 1972. These are in support of small farming units unable to afford modern farm machinery.

D. Recommended Aid Budget Levels for FY 71 and FY 72

The following table summarizes actual and projected AID and PL 480 assistance to Morocco for the five-year period FY 68-72.

U.S. Assistance to Morocco FY 68-72⁽¹⁾
(Obligations in \$ Millions)

	<u>FY 68</u> (Actual)	<u>FY 69</u> (Actual)	<u>FY 70⁽¹⁾</u> (C.P.)	<u>FY 71</u>	<u>FY 72</u>
<u>Level A</u> (Recommended Level)					
DL	14.3	8.0	13.0	19.0	21.0
TC/DG	1.9	1.3	1.6 (1)	2.4	2.1
SA (P/FP)	-	0.2	0.1 (1)	0.3	0.3
PL 480 Title I	45.7	6.8	7.4	8.2	8.2
PL 480 Title II	21.5	18.4	18.1	18.3	18.3
Total	<u>83.4</u>	<u>34.7</u>	<u>40.2</u>	<u>48.2</u>	<u>49.9</u>
<u>Level B</u> (FY 70 CP Level)					
DL				13.0	13.0
TC/DG				1.6	1.6
SA				0.1	0.1
PL 480 Title I				8.2	8.2
PL 480 Title II				18.3	18.3
Total				<u>41.2</u>	<u>41.2</u>

(1) Figures taken from Budget Summary Table I, which, for FY 70, requires utilizing the figures in the FY 70 CP request. Please note, however, that the FY 71 PBS recommends for FY 70 a TC/DG level of \$2.2 million, and a SA level (for Family Planning) of \$0.2 million.

[REDACTED]

The assistance level we are recommending for FY 71 is comprised of \$21.7 million from AID appropriations, and \$26.5 million in PL 480 assistance, or a total of \$48.2 million. For FY 72, a total level of \$49.9 million is recommended, \$23.4 million from AID and \$26.5 million from PL 480 appropriations. Under regional and multi-donor programs, an additional \$3 million per annum for FY 1971 and FY 1972 is recommended for multi-donor projects with the IBRD such as the development of the Sebou River Basin planned for FY 1970. The balance of payments analysis and the foreign resource requirements have taken account of this projected input.

1. Aggregate U.S. Assistance Inputs During Plan Period

The broad objective of U.S. assistance strategy is to assist Morocco to maintain the momentum of its recent development performance and to accelerate the economy's growth rate to 5% per annum by the end of the current Five-Year Plan. For Morocco to succeed in this effort, aggregate resource analysis indicates an external borrowing requirement for the 1968-1972 period amounting to \$450-\$500 million in relation to the central government investment budget, and to an estimated \$680 million in the larger context of balance of payments support for which foreign grants as well as extra-budgetary loans to public enterprises are included.

[REDACTED]

Against the gross foreign assistance requirement of \$680 million, improved prospects for assistance from other donors, notably IBRD and France, now make it possible to estimate total inputs of non-U.S. assistance at \$425 million, or nearly two-thirds of the five-year total. The inputs of U.S. assistance necessary for the complete success of Morocco's development efforts can accordingly be estimated at \$255 million, or \$50 million annually during the next few years, as opposed to the other donor contribution of approximately \$90 million a year.

The level of U.S. inputs reflects a 15% downward adjustment in comparison to projections made a year ago in the FY 70 Program Memorandum in which overall U.S. assistance inputs were recommended at a level of \$300 million for the five-year period. The reduced need for U.S. assistance results from improved prospects for other donor assistance and a more promising outlook for Morocco's own export earnings. On the domestic level, moreover, greater effort and success in raising savings and channeling additional resources to productive investment are gradually increasing the domestic share of investment budget financing. Total domestic savings should rise during the Plan period from 14% to 17% of GNP and through taxation and non-inflationary borrowing, the GOM should be able to cover 55% of the investment budget during the next several years.

[REDACTED]

[REDACTED]

In summary, Morocco is successfully addressing all the major self-help objectives identified by AID. The level of investment is expanding, domestic savings are increasing substantially and non-U.S. assistance is financing a greater share of the resources gap. The Moroccan economy is fulfilling the Plan's targets. If this momentum is to be continued, the total projected foreign resources input, both non-U.S. and U.S., must be maintained. This requires AID plus PL480 obligations of \$48.2 million in FY 1971 and \$49.9 million in FY 1972.

2. PL 480 Program

PL 480 assistance accounts for over 50% of the projected assistance for FY 1971 and 1972. PL 480 sales for FY 71 and FY 72 are shown at only \$8.2 million reflecting the elimination of U.S. wheat sales as a result of Operation Engrais and barring adverse weather conditions. However, there should be a continued demand for PL 480 sales of U.S. soybean oil, cotton and tallow for industrial uses. The Title II program, over 50 percent of which is intended for the Promotion Nationale Food-for-Work program in support of agricultural production and rural infrastructure, remains constant at \$18.3 million for each of the two years. The balance of the Title II program is earmarked for U.S. Voluntary Agencies in support of nutritional and child care activities and urban food-for-work programs.

[REDACTED]

[REDACTED]

3. Development Loans

The increases projected for Development Loan funding represent a shift away from large PL 480 sales to commodity import financing and assisting with the financing of priority activities in Morocco's Five-Year Plan.

From a low of \$8 million in Development Loans authorized in FY 69, as against \$14.3 million in FY 68, the FY 70 Congressional Presentation recommends \$13 million in Development Loans in FY 70. For FY 71 and FY 72, the Mission recommends that this level be raised to \$19 million and \$21 million respectively. Agricultural Sector Loans of \$6 million each are indicated in both FY 1971 and 1972 in recognition that the expanding level of investment will require an increasing amount of non-project commodity import financing to supply essential raw materials, machinery and equipment, spare parts, etc. Smaller project loans are recommended for expanding the Rabat-Kenitra-Casablanca water supply; for renovating the country's grain storage and marketing facilities, a necessary consequence of increased cereals production; for expanding Morocco's electric power distribution and transmission capacity; and for augmenting or replacing the country's heavy port and railway equipment. The presentation also includes projects for potential Ex-Im Bank financing, an iron ore pelletisation plant recently surveyed by a Canadian

Assistance funds was obligated for this purpose, to which \$720,000 is to be added in the next three years FY 70-72. Additional grants of US-owned local currencies to the \$300,000 equivalent provided in FY 69 will also be required during this period in support of the GOM's own budgetary efforts in this field (see Issue B).

6. Impact of Reduction to Level B and 20% Below Level B

The continuation of the initial success of the Plan during the next several years requires maintaining the total projected foreign assistance inputs both from the U.S. and from other donors. Because of an increase in other donor assistance and an improvement in Morocco's own financing capacity, the level of U.S. inputs for the period 1968-1972 (as shown in the FY-1971 CFS as compared to the level in the FY 1970 Program Memorandum) has been reduced by 15% from \$300 million to \$255 million. The latter figure is based upon obligations averaging \$50 million per annum in FY 1971 and FY 1972.

Level B, however, represents a further 20% below the recommended AID budget levels for FY 1971 and FY 1972. It does not appear reasonable to assume that this additional gap can be filled by other donors. Therefore, if new AID obligations are cut to this extent, AID efforts to influence GOM economic development policy will be handicapped and the shortage of external resources would necessitate a cut-back in the total development effort.

[REDACTED]

[REDACTED]

A 20% cut-back below level B would imply an abandonment of the major U.S. assistance objectives in Morocco and would undermine the realization of U.S. strategic interests in Morocco.

[REDACTED]

TABLE I

FY 1971 COUNTRY FIELD SUBMISSION
MOROCCO

Budget Summary
(Obligations in \$ Thousands)

Funding Category	FY 1968 Actual	FY 1969 OYB	FY 1970 C.P.	FY 1971		FY 1972	
				Level A	Level B	Level A	Level B
<u>A. I. D. Appropriations</u>							
Development Loans	14,300	8,000 (1)	13,000	13,000	13,000	21,000	13,000
Program Loans							
Sector Loans	(8,000)	(5,000)(1)	(7,000)	(6,000)	(5,000)	(6,000)	(5,000)
Project Loans	(6,300)	(3,000)(1)	(6,000)	(13,000)	(8,000)	(15,000)	(8,000)
TC/DG	1,933	1,346	1,557	2,427	1,557	2,111	1,557
Ongoing	(1,500)	(1,159)	(1,420)	(2,252)	(1,557)	(2,036)	(1,557)
New (inc. major expansions)	(433)	(187)	(137)	(175)(4)	(-)	(75)(4)	(-)
SA	-	181 (2)	159	310	159	251	159
Total A.I.D.	16,233	9,527	14,716	21,737	14,716	23,362	14,716

Other Official U.S. Aid

PL 480 - Title I (of which country uses)	45,700 (90%)	6,836 (100%)	7,400 (100%)	8,200 (100%)	8,200 (100%)	8,200 (100%)
PL 480 - Title II	21,526	18,409	18,130	18,340	18,340	18,340
MAP - Sales	15,000	10,000	10,000	10,000	10,000	10,000
MAP - Grants	3,500	2,100	1,200	1,000	1,000	1,000
Ex-Im (3)	-	6,536	5,000	5,000	5,000	5,000
Total Other	85,726	43,881	41,730	42,540	42,540	42,540

- (1) AID/W loan authorizations.
- (2) Includes \$25,000 under Foreign Disaster Emergency Relief.
- (3) Loans of 5 years or over only.
- (4) Studies and surveys which are expected to lead to new projects.

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TABLE II

FY 1971 COUNTRY FIELD SUBMISSION
MOROCCO

Assistance to Major Sectors
(Obligations or Equivalent, in \$ Thousands)

Sector	FY 1968	FY 1969	FY 1970	FY 1971	FY 1972
	Actual	Estimate	Estimate	Estimate	Estimate
<u>AGRICULTURE</u>	51,610	40,979	66,182	61,873	52,667
Loans	28,827	25,939	48,605	43,350	33,500
AID (DL-104(f)-Cooley)	19,827 (1)	14,939 (2)	14,605 (3)	8,350 (4)	7,500 (5)
Other U.S. Official (Ex-Im)	-	-	2,000	2,000	2,000
International Orgs. (IBRD, IDA, etc.)	-	-	20,000	20,000	10,000
Other Bilateral Official	9,000	11,000	12,000	13,000	14,000
Private (U.S. and Other)	-	-	-	-	-
Grants	22,783	15,040	17,577	18,523	19,167
AID (DG-Title II-PN)*	15,283 (6)	10,540 (7)	11,177 (8)	11,323 (9)	11,167 (10)
International Orgs. (UNDP, OAS, etc.)	3,500	400	2,000	2,500	3,000
Other Bilateral Official	4,000	4,100	4,200	4,700	5,000
Private (U.S. and Other)	-	-	200**	-	-

- (1) DL 13,000; 104(f) 6827; Cooley 0
 (2) DL 5,000; 104(f) 9281; Cooley 658
 (3) DL 9,000; 104(f) 1760; Cooley 3845
 (4) DL 7,000; 104(f) 0; Cooley 1350
 (5) DL 7,000; 104(f) 0; Cooley 500
 (6) DG 803; PN 14,480
 (7) DG 740; PN 9,800
 (8) DG 1,377; PN 9,800
 (9) DG 1,523; PN 9,800
 (10) DG 1,367; PN 9,800

* This table excludes the agricultural projects being funded from regional funds.

** Ford Foundation grant.

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TABLE III

FY 1971 COUNTRY FIELD SUBMISSION
MOROCCO

Official Capital Flows by Source
(Disbursements in Millions of U.S. Dollars)

	FY 1969	FY 1970	FY 1971		FY 1972	
			Level A	Level B	Level A	Level B
<u>A.I.D. Loans</u>						
<u>Program</u>						
From prior year authorizations	1.6	7.7	7.7	7.7	8.0	7.2
From current year authorizations	0	0	0	0	1.5	1.3
<u>Sector</u>						
From prior year authorizations	4.5	5.8	8.6	7.3	12.5	5.5
From current year authorizations	0	0	1.5	0	0.5	2.2
<u>Project</u>						
Total A.I.D.	6.1	13.5	17.8	15.0	22.5	16.2
<u>Ex-Im Bank</u>	4.6	5.2		5.0		5.0
<u>International Lending Agencies-- IBRD/IDA</u>	14.0	20.0		25.0		30.0
<u>Other Bilateral</u>	63.0	63.0		62.0		60.0
<u>Total disbursements (all sources)</u>	87.7	101.7	109.8		117.5	
<u>Pipeline at end of year (all sources)</u>	142.2	147.3	132.8		129.7	

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TABLE IV

FY 1971 COUNTRY FIELD SUBMISSION

MOROCCO

Loans Proposed for Serious FY 1970 Consideration
(Authorizations in \$ Thousands)

Field of Activity (1)	Probable Loan Title (2)	Anticipated FY Quarter of Authorization (3)	Total (4) (a+b+c)	Amount to Finance		Amount to Finance Local Costs (4c)
				Commodities Equipment, Capital Project Services, Etc. (4a)	Foreign Exchange Costs Technical Assistance (4b)	
Agriculture & Natural Resources	Agricultural Sector Loan	3	7,000	7,000	-	-
Industry and Mining	B. N. D. E.	3	2,000	1,000	-	1,000(2)
Health & Sanitation	Kenitra/Rabat/Casa Water Supply	4	2,000	2,000	-	-
Agriculture & Natural Resources	Grain Storage and Marketing Facilities	4	2,000	2,000	-	-
Total (FY 70 CP)			13,000 (1)	12,000	-	1,000

(1) Excludes planned FY 70 Development Loan for a multi-donor project with the IBRD for the development of the Sebou River Basin; funding (\$3 million) included under the Regional and Multi-donor Program.

(2) The loan agreement permits up to 50% of the proceeds to be used to finance local costs, to the extent that the funds are not utilized to finance U.S. procurement.

FY 1971 COUNTRY FIELD SUBMISSION

MOROCCO

Loans Proposed for Serious FY 1971 Consideration
(Authorizations in \$ Thousands)

Field of Activity (1)	Probable Loan Title (2)	Anticipated FY Quarter of Authorization (3)	Total (4) (a+b+c)	Amount to Finance Foreign Exchange Costs		Amount to Finance Local Costs (4c)
				Commodities Equipment, Capital Project Services, Etc. (4a)	Technical Assistance (4b)	
Agriculture & Natural Resources	Agricultural Sector Loan	3	4,000	4,000	-	-
Industry and Mining	B. N. D. E.	3	3,000	1,500	-	1,500
Health & Sanitation	Kenitra/Rabat/Casa Water Supply	4	1,000	1,000	-	-
Agriculture & Natural Resources	Grain Storage and Marketing Facilities	4	1,000	1,000	-	-
Industry and Mining	Electric Power Distribution & Transmission	4	1,400	1,120	-	280
Total - Level B minus 20%			10,400	8,520		1,780
Agriculture & Natural Resources	Agricultural Sector Loan	3	5,000	5,000	-	-
Industry and Mining	B. N. D. E.	3	3,000	1,500	-	1,500
Health & Sanitation	Kenitra/Rabat/Casa Water Supply	4	2,000	2,000	-	-
Agriculture & Natural Resources	Grain Storage and Marketing Facilities	4	1,000	1,000	-	-
Industry and Mining	Electric Power Distribution & Transmission	4	2,000	1,600	-	400
Total - Level B (FY 70 CP)			13,000	11,100		1,900
Agriculture & Natural Resources	Agricultural Sector Loan	3	6,000	6,000	-	-
Industry and Mining	B. N. D. E.	3	3,000	1,500	-	1,500
Health & Sanitation	Kenitra/Rabat/Casa Water Supply	4	2,000	2,000	-	-
Agriculture & Natural Resources	Grain Storage and Marketing Facilities	4	2,000	2,000	-	-
Industry and Mining	Electric Power Distribution & Transmission	4	4,000	3,200	-	800
Transportation	Heavy Trans. Equip. (Ports)	4	2,000	2,000	-	-
Total - Level A			19,000	15,700		2,300

Note: Attached narrative statements include a proposed loan of up to \$20-25 million for FY 71 funding by the Ex-Im Bank, for an Iron Ore Pelletisation Complex.

FY 71 Country Field Submission - Attachment to Table IV

Proposed Project Loan - Morocco1. Title:

Banque Nationale pour le Developpement Economique (BNDE).

2. Purpose:

The loan finances the procurement of U.S. goods and services required in connection with project subloans made by the BNDE with AID approval. These subloans will be used to stimulate investment and development in Moroccan industry and tourism. The BNDE will be permitted to use up to 50% of the loan proceeds, to the extent that funds are not utilized for U.S. procurement, to finance local currency costs with purchases of US-owned local currencies. The BNDE is the major source of medium and long-term lending to industry and tourism in Morocco, participating in about 30% of all investment in these sectors.

Exceptionally heavy deficits in the international balance of payments in the last two years have resulted in a large drawdown of Morocco's foreign exchange reserves, and left a precarious balance of payments situation. The tourism sector will be especially important during the Five-Year Plan as a leading source of foreign exchange for Morocco. Increased investment is needed, however, to develop the full foreign exchange earning potential of the tourism sector.

3. New, Amendment or Extension:

A loan application was made in December 1968 for FY 1969 funding. AID authorized the loan at the end of FY 69.

4. Total Amount of Loan and Costs to be Financed:

Additional loans totalling \$8 million are proposed for FY 70 (\$2 million), FY 71 and FY 72 (\$3 million each year). An illustrative list

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of U.S. goods which can be expected to be financed under these loans include:-

Hotel equipment and supplies
Heating and cooling equipment
Lifting, loading and conveying equipment
Transport equipment
Machine tools
Business and office machinery
Electrical machinery and apparatus
Iron and steel products

5. Possible Additional Funding Requirements:

No additional AID funding requirements beyond FY 72 are anticipated at this time.

6. Other Possible Loan Sources:

The IBRD has been the major supporter of BNDE, having extended loans totalling \$47.5 million. Since IBRD loans and IFC equity participation already constitute about 70% of total BNDE resources, the IBRD is encouraging the BNDE to seek funding from other sources. Consideration is being given to a \$2.5 million loan by West Germany. This loan would not replace the AID loan, but would complement it in developing the industry and tourism sectors.

7. Stage of Project Development: (See 3 above.)

8. Anticipated Results: (See 9 below.)

9. Special Justification:

The BNDE is an especially attractive recipient of the loan since it is furthering the growth of private enterprise in Morocco. The loan funds will be used to finance the dollar costs of procurement of U.S. equipment, thereby contributing to the development of new U.S. commercial markets. At the present time, the U.S. has no identifiable share of the import market so far generated by the BNDE. The proposed loan will therefore have a positive impact on the U.S. economy, will benefit U.S. and Moroccan private enterprise, and will not have an adverse effect on the U.S. international balance of payments.

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Proposed Project Loan - Morocco

1. Title:

Kenitra, Rabat, Casablanca Water Supply.

2. Purpose:

This loan would provide AID participation in a water supply program designed to help the GOM to meet the rapidly increasing demand in the residential and coastal strip running from Kenitra to Rabat and down through Casablanca.

3. New, Amendment or Extension:

This is a new loan proposal.

4. Total Amount of Loan and Costs to be Financed:

A \$2 million DL is proposed for FY 70, with a second DL in the same amount in FY 71. This loan would finance the supervisory engineering contract, and construction equipment or special equipment, e.g. electric generating equipment, which would be procured in the U.S.

5. Possible Additional Funding Requirements:

Total costs are estimated tentatively at \$20 million, to be funded as follows: \$4 million from AID, \$6 million from the IBRD, and the balance of \$10 million, in local costs, by the GOM and from U.S.-controlled counterpart.

6. Possible Other Lending Institutions:

The IBRD is interested in financing the major construction works.

7. Stage of Project Development:

The American engineering consulting firm, TAMS, did the engineering work on the temporary Oued Grou dam which is now completed. The

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GOM commissioned TAMS to do the economic and technical feasibility study for the permanent dam on the Oued Grou. Test drillings are now being made at three sites and TAMS' feasibility study will be finished in September 1969. It is hoped that the engineering design work will commence in 1969 and actual construction in the summer of the following year.

8. Anticipated Results:

The water needs of the two million people and the industry of the seacoast area from Kenitra through Rabat and Mohammedia to Casablanca will be adequately supplied until the end of the 20th century. There will also be several secondary benefits. The high dam will make available new hydroelectric generating capacity to contribute to Morocco's electricity needs (expected to grow at 7% a year). The quality of the water and topographical conditions are favorable for irrigation of several thousand hectares below the dam site. A large artificial lake will aid tourism.

9. Special Justification:

The GOM has asked for DL financing for the permanent dam. The GOM had already asked AID to assist in financing the small temporary dam but shortage of funds precluded AID participation in this project.

The proposed dam site is only 15 miles from the capital city of Rabat. The project would directly effect 15% of the country's population, including that of Casablanca, the largest city and the leading industrial and commercial center of Morocco. The basic interest that the average Moroccan has in an adequate water supply would contribute to strengthening US-Moroccan relations.

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Proposed Project Loan - Morocco

1. Title:

Grain Storage and Marketing Facilities.

2. Purpose:

To provide for economic and feasibility studies, design and engineering specifications of the expansion of grain storage and marketing facilities in Morocco by a team of storage and marketing specialists which will result in recommendations for long-range grain storage and marketing policies, as well as the initiation of construction of new facilities.

3. New, Amendment or Extension:

This is a new loan proposal.

4. Total Amount of Loan and Costs to be Financed:

\$6 million (\$2 million for each of the U.S. fiscal years 1970, 71 and 72) to finance economic and feasibility studies, design and engineering specifications, and some specialized equipment.

5. Possible Additional Funding Requirements:

No additional AID funding requirements beyond FY 72 are anticipated at this time.

6. Possible Other Lending Institutions:

The IBRD may be interested in participating in the financing of this project.

7. Stage of Project Development:

A 30-day study of cereals storage problems was completed in May 1969 by the Kansas State University under a USAID contract. The

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final report is expected August 10, 1969. Recommendations for emergency storage problems have been made to the GOM and will be expanded in the final report. The report will also contain detailed recommendations for a long-range study of grain storage and marketing problems.

8. Anticipated Results:

A properly conceived long-range plan for the orderly reorientation of existing grain storage facilities and the addition of new ones to meet the needs of increased cereals production and anticipated changes in basic cropping patterns. The study will enable the GOM to commence a storage construction program in 1970 with possible utilization of the Agricultural Sector Loan.

9. Special Justification:

The justification for this project is principally economic. As current USAID agriculture programs are contributing to improved productivity of agricultural commodities and a significant increase in cereals production, attention to the resulting storage and marketing problems is a natural second step for U.S. assistance. This has been recognized by the Ministry of Agriculture which has urgently requested assistance in this sector from the USAID.

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Proposed Project Loan - Morocco

1. Title:

Electric Power Distribution and Transmission Equipment.

2. Purpose:

To finance the purchase of capital equipment for new facilities to meet the expanding electric power requirements of Morocco. This could include transmission and distribution equipment to service expanding population centers and new industrial and mining installations, as well as smaller scale facilities for the increase in sales to final customers expected by the Moroccan Office Nationale de l'Electricite (ONE).

3. New, Amendment or Extension:

This is a new loan proposed for the latter part of FY 1971.

4. Total Amount of Loan and Costs to be Financed:

The AID loan would be of the order of \$4 million for obligation in FY 1971, with an additional loan of \$3 million planned for FY 1972. Of this amount, \$5.6 million would be for financing commodities, equipment and machinery that would have to be imported, and \$1.4 million is estimated for local costs related to the installation of the U.S. equipment.

5. Possible Additional Funding Requirements:

No additional AID funding requirements beyond FY 72 are anticipated at this time.

6. Possible Other Lending Institutions:

Ex-Im Bank, which financed a loan of \$1.6 million to the ONE in FY 66, for the purchase of a gas turbine. The IBRD has also indicated an interest in providing funds required for expansion of electrical energy.

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7. Stage of Project Development:

Arthur E. Bush, of the Detroit Edison Company under contract with AID (PIO/T 608-042-3-90038), made a two-week reconnaissance survey of the electric power situation in Morocco, submitting a report dated May 22, 1969. Discussions growing out of this survey are taking place between the GOM, USAID, AID/W, IBRD, and Mr. Bush and Mr. Cisler, his principal, with a view to making an in-depth study of needed electric power facilities, optimum rates structure, financial and managerial status of the ONE. The precise needs and nature of the proposed AID development loan for FY 1971 would have to await the conclusions of this study. It is hoped that IBRD and AID will finance this study.

8. Anticipated Results:

This loan adds to the infrastructure of the energy sector which is required to keep pace with the general development of the economy, especially industrialization and the growth of agro-business. Expanding energy requirements at the rate of 7% a year are anticipated. Some hydroelectric and thermal generating works are already under construction and others are being planned. This loan will help finance the installation of part of the necessary distributive facilities.

9. Special Justification:

U.S. policy is to support the efforts of the GOM in implementing the Five-Year Plan. Investments of \$85 million in the production and transport of electricity are called for in the Plan. Of this amount, \$30 million is planned for the installation of high tension lines and consumer distributive facilities. One-half of this amount is to be financed by the ONE itself and the other \$15 million by the Moroccan equipment budget. The \$4 million AID loan would provide resources to assist the GOM in covering about a quarter of GOM planned investments in distributive services.

This loan would develop a new market potential for U.S. electrical equipment. Presently, almost all Moroccan equipment imports in the energy sector come from Europe. In 1967, the U.S. share of copper wire sales to Morocco was negligible and transformer sales were about 3% of the total.

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Proposed Project Loan - Morocco

1. Title:

Heavy Transportation Equipment (Ports and Railways).

2. Purpose:

Moroccan ports play a key role in the country's foreign trade, handling approximately 88% of the volume of foreign trade and 92% of its value. Port traffic is projected to increase from 15.6 million metric tons in 1965 to 23.3 million metric tons in 1973, an increase of 5.2% annually. To meet the requirements of this traffic increase, the GOM plans to invest \$24.8 million in the development of port facilities during the Plan period.

Likewise, rail traffic on Morocco's 1770 kms. of railway lines is expected to rise from 2.2 million ton/kilometers in 1966 to 3.0 million ton/kilometers in 1972. The GOM has earmarked \$35 million for the expansion and modernization of its railway system between 1968-72.

The proposed loan would provide for U.S. participation in Morocco's effort to expand its port and rail facilities, thus facilitating the attainment of Plan goals in these areas.

3. New, Amendment or Extension:

This is a new loan proposal.

4. Total Amount of Loan and Costs to be Financed:

A \$2 million DL is proposed for each of FY 71 and FY 72, or a total of \$4 million. These loans would be used exclusively to finance procurement in the U.S. of heavy equipment required for Morocco's port and rail facilities expansion program.

5. Possible Additional Funding Requirements:

No additional AID funding requirements beyond FY 72 are anticipated at this time.

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6. Possible Other Lending Institutions:

The GOM has requested the IBRD to undertake an integrated survey of Morocco's transportation system. AID's participation is thus conditioned on the recommendations of the IBRD survey, and on the assumption that financing of major construction of infrastructure facilities under this program would be covered by the GOM, with assistance from the IBRD and other donors.

The Ex-Im Bank may be interested in financing the required U.S. equipment imports.

7. Stage of Project Development:

The IBRD is considering the requested transportation survey.

8. Anticipated Results:

As indicated in Section 2 above, the expansion of Moroccan port facilities is essential to handle the country's growing foreign trade. The railway system is a basic adjunct to Morocco's port system, since it carries the country's no. 1 export product, phosphates, as well as a large share of its citrus and cereals production.

9. Special Justification:

Morocco's heavy equipment requirements have been met traditionally by procurement in Europe, especially from France. The proposed loan would give the U.S. an opportunity to enter the field of heavy transport equipment in Morocco.

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Proposed Project Loan - Morocco

1. Title:

Maroc-Chimie Fertilizer Plant Extension.

2. Purpose:

The GOM is planning a significant expansion of the Maroc-Chimie fertilizer complex located at Safi. This will involve modification of existing and installation of new production facilities to manufacture additional fertilizer grades and mixes including Ammonium Sulphate, Di-Ammonium Phosphate, Mono-Ammonium Phosphate plus powdered TSP as well as Sulphuric and Phosphoric Acid.

3. New, Amendment or Extension:

This is a new loan proposal.

4. Total Amount of Loan and Costs to be Financed:

A \$4 million Development Loan is proposed for FY 72, to cover the costs of a part of the equipment required for the first phase of the expansion of the Maroc-Chimie fertilizer complex at Safi. Preliminary estimates indicate total costs of the expansion program will be of the order of \$25 million.

5. Possible Additional Funding Requirements:

No additional AID funding requirements are anticipated at this time.

6. Possible Other Lending Institutions:

This proposal should be discussed with Ex-Im Bank and the IBRD.

7. Stage of Project Development:

The 1967 report of the Tennessee Valley Authority, "Morocco: Role of Fertilizer in Agricultural Development", recommended expansion of the fertilizer complex. The GOM has requested the services of

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the Chemical Construction Corporation of New York to implement the TVA survey recommendations. USAID and AID/W have agreed to finance a preliminary study to determine the scope of an extensive feasibility study to identify the best way to implement the TVA recommendations. CHEMICO has agreed to undertake this preliminary study under an AID-financed task order.

8. Anticipated Results:

The loan will finance the modification of existing facilities and installation of new production capability. The expansion of the plant will permit the manufacture of new fertilizer grades and mixes including Ammonium Sulphate, Di-Ammonium Phosphate, Mono-Ammonium Phosphate, powdered TSP, Sulphuric Acid, and Phosphoric Acid. Increased supplies of fertilizer are important to the success of the GOM's accelerated cereals production program. The Safi expansion program will help to increase Morocco's foreign exchange earnings as a large percentage of present production is exported.

9. Special Justification:

The justification for this project is principally economic: it would provide additional U.S. resources in support of Morocco's development effort in the priority field of agriculture, while promoting U.S. exports of capital goods to Morocco, and Morocco's exports of chemical fertilizers.

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Proposed Project Loan - Morocco
(For Ex-Im Bank Financing)

1. Title:

Iron Ore Pelletisation Complex.

2. Purpose:

To finance exports of U.S. equipment for the iron ore pelletisation and beneficiation plant to be constructed in the area of Nador.

3. New, Amendment or Extension:

This is a new loan proposal.

4. Total Amount of Loan and Costs to be Financed:

Loans of up to \$20-\$25 million may be required in FY 71 to cover foreign exchange costs of the plant. The total cost of the pelletisation complex, including two HYL reduction units and a gas pipeline from Algeria, is estimated at \$33 million.

5. Possible Additional Funding Requirements:

The above represent total costs as known at this time.

6. Possible Other Lending Institutions:

This proposed project loan is not for AID financing. It is forwarded with the Mission recommendation that it be given consideration by the Ex-Im Bank.

7. Stage of Project Development:

A study has been completed by Wright Engineers, Lmtd., Vancouver, Canada, on the exploitation of the Rif iron ore mines. The study recommends the construction of a pelletisation plant.

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8. Anticipated Results:

Morocco is rich in iron ore. Estimated reserves amount to 200 million tons. Ore with the highest Fe content can be found in the Rif Mountains close to Nador, where reserves are estimated to be 43 million tons. Yearly exports average 800,000 to 900,000 tons, at an average price of \$7.15/ton.

In its Five-Year Plan, the GOM has included an installation for the pelletisation and concentration of iron ore. The plant will have a capacity of 800,000 tons per year. The plant will permit the processing of iron ore with low iron content. The concentrated pellets will contain 63% Fe, and can be sold at an average price of \$14 per ton. Additional installation of an HYL process reduction plant could produce pellets of 85-90% Fe. These highly concentrated pellets will have a selling price equal to or higher than scrap iron, i.e. \$30.00 per ton. A new York brokerage firm has indicated it would sign a long-term contract for the highly concentrated pellets at such a price. Assuming that 250,000 tons of concentrated pellets (85-90% Fe) could be produced and exported per year, at an additional earning of \$20/ton, this would result in a surplus earning of foreign exchange of at least \$5 million annually.

9. Special Justification:

Promotion of U.S. equipment exports.

FY 1971 COUNTRY FIELD SUBMISSION
MOROCCO

Estimate of Local Currency Uses (1)
(in thousands of dollar equivalents)

Uses	FY 1968 Actual	FY 1969 Estimate	FY 1970 Estimate	FY 1971 Estimate	FY 1972 Estimate
I. <u>Country-Owned L/C</u>					
A. Country-Uses	11,163	17,720	20,610	15,000	17,700
B. U.S.-Uses	-	-	-	-	-
II. <u>U.S.-Owned L/C</u>					
A. Country-Uses	26,704 (2)	40,309 (3)	22,819	15,787	14,844
B. U.S.-Uses	5,442	10,516	11,264	5,454	3,744
Totals	21,262 (2)	29,793 (3)	11,555	10,333	11,000
	37,867	58,029	43,429	30,787	32,544

Summary of Estimated Generations and Uses

Total Current Year Generations	56,345	36,813	32,092	27,409	30,182
Carryover Balance from Prior Years	28,215	46,693	25,477	14,140	10,762
Sub-Total	84,560	83,506	57,569	41,549	40,944
Total Current Year Uses	37,867 (2)	58,029 (3)	43,429	30,787	32,544
Estimated Balance	46,693	25,477	14,140	10,762	8,400

(1) Expenditures

(2) Includes \$12,656 in transfers from FT20680 to 72FT740, 72FT760, and 20FT400.

(3) Includes \$14,187, 329, 33 in transfers to 72FT740, 72FT760, and 20FT400.

Country-Owned Local Currencies for Country Uses: From FY 69 through FY 72, 80% to 90% of these L/Cs are programmed to finance the agricultural development projects included in the GOM's annual Development Budgets, which in turn are based on the Five-Year Plan 1968-72. Country-Owned Local Currencies for U.S. Uses: GOM payments to the Trust Fund are included in the FY 71 PBS Summary E-1. Expenditures average the equivalent of \$200,000 annually.

U.S.-Owned Local Currencies: See table included in Part II.A., Issue B, for breakdown of uses.

TABLE Va

FY 1971 COUNTRY FIELD SUBMISSION
MOROCCO

Estimate of Local Currency Generations
(in thousands of dollar equivalents)

Sources of Generations	Carryover Balance from Prior Years	FY 1968		FY 1969 Estimate	FY 1970 Estimate	FY 1971 Estimate	FY 1972 Estimate
		Actual	Estimate				
I. Country-Owned L/C	6,747	17,318	6,751	20,800	15,000	17,700	
Supporting Assistance Title IV	1,012	-	-	-	-	-	-
Sector Loan	5,735	17,318	5,074	13,100	7,800	8,200	
	-	-	1,677	7,700	7,200	9,500	
II. U.S.-Owned L/C	21,468	39,027	30,062	11,292	12,409	12,482	
20FT680	2,540	21,030	3,273	-	-	-	
20FT100	5,198	9,330 (1)	9,519	9,427	9,519	9,372	
20FT400	20	6,779	3,782	1,865	2,890	3,110	
72FT740	9,398	5,656	10,055	-	-	-	
72FT760	4,312	- 3,768	3,133	-	-	-	
72FT745	-	-	300	-	-	-	
72FT550	-	-	(2)	-	-	-	
Totals	28,215	56,345	36,813	32,092	27,409	30,182	

(1) Includes Dh 10,160,000 (equiv. \$2,000,000) transferred to 72FT550.

(2) \$2 million transferred to this account included in 20FT100 total.

FY 1971 COUNTRY FIELD SUBMISSION
MOROCCO

Checklist of Top Level Decisions Needed for FY 1971

1. Issue A: What should be the strategy and level of U.S. assistance to Morocco as a development emphasis country given its recent performance and other donor prospects?

Mission Recommendation: The major U.S. assistance objectives in Morocco are being realized. The Five-Year Plan 1968-72, as it approaches the end of its second year, is fulfilling its targets, the economy is moving forward, projected increases in domestic savings and other donor assistance are being realized. Such substantial self-help efforts warrant continued support. In order to provide the total resource requirements to maintain this growth momentum, it is essential that the aid budget levels of \$48 million for FY 1971 and \$49.9 million for FY 1972 be realized.

2. Issue B: The need for local currency financing and how we can best utilize available US-owned local currency for development purposes.

Mission Recommendation:

- a. In view of Morocco having been declared an excess currency country for FY 1970 and 1971 and in view of the other factors stated in the Issue discussion, it is recommended that the BOB/U.S. Treasury determination of April 1969 establishing the order of priorities for sales of US-owned dirhams be continued through FY 1971. This would provide that non-PL 480 currencies (account 20FT100) would be sold first and PL 480 loan repayments (account 20FT400) would be earmarked for the Cooley loans, Family Planning and Promotional Nationale as indicated in the Issue discussion and in keeping with the intent of the provisions of Section 104 of PL 480.

- b. It is recommended that consideration be given to the introduction of legislation which would permit the U.S. Treasury to relend local currency repayments arising from SA and DLF loans with repayment in dirhams as provided under Section 104 of PL 480. This recommendation is made in recognition of the continuing need of developing countries for local currency financing and their rising debt service problem.

3. Issue C: What additional technical assistance, if any, should the U.S. consider?

Mission Recommendation: Following a prolonged period of intensive studies and planning, AID technical assistance has only begun to make a meaningful impact on increasing agricultural production, on family planning, and on improving the nation-wide food-for-work program. A series of new activities will be initiated in FY 70. In agriculture these activities are in the fields of research and education institution building, marketing and storage, and development planning. Family Planning will also be expanded including the possibility of assistance to maternity and child care. Technical assistance for Promotion Nationale and the Investment Promotion Center will be stepped up. Therefore, rather than add new fields of technical assistance, we recommend continued support and development through FY 1972 of the present areas of priority emphasis.

Other Special Topics

4. Prospects and Programs for Reducing Unemployment: Providing jobs for the increasing numbers of unskilled, unemployed and underemployed laborers is one of Morocco's most pressing development problems. The GOM estimates that 20% of the working urban population is unemployed. Practically all of the rural labor force is underemployed. The Plan estimates new job creation at 485,000 during the Plan period 1968-72, as against 710,000 new entrants into the labor force. In the next four to five years Morocco cannot obtain sufficient domestic and foreign resources required to provide gainful full-time employment to the new entrants to the labor force and also reduce existing unemployment.

Mission Recommendation:

In light of these circumstances we recommend that the value of Promotion Nationale Food-for-Work as a vital labor-intensive capital formation program be clearly recognized and this program along with the Voluntary Agency Urban Food-for-Work program be

[REDACTED]

supported at their present levels through FY 1972. It is also recommended that the technical assistance component of these programs be strengthened.

For the longer run, hopefully, the family planning program will bring the labor force in line with resources available for investment and new job requirements.

5. The Role of the U.S. in Strengthening the IBRD Consultative Group for Morocco.

Mission Recommendation:

In anticipation of the forthcoming CG meeting in October 1969, we recommend that AID undertake immediately high-level discussions with the Bank to insure inclusion in the CG agenda of the following items:

- a. Encourage the Bank to take the lead in strengthening the CG as a multilateral assistance framework by announcing a major aid commitment to Morocco.
 - b. Discussion and establishment of mutually acceptable self-help monetary and fiscal policies required to implement the Plan.
 - c. Identification of possibilities for multilateral financing of capital projects such as the Sebou River Basin.
 - d. Discussion of the need for financing indirect foreign exchange costs of development projects, as well as the need for balance of payments support through additional program/sector loans.
 - e. Discussion of the desirability for the IBRD/IMF to undertake a study of Morocco's debt-servicing problem.
- [REDACTED]

6. The U.S. Assistance Strategy Should Recognize the Economic Development Importance of the Moroccan-EEC Association Agreement.

Mission Recommendation:

Careful consideration must be given to weighing the effects of the alternative U.S. responses to the Moroccan-EEC association. Vital U.S. interests are at stake in the rapid growth and Western-oriented development of the Moroccan economy. Having depended for so long on preferential treatment from France, Morocco's export and growth potential could not be realized if no substitute were provided for the terminating French preferential status. Association with the EEC will be highly effective in serving Morocco's development efforts both in terms of raising the economy's earning capacity, and in the longer-run through attracting foreign investment, stimulating production and increasing employment.

So long as the Moroccan-EEC association does not involve any significant reverse preferences and entails increasing amounts of technical and economic assistance, there is a net gain for the U.S.--it will permit in time an elimination of Morocco's reliance on heavy inputs of concessional assistance.

Lastly, obstructing Morocco's exports to EEC will in all probability result in forcing Morocco into deeper bilateral clearing arrangements with the Soviet Bloc which will only reinforce significant Soviet Union penetration in the Western Mediterranean.

(C - T A B L E S)

[REDACTED]

FY 1971 Country Field Submission - Morocco

ANNEX I

AGGREGATE ANALYSIS

1. Production and Growth Rate

Three years ago in a period of budget austerity and tight monetary policy implemented to combat inflationary and balance of payments pressure, Morocco suffered a severe drought, which, owing to the predominance of agriculture in total output (about 30%), provoked a general slow-down throughout the economy. Public investment fell short of modest investment targets partly as a result of the austerity program and curtailment of government expenditure, but also because of a frequent shortage of the technical and managerial skill necessary for effective implementation of investment projects. Business confidence was at the nadir, and the private sector appeared to show as much enterprise in getting capital out of the country as in undertaking productive investment.

Since the difficult period of 1966, Morocco has come a very long way. In mid-1967, a vigorous acceleration of government investment activity accompanied by a relaxation of monetary and credit policy began to restimulate productive activity, despite a second year of below average rainfall and another mediocre cereals harvest. By the beginning of 1968, intensified government efforts, supported by large inputs of foreign assistance, (notably PL 480 wheat to cover food shortages) had pushed the economy to complete recovery. Gross National Product rose 8% in real terms, confidence in the private sector was restored, and a firm basis for the growth and development efforts called for under the 1968-1972 five year Plan was established.

With the momentum generated during the 1967 recovery, plus excellent 1968 rainfall and crop conditions, the determination shown by the GOM in carrying out the first tranche of the new Plan has been rewarded with a remarkable degree of success. Gross National Product, in real terms, rose by more than 12% and agricultural output, the basic priority of the Plan, shot up by a staggering 30%, thereby eliminating any need for cereals purchases abroad during at least the next two crop years. While favorable weather conditions must take first credit for the bumper cereals harvest, the impact of Morocco's efforts to increase agricultural production by improving agricultural administration and accelerating project implementation was also important.

[REDACTED]

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Decontrolled following (Date or conclusion of specific event or removal of controls under con- trolled enclosures or attachments.)

The recent growth in output in other sectors has also been satisfactory, as seen in the following constant price break-down of Gross Domestic Production.

GROSS DOMESTIC PRODUCTION 1966-1968

Constant 1960 prices (\$millions)

<u>Sector</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>% increase 68/67</u>
Agriculture	549	607	786	29.5%
Energy	55	55	61	10.9%
Mining	115	115	115	-
Industry & Handicrafts	271	281	290	3.2%
Construction & Public Works	99	115	117	1.7%
Transport & Services	359	373	393	5.4%
Commerce	<u>423</u>	<u>452</u>	<u>494</u>	<u>9.3%</u>
TOTAL	1,871	1,998	2,256	12.8%

With the addition of government salaries to the above totals, and adjustment for factor income, the derived figures for Gross National Product (expressed in 1968 prices) show an increase from \$2,464 million in 1966 to \$2,654 million in 1967 and to \$2,980 million in 1968. With Morocco's population in 1968 estimated at 14.6 million, per capita GNP amounted to \$204, a relatively low figure; but, in view of the 3.2% annual growth in population, the per capita GNP in 1968 reflects a substantial increase over the corresponding \$180 level of 1966.

In 1969, following the exceptional, cereals-led output increases of 1968, a further net growth in total output cannot be expected, but rather a consolidation of the gains already achieved. Preliminary estimates of cereals production, while indicating an above average crop, suggest a probable decline of at least 30% from the bumper harvest of 1968, and a resulting 12% drop in total agricultural production. However, output growth in other sectors, estimated to increase 4% in the aggregate, should succeed in compensating for virtually all of the decline in agriculture, thereby permitting GNP to maintain the same high level realized in 1968. For the following years, GNP should resume the upward growth trend called for in the Plan, expanding in real terms at a rate of 4% to 4.5% in 1970/71, and rising to an estimated 5% by the end of the current plan period.

2. Investment and Domestic Savings

Improved growth performance during the past two years has been closely associated with a rapid acceleration of gross fixed investment. In 1965 and 1966, total investment outlay, public and private combined, amounted on the average to less than \$300 million or only 12% of GNP. In 1967, with an easing of credit and an intensification of government investment efforts preparatory to launching the new five year Plan, total fixed investment expenditure rose to \$375 million, or better than 14% of a substantially higher GNP. Despite some initial scepticism that this investment effort could be maintained, total capital formation increased by another 5% in 1968 to an aggregate level of \$390 million, a level which is in line with the investment effort necessary for realization of the current Plan.

The largest part of the increase in total capital formation is due to accelerated government investment efforts, which in 1967, on the eve of the five year Plan, succeeded in raising government investment expenditure from the 1966 level of \$103 million to a new high of \$190 million. This figure tends to overstate real capital formation in 1967, since part of the expenditure relates to physical work undertaken during the two preceding years; but accelerated disbursement in itself reflects a major improvement, because slow disbursement procedures had been pin-pointed as a serious administrative problem hindering project implementation. In 1968, moreover, with most of the disbursement lag taken up, government investment expenditure, in accordance with the current Plan's targets, rose to \$195 million, representing a 40% increase over the average level of the 1965-1967 Plan, and clearly demonstrating the GOM's commitment and determination to follow through with the ambitious investment program of the 1968-1972 Plan.

Despite the acceleration of investment expenditure and the rapid expansion of money supply during the past two years, it is significant that little pressure has so far been manifested on the general price level. Apart from seasonal variations, the retail price index through mid-1969 has remained remarkably stable, and wholesale prices have actually declined because of increased cereals stocks. The reliability of the price indexes could be questioned, since retail prices for a number of commodities are subject to price control, but it appears much more likely that the increase in aggregate demand has been met by expanded production and by a growth in imports. In 1968, especially, the expansion in rural purchasing power due to the bumper cereals harvest, stimulated manufacturing activity making it possible to take up the slack

increases. At the same time, a vigorous effort to collect back taxes, (made possible by the bumper harvest and increased income) substantially raised revenues in 1968 and generated a modest surplus on the current budget to be used for investment purposes. With the presentation of the 1969 budget, the government unveiled the new fiscal program which introduced a broad range of tax increases on salaried income and corporate profits and also raised a variety of indirect taxes. The additional annual yield is estimated to be as high as \$50 million, and with the expansion in current expenditures held in close rein, it should thus be possible for domestic resources, including non-inflationary internal borrowing as well as tax revenues, to cover between 50% and 55% of investment budgets during the remainder of the current Plan. The outlook now indicates that, if foreign assistance inputs do not fall short of projected levels, adequate domestic and foreign resources should be forthcoming to permit the full attainment of the investment targets of the 1968 - 1972 Plan.

3. Balance of Payments and Foreign Assistance Prospects

During the past two years, despite foreign grants and loans totalling \$108 million in 1967 and \$132 million in 1968, the combined impact of accelerated investment activity, import liberalization measures and exceptional wheat repayments resulted in overall balance of payments deficits of \$21 million and \$29 million. In covering these deficits, Morocco has allowed foreign exchange reserves to decline to a level equivalent to about one month's import requirements and has drawn a total of \$60 million under IMF Stand-by Agreements rather than re-impose import restrictions or take other measures which would result in compromising the Plan's investment targets.

Over the next several years, Morocco's balance of payments situation should improve considerably, although total foreign assistance requirements will remain very high through 1972. Among the major positive factors (see C-4 annex for detailed figures and discussion), one can expect a substantial increase in citrus and phosphate export earnings, with the EEC association helping to push export growth to an annual rate of 5% towards the end of the current Plan period. Tourism earnings, potentially one of Morocco's best foreign exchange sources, should grow at a rate of at least 10% annually. Salary remittances from Moroccans working abroad, along with increasing foreign investment inflow, should provide valuable additional support.

[REDACTED]

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At the same time, however, import requirements will continue to increase. Higher levels of investment outlay, increased production and income will raise total imports by an estimated \$20 million annually, despite an anticipated savings in wheat purchases. In addition, debt servicing will continue to weigh heavily on export earnings, though it should not surpass the exceptionally high level of 1968, when large short-term wheat credits had to be settled. Moreover, the \$60 million in IMF drawings are intended to provide temporary relief, not long-term development financing, and under the terms of the Stand-by Agreements, must be repaid in 1971 and 1972.

Even with the expected improvement in Morocco's export earnings, meeting these requirements will necessitate a gross foreign assistance input estimated at \$680 million for the five year period 1968-1972, or approximately \$135 million annually. Fortunately, prospects for other donor assistance have recently improved. Together with a projected disbursement level of about \$50 million annually under US loans and grants, the required level of gross assistance should be forthcoming.

The IBRD has been actively studying new lending possibilities in Morocco and is expected to make major new commitments for projects such as the Sebou irrigation development, BNDE, CIH hotel construction, electricity and water supply. In terms of new obligations, this will make the IBRD the major donor to Morocco. Furthermore, better Franco-Morocco relations have led to the signing of new project and commodity loan agreements for amounts totalling \$26 million in December, 1968, and \$22 million in June, 1969. Altogether, taking into account the lag between new commitments and actual draw-downs, the total disbursement level for other donor assistance, including West Germany, Kuwait and lesser donors, should provide a balance of payments input rising from \$77 million in 1968 to about \$90 million by 1972, or nearly two-thirds of the estimated five year gross foreign assistance requirement.

If US assistance expenditure can be maintained at a level of \$50 million annually, the total foreign resource input should be adequate, in conjunction with the expected strengthening in Morocco's foreign exchange earning capacity, to cover projected import and debt servicing requirements and permit a necessary improvement in the overall balance. However, even with the projected elimination of the overall deficit during the next two years and the generation of a small surplus in 1971, Morocco will not have sufficient reserves to meet the IMF repurchase obligation and will have to be granted partial deferment of this short-term liability, or obtain additional foreign borrowing beyond the levels projected.

[REDACTED]

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ANNEX II

Agricultural Sector Problems, Performance, and Prospects

A. Sector Background and Development Problems

1. Agriculture Output and Population Growth

The predominant role of agriculture in Morocco's economy can be readily illustrated by a few salient facts:

- . Agriculture accounts for approximately 30% of Morocco's Gross Domestic Production;
- . Agriculture provides nearly 50% of Morocco's total commodity exports;
- . Agriculture serves as the source of livelihood for roughly 70% of the country's population.

Yet, despite the relative importance of agriculture in Morocco, serious concern has arisen in recent years, both Morocco and abroad, as to the country's future capacity to meet its expanding food requirements. Basically, this concern stems from the divergence between the apparent growth rate in agriculture output and that of population expansion.

While the percentage of Morocco's population that is engaged in agriculture has remained roughly constant for many years, the total population has been increasing steadily. Ten years ago, for example, Morocco counted approximately 11 million inhabitants. Since then, population has increased by nearly one third to attain a present level of approximately 14.5 million. Moreover, the rate of increase appears to have accelerated during the past few years. At the present time, Morocco's population growth rate is estimated at 3.2% annually--one of the highest in the world.

In marked contrast to the high rate of population increase, the growth trend in agriculture output has been relatively low. The figure of 1.50% per annum is commonly cited as the average growth rate of Moroccan agriculture. The period on which the figure is based and the annual fluctuations in output such as the bumper harvest of 1968 or the crop failure of 1966 make the 1.5% questionable and somewhat misleading. As shown below, growth in agricultural output for the period 1960 to 1967 averaged about 3 to 3.5% per annum. Yet, over a fairly long period, say from pre-independence days to the present, it is clear that the growth in agriculture output has lagged behind the growth in population.

The consequences of the diverging trends of production and consumption requirements can best be illustrated by the recent deterioration in the trade balance for agricultural food products:

Moroccan Trade in Food Products 1963-1967
(\$ Millions)

	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Exports	186	212	207	208	210
Imports	<u>92</u>	<u>126</u>	<u>114</u>	<u>130</u>	<u>143</u>
Balance	94	86	93	78	67

Much of the deterioration in 1966 and 1967 resulted from the 1966 crop failure and necessity for exceptional wheat imports.

In 1966 the Government of Morocco addressed itself on a crash basis to the problem of increasing cereal production and launched Operation Fertilizer. This program is a comprehensive package of large amounts of

fertilizer and better farm practices on 600,000 hectares which should meet Morocco's domestic cereals requirements by 1972. In the 1967-68 crop year, the second year of Operation Fertilizer, 340,000 hectares were covered and the yields were 50% higher than on non-participating farms under similar soil and rainfall conditions. New high yielding varieties of semi-dwarf wheat were introduced in 1967 to complement the program.

2. Dual Agriculture Economy

Many of the basic difficulties confronting the development of agriculture in Morocco stem from the dual character of the agriculture economy. There are in fact two agriculture sectors in Morocco: the Traditional and the Modern.

Modern agriculture is market-oriented and is the source of most of Morocco's agricultural exports. The modern sector contains most of Morocco's irrigated land. This factor, combined with the use of modern equipment and farming techniques, provides both a high level of productivity and a broad range of outputs. The modern sector produces a great variety of fresh fruits and vegetables, all of Morocco's citrus export crop and virtually all industrial crops (cotton, sugar beets, tobacco), as well as those crops intended for food processing industries.

In contrast, the traditional sector is based essentially on dry-land farming with production limited primarily to cereals and livestock. By definition, farming methods are rudimentary, and the use of animal power and the wooden plow have remained practically unchanged for centuries. Moreover, traditional farming methods have depleted the soil in many areas; inheritance

customs have subdivided land to the point that plots are frequently too small to be economically viable; and under-employment is endemic. Productivity is correspondingly low and the largest part of output is consumed on the farm with very little surplus available for commercialization.

While a dual economy is characteristic of many countries, in Morocco the problem is especially serious owing to the relative importance of the traditional sector. In terms of land use, the traditional sector in Morocco covers approximately 80% of cultivated land and nearly all of the grazing land. In terms of output, although the traditional sector produces little more than cereals and livestock, the former represents about 75% of total crop production and the latter nearly 95% of total livestock output. Together, it has been estimated that the traditional sector is responsible for approximately 85% of total Moroccan agriculture output. While this percentage was based on data now over ten years old and may, therefore, be somewhat over-estimated, it is safe to assume that traditional agriculture today still produces over three quarters of total output.

Since more extensive cultivation of marginal lands in traditional farming areas will yield little additional output, increases in production must come either from more intensive efforts in the modern sector, or from modernization of traditional farming. The fact that the latter accounts for the greatest part of total output does not, of course, mean that increases in total output can be most easily obtained through modernization of traditional agriculture. In fact, in most cases, the converse is true and the highest return per unit of scarce capital resources and skilled manpower can

be obtained from additional effort in the existing modern sector. Nevertheless, there are compelling reasons why development efforts must also be directed to the traditional sector.

Foremost among these reasons, perhaps, is the question of income distribution. Of the 70% of Morocco's population which depends upon agriculture, almost the total are located in the traditional sector. Because of low land productivity in conjunction with high human reproductivity, the majority of these people exist at the subsistence level. Few of them would derive any direct benefit from development efforts carried out in high return investments in the modern sector. The indirect or diffused benefits accruing from such investments would be unlikely to reach them because sharp discontinuities characterize the dual system and obstruct the flow of goods and services between the traditional sector and the monetized economy. If the standard of living in the traditional sector is to be raised, direct action must be undertaken.

Secondly, the principles of balanced growth argue strongly in favor of efforts to raise production and standards of living in the traditional sector. With such a large portion of the population living near or at the subsistence level, little effective demand exists for the products of the rest of the economy. This constraint to development requires assistance from outside the sector to break the self-perpetuating cycle of low income, low savings and investment. In this respect, it is worth noting, for example, that even in years of excellent harvests, traditional farmers prefer to hoard surpluses in the form of non-productive, on-farm stocks rather than comm-

cialize the surpluses thereby permitting an increase in total savings and productive investment.

Thirdly, the birth rate in the traditional farming areas is high enough not only to hinder development in rural areas, but also to necessitate a large and apparently increasing migration to urban areas. Such an influx is already beyond the absorptive capacity of the cities with the result of increasing urban unemployment, overcrowding, deterioration of health and living standards, and growing potential for political unrest. Development efforts in the traditional sector are necessary to counteract the attraction of the cities and to slow the rural exodus.

3. Dependence on Variable and Uncertain Rainfall

There is a general tendency when discussing agricultural productivity and growth factors to relegate the question of rainfall to the "ceteris paribus" shelf while assuming implicitly or explicitly that an average or "normal" rainfall pattern prevails. In the case of Morocco, such assumptions are made at high risk, for not only is the amount and timing of rainfall of vital importance, but its uncertainty and irregularity appears to be one of the sector's most marked characteristics.

Since the annual rainfall pattern in Morocco is unfortunately irregular, the level of output swings markedly from one year to the next. As a result of the drought in 1966, for example, the total value of agriculture in the GDP dropped by 12%. In 1967, with better, but still below normal rainfall, total output rose by 10%, and in 1968, partly as a result of increased inputs, but primarily because of the excellent weather conditions, output is estimated to have risen by 30%.

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When attention is focused on a particular product, annual, weather-induced fluctuations are even more pronounced. Output of wheat, for example, declined 38% in 1966, rose 34% in 1967 and according to current estimates, increased by a staggering 70% in 1968.

Livestock production is similarly dependent on irregular rainfall conditions, and in some respects the problem is more serious since the losses resulting from drought take longer to replenish. In the 1966 drought, not only did estimated weight losses equal average annual production, but slaughtering had to be considerably increased while starvation killed many additional animals.

The impact of the annual fluctuations on cereals and livestock production is not, of course, limited to the agriculture sector. With total agriculture constituting approximately 30% of Gross Domestic Production, the whole economy depends to a high degree on uncertain weather conditions. The relative isolation of the traditional sector tends to dampen the impact of output fluctuations; but the fluctuations and resulting price and income effects are nevertheless intense enough ^{to} cause repercussions on all sections of the economy.

Moreover, the necessity for the Government to continually adapt policy to meet fluctuations in output and income poses a serious impediment in Morocco to the implementation of a monetary and budgetary policy designed to promote growth and development. In years of poor harvests, for example, the increased food import requirements create a very serious burden both for

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the balance of payments and for the budget. In this respect, it is indeed fortunate that an excellent harvest in 1968 has coincided with the falling due of excessively heavy repayments for wheat imports incurred during the previous two crop years.

To a large degree, therefore, the annual fluctuations in output and especially the drought of 1966, with the fear of recurrence, lie behind the determination of Moroccan authorities to control water resources and develop irrigated farming as rapidly as possible.

4. Institutional Weaknesses

In addition to environmental and basic structural problems in the agricultural economy, there are also a number of institutional weaknesses and shortcomings which hinder the development of Moroccan agriculture. Chief among these should be mentioned the problems of land tenure and land reform; the organization and administration of the Ministry of Agriculture; and the shortage of agricultural technicians and skilled manpower for the implementation of agriculture programs.

Land tenure in Morocco is rather complex with a variety of problems affecting several different types of holdings. In the traditional sector there are two major systems of land tenure; (1) the collective or communal lands comprising some 5.3 million hectares of pasture and about one million hectares of cultivated land; and (2) the melk lands or privately owned lands. of the latter, while approximately 3 million hectares are made up of farms

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averaging 10 hectares or more, the remaining 4.5 million hectares are composed of average holdings amount-economically viable. Of more than one million households having farm units in this category, over two thirds have less than two hectares of cultivated land and this frequently is made up of scattered parcels. Except where means can be worked out to permit working such land in larger units, the introduction of modern inputs will have limited results. The best opportunities for increasing output in the traditional sector lie in areas with farm holdings of ten hectares or more.

In the modern sector, a completely different type of problem exists. In the case of the so-called "recuperated land" the question is one of eventual redistribution. Such land comprises about 250,000 hectares which under the Protectorate, the French Government acquired and sold to colonists. With independence, the recovery or expropriation of this land became a basic tenet of GOM farm policy. Inevitably, the recuperation process adversely affected production. Recuperation, however, is now virtually complete and the land is being worked with increasing efficiency by provincial agencies. Yet, so far little redistribution has taken place; and the Government operation continues to tie up a large portion of the GOM's scarce technical and management resources. As of July 1969, 34,000 hectares had been distributed to small farmers.

The remaining foreign-owned land, now estimated at some 350,000 hectares, is considered to have been legally purchased; but uncertainty still exists in respect to the Government's policy for this land. The

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present owners, not knowing either the schedule or recovery of the terms, are obviously reluctant to make further capital improvements.

The GOM has completed an Agricultural Charter which is intended to address problems of land tenure and the recuperated lands. See Annex II which discusses the new Agriculture Investment Code.

B. Recent Growth Rate in Agriculture 1960-68

Past performance, since it furnishes concrete evidence of strengths and weaknesses, is essential in assessing growth capacity and future prospects. In appraising past performance, however, it is important to focus on efforts and results which are recent enough to be of relevance; but at the same time, with agriculture output as unstable as it is in Morocco, care must be exercised so that the assessment of recent performance is not unduly influenced by the latest bumper harvest or drought.

In discussing recent growth trends in Moroccan agriculture, the figure of 1.5% is commonly cited to represent the average annual increase in total production. It is a low figure which reflects unfavorably on current Moroccan efforts to increase production and immediately casts some doubt on the growth potential of the agriculture sector. In no case, however, is the actual period on which the figure is based clearly indicated. The **October 1968 IBRD** report, for example, simply states that "growth in agriculture output has been slow, at a rate of 1.5% in recent years". The report does not specify what is meant by "recent years", but the identical figure and supporting discussion were presented in an earlier IBRD study when 1966, a drought year, provided the latest data and basis for much of the analysis.

The relevance to current development efforts of the 1.5% growth rate may be seriously challenged. It is clear to begin with that it does not include or reflect progress achieved in 1967 or in 1968. If the 10% increase of 1967 or the 30% increase in 1968 were taken into account, the growth rate would obviously be higher.

More importantly, detailed examination of output data shows that the 1.5% rate was originally derived from a comparison between agriculture output during the period 1962-1965 and the much earlier pre-independence period of 1951-1954. This early period, however, is not very relevant to the current situation and in fact gives an incorrect impression of the recent growth trend. Shortly after the 1951-1954 base period, the prospect of independence and then for several years following 1956, the ensuing dislocations, with departure of Europeans and loss of assured markets, inevitably exerted a negative influence on agriculture production. The level of output, in fact, showed virtually no improvement for a half dozen years following the 1951-1954 base period, and accordingly, a low overall growth rate results even with the growth period extended to the mid-sixties.

The causes of stagnation during the independence period are largely non-recurrent and are not particularly relevant to the current situation. The 1.5% growth rate does not, therefore, realistically portray recent growth performance, and a quite different picture emerges if output is examined during the more representative period of the sixties.

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Agriculture Output, 1960-1968

(In constant 1960 prices)	<u>\$ Millions</u>	<u>Index, 1960 Base</u>
1960	524	100
1961	447	85
1962	567	108
1963	605	115
1964	591	113
1965	622	119
1966	549	105
1967	607	116
1968	786	150

With over 3/4 of total agriculture output produced in dry-land areas, the irregular rainfall pattern in Morocco results in sharp fluctuations in year-to-year output. Such fluctuations make it somewhat difficult to discern the growth trend; but simple inspection of the above series clearly shows an increasing level of production. Comparison of output in two drought years, 1961 and 1966, for example, shows a markedly higher level of output in the latter, as can also be observed by comparing two of the best years, 1965 and 1968. Similarly, output in 1967, a year of below average rainfall, was still higher than any previous year, apart from the good crop of 1965.

In calculating the actual growth rate for these years, some reduction in the annual fluctuations can be made by taking the average output for several years, although the averaging process also tends to minimize the

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effect of more recent increases due to productive efforts and improved efficiency. Using as base the average output of the three years 1960-1962, which includes one drought year, the growth rate through the period 1964-1966, which also includes a drought year, works out to 3.5% per annum. If the growth period is extended to 1965-1967, the average growth rate still amounts to 3.0%; and if the period is extended to 1966-1968, the average growth rate for the whole period 1960-68 rises to 4.0% per annum.

While the latter calculation is influenced by the exceptional harvest of 1968, one may still conclude that since 1960, total agriculture output has been increasing at an annual rate of 3 to 3.5% per annum despite the setback and general pessimism regarding Morocco's agriculture that resulted from the serious drought of 1966 and relatively poor conditions of 1967. The average growth since 1960 has lagged somewhat behind the annual increase in population and food requirements, and does pose serious problems in drought years; but recent progress has, in reality, been much superior to what is erroneously suggested by the 1.5% "recent" growth rate.

D. Assessment of Future Growth Prospects

Despite the high priority that the current Plan attaches to agricultural development and despite the high proportion of total investment resources that are being directed to this sector, the overall growth rate for agriculture output during the five-year period is estimated by the Plan at a modest 2% per annum. This low growth rate has given rise to some concern,

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particularly when it is juxtaposed with Morocco's current rate of population increase estimated at 3.2% per annum. Concern over this issue has no doubt been further heightened by the IBRD appraisal report (October 15, 1968) which after reviewing past performance in agriculture, concluded that Morocco will have difficulty even achieving the modest growth of 2% per annum. Given the large effort that is being devoted to agricultural development in Morocco, questions naturally arise as to why the projected growth rate is so low; whether or not it reflects a poor allocation of resources and to what extent an improvement in the growth rate can be obtained.

1. Output Fluctuations Overshadow Productive Increases

As discussed in a preceding section, one of the most marked characteristics of Morocco's agriculture is its high dependence on variable rainfall. With over 3/4 of total output produced in dry-land areas (notably cereals and livestock), total output varies from one year to the next by up to 30%, as it did in 1968. In consequence, past growth trends, even when based on several year averages, will vary appreciably according to what years constitute the basis of comparison.

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The same problem of wide fluctuations besets any projections concerning agriculture growth. Agriculture projections generally assume average, "normal" rainfall conditions, and as a result of irregular rainfall, growth projections for agriculture are subject to a very large margin of error. It is interesting to observe that if the exceptional harvest of 1968 repeats itself in 1972, the final result of the current five-year plan, even without the benefit of any additional investment effort, would nevertheless show an average annual growth over the period of 5.2%.

If better than average rainfall prevails, actual growth in output will double or triple the five-year projections made on the basis of "normal" conditions; and conversely, no matter how effective new development efforts may be, poor rainfall conditions will make output growth appear negligible. As long as Morocco's agriculture is based primarily on dry-land farming, it will, therefore, be purely coincidental if output at some future date corresponds **closely** with a given projected rate of growth.

This does not mean, of course, that efforts to increase production and investment efficiency are unimportant. But at the same time, it should be borne in mind that projections relating these factors to output carry the assumption of other things remaining equal--which they are most unlikely to do in the case of Morocco's **weather** conditions. Therefore, any particular growth rate projection, and whether it amounts to 2%, 4% or more per annum, is of interest primarily because of the input-output relation which it represents, but cannot warrant a great deal of importance as a forecast of future output.

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2. Analysis of 1968 IBRD Appraisal Report

The IBRD report referred to above focusses on existing shortcomings and constraints to growth in agriculture. The major constraints highlighted are the same that have been discussed in previous reports; to wit: (i) shortage of modern agriculture inputs and lack of incentive to use them; (ii) disincentives caused by prevailing land tenure arrangements; (iii) inefficiency of the administrative organization of government services and lack of experienced personnel; and (iv) the allocation of resources particularly governmental, as between irrigation projects and rain-fed farming. Taken together, the impact of these constraints means that growth of output in the agriculture sector will be low during the next five years, and in the opinion of the IBRD report, growth may be even lower than that projected by the Plan.

After examining the Plan's investment targets and output projections for various categories of agricultural products, the ^{IBRD} report suggests alternative, lower output increases, which in the aggregate, yield an overall growth rate of only 1.7% per annum. This moreover, represents growth in the gross value of production, and if adjustments were made to account for increased levels of inputs, the growth rate in the IBRD projection would not amount to more than 1.5% per annum--the same as the rate suggested by the IBRD for recent growth.

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In arriving at this lower growth rate projection, the IBRD report has not really attempted to relate the various constraints it mentions to the production functions assumed in the Plan. In fact, at one point, the report suggests that the Plan's input projections appear consistent with the estimates of increased output. What the IBRD report in effect has done is simply to take the Plan estimates and systematically scale them down "to levels more in line with expectations based on past performance".

This approach appears inadequate for two reasons: first, the IBRD assessment of past performance does not reflect the very substantial improvements both in administration and output that have taken place during the past two years (1967 and 1968). Second, the scaling down of the Plan's projections amounts to a double discounting of the effect of presumed shortcomings since the Plan itself has already consistently underestimated the output increases that should result from projected efforts.

In regard to the first point, much of the supporting analysis in the latest IBRD report, and particularly the summarization of the problems hampering development appear to be essentially based on the conclusions of the previous IBRD annual report, which was no doubt influenced to some degree by the drought of 1966 and the poor prospects seen during the first part of 1967. In both of the last two annual reports, the starting point and cornerstone for the assessment of recent performance is the notion that recent output growth has amounted to only 1.5% per annum. This figure, however, as has been explained, does not take fully into account output increases for the

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period 1960-1967 and is heavily influenced by the poor performance registered in the early years of Morocco's independence. To the extent that recent growth reflects the potential for future progress, the growth performance since 1960 is more relevant and appropriate, and this has been averaging 3 to 3.5% per annum, even without including the impact of the bumper harvest of 1968.

The latest report, while dated October 15 1968, was clearly not written in the full light of the appreciable progress made in terms both of efforts and results since mid-1967. This shortcoming is understandable, for most of the report's substantive research and analysis was carried out in February-March of 1968 when the new Plan was being finalized, but when data for 1967 was in many cases provisional, and when obviously, there was very little basis for evaluating efforts or results for 1968. In consequence, the report does not give due recognition to the recent improvements that have taken place. This is true not only for the remarkable output increases, but also for the substantial efforts that accompanied them, both the greatly accelerated rate of project implementation in 1967 and 1968, and the higher levels of investments outlay, as well as progress recorded in improving administrative efficiency, and carrying out various self-help recommendations. In sum, greater attention to more recent performance would no doubt have permitted the IBRD to make a much more positive assessment of both current efforts and of future prospects. As it is, the reductions of 25% to 50% in the Plans output estimates which the IBRD report arbitrarily makes on the grounds of past performance do not appear warranted by the facts.

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3. The Plan Underestimates Output Increases

Much of the groundwork for the Five-Year Plan was, like the IBRD report, carried out during a period when Morocco's agriculture prospects were still clouded by the aftereffects of the drought of 1966 and by the inauspicious start of 1967. This environment, plus the fact that output targets were not fulfilled during the previous, 1965-1967, plan, have influenced the planning authorities when making projections for the current plan, to be overly cautious in estimating the potential output increases. That the projections carry a considerable bias was in fact confirmed in discussions with the planners responsible for the agriculture sector who suggested that they preferred to underestimate and have the projections surpassed, rather than run the risk of again being embarrassed by a large shortfall.

This conservative bias is not apparent in the final version of the Plan in which much of the underlying detail was cut out. It is, however, quite evident from inspection of the working documents upon which the overall 2% per annum growth projection is based. A few details from these working documents will illustrate the planners' conservatism.

In the case of major irrigation, for example, the amount of additional land to be brought under irrigation during the five-year period had been estimated at 127,000 hectares. However, as a first step, this figure was reduced by 25% to allow for a lag in bringing the land under cultivation. Next, in estimating the benefit from new production, the planners based their calculation on a hypothetical land utilization devoted primarily to relatively low value crops such as cereals and sugar

beets while excluding high value crops such as exportable fruits and vegetables which will certainly be produced in many areas. On the other hand, however, in contrast to benefits, cost estimates were calculated with a high contingency factor and also included substantial allowance for alternative, non-irrigated use of the land. Accordingly, the final coefficient for value-added amounts to a very modest \$150 per hectare. In comparison to other studies, this figure appears highly pessimistic. For example, Stanford Research Institute reports estimated, with equally high contingency factors, that the value-added would be about \$200 per hectare or 33-1/3% higher, in the Lower Moulouya Irrigation Perimeter. Moreover, as a last step to safeguard against any possible shortfall, the planners have additionally and somewhat gratuitously reduced their estimated increase by another 50%. The resulting figure of only \$7 million in value added from major irrigation perimeters is almost certain to be surpassed. The actual increase should, in fact, amount to two to three times this estimate.

This conservative approach is not limited to projections for major irrigation perimeters, but also characterizes the estimates made for production in dry-land areas. The planners have consistently rounded downwards either by assuming modest increases in the areas to be cultivated, or lower yields than might be expected, or else relatively low crop values. The net effect is that the total value of increased output represents a very low estimate with an unduly high contingency factor. The Plan's overall growth rate estimate of 2% per annum for agriculture production represents in fact a minimum which, even if the development projects as outlined in the Plan fell substantially short of investment targets, would still stand an excellent chance of being surpassed.

4. Recent Intensification of Efforts Will Provide Additional Growth

Aside from the fact that recent performance in terms both of greater output increases and demonstrated capacity to implement projects warrant greater optimism, there are moreover several recent developments affecting the input side of the Plan's equations which should provide an additional stimulus and increase in output.

a. Acceleration of Cereals Program

The situation in respect to dry-land cereals production is most illustrative. The major program in this area (Operation Engrais) is now entering its third season involving the use of more fertilizers, selected seed and improved farming techniques. In the Plan estimates, the fertilizer program alone is expected to provide an average yield increase of five quintals/hectare and with the additional effect of land consolidation and mechanization, the total output increase is estimated at about 300,000 tons by 1972.

This projection now, however, appears grossly underestimated owing to the increased emphasis that has been directed to dry-land cereals production subsequent to the establishment of the Plan estimates. Most significantly, there has been a wholesale increase in the planned level of one essential input: improved Mexican wheat varieties.

Through USAID and the Mexican Corn and Wheat Improvement Center (CIMMYT) assistance, Morocco planted in 1968 5,000 hectares of the Mexican varieties for a large-scale seed multiplication, rather than the much smaller quantity originally planned. This accelerated effort will provide more than a full year's advance over the previous wheat program schedule. In quantitative terms, it is now estimated that by 1972, when

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the total Operation Engrais program will cover 500,000 hectares, it will be possible to supply the improved Mexican variety for 300,000 hectares. With the additional yield increases afforded by the Mexican variety, the total output increase by 1972 is projected by the USAID Agriculture Division to amount to 600,000 tons or an increase of about 12 quintals per hectare, that is, double the estimate contained in the Five-Year Plan. This level of increase should be reached without difficulty. At the present time, modern wheat farms in Morocco are producing an average 14 quintals per hectare in rain-fed areas. On test plots in Morocco with the Mexican variety, yields have averaged over 35 quintals in rain-fed areas and have reached as high as 85 quintals under irrigation. Harvests from the 1968/69 crop show on-farm yields ranging from 25-35 quintals in spite of adverse weather conditions. Comparisons with local varieties show yields two to three times higher for the semi-dwarf varieties.

In conformance with IBRD recommendations, a greater emphasis has thus in fact been directed to increasing cereals production. As the total program now stands, USAID feels that it represents the optimum rate of progress that can reasonably be attempted. Major constraints to a further acceleration lie in the shortages of qualified personnel to supervise implementation and also in the rate of farmer acceptance of new techniques.

b. Improving Livestock Production

Aside from cereals, livestock production is the other most important agricultural activity in Morocco. The Plan efforts in this

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area are directed primarily to increasing forage production and to rangeland improvement, although veterinary services and other supporting services are also being given attention. Here as in cereals, however, the IBRD recommended that a greater effort be made. After reviewing the Plan, the IBRD report pin-pointed in particular a likely shortfall in the rangeland improvement program, concluding that on the basis of projected efforts, probably no more than 150,000 hectares would be effectively improved. In this regard, it may be noted that subsequent to the Plan and to the IBRD evaluation there has in fact been a significant intensification of the rangeland improvement program in which USAID is providing assistance. As it is now designed, this program will be expanded during the next several years to cover over 320,000 hectares, or more than double the area mentioned by the IBRD.

c. Impact of Private Investment

Of even greater significance in livestock production is the probable impact of new private investment. Neither the Plan itself, nor the IBRD report in its evaluation of the Plan, appear to have attached any importance to private investment in the agriculture sector. There is, however, an increasing interest in Moroccan agriculture on the part of foreign investors.

The most significant example is King Ranch of Texas which has recently signed a contract for a beef cattle project that represents the first large-scale commercial beef enterprise in Morocco.

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Under this project King Ranch will develop 120,000 acres to be stocked with 30,000 head of beef cattle and, in addition, will acquire other land for the production of improved feeds and forages. The multiplier effect of this operation could extend far beyond the King Ranch project, which in itself will be of considerable importance. Another firm, Garvey Grains (World Homes), has recently started a large-scale cereals and forage seed production operation (12,000 acres). The Pacific Vegetable Oil Company has started a joint enterprise with Moroccan safflower producers to develop a large-scale plantation. Brown's LedBrest and MAB Associates have formed a poultry production enterprise which will produce 5,000 broilers per day.

Private enterprise, moreover, promises during the next few years to provide an important stimulus to agriculture production in other areas. Early California Foods, Inc., is currently undertaking the second phase of an AID-financed investment survey and has demonstrated a keen interest in going into olive production in Morocco and possibly also production and export of various fresh fruits and vegetables. A number of other firms, including the Heinz Corporation and Duda & Sons, Inc., have also sent representatives to Morocco and are currently exploring investment possibilities.

The increasing interest on the part of private investors, as well as the technical and managerial experience that will be brought in, should have a very significant impact on agriculture output during the next several years, and should provide a highly productive complement to the development efforts as outlined in the Five-Year Plan.

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5. Upward Revision of the Plan's Growth Rate to 3%

Taking into account the combined effects of: the performance improvement registered during the past two years, Morocco's demonstrated capacity to implement a greater level of investment projects, the Plan's tendency to underestimate outputs, and the additions to inputs that have been made subsequent to the formulation of the Plan, it is possible to be considerably more sanguine about the prospects for the growth rate in agriculture output over the next five years. An upward revision of the Plan's growth estimates can be justified in several major areas.

In the case of cereals, as a result of intensified efforts, particularly in respect to the introduction of improved Mexican wheat varieties, the output increase during the five-year period can be estimated at 600,000 tons, or twice the Plan's figure. In comparison to the average production level prior to the start of the current Plan, this five-year increase corresponds to an average growth in cereals production of better than 4% per annum. With cereals constituting roughly 30% of total agriculture output, this increase alone should be sufficient to raise the average growth for total production by nearly 0.7% per annum. Taking into account the costs necessitated by this expanded cereals effort, the increase value-added by 1972 should amount to \$15 million above the Plan's original value-added estimate.

In regard to output increases expected from major irrigation perimeters, there appears to be little justification for the Plan's conservative reduction of 50% in its own value-added estimate after already

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having shown considerable prudence in evaluating costs and benefits. When account is also taken of the additional stimulus that may be obtained from the large-scale management contract now planned to activate development in the Lower Moulouya, it appears quite reasonable to anticipate at least an additional \$7 million increase in value-added for major irrigated perimeters over and above the conservative estimate made by the Plan.

If the additional \$15 million estimate for cereals and \$7 million for major irrigation are added to the Plan's total value-added estimate, the average growth rate for total agriculture output work out to nearly 3% per annum. This, moreover, does not account for a probable improvement in other activities, such as livestock production. For the latter, the Plan shows a total value-added increase of only \$29 million by 1972. Yet, on the basis of efforts that are now being undertaken to improve livestock production and with the complementary effect of new private investment, there now appears to be a very good chance that the Plan's estimate for value-added in livestock production will not only be attained, but may well be surpassed.

Altogether, therefore, it is not unreasonable, without any further adjustment, to project that the average growth in agriculture production during the five-year period 1968-72 will amount to at least 3% per annum, rather than the conservative, "minimum" estimate of only 2% as suggested in the Plan. The growth average of 3%, of course, also supposes "normal" weather conditions, and does not include the

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effect of the 1968 bumper harvest. If better than average weather conditions prevail towards the end of the Plan period, the actual growth rate for the five years can easily work out to twice the projected 3% rate.

6. Impact on Growth Rate of Irrigation Development After 1972

While a growth rate of 3% per annum in total agriculture production for the period 1968-72 is not at all unsatisfactory, the major contribution to total output from new irrigation perimeters will be realized after the Five-Year Plan. There is a long lag between investment and pay-off in major irrigation projects. Obviously, if output growth is being considered during the Five-Year Plan, that is, only through 1972, one can expect relatively little impact from the longer term investments currently being undertaken. The fact that such investments contribute little to short-term growth, however, clearly does not mean that their impact on growth will, in general, be small. On the contrary, Morocco's policy of irrigation development promises over the longer run to have a very significant impact on agriculture output. The Plan projects an increase of about 400,000 hectares of irrigated land from construction projects now under way and a possible grand total of one million hectares.

Nevertheless, there may still be concern that Morocco's commitment of resources to long-term projects can conflict with the development objective of maximizing short-term growth. For this concern to be justified and to have operational significance, however,

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there must actually exist better alternatives to which development resources can be effectively re-allocated, and, of course, it is the marginal, rather than the average return, that is in question. In this regard, it now appears that better alternatives no longer do in fact exist since the current plan has already appreciably stepped up the alternative development programs in dry-land agriculture, and, moreover, the latter have, as explained, been even further intensified subsequent to the formulation of the Plan. The development program now being undertaken appears, therefore, to be fairly well balanced between irrigation and dry-land programs. The IBRD, it may be added, despite the misgivings expressed over the allocation of resources to irrigation, now appears to have come over to the position that adequate attention is being directed to viable alternative programs, and is currently appraising new irrigation projects in the Sebou with the objective of providing large-scale assistance for their realization.

Morocco's irrigation projects, therefore, can now be regarded more as a complement, rather than a substitute for dry-land development, and in the following years, will increase very substantially. In the five-year period following the current 1968-1972 Plan, a large portion of the major irrigation schemes now underway will reach fruition and the rate of completion of new irrigated hectareage can be expected to be three to four times the current rate. If at the same time, continued progress is made in dry-land areas, the growth rate in total agriculture output during the subsequent five-year period can be projected to accelerate to better than 4% per annum.

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ANNEX III

MOROCCO'S NEW AGRICULTURAL INVESTMENT CODE

In 1969, the Moroccan Government completed a Code for Agricultural Investment. This document has been under preparation for some time--indeed some elements for several years--under the name of the Agricultural Charter. This latter name is perhaps more appropriate. The Code was drawn up by technicians of the Ministry of Agriculture in cooperation with the services of the other ministries concerned.

Although the text of the Code is in essentially final form, and has been circulated as a draft within the Government, it has not been promulgated officially. However, its provisions are known publicly, and have been commented on in the press.

In form, the Code comprises a series of Dahirs, or Royal Decrees, to be signed by the King; and Arretes Ministeriels (executive orders) to be signed by the Minister - or Ministers - who will be responsible for execution. These documents are preceded by a discussion stating the reasons behind the proposed legislation.

At present, the greater part of the Dahirs concern the irrigated areas; similar legislation is in preparation for the rain-fed areas of the country and is expected to be published by mid-summer 1969.

The impact of these new laws should be far reaching, depending on the vigor with which they can be put into effect. In essence, there is a codification and rationalization which gives the Administration new tools to influence agricultural development.

In substance and approach the Code is a compact between the Government and the land owners and farmers. The Government undertakes to provide the irrigation facilities - external; the dams and main, secondary and tertiary canals and drains - as well as internal; land preparation, ripping, levelling, field ditches and drains - and also the operations of remembrement and registry of title. The beneficiaries have certain responsibilities which are the substance of the Code. The

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aim of the compact is to increase the national well being by assuring an annual gross production of at least 2,000 DH/ha (\$160/acre) on irrigable land as a joint result of the investment in construction by the Government and the farming operations of the land owners as guided by the Code.

1. Land Tenure

The new Code respects and insists upon the rights of private ownership of land. However, in the interests of obtaining optimum benefits to the Nation, adequate return on Government investment and the avoidance of social problems, the free exercise of individual rights is circumscribed by a certain number of limitations:

- All transactions in agricultural land will be subject to Government approval;
- No sales or transactions will be permitted that will reduce the size of parcels below 5 ha, considered as the minimum desirable size for a family-operated plot. In the event of the death of the owner, inheritance must not subdivide below 5 ha; where there are several heirs, one must be designated to receive the property with an obligation to indemnify, in cash, the others (with the possibility of Government financing);
- Land becoming available for distribution by the Government will be used first to increase the area of smaller plots to the desired 5 ha size. The land to be so distributed might come from three sources: foreign-owned land that might be taken up by the State; land expropriated for non-respect of the regulations mentioned herein; or large estates broken up to permit the payment of the land owner's portion of development costs. In practice, any such attempt to increase the area of small plots will be difficult, unless the new land to be added happens to be contiguous to the small plot to be augmented;
- Various prescriptions are made to encourage owner operation of farms, although it would be possible to hire a manager or to lease land to others. Many of the traditional methods of operation, share cropping for example, are

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discouraged, and all contracts must be in written form and approved by the Administration. The association of farmers into cooperatives is encouraged;

- Cropping patterns and cultural practices can be imposed, as described in paragraph 3, below;
- And, finally, non-observance of the new Code can subject the land owner to a progressive series of warnings, fines, and eventually expropriation with an immediate cash payment of the fair market value of his land.

2. Land and Water Rights

In general, the Government retains the power to dispose of the hydraulic resources of the nation, whether surface or underground. The Code reaffirms the intention of the Government to purchase, expropriate, or nationalize any existing rights.

The acquisition of needed rights of way, or easements for construction, is not a problem. For major features - the dams and their reservoirs, and main canals and drains, the necessary areas are generally expropriated under rights of eminent domain. In case of urgency, temporary occupation can be authorized while the formal procedures of determining indemnization and transfer of title are accomplished.

Water rights, and the allocation of the available water, are other questions, constituting a problem not yet fully faced up to by the Administration.

3. Cropping Patterns

The Code provides that local technical commissions will be formed for each region, grouping representatives of the local farming population, the civil authorities, and government agricultural technicians. This commission will be empowered to prescribe not only the cropping pattern, but also the cultural practices for the greater part of the area of each parcel. Each farmer will retain free use of part of his land, but for the remainder he can be told what to plant and when, and how to care for his crop including irrigation and leaching methods, pesticide treatment, etc.

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The land owner who fails to follow the recommendations of the Local Technic Commission can find himself the object of a graduated series of penalties, from warnings to fines and culminating in expropriation.

It is obvious that the success of the measures described above depends on the capacities of the Commissions, and the vigor with which the recommendations are followed up.

4. Payments for Water and Other Services

The present price of water to users in irrigated areas is now nominal, having been fixed in 1962 at \$10.20 per acre-foot for the entire country.

The Code would raise this price to 0.029 DH/m³ (\$16.40/acre-foot), the 60% increase being justified as reflecting cost increases in the elements composing the price since 1962.

The price of water, even with the proposed increase, represents only a fraction of the true cost, no matter how this may be calculated, and no matter what elements may be dropped from the cost side of the ledger.

In addition to the price of water, another direct participation may be demanded of land owners to reimburse the Government for a portion at least of the investments made in irrigation.

On a national basis, the weighted average cost of irrigation development is considered to be 8,500 DH/ha (\$690/acre), after deduction is made of that part of the costs that should be borne by electric power generation.

Approximately 60% of this cost is to be borne by the Government, to be financed from general revenues.

The remaining 40%, 3,500 DH/ha (\$275/acre), is to be financed by the farmers, part as payments for water as above, the remainder, or 1,500 DH/ha (\$120/acre) can be demanded of the landowners in cash. Payment of this sum is conditioned by several considerations:

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- Where the equipment is not complete, notably where the operations of internal equipment are not carried out, or are paid for by the land owner under other forms, (e.g. the existing contracts for ripping and levelling on private land), this lump sum is reduced proportionately;
- Payment may be suspended indefinitely for small properties. This is one of the new elements in the Code that could be considered as contributing to an agrarian reform in the sense that the small land owner is favored. The mechanics are simple, the suspension is made: for all the areas of properties of less than 5 ha; for the first 5 ha of properties between 5 and 20 ha; whereas payment is required for the entire area of properties of greater than 20 ha;
- The payments can be financed over 20 years with a three-year grace period for the payments of principal and at an interest rate of 4%. This corresponds to an annual payment of 123.30 DH/ha (\$10.00/acre).

Where this payment is suspended, it is to be inscribed as a lien against the title in the land registry books. This sum may become due in case of infraction of certain of the provisions of the Code, and can be called in as an immediate full payment in cash.

In case of the building up of larger parcels by the transfer of title, the increase in area may change the status of the parcel in respect to these payments.

The Government, through its various agencies, will continue to offer certain services to farmers (custom plowing, insecticide treatment, etc). These transactions are essentially commercial in nature and will not be discussed further herein.

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ANNEX IV

USAID/MOROCCO PROGRAM EVALUATION PLAN FOR CY 1970

The Program Evaluation Plan for CY 1970 will offer continual appraisal of the program, particularly as instituted last fiscal year, with a view to improve the content of United States assistance to the Government of Morocco. USAID's efforts and resources will be directed toward improving the effectiveness and efficiency of all major program activities.

The attached chart identifies for each non-capital project the proposed schedule for the submission of Project Proposals and Project Appraisal Reports, and reflects the attention given to evaluations. This chart also indicates the proposed plans for re-submissions as are necessary and essential.

The 19 projects identified on the attached chart fall into the specific areas of:

Agriculture
Industry and Tourism
Food for Peace
Family Planning (Manpower Resources)

The overall evaluation plan for USAID's program is identified below:

Agriculture Program

During the period July 1968 - June 1969, PARs were completed for the following projects in the agriculture sector:

Poultry Development	608-11-130-054
Cereals Production	608-11-130-058

Funding for the poultry project was phased out in FY 1968. However, in view of an expanded poultry distribution program from the three major centers, the technical advisor, now assigned to USAID Tunis, will make

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periodic visits to Morocco. He will review the operations of the program and offer appropriate guidance and technical assistance.

Continuing evaluations by the project managers of the cereals and livestock breed improvement projects will be made during the life of these projects. With the completion of one crop cycle in the rangeland areas, a PAR evaluation has been prepared for the Livestock and Rangeland Improvement Project (608-11-130-078).

It is anticipated that an evaluation will also be made on the regional Mediterranean fruit fly project in May 1970. This is predicated on commencing the project no later than October 1969. It is anticipated that evaluations will be made on two AID-supported contracts, Bou Areg Management and Development Planning Assistance, in June 1970. These contracts are currently under negotiation and are expected to be signed in the fall of 1969. Due to the fact that each project will have both a study and an execution phase, an evaluation will be required at the completion of the first phase.

Continuing Evaluation of the Cereals Program - In addition to the PAR submitted in March 1969 and the one proposed for March 1970, a special yield evaluation of newly multiplied semi-dwarf wheat varieties is being conducted (May - July 1969). This involves the collection of wheat samples from demonstration trials and the fields of participating farmers in all wheat-producing areas of Morocco. This evaluation is similar to one conducted in 1968 involving fertilized and non-fertilized fields. It is more complete in that the evaluation is considering improved variety trials, method of land preparation, fertilizer application, and geographical location of demonstrations. The evaluation is being conducted jointly by USAID cereals project personnel and the Economics Direction of the Ministry of Agriculture. This represents the third evaluation of the national wheat production program. The importance of annual evaluations of this nature is now recognized by the Minister and will be continued as a regular Ministry policy.

Two evaluations were made during the wheat-growing season in the spring of 1969 by an entomologist under the CIMMYT regional contract. This type of evaluation is important to future planning and the selection of disease-resistant varieties to be used in the wheat research program. It is expected that periodic entomological surveys will be made during the 1969-70 wheat production season.

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Livestock Breed Improvement - In addition to the PAR evaluation already completed, there will be an additional evaluation of animal health factors affecting the artificial insemination program in the Casablanca area. A census will be taken in July and August 1969 to determine the relationship between diseases and births among animals inseminated under the USAID project. Following this census, it is anticipated that there will be a need for TDY consultation by a veterinarian experienced in livestock diseases in developing areas. Depending upon other demands on present Mission staff, there may also be a need for an agricultural economist to assist in the review of this project.

Livestock and Rangeland Improvement - The technical and social problems involved in successful range management suggest a particular need for periodic outside evaluation. A new U.S. advisor is expected to be assigned to this project in the next few months; and the GOM has recently created an inter-ministerial committee to coordinate work under the project. After the new advisor and the committee have become familiar with the project, the Mission believes it may be useful to request TDY consultation by a specialist experienced in range management in other Mediterranean areas to evaluate the economic aspects of the project, especially marketing of animals, and longer range cost/benefit analysis of the project.

Industry and Tourism Program

Aside from the sector support project, the Mission has only one technical assistance project in this field. That project concerns assistance to the Moroccan Investment Promotion Center, established with AID support in 1967.

The technical management assistance project to Maroc-Tourist, as originally planned for FY 69 and FY 70, has been cancelled due to changes in the plans of the GOM (e.g., other donor assistance was provided). The Mission believes that, at least for the time being, assistance to the Tourism Development area should be limited to programs assisting U.S. private enterprise investments in the hotel/motel industry in Morocco.

The purpose of the establishment of the Investment Promotion Center is to help stimulate the economy of Morocco by increasing foreign private investments. USAID effort and resources are being applied towards a reorganization of the IPC. An immediate objective is

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the streamlining of the present administrative procedures and promotional activities. These actions will improve the investment climate and thereby increase foreign and local interest in investment in the industry of Morocco.

Morocco offers many significant investment possibilities to the foreign investor, and an effective Center could do much to attract investors and assist them in their studies. The evaluation report scheduled to be prepared by February 1970 will be a useful tool in determining what action can best be taken. USAID will request assistance in FY 70 in considering further action as may be required.

Food for Peace Program

Promotion Nationale - Through a contract with IVS, USAID has assigned technical specialists to work at the provincial level with two key GOM departments (Waters & Forests and Agricultural Development) that are responsible for designing and implementing PN projects. These specialists have had the dual responsibility of providing PN with day-by-day technical and operational assistance and are responsible for evaluating, from a cost/benefit standpoint, representative PN projects being carried out by their respective services.

The first group of these studies has been completed and is now being checked by the USAID Mission and the GOM. Preliminary indications are that the Waters & Forests Department's soil conservation activities are economically profitable -- and that the small-scale irrigation works (which are a major activity of the Agricultural Development Department in the arid regions on the southern side of the Atlas) are an excellent developmental investment. Continuing evaluation will be given to representative PN projects using IVS and USAID personnel.

OECD/DAC Paris is also providing the GOM a team of economists who will be evaluating the PN program from a broader standpoint. Their study, which is concerned with the broad problems of unemployment in developing countries, will look at the role of food-for-work programs in meeting the problems of urban and rural unemployment and underemployment and attempt to measure, from both an economic and social standpoint, PN's contribution to meeting the unemployment question. USAID is assisting OECD/DAC with this study.

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Because of the extent of ongoing evaluation of the PN program, USAID has deferred plans to request AID's assistance in securing an outside evaluation team as was projected in the Mission's CY 68-69 Evaluation Plan. Much of the ground projected for inclusion in the AID study should be covered by OECD/DAC. USAID will review further PN evaluation plans when the OECD/DAC study is completed.

Catholic Relief Services- The USAID is also concerned with a second, still nascent food for work activity, the self-help element of the Catholic Relief Services program. Operating in the cities with limited technical guidance and only a food payment to workers, the program has made progress but faces a number of specific problems. Consultation will be sought during the coming year to study ways of meeting these difficulties.

Population/Family Planning Program

No AID project is more crucial for Morocco's long-run development than this, and none presents so complex a range of technical, administrative and social problems. Planned, systematic evaluation of this project is thus essential. Our initial Project Agreement was signed on May 22, 1969. Commodity procurement has begun and a Public Health Advisor is under recruitment. By the latter half of FY 1970, the project should have moved to a point at which a careful review by an AID/W team with the Mission, the Population Council and the Ministry of Health would be productive.

The review should be carried out early enough so that basic conclusions can be reflected in the FY 70 ProAg but only after the USAID Public Health Advisor and the new Population Council team leader have become familiar with the situation and established relationships with the GOM. The January to March 1970 period thus now seems most appropriate, and the AID/W evaluators should have professional competence in medical, educational, and demographic aspects of family planning and in those public health activities, such as maternal and child health, which may provide an essential framework for family planning.

As a separate element of the above project, a U.S. Bureau of the Census team has begun to arrive to assist the GOM in its 1970 population census and to train the GOM statistical office in methods of updating

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census results. Short-term consultation now planned from the Bureau of the Census should provide adequate evaluation of the technical aspects of this activity. The demographer on the AID/W Family Planning Evaluation team will, however, need to review plans for relating long-term statistical office programs to family planning needs.

* * * *

Continuing attention will be given to on-site inspection by the technical offices of the Mission concerned with supervision and evaluation activities. During FY 1969, USAID/Morocco accomplished this goal by use of auditing, end-use review, and direct inspection and supervision by the project manager. Quarterly reports are constantly being referred to AID/W for review and information.

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Active and Projected Projects

<u>Project Title & No.</u>	<u>PROP Submittal</u>	<u>PAR 1969 (Submitted)</u>	<u>PAR 1970 (Schedule)</u>
Increase in Cereals Production (608-11-130-058)	2/15/67 ⁽¹⁾	3/25/69	3/70
Assistance to Promotion Nationale (608-11-995-046)	9/ 1/69 (revision)	8/69	8/70
Livestock and Rangeland Improvement (608-11-130-078)	9/ 1/69 (revision)	8/69	8/70
Assistance to Higher Agricultural Education (608-11-110-088)	3/28/69	----	3/70
Livestock Breed Improvement (608-11-130-065)	8/24/66 ⁽¹⁾	8/69	8/70
Development Planning Assistance (608-11-140-087)	2/14/69 **	----	6/70
FPC Pilot Project (Regional)	AID/W	----	5/70
Mediterranean Fruit Fly (Regional) (698-11-190-171)	AID/W	----	3/70
Investment Promotion Center (608-11-910-084)	9/ 1/69	1/ 3/69	2/70
Industry, Mgt. & Engr. Training* (608-15-280-040)		8/69	*
General Training (608-11-995-083)	9/ 1/69	4/ 3/69	4/70
Population/Family Planning (608-11-580-089)	12/ 3/68	----	2/70

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<u>Project Title & No.</u>	<u>PROP Submittal</u>	<u>PAR 1969 (Submitted)</u>	<u>PAR 1970 (Schedule)</u>
Manpower Planning Assistance (608-11-460-080)	2/1/67 ⁽¹⁾	4/ 2/69	4/70
Wheat Improvement in N.A. (Regional) (Morocco Phase)(698-11-130-173)		----	3/70
<u>American Joint Distribution Committee</u>			
AJDC Child Feeding (608-62-560-098)	9/1/69	----	12/69
AJDC Family Feeding (608-69-560-099)	9/1/69	----	12/69
<u>Catholic Relief Service</u>			
CRS Child Feeding (608-62-560-100)	9/1/69	----	12/69
CRS Family Feeding (608-69-560-101)	9/1/69	----	12/69
CRS Self-Help (608-61-995-102)	9/1/69	----	12/69

* Project terminating FY 1970.

** Revision required on basis new study to be conducted by Michigan CRED.

---- PAR not required.

(1) Technical Assistance Paper.

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FY 1971 Country Field Submission - Morocco

ANNEX V

TITLE IX AND MOROCCAN DEVELOPMENT

As in all underdeveloped countries, a large part of the population of Morocco is passively or not at all engaged in the development of its country. This constitutes a vast immobilization of such potential human resources as entrepreneurial talent, innovative thought, and creative productivity. Title IX suggests that increased efforts be made to reach this passive or non-participating mass of the population. Therefore, the principle of popular participation is guiding USAID/Morocco in its efforts in support of Title IX.

Agriculture

The Moroccan Government is attempting to maintain a balance between agricultural production requirements and social obligations to small farmers, thereby involving this important segment of the rural population in the development process. GOM policies in this respect contribute considerably to Title IX objectives. The Agricultural Investment Code reflects the need to maintain economically viable plots of land. At the same time, the GOM has a program of direct actions to assist small farmers. These include special credit facilities for short and medium-term loans, a subsidy on small farm equipment, land preparation services, special credits for fertilizer and seeds, and a land redistribution policy for Government-owned land.

In USAID agricultural production projects (poultry, forage, cereals, rangeland, livestock), attention has been given to both modern and traditional farmers. As an example, 40,000 farm families participated in the four-year forage improvement project and 110,000 farmers have participated in the cereals program. The USAID is assisting the private sector in the development of labor intensive enterprises. These include large-scale vegetable and vegetable-oil plantations and seed production farms. In addition, a series of local self-help projects, beneficial to small farmers, have been sponsored by USAID such as poultry raising, well projects, and small irrigation works.

Through the cereals project, a serious effort is being made to extend results of wheat research to all Moroccan farmers. This is being

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accomplished through agricultural extension programs in the provinces and on-farm demonstrations. A nation-wide TV and radio campaign will be launched this fall in support of the next cereals campaign.

Although late adopters will be slow to reach the productivity levels promised by new wheat varieties, they are being given serious attention by the GOM. The Ministry of Agriculture currently operates 2,000 tractors from provincial work centers and will add another 390 by 1972. These are in support of small farming units unable to afford modern farm machinery.

Family Planning

The creation of local bodies and commissions, since the inception of P/FP activities in 1966, has permitted an on-going participatory role by parts of the Moroccan society heretofore untouched by these concepts of modernization. Aside from this, Morocco has private international organizations functioning in its Ministry of Health, i.e. the Population Council and the Ford Foundation. These mechanisms permit an expansion of the participatory and self-help portions of Title IX within the Ministry of Health and its 100 P/FP clinics and centers.

Now that the family planning program is gaining momentum in Morocco, there will be additional opportunities for participation by large numbers of Moroccans in the building of para-medical and census-taking institutions.

Food-for-Work Programs under PL 480, Title II

The Promotion Nationale (PN) program fosters growth of participatory institutions through increasing popular involvement in the development process. PN Type II projects (representing about half of the PN program) evolve from the local level and are implemented by village people. GOM PN officials are strongly committed to popular involvement in project planning and insist it is a prerequisite to successful village-level development. In CY 1968, PN in cooperation with village people and technical services, undertook 813 Type II projects in 750 villages involving an estimated 12.5 million man-days of work and 63,000 metric tons of Title II food. The FY 1969 PN program includes an estimated 70,000 metric tons for Type II projects.

The Promotion Nationale program contributes to strengthening the administrative competence of the country since both the organization of

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the work projects and the distribution of the food require considerable organizational and management skills.

One objective of the Promotion Nationale program is to assist in bringing the rural population into the modern sector, with concentration in the disadvantaged areas. Through the building of roads, community centers and schools, the isolation of the Berbers in the mountains is slowly being broken down and these people are more readily able to identify themselves with the government's efforts to improve their economic and social lot.

In addition, Title II food is being used to support the CRS/Entr'Aide Nationale village self-help program and the pilot GOM youth corps efforts. In FY 1969, CRS/Entr'Aide Nationale undertook community planned and implemented village self-help projects utilizing 6.8 million man-days, with the support of Title II food. Launched in April 1967, this program represented an important shift from dole feeding of able-bodied workers to their involvement in community-planned local development activities.

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The basic source of information for the C-1 Table is the "Comptes de la Nation, 1960-1967" compiled by the Division du Plan et des Statistiques. Preliminary figures, as yet unpublished, have been obtained from the work-sheets of the same source.

I. Current Price Data

A. Gross National Product

Gross Domestic Production is the basic series used for National Accounts analysis in Morocco. Addition of government wages and salaries gives Gross Domestic Product, and the further adjustment for net factor income yields Gross National Product. In regard to the latter, however, the methodology used in GOM statistics is not suitable for the C-1, since in computing net factor income, the GOM includes pension receipts as well as salary receipts while excluding salary payments. Positive factor income balances thus result where one would normally expect negative factor income balances given Morocco's present stage of development. Using the same basic data, which is now derived from the balance of payments, USAID, by excluding pensions and including salary payments in addition to investment income, calculates negative factor income balances, as shown in the following derivation of GNP:

	<u>GNP at Current Market Prices (Dh Millions)</u>			
	1960	1965	1966	1967 1968
Gross Domestic Production	8,200	11,800	11,410	12,110 13,680
Gov't Salaries	890	1,360	1,430	1,500 1,650
Gross Domestic Product	9,090	13,160	12,840	13,610 15,330
Net Factor Income	-190	-270	-320	-180 -250
Gross National Product	8,900	12,890	12,520	13,430 15,080

The increase in GNP in 1968 of slightly more than 12% was primarily due to the remarkable 30% increase in agricultural

production resulting from the 1968 bumper harvest estimated to have been the largest in Morocco's history. While part of the relative increase may actually be attributable to improved crop statistical reporting (without adjustment to prior year data), the growth performance during the first year of the current Five-Year Plan is nevertheless quite impressive. Output increases in other sectors were also satisfactory and generally in line with the growth targets of the Plan.

B. Net Foreign Balance

The net foreign balances shown in the National Accounts, while now taken from the balance of payments data, tend to understate the inflow of resources because of the peculiar treatment of factor income. The foreign balances shown in line B use the adjusted factor income figures, based on the national accounts data, except for 1968, which is taken directly from preliminary balance of payments statistics not yet transmitted to the National Accounts department.

D. Total Consumption

Total consumption is estimated as the residual difference between Total Available Resources and the sum of Investment and Stock changes. The figure for Government Consumption is taken from the National Accounts data and represents the sum of government purchases of goods and services (government salaries) and a small amount of imported material. Private consumption is the final residual.

E. Total Fixed Investment

Total fixed investment is taken from the National Accounts. A breakdown of investment between private, public enterprises and general government is not available. As a rough indication, however, Central government finance data suggests that public capital outlay, including investment transfers to public enterprises, accounts for between 45 and 50% of total fixed investment.

The level of total investment in 1967 and 1968 shows a striking increase over the level of preceding years. Part of the 1967 increase results from accelerated disbursements for physical work carried out earlier; but with an additional increase in the level of investment in 1968, it may be recognized that a quantum jump in investment outlay has been achieved in accordance with the objectives of the current, 1968-1972 Plan.

F. Change in Stock

Stock changes shown in line F correspond to very crude estimates of cereal stock changes as calculated in the National Accounts.

G. Total National Savings

As a derived figure, total savings is subject to any errors inherent in the aggregates of fixed investment, stock changes and foreign balances. Using the Division du Plan's figures for the external accounts gives a derived savings level close to, and in some recent years, higher than investment. Capital flight or "disinvestment" could result in net foreign lending, but this is not thought to be the case, at least not since 1965. Substitution of USAID's adjusted figures for factor income and foreign balances gives the lower figures for National Savings as shown in line G. The exceptionally high figure for 1968 results from the bumper harvest which in the savings-investment identity equates cereals stocks to additional savings.

1969 Estimates

With cereals accounting for roughly 30% of total agricultural production, and the latter representing approximately the same percentage of the economy's total output, it is clear that GNP will tend to reflect annual variations in cereals and hence in total agricultural production. In 1969, preliminary estimates of cereals production, while well above average crop levels, indicate a decline of about 30% from the bumper 1968 harvest, and total agricultural production, though remaining substantially higher than in 1967, is expected to be about 12% lower than in 1968.

Output growth in other sectors, however, is expected, in the aggregate, to attain 4%, thus compensating for almost all of the estimated decline in the agricultural sector and leaving Gross Domestic Production at a level only slightly lower than in 1968. Moreover, with a probable 5% increase in total government salaries in conjunction with the increased manpower requirements of the Plan, along with a modest improvement in factor income payments, Gross National Product, in 1969, can be expected to hold, and perhaps fractionally surpass the high mark of 1968. In real terms, however, allowing for an estimated 0.5% increase in the general price level, GNP should be slightly lower than in 1968.

The net inflow of resources in 1969 is expected to show a small increase over the 1968 level, since the elimination of wheat imports should be counter-balanced by increased import demand generated by the substantial boost in income and since the continued expansion of investment and productive activity will necessitate a higher level of equipment and material imports. Total available resources should accordingly permit a modest increase in consumption despite the planned continuation of a high level of investment. The latter, in fact, is now expected to show an increase of about 5% over the exceptional level of 1968, thus reflecting a small upward revision of the Plan's investment targets.

II. Constant Price Data

Recent M.O. instructions for the C-1 state that Section II should be given in national currencies and in terms of the base year used by the country. While Morocco publishes both a current and a constant price (1960 base) series, both relate to Gross Domestic Production and therefore Section II constant price data cannot be simply taken from the GOM national accounts statistics. To obtain the constant prices shown in Section II, a GNP deflator was therefore derived from the current and constant Gross Domestic Production series and applied to the data in Section I. In so doing, USAID has also shifted to 1968 prices since the latter price series is more useful for purposes of economic analysis in the CFS. An increase of 0.5% in the general price level has been assumed for 1969.

	<u>1960</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
Current Gross Domestic Production (Dh 10,000)	820	1,141	1,211	1,368	1,351
Constant Gross Domestic Production (Dh 10,000)	820	947	1,014	1,140	1,120
Deflator 1960 = 100	100.00	120.48	119.43	120.00	120.60
Deflator 1968 = 100	83.33	100.40	99.52	100.00	100.50

Projections

The current, 1968-1972 Five-Year Plan provides the framework used for GNP projections. The overall goal of the Plan is to raise the growth rate of Gross Domestic Production to nearly 5% annually by the Plan's post-terminal year. During the period of the Plan, while the annual increases are intended to be purely indicative, the growth rates were originally projected at 3.5% for 1968, 3.9% for 1970, 4.2% for 1971, and 4.5% for 1972. As a result of the bumper harvest, actual growth in 1968 surpassed the Plan's estimate by a very wide margin; and although no real growth is therefore projected for 1969, the level of anticipated output will still be substantially above the growth trend originally called for. For the following years, the original percentage growth changes are maintained for projection purposes.

The level of investment outlay realized in 1968 corresponds closely to the ambitious level called for in the Plan; the original investment targets thus appear realistic, and may even be slightly exceeded in 1969. An upward revision for the following years, however, has not been incorporated in the projections, since the originally scheduled investment trend will require a maximum effort to attain. Gross investment must rise from the 1966-1967 level of 13% to about 17% of GNP by the end of the current Plan.

The net foreign balances have been estimated by keying current transactions to the main elements of the Plan and cross-checking the deficits against the levels of foreign assistance that can reasonably be expected. The levels of consumption and savings are then estimated as residuals. To assure the fulfillment of the Plan's goals, the latter will have to increase from the 1966-1967 level of less than 10% to around 14% of GNP by 1972. This will constitute a very appreciable undertaking given the low level of per capita income in Morocco, but does not appear unrealistic in view of the fiscal and other measures now being implemented by the government.

	ACTUAL		ESTIMATED		PROJECTED		
	(1) 19 67	(2) 19 68	(3) 19 69	(4) 19 70	(5) 19 71	(6) 19 72	(7) 19 73
A. POPULATION, MID-YEAR ESTIMATES (In millions)							
Current Annual Growth Rate 3.2 %							
B. PRICE INDEXES							
1. COST OF LIVING (Coverage: Casablanca general)	106	106	107	108	109	110	111
Food	105	105					
Clothing	111	110					
Housing	101	104					
2. WHOLESALE (Coverage: Casablanca general)	116	106	106	106	107	109	110
Domestic Goods	117	102					
Imported Goods	121	121					
Food Products	122	107					
Industrial Products	103	105					
3. (OTHER): 1968 = 100							
Gross Domestic Production "deflator"							
4. Official Reserves	105.7	106.2	(est.) 106.8				
C. GOLD AND FOREIGN EXCHANGE (End of Year)							
1. TOTAL Official Reserves	76	85	74	68	48	65	
(a) MONETARY GOLD	21	21	21	21	21	21	
(b) IMF Gold Tranche	13	-	-	-	-	22	
(c) Convertible Foreign Exchange	42	64	53	47	27	22	
2. Commercial Bank Foreign Assets							
D. PRODUCTION INDICATORS							
1. INDUSTRY AND MINING							
INDUSTRIAL PRODUCTION INDEX	113	116	119	123	127	131	135
MANUFACTURING INDEX	112	117	122	127	132	138	144
MINING INDEX	113	108	109	110	112	113	114
OTHER INDEX: Energy (electricity)	119	137	142	148	153	159	164
Output of Major Commodities:							
Phosphate Rock	10,545	10,511	11,000	12,000	13,000	14,000	15,000
2. AGRICULTURE							
AGRICULTURAL PRODUCTION INDEX	113	161	135	140	146	152	158
Output of Major Commodities							
Wheat	1,310	2,580	1,800	1,980	2,180	2,290	2,405
Barley	1,320	3,200	2,000	2,200	2,310	2,425	2,545
Corn	310	382	400	440	462	485	510
Citrus	717	811	780	840	820	810	1,110

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A. Population

The population figures shown are official; however, they are estimates based on the 1960 census with a current annual growth rate estimated at 3.2%. More reliable statistics must await the completion of the planned census of 1970. Complete success of the Five-Year Plan Family Planning program would reduce the growth rate to 2.8% by mid-1972. This target now appears somewhat overly optimistic owing to the slow start in the program, but with intensified efforts and some additional relief through emigration, a significant impact on the growth rate could be realized by 1972.

B. Price Indexes

Available cost of living and wholesale indexes cover only the city of Casablanca. The most remarkable development in 1968 was the sharp drop in the wholesale index resulting from ideal weather conditions which raised agricultural output 30% higher than in 1967. The July 1968 wholesale price of hard wheat was 20% lower than the price of July 1967, and the price of barley was halved in that period. Because of retail price controls for flour and bread, which normally involve a heavy subsidy, the lower wholesale cereals prices were not passed on to the consumer. However, since well over half of total cereals production is produced for home consumption and is not commercialized, the rural portion of the population benefited from the bumper crop even though retail prices were not effected.

Wholesale food prices for the first five months of 1969 were lower than for the corresponding period last year; however, the low prices of 1968 did not appear until after the harvest in mid-1968. 1969 appears to be only a normal agricultural year, so the downward trend is already slowing down and will probably reverse itself in mid-1969. Industrial and imported wholesale prices are rising, and the general wholesale index for 1969 will probably be about the same as in 1968. Higher income and aggregate demand will likely push up the general retail price index a few points, reversing the downward trend of the past few years.

The implicit price index is derived from the current and constant Gross Domestic Production series provided in GOM national accounts. It is apparently based simply on the Casablanca COL.

C. Gold and Foreign Exchange

Morocco's total official reserves, after declining \$11 million in 1967, increased by \$9 million in 1968 as a net result of the \$50 million IMF Stand-By drawing and loss of foreign exchange to cover the deficit. The drawing eliminated the \$13 million Gold Tranche, which will not reappear until the drawing is repurchased despite increments raising the quota to \$90 million. The projected balance of payments deficit of \$15 million in 1969 should result in a further loss of foreign exchange of about \$11 million, even though a supplementary IMF Stand-By drawing of \$10 million has already been made. The loss of foreign exchange is projected at only \$6 million in 1970, but at \$20 million in 1971, despite a projected balance of payments surplus of \$10 million, since an estimated \$30 million will be required for Stand-By repurchases. With a projected surplus of \$25 million in 1972, Morocco should be just capable of meeting the remaining \$30 million repurchase obligation. In so doing, however, the gold tranche would be restored at the level of \$22 million, and total official reserves would increase by an estimated \$17 million.

D. Production Indicators

The industrial production index is based on manufacturing, mining and energy production weighted respectively: 515, 375, and 110. The mining index reflects a slight drop in Phosphate production in 1968 resulting from labor strikes and significant drops in the production of other minerals due to the closing of marginal mines. The figure for 1967 production of phosphate rock was revised upward by the GOM from the figure reported in last year's C-2 Table. Phosphate mining was down in the first four months of 1969 because of heavy rains, but it is expected that output for the year will be up, although not as high as the Five-Year Plan forecasts. The supply of certain other minerals is being depleted so overall mining output is expected to decline.

The sharp jump in the index for electricity production in 1968 reflects the inclusion for the first time of the Tangier grid in official figures for the country. Excluding Tangier, the index would be 124 in 1968. Energy production including oil and coal is expected to increase by an average of 5.4% annually according to the Five-Year Plan.

Figures for agricultural production have not been taken from the USDA reports because the GOM is revising its statistics. Past year figures came from tax reports with a downward bias. The revised figures, although not yet published, will be reported by the

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1 DATA CURRENT AS OF
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USAID NOTES TO C-2 TABLE

Agricultural Attache, who also made the estimate for this year and the projections. For cereals, a 10% recovery is projected for 1970 and an annual 5% increase thereafter. Although the Five-Year Plan predicts a fairly low rate of overall agricultural growth, USAID believes it will average out to about 4%.

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All figures converted at \$1 = Dh 5.06 unless otherwise noted

ITEM	ACTUAL			ESTIMATED			PROJECTED		
	(1) 19 67	(2) 19 68	(3) 19 69	(4) 19 70	(5) 19 71	(6) 19 71	(7) 19 71	(8) 19 71	
A. BALANCE ON GOODS AND SERVICES									
1. EXPORTS, f.o.b.	-104	-109	-110	-110	-105	-105	-105	-105	
2. IMPORTS, f.o.b. (-)	424	450	465	480	500	500	500		
3. NONMONETARY GOLD	-480	-511	-530	-550	-570	-570	-570		
4. TRADE BALANCE	(- 1)	(- 1)	(- 1)	(- 1)	(- 1)	(- 1)	(- 1)		
5. FREIGHT AND INSURANCE	56	61	65	70	70	70	70		
6. OTHER TRANSPORTATION	25	23	24	23	22	22	22		
7. TRAVEL	10	11	10	10	11	11	11		
8. INVESTMENT INCOME	42	42	48	54	62	62	62		
9. GOVERNMENT, n.i.e.	36	44	42	45	48	48	48		
10. (US Gov't)	9	8	7	8	10	10	10		
11. OTHER SERVICES	(7)	(7)	(8)	(8)	(8)	(8)	(8)		
12. TOTAL SERVICES, NET	(10)	(10)	(10)	(8)	(5)	(5)	(5)		
13. TRANSFER PAYMENTS, NET	(48)	(48)	(45)	(40)	(35)	(35)	(35)		
B. TRANSFER PAYMENTS, NET									
1. PRIVATE	32	41	35	34	33	33	33		
2. P.L. 480 - Title I Voluntary Pensions and Other	8	8	8	8	8	8	8		
3. CENTRAL GOVERNMENT	24	33	27	26	25	25	25		
4. U.S. TOTAL	3	11	7	8	8	8	8		
5. A.I.D.	5	14	10	10	10	10	10		
6. P.L. 480 - Title I	1	1	2	2	2	2	2		
7. P.L. 480 - Title II Relief	(4)	(13)	(8)	(8)	(8)	(8)	(8)		
8. OTHER, TOTAL	(3)	(3)	(3)	(2)	(2)	(2)	(2)		
9. French Grants	9	9	9	9	9	9	9		
10. Pensions & Other	(12)	(12)	(12)	(11)	(11)	(11)	(11)		
C. CAPITAL AND MONETARY GOLD, NET									
1. DIRECT INVESTMENT	69	57	68	68	64	64	64		
2. OTHER LONG-TERM	12	7	10	15	17	17	17		
3. PRIVATE	4	2	5	5	5	5	5		
4. Ex-Im Bank	(4)	(4)	(4)	(4)	(4)	(4)	(4)		
5. Conley	(4)	(4)	(4)	(4)	(4)	(4)	(4)		
6. OTHER SHORT-TERM	(19)	(23)	(17)	(15)	(11)	(11)	(11)		
7. LOCAL GOVERNMENT, NET	(1)	(1)	(1)	(1)	(1)	(1)	(1)		
D. NET ERRORS AND OMISSIONS									
1. CHANGE IN GOLD AND FOREIGN EXCHANGE (increase (-))	11	(9)	1	6	20	20	20		

Remarks: * COMMERCIAL BANKS

General

Morocco's balance of payments figures for the past two years have been compiled and published by the Office des Changes. The new presentation conforms generally to that recommended by the IMF; but for the C-4 Table, USAID has made the following main adjustments: (1) Salary receipts and payments are shifted from the Transfers Account to the Other Services line; (2) Pension receipts are counted as Private Transfers and Pension payments counted as Public Transfers; (3) Ex-Im Bank loans are shown as Private loans rather than Public loans; and (4) L/C liabilities are moved up from the Monetary to the Non-Monetary Sector.

For future years, USAID has related projections to past trends and to Morocco's 1968-1972 Plan. While the latter does not contain a balance of payments analysis, it does provide a workable and generally realistic framework for projecting balance of payments variables.

Line-By-Line ObservationsLine 1.a. Exports

Exports increased \$26 million in 1968, up 6% over the level of 1967. Part of this increase, however, reflected recovery rather than new expansion, and the rate of increase during 1969 should moderate to around 3.5%. For the following years, phosphates and citrus, representing about 40% of the total, are expected to rise steadily, while fresh fruits and vegetables, in which Morocco enjoys a strong seasonal advantage vis-a-vis Europe, should also show large gains under the impetus of the recent Association agreement with the EEC. Exports of finished and semi-finished goods will also be favored, but will remain a small percentage of total exports. Altogether, exports can be expected to increase during the next few years to a growth rate of 5% annually and attain by the end of the current plan period a level nearly 25% higher than in 1967.

Line 1.b. Imports

Total imports rose by more than 6% in 1968 following an 8% increase in 1967 under the combined effect of continued, heavy cereals imports, accelerating capital equipment requirements and

the government's import liberalization measures. In 1969, one can expect a large savings in wheat imports as a result of the 1968 bumper cereals harvest, but the rise in income and aggregate demand resulting from the same harvest, in conjunction with the liberalized import system, should more than compensate for the wheat import savings. With additional import demand for capital goods and materials generated by expanding production, the level of total imports is projected to rise by about \$20 million annually despite the effect of import substitution through increased domestic production of imported commodities such as sugar.

Line A.(1) Trade Balance

The deficit on the overall trade balance, which jumped from \$15 million in 1966 to \$6 million in 1967 and to \$61 million in 1968, should increase by another \$5 million in 1969 and in 1970. Thereafter, a leveling off, followed by a gradual improvement, should begin to take place as new investments stimulate export growth and permit increasing economies through import substitution.

Line 3. Freight & Insurance

The deficit on Freight & Insurance improved slightly in 1968 with receipts up \$4 million and payments increasing by little more than \$2 million. For the next several years, with receipts and payments keyed to commodity trade, the deficit is projected to remain roughly constant; but after 1970 a moderate improvement should be gradually realized as increased capacity and utilization of Moroccan transport facilities augment freight and insurance receipts.

Line 4. Other Transportation

Receipts and payments for passenger fares, port and airport fees both increased slightly in 1968, totalling \$3 million for receipts and \$14 million for payments. No change in the balance is foreseen, since additional earnings over the next several years should roughly equal increased payments.

Line 5. Travel

Travel receipts, estimated on the basis of the number of visitors and per capita expenditure, rose by \$10 million in 1968 to a level of nearly \$90 million. Travel payments, also estimated on the basis of the number of travellers, showed an equivalent increase,

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USAID NOTES TO C-4 TABLE

thereby leaving apparent net travel earnings at the 1967 level of \$42 million. However, much of the 1968 increase in travel payments arises from a revised coefficient for average expenditure and as a result, the 1968 figure is not really comparable to the 1967 figure. For the next several years, net travel earnings should resume an upward trend showing a net increase of \$6 to \$8 million annually.

Line 6.

Investment Income

Net payments for investment income increased by \$8 million in 1968 with roughly half of the increase due to payments deferred from 1967. Some decline should accordingly occur in 1969. Future interest payments on the external debt will, of course, be influenced by the uncertain terms and amounts of new foreign financing and by the volume of new direct investment, but for indicative purposes, net investment income payments are estimated to rise by about \$3 million annually.

Line 7.

Government, n.i.e.

Expenditures declined \$5 million in 1968 while receipts increased \$12 million, reversing the balance from a \$9 million deficit to an \$8 million surplus. This improvement, however, is substantially due to non-recurrent factors, and while the net balance may fluctuate widely from year to year, it is projected to remain negative and rising slightly. U.S. Government expenditures in Morocco, currently running at about \$7 million annually, constitute about 20% of recorded receipts and should rise moderately over the next several years.

Line 8.

Other Services

Royalties, fees and salaries constitute the principal factors included in this item. The net balance deteriorated abruptly in 1968 because of heavy transfers for miscellaneous services. For the next several years an improvement in the balance is projected on the basis of an expected growth in salary remittances from Moroccans working abroad.

Line A.(2)

Total Services, Net

The major positive factors in Morocco's services accounts are tourist receipts and wages earned abroad, both of which

are expected to show appreciable gains over the next five years. The major factors hindering improvement are payments for freight and insurance and rising investment income transmitted abroad. With the latter showing a slower rate of growth, the overall services balance is expected to improve by some \$5 million annually.

Line B.

Transfer Payments, Net

Net receipts from transfer payments, public and private combined, rose \$17 million in 1968 to a level of \$52 million, with over half of the increase being due to exceptionally high deliveries of PL 480 Promotion Nationale wheat during the first half of the year. For 1969 and following years, PL 480 grants for P.N. are projected at a constant level of \$8 million (100,000 tons wheat at export market prices) with PL 480 grant aid through Voluntary Agencies also projected at a level of \$8 million. AID grants are projected at a level of \$2 million annually. French grants, pension payments and other transfers are expected to remain roughly constant at current levels.

Lines 11 & 12, Direct Investment and Other Long-Term

Moroccan statistics are inadequate to distinguish direct investment from other private long-term capital. The combined net inflow, which fluctuates considerably from year to year, dropped from \$12 million in 1967 to \$7 million in 1968, despite a substantial increase in foreign investor undertakings in Morocco. The influx of foreign investors is expected to continue to grow as a result of government inducements, greater foreign awareness of investment opportunities in Morocco and the additional stimulus of easier entry for Moroccan products to the Common Market under the recent Association agreement. However, since in many cases the foreign investors' contribution will take the form of know-how with much of the required capital being raised locally, the balance of payments impact is not expected to reflect the full extent of new investment, but should still increase several-fold over the next few years. Part of the local financing for new foreign investment will be met from Cooley loans for which disbursements are projected at a level of \$2 million over the next several years. Export-Import Bank loans are projected at an average level of \$5 million. It may be noted that a number of other foreign loans included under the Central government in GOM statistics would more appropriately be counted in the private sector, but Moroccan balance of payments data on both borrowing and repayments distinguish official from private capital according to the nature of the lender rather than of the borrower. Hence loans

to the central government include some foreign government lending to public enterprises and suppliers' credits with a government guarantee.

Line 13. Other Short-Term

The amounts shown in this line are essentially adjustment items reflecting the difference between the flow of goods and services and officially recorded receipts for the same goods and services. A small portion represents normal commercial credits; but the largest amount occurs on the tourism account and reflects unrecorded capital outflow which could alternatively be shown under Errors & Omissions. Such outflow has declined very substantially since 1965, and is expected to continue to decline.

Line 15.c. AID Loans

Calculated on a disbursement basis, AID loans showed a sharp decline from \$15 million in 1966 to \$4 million in 1967 and then to \$2 million in 1968 as Supporting Assistance and the \$23 million Lower Moulouya loan reach termination. In CY 1969, the remaining \$1 million under these loans will be utilized, plus an estimated \$4 million under the Nouasseur loan and \$8 million under the FY 68 ASL. In 1970, disbursements are projected at \$2 million for Nouasseur-RAM, \$2 million for the Lower Moulouya II loan, \$5 million for the FY 69 ASL, \$4 million for the BNDE loan and \$1 million for other DL. For 1971, disbursements are projected at \$2 million for the Lower Moulouya II, \$7 million under a proposed FY 70 ASL and \$8 million under other development loans.

Line 15.d. PL 480 Title I L/C

In 1967, approximately \$6 million was disbursed under 104(f) loans. In 1968, accelerated disbursements raised utilization to \$11 million. In 1969, estimated disbursements of \$8 million include unliquidated balances under these loans G-023, G-027, G-029 and half of G-030. In 1970, the remaining portion of G-030 plus the estimated total generations under G-034 will provide approximately \$6 million, liquidating available 104(f) resources.

Line 15.3. PL 480 Title I, \$ Sales

Assumed simultaneous with and equal to the value of imports under PL 480 Title I \$ sales, these loans amounted to \$7

million in 1967 and to \$17 million in 1968. Since no more than the 20,000 tons of oil already imported are now expected, and no further wheat sales are projected, these loans should decline to about \$7 or \$8 million annually, and will represent the total PL 480 sales program.

Line 15.h. French Loans

Loans from France declined from \$45 million in 1966 to \$32 million in 1967 and to \$12 million in 1968 in the absence of short-term wheat credits which had accounted for the largest part of the total in the two previous years. Fortunately, however, a substantial improvement in Franco-Moroccan relations has resulted in new loan obligations in December 1968 of \$26 million followed in June 1969 by another agreement amounting to \$22 million. On the assumption that France's internal difficulties and balance of payments problems will not preclude additional commitments, it is reasonable to project average draw-downs over the next several years at a level of \$20 to \$25 million composed of long-term GOF loans and guaranteed suppliers' credits.

Line 15.i. West Germany

Draw-downs under West German loans totalled \$21 million in 1967 and \$33 million in 1968 as high terminal disbursements were made for several project loans. Moroccan sources indicate that West Germany is likely to make an annual commitment of DM 50 million during the current plan. This together with unliquidated balances should provide an annual disbursement level of \$15 million.

Line 15.j. IBRD/IDA

Draw-downs under IBRD loans rose from \$8 million in 1967 to \$12 million in 1968. The only new commitment made in 1968 was for a \$15 million loan to the BNDE, but with much improved performance under outstanding loans and the development emphasis status accorded by the IBRD to Morocco, substantial new commitments are expected in the near future, especially with IBRD participation in the Sebou project. Expenditure could reach \$20 million in 1969 and increase by approximately \$5 million during the next several years.

Line 15.k. Kuwait and Iran

Disbursements under loans to finance dam construction

totalled \$5 million in 1968 and are projected at this level.

Line 15.1. Other Loans

Disbursements in 1968 amounted to \$4.3 million from Belgium and \$0.3 from the USSR. No disbursements were made under the Italian credit whose outlook now appears uncertain. A disbursement level of \$5 million is projected on the basis of East bloc commitments and small loans from a variety of other donor countries such as Belgium and Denmark.

Line 15.m. Loan Repayments

Total loan repayments jumped sharply from \$25 million in 1967 to \$51 million in 1968, partly as a result of deferred payments, but primarily because of exceptional French wheat credits falling due. The latter should decline by nearly \$20 million in 1969, bringing total repayments down to about \$35 million. For the following years, taking into account existing debt and globally estimating new debt, total repayments can be expected to increase roughly \$5 million a year. Principal repayments on U.S. loans are still relatively small, with most of that which is paid in dollars arising from CCC credits and Export-Import Bank loans.

Line 15.w. L/C Liabilities to U.S.

Lumping together country-use and US-use L/C liabilities, the net annual change can be calculated as the difference between the increases in dirham liabilities due to PL 480 L/C sales plus interest and principal repayments in L/C, and the decreases due to 104(f) loan disbursements, Cooley loans, L/C costs of U.S. Government operations and AID dirham purchases to meet the L/C costs of certain DL loans.

Changes in L/C Liabilities to the US
(in \$ Million Equiv.)

	67	68	69	70	71	72
PL 480 L/C Proceeds	8	13	4	-	-	-
L/C Interest & Principal	9	10	10	12	13	13
Total Generations	17	23	14	12	13	13
104(f) Loans	6	11	8	6	-	-
Cooley Loans	-	-	2	2	2	2

U.S. Gov't L/C Uses	67	68	69	70	71	72
DL L/C Uses	7	7	8	8	8	8
Other	2	1	4	3	2	2
Total Uses	15	19	24	22	15	15
Net Change	2	4	-10	-10	-2	-2

Line 15.x. Other L/C Liabilities

These are essentially vis-a-vis France. While they may fluctuate moderately in future years, France's dirham holdings have reportedly been all drawn down and the dirham account must now be periodically replenished through transfer of foreign exchange.

Lines 16 & 17. Commercial Bank Liabilities and Assets

Commercial banks keep only a limited amount of foreign exchange on hand. Variations are impossible to forecast, but should remain within fairly narrow limits.

Line 18.a. Liabilities to IMF

Liabilities to the IMF are defined to include all IMF holdings of Moroccan dirhams. The increase shown for 1967 represents the L/C portion (\$2.7 million) of the \$3.6 million annual increase in Morocco's quota. Since the quota is being increased to \$90 million, similar increases will take place in 1968, 1969 and 1970. In addition to the quota change, in 1968, Morocco repurchased \$2.4 million of an earlier drawing on the gold tranche but also drew the full \$50 million available under the Stand-By Agreement thereby eliminating the gold tranche. In 1969, another \$10 million was drawn under a supplemental Stand-By and two repurchases of \$2.4 million are expected to be made. Repurchases of the Stand-By are split between 1971 and 1972 at \$30 million each year.

Line 18.d. Other

This line shows the change in Bank of Morocco convertible liabilities. No change is projected.

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Line 19.a. IMF Subscription

The amounts shown (actually \$3.6 million) represent the annual increases in Morocco's subscription necessary to raise the quota to \$90 million by 1970.

Line D. Errors & Omissions

E.&O., introduced as a result of various adjustments, have been included in line 13 as unrecorded capital outflow.

Line 19.b. Monetary Gold

The Bank of Morocco's holding of gold has remained at the level of \$21 million since 1965. It is counted in gross reserves, but the total amount is used as currency cover and as such is not legally available for foreign payments. No change in the gold level is projected.

Line 19.c. Foreign Exchange

Morocco's convertible foreign exchange reserves declined by \$12 million in 1967, but increased \$22 million in 1968 as a net result of the \$50 million IMF drawing and expenditure to cover the deficit. At the end of 1968, convertible foreign exchange reserves stood at a level of \$64 million; but of this \$20 million was blocked in conjunction with monetary gold as currency cover and with convertible short-term obligations leaving disposable, convertible foreign exchange equivalent to approximately one month of imports at the 1968 level. The 1969 Stand-By drawing has added another \$10 million to reserves; but the expected \$15 million deficit in 1969 will result in a draw-down of reserves amounting to an estimated \$11 million. The small deficit projected for 1970 should result in a further \$6 million draw-down and despite an anticipated surplus in 1971 and 1972, reserves will be barely adequate to meet the required IMF Stand-By repurchases.

Line 19.d. Bilateral Payments Agreements Assets

Morocco's net creditor position under its bilateral agreements declined by \$12 million in 1967 as a result of COM efforts to reduce the balances that had built up in previous years. In 1968, the credit balance increased by \$4 million. No further change is projected under the assumption that the Association Agreement with the EEC will provide an adequate alternative market for Moroccan products now being shipped to the Soviet Union and East Europe and necessitating either additional purchases from these countries or the accumulation of blocked credits.

Line E. Gross Reserves

Gross reserves, including convertible foreign exchange, monetary gold and the IMF gold tranche declined \$11 million in 1967, and increased \$9 million in 1968 to \$85 million as a net result of the \$50 million Stand-By drawing, less elimination of the gold tranche and loss of exchange. With a \$10 million drawing in 1969, reserves should still fall by around \$11 million, and on the basis of the projections, should decline by \$6 million in 1970 and by \$20 million in 1971 reducing them to a minimum acceptable level of \$48 million. With repurchase of the outstanding balance of the Stand-By projected for 1972, the gold tranche would be restored and total reserves would stand at \$65 million, or virtually the same level as at the end of 1967.