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Country Development Strategy Statement

FY 1985



Morocco

January 1983

Agency for International Development
Washington, D.C. 20523

BEST AVAILABLE

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I. INTRODUCTION

The FY 1984 CDSS set the USAID program strategy in the context of a deteriorating Moroccan economic situation marked by large, chronic trade deficits, mounting external debt and domestic financial imbalances. The CDSS attributed Morocco's economic malaise in part to exogenous factors such as severe drought, global recession and the Western Sahara conflict. However, the FY 1984 submission also identified major structural problems and other constraints to rejuvenation of the economy which seem clearly susceptible to remedial action and, in view of the mounting proportions of the crisis, warrant more concerted attention by the government and foreign donors. Accordingly, the Mission signaled its intent to concentrate a greater share of its total resource base on two such constraints - the neglected rainfed agriculture sector and the high population growth rate. To provide this assistance the Mission stated that it would develop a major, long-term rainfed agriculture production program, initial stages of which would begin in FY '83, and continue to support expansion of GOM family planning activities which were beginning to gain momentum. To maximize program impact on these priority problems USAID would limit activity in other sectors and also seek ways to use PL 480 resources more effectively, particularly in support of food production and related nutrition objectives.

The FY 1984 CDSS and Agriculture Annex and, most recently, the FY 1984 Congressional Presentation furnish considerable background on the structural problems and constraints which confront Morocco and threaten progress toward economic and equity goals of the new Five-Year Plan (1981-85). This CDSS update portrays emerging macro-economic trends and reviews development of the strategy summarized above, especially as it relates to broader AID priorities.

II. MACRO-ECONOMIC TRENDS

A. Gross Domestic Product

In the mid-1970's sustained high growth rates and revenues from phosphate exports enabled Morocco to pursue an aggressive and ambitious development program. However, in the late 1970's soaring import costs and plummeting export income forced Morocco to implement austerity measures including abandonment of many of its development targets.

Tables 1A and 1B trace the impact of these occurrences on the evolution of Gross Domestic Product and GDP/Capita in current and constant dirhams from 1977 to 1981 with available estimates for 1982. Real GDP (Table 1B) declined 1.3% in 1981 and 4.1% in per capita terms. Virtually all sectors declined during 1981 led by a 23% drop in agricultural production attributed to drought. In 1982, real growth is estimated at 7% sparked by a 30% recovery in agriculture. Mining remains flat because of continued softness in the market for Morocco's principal export, phosphates. As the last line on Table 1B shows, real GDP per capita fluctuates from year to year but is essentially stagnant.

B. Balance of Payments, Balance of Trade and Morocco-US Financial Flows:

Table 2 shows the evolution of the Balance of Payments from 1980 to 1981. Both trade and service accounts deteriorated badly as did the current account, even allowing for improvements in worker remittances and tourism. Heavier reliance on commercial credit, foreign loans and the IMF were necessary to balance the account. Even so, limited reserves were drawn down more heavily in 1981. A final balance of payments table does not yet exist for 1982. However, trends are not promising in the face of diminishing reserves and increasing debt service requirements. Despite selective measures taken to increase exports and rates of domestic savings, and to limit borrowing on

TABLE IA - EVOLUTION OF GROSS DOMESTIC PRODUCT AND GDP/CAPITA
(Billions of Current Dirhams)

Activity	77	78	79	80	81	82 (Est.)
Agriculture, Forestry, Fishing	8.153	10.435	11.116	12.711	10.887	
Mines	2.075	2.076	2.750	3.427	4.283	
Energy and Utilities	1.214	1.337	2.143	2.368	2.935	
Industry and Handicrafts	8.241	9.367	10.436	12.010	13.416	
Building and Public Works	4.668	4.507	4.939	4.841	5.364	
Transportation and Communications	2.159	2.470	2.638	3.121	3.445	
Commerce	7.282	7.691	8.213	9.115	9.588	
Hotels, Restaurants, Insurance, Services	7.737	8.668	9.739	11.139	12.834	
Banking	-1.019	-1.108	-1.204	-1.409	-1.642	
Customs, Import Taxes	3.601	3.572	3.937	4.242	5.377	
Public Administration	5.650	6.139	7.336	8.596	9.958	
Gross Domestic Product	49.761	55.154	62.043	70.161	76.445	90.970
(Δ%)		(10.8)	(12.5)	(13.1)	(9.0)	(19.0)
Population (000,000)	19.2	19.8	20.4	21.0	21.6	22.3
GDP/Capita ^{1/}	2592	2786	3041	3341	3539	4079
(Δ%)		(7.5)	(9.1)	(9.9)	(9.5)	(15.3)

Source: Ministry of Plan. Population Growth assumed 3%.

^{1/} At current exchange rate of 6.35 dirhams/\$, current GDP/Capita is \$642. World Bank estimates remain considerably higher as they have not yet incorporated 1981's negative growth rate and recent defacto dirham devaluations. The IBRD per capita GNP figure for 1981 is \$870.

TABLE IB - EVOLUTION OF GROSS DOMESTIC PRODUCT AND GDP/CAPITA
(Billions of Constant Dirhams, 1969 Base)

Activity	77 (Δ %)	78 (Δ %)	79 (Δ %)	80 (Δ %)	81 (Δ %)	82(Est.)
Agriculture, Forestry						
Fishing	3.508 (18.0)	4.138 (-1.7)	4.067 (6.1)	4.317 (-23.0)	3.325 ^{1/} (30.0)	4.323
Mines	.873 (5.7)	.923 (5.6)	.975 (-4.1)	.935 (-1.8)	.918 ^{2/} (0)	.918
Energy and Utilities	1.011 (1.3)	1.024 (58.2)	1.620 (-1.9)	1.331 (-14.5)	1.359 (4.0)	1.413
Industry and Handicrafts	4.925 (5.4)	5.190 (1.6)	5.272 (4.7)	5.520 (0)	5.520 (2.0)	5.630
Building and Public Works	2.085 (-21.5)	1.673 (-0.9)	1.622 (-9.4)	1.469 (-2.4)	1.434 (3.0)	1.477
Transport and Communications	1.354 (10.0)	1.489 (2.8)	1.531 (1.9)	1.560 (4.4)	1.629))
Commerce	5.538 (0.2)	5.548 (1.9)	5.656 (5.0)	5.939 (-3.5)	5.731))
Hotels, Restaurants	4.453 (2.5)	4.566 (3.3)	4.716 (4.4)	4.928 (4.0)	5.126)	20.155 (5.3)
Banking	-.579 (0.9)	-.574 (-0.3)	-.576 (-6.8)	-.615 (-3.7)	-.638))
Customs and Imports Taxes	2.098 (-22.9)	1.617 (2.9)	1.664 (6.0)	1.764 (4.1)	1.836))
Public Administration	3.668 (8.7)	3.986 (11.7)	4.451 (11.9)	4.979 (9.6)	5.457))
Gross Domestic Product (Δ %)	28.934 (2.2)	29.580 (4.8)	30.998 (3.6)	32.127 (-1.3)	31.697 (7.0)	33.916
Population (000,000)	19.2	19.8	20.4	21.0	21.6	22.3
GDP/Capita (Δ %)	1507 (-0.9)	1494 (1.7)	1520 (0.7)	1530 (-4.1)	1467 (3.7)	1521

Source: Ministry of Plan and U. S. Bureau of Census for Population; GDP not available for 1982 but estimated at 7% by Minister of Plan.

^{1/} Decline was most severe for cereals (over 50%) but cereal production in '82 reportedly reached '78-'80 Normal Levels of over 4 million MT.

^{2/} Due primarily to stagnant tonnage and lower prices for phosphates.

TABLE 2

BALANCE OF PAYMENTS
(000,000 Dirhams)

	<u>Receipts</u>	<u>1980 Expenses</u>	<u>Balance</u>	<u>Receipts</u>	<u>1981 Expenses</u>	<u>Balance</u>
A. <u>Goods & Services</u>	13031.3	23015.4	-9984.1	16128.1	31290.4	-15162.3
1. Merchandise FOB	9504.9	14841.2	-5336.3	11807.5	19860.4	- 8052.9
2. Transport, Insurance	484.4	2023.6	-5139.2	548.9	2708.7	- 2159.8
3. Other Transport	472.4	269.7	202.7	573.2	274.9	298.3
4. Tourism	1785.0	385.0	1400.0	2050.0	485.0	1565.0
5. Investment Rev.	148.3	2360.6	-2212.3	186.5	3824.8	- 3638.3
6. Govt. Transfers	290.8	2818.7	-2527.9	340.6	3612.0	- 3271.4
7. Other Services	345.5	316.6	28.9	621.4	524.6	96.8
B. <u>Transfer Payments</u>	4927.7	532.4	4395.3	6177.8	651.2	5526.6
8. Pvt. (Remittances)	4522.3	311.4	4210.9	5800.7	317.0	5483.7
9. Public	405.4	221.0	184.4	377.1	344.2	42.9
<u>Current Account (A&B)</u>	17959.0	23547.8	-5588.8	22305.9	31941.6	- 9635.7
C. <u>Non-Monetary Capital</u>	8233.1	3621.4	4611.7	12898.7	4614.6	8284.1
(Private)	(1123.1)	(1570.8)	(-447.7)	(2776.2)	(1508.9)	(1267.3)
10. Commercial Credit	547.0	1182.6	-635.6	1809.0	1172.3	636.7
11. Loans, Investments	568.8	222.1	346.7	620.9	320.2	300.7
12. Other	7.3	166.1	-158.8	346.3	16.4	329.9
(Public)	(7110.0)	(2050.6)	(5059.4)	(10122.5)	(3105.7)	(7016.8)
13. Commercial Credit	851.7	378.0	473.7	1132.3	531.3	601.0
14. Foreign Loans	6237.6	1618.9	4618.7	8955.9	2493.8	6462.1
15. Domes. Loans	-	28.0	-28.0	-	39.4	-39.4
16. Others	20.7	18.7	2.0	31.7	24.0	7.7
17. Foreign Expenses	-	7.0	-7.0	2.6	17.2	-14.6
D. <u>IMF</u>	859.9	-	859.9	904.4	-	904.4
TOTAL	27052.0	27169.2	-117.2	36109.0	36556.2	-447.2

Source: Ministry of Plan, Office des Changes.

commercial terms, recent experience does not offer much hope that these can fill the gap in the short run, at least. Thus far, the government has been able to avoid debt rescheduling, and as long as the GOM can stay one step ahead of its creditors this is unlikely to occur - at least until after the 1983 general elections. In the past, undocumented financing from Arab oil producers, commercial borrowings and IMF drawdowns have been the equilibrating factor for both Balance of Payments and Public Finance.^{1/} However, the prospect of a decline in gulf state oil revenues is disquieting since major transfers from those sources appear necessary over the next several years.

The balance of trade, after some improvement in 1980, is deteriorating. Despite some growth in exports during the first seven months of 1982 import values grew even more rapidly and export coverage of imports fell to a current low of 44.7%.

	<u>EXPORTS</u> <u>(DH BILLIONS)</u>	<u>IMPORTS</u>	<u>BALANCE OF TRADE</u>	<u>VALUE OF EXPORTS</u> <u>AS % OF IMPORTS</u>
1979	7.62	14.34	-6.71	53.2
1980	9.65	16.79	-7.15	57.4
1981	12.00	22.46	-10.45	53.5
1982*	6.67	14.93	-8.26	44.7

*(First seven months)

(Source: GOM Office des Changes)

C. Exchange Rate, IMF Negotiations, Money Supply and Inflation

Since 1980, the Dirham has continued its rolling devaluation against a trade-weighted basket of currencies (high and low points only as follows):

^{1/} See FY '84 CDSS discussion of Arab contributions. No new information is available.

^{2/} The net flow of funds from Morocco to the U.S., noted in last year's CDSS at close to \$400,000,000, has increased in 1982 and will increase again in 1983 as higher interest loans come due and reflows must be paid with a devalued dirhams. Adding to this, commercial U.S. wheat sales have replaced supplies from the Common Market, spurred by an aggressive U.S. short term "mixed credit" program. In 1981 the U.S. moved to third place as Morocco's supplier behind France and Saudi Arabia, with a trade ratio of 11.5 to 1 in favor of the U.S. AID Loan reflows exceed the current value of the AID DA Program.

	<u>1/78</u>	<u>3/79</u>	<u>4/80</u>	<u>5/82</u> (Last available date)
Nominal Index	100		104.02 Hi	93.28 Lo
Nominal Index de- flated by Con- sumer Price Index	100	103.72 Hi		85.09 Lo

(Source: IMF)

The French Franc is the largest element in the currency basket, and here the devaluation of the dirham has been small since the franc itself has been devalued. The decline of the dirham relative to the dollar has been more dramatic than against the French Franc (from 3.7 in July, 1980 to a current 6.4 dirhams/\$). Petroleum and most wheat imports, phosphate exports and foreign loans tend to be denominated in dollars.

IMF "stand-by" credits have been extended to Morocco roughly on an annual basis since 1981 when a \$1.1 billion three-year line of credit was withdrawn because Morocco was unable to conform to the stringent IMF conditions attached. Terms of the stand-by arrangement call for reduced borrowing, a 10% cut in GOM investment expenditures, and measures to increase exports. The IMF also encourages reduction of consumer subsidies. In 1982 consumer and producer subsidies constituted about 10% of current budget expenditures. Moroccan officials are aware that subsidies are a costly drain on public resources, and there are indications that the GOM is exploring ways to achieve a gradual decline.

Inflation, according to the official cost of living general index (urban) was 12.6% in 1981. Official data is not yet available for 1982.

D. Public Finance

The dimensions of the problems of public finance and related constraints on investment resources are cause for serious concern. They bear strongly on Morocco's ability to sustain its development program, and have

implications for what USAID and other donors might realistically expect in terms of GOM response and commitment to new or more intensive investments in the economy.

1. Morocco's Budget

It is useful to note some fundamentals of the Moroccan budget-making process.

- The budget is a rather meager document. It is divided into operating and investment budgets and annexes where each ministry, (including but not differentiating its parastatals) is recorded as a line item. In this form, it is too aggregated for detailed analysis and is subject to constant change throughout the year in any case.

- Budget proposals from individual ministries remain informal even with acceptance of the total state budget. So many changes in expenditures are made during the course of a fiscal year that most ministries do not release their budgets to donors, noting that the budgets are not definitive.

- Normally the budget is close to being balanced but actual receipts, especially those derived domestically, may fall short at the end of each year from what was forecast. This means the expensive investment budgets are rarely realized and are best considered as a broad based statement of priorities and an intent to fund projects if money becomes available. In the last few years, revenues scarcely have been meeting operating and debt service obligations, leaving the investment budget short-funded. Parliamentary acceptance of a budget has little bearing on whether or not a ministry will receive the amount in its line item.

- Because of revenue shortfalls, the Ministry of Finance can and does block expenditures in the course of the year when domestic or foreign revenues do not develop as fast as anticipated. Planned expenditures blocked

during one year may or may not be released later in the year or the following year. Thus the Ministry of Finance in its role of financial overseer exerts considerable influence, usually of a restraining sort, on technical ministry activities.

2. The 1983 Budget

With the above caveats, the 1982 and 1983 budgets are summarized in Tables 3A-C. Table 3A shows government expenditures and receipts, 1979-81 (the last year for which figures are available). On the receipts side, the variability in loans, grants and parastatal contributions is notable.

For FY's 1982 and 1983 the investment budget as presented by the GOM increased from 16.8 to 19.1 billion dirhams (13.7%) per Table 3B. The Operating Budget, which is less susceptible to mid-year trimming, advanced 15.1% to 20.8 billion dirhams (\$3.3 billion at current exchange rates). Both percentage increases are slightly in advance of expected inflation. Public debt payments which stood at 2.08 billion dirhams in 1979, 2.54 in 1980, 4.33 in 1981 and 4.45 in 1982 are estimated at 5.70 billion for 1983, up 28% due to higher interest loans and the decline in the dirham relative to the dollar. For 1981, 4.33 billion dirhams represented 5.7% of Gross Domestic Product and 36.1% of Exports.^{1/} These figures will rise in 1982 and 1983 to levels which, by usual financial rules of thumb, are dangerously high especially given the very poor export coverage of less than 50% of imports.

With a forecast operating budget deficit of close to 4 billion dirhams (Table 3C) there would theoretically be no funds for the investment budget short of monetary creation and domestic or foreign borrowing. In these circumstances, factors which influence the judgment of the Finance Ministry in approving disbursements include projects already underway, labor intensity,

^{1/} 24.3% of exports plus private remittances, which reportedly advanced from 4.5 to 5.8 billion dirhams in 1981.

inclusion in the Plan, and availability of foreign financing.

Despite these problems, some progress in public finance can be discerned:

a. In the first six months of 1982, government receipts were 9.98 billion dirhams, up 22.7% over the corresponding six months of 1981 due to greater success in collecting taxes on high salaries and more heavily enforced customs duties.

b. In the same period, government expenses increased by only 8.8% to 10.90 billion dirhams with the deficit covered by domestic and foreign loans and advances from the Central Bank. The availability to repay these loans and advances is a continuing source of concern.

c. Subsidies for 1982 and 1983 were budgeted at the same level as 1981, and were removed from dairy and petroleum products. (Gasoline at \$2.08/gallon is heavily taxed and cross-subsidizes diesel fuel necessary for transport, farm use and electricity generation.) Producer and consumer subsidies in 1982 hover at about 10% of current budget expenditures.

d. For 1983, the Parliament passed a modified Value Added Tax applicable to non-food consumer goods. The Finance Ministry indicated that this tax will reduce under-reporting and other forms of fiscal fraud and will increase revenues from people and enterprises best able to pay.

3. Other Donors

The World Bank continues as the principal multi-lateral donor with project approvals again running at about \$250 - \$300 million in 1982. The level of IBRD activity reflects Morocco's overall high level of effectiveness in project implementation when resources are available. A proposed Structural Adjustment Loan was quietly dropped during the drought crisis, and structural adjustment ends are presently pursued largely through the IMF.

With an Indicative Planning Figure (IPF) of about \$20 million

Table 3-A

SIMPLIFIED GOVERNMENT EXPENDITURE AND RECEIPTS

(000,000 DIRHAMS; CURRENT)

	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>Operating Budget</u>	<u>10778</u>	<u>12539</u>	<u>15090</u>
(Personnel	6544	7709	--)
(Material	2437	3042	--)
(Diverse	320	391	--)
(Not Specified	1477	1397	--)
<u>Investment Budget</u>	<u>8660</u>	<u>8246</u>	<u>9615</u>
<u>Public Debt</u>	<u>2084</u>	<u>2542</u>	<u>4329</u>
<u>Budget Annex</u> ^{2/}	<u>1013</u>	<u>966</u>	<u>1282</u>
(Operating	576	608	836)
(Investment	437	358	446)
<u>Total Expenses</u>	<u>22535</u>	<u>24293</u>	<u>30316</u>
(Assumed Surplus or Deficit) ^{1/}	(-697)	(2579)	(-4547)
<u>Total Receipts</u>	<u>21838</u>	<u>26872</u>	<u>25769</u>
Direct Tax	3368	3552	3953
Customs	2897	3530	4208
Indirect Tax	4659	5487	5770
Stamp Tax	1186	1338	1396
National Domain	50	57	57
Parastatal Contributions	549	646	2084
Govt. Operations	292	441	535
Programmed Expenses Returned	89	107	149
Loans Domestic	7287	1150)	584)
Foreign	(NA)	5226)	5792)
Grants	512	4262	217
Credits Carried Over	2	17	0
Budget Annex (Operations)	948	1059	1024

Source: Maroc en Chiffres, Ministries of Plan and Finance.

1/ Assumes Investment Budget is fully funded.

2/ The budget annex includes allocations for such items as Post and Telecommunications and the Port of Casablanca which though not "off budget items" are categorized separately.

Table 3-B

GOVERNMENT BUDGET

(000,000 Dirhams)
(Current)

<u>Operating Budget</u>	<u>1982</u>	<u>1983</u>
Civil List and Expenses of the Realm	128.5	146.0
Personnel	10,368.9	11,633.4
Material ^{1/}	3,953.4	4,502.9
Common Charges ^{2/}	3,053.8	3,156.5
Contingency	<u>600.0</u>	<u>1,400.0</u>
	18,104.6	20,838.8
<u>Public Debt</u>	<u>4,450.0</u>	<u>5,700.0</u>
	22,554.6	26,538.8
<u>Investment Budget</u> ^{3/}	16,806.6	19,144.3
Including Budget Annex		

^{1/} Encompasses grants to public establishments, educational scholarships and bloc grants to local government.

^{2/} Includes 2 billion dirhams for subsidies.

^{3/} Excludes future funding commitments, "Credits d'Engagement", for 1984-89 and beyond of 55 billion dirhams and a total of 29 billion dirhams of previously committed but blocked credits rolled over to the current year ("Credits des reports").

Table 3-C

<u>BUDGET RECONCILIATION</u>		
(000,000 Dirhams)		
(Current)		
	<u>1982</u>	<u>1983</u>
Operating Budget Expenses	18104.6	20838.8
Public Debt Payments	<u>4450.0</u>	<u>5700.0</u>
Ordinary Expenses	22554.6	26538.8
Less Ordinary Revenue (Forecast)	22565.0	22637.0
Operating Budget Surplus or Deficit	10.4	(-3901.8)
<hr/>		
Investment Budget	16806.6	19144.3
Theoretical Financing Gap ^{1/}	(-16796.2)	(-23046.1)

^{1/} Assumes no extraordinary receipts although in fact some existing loans will be drawn down, new loans will be sought and commercial credit lines will be utilized. Investment budget does not reflect past or future year "credits", and will not be fully funded.

constant dollars over a five-year period, the UNDP program is increasingly concentrated in Agriculture, Professional Training and Marine Fisheries. Other UN specialized agencies continue programs in Rural Potable Water and Health.

France, other DAC countries and Arab States remain the chief bilateral donors. The problems of estimating Arab levels of ODA were described in the FY 1984 CDSS. French aid levels apparently held steady in 1982, despite rumored differences with the French Socialist Government. French aid mainly supports teachers, scholarships, import credits and non-project-tied technical assistance. There are indications that Arab contributions are increasingly being tied to projects and offered on less concessional terms. The German economic assistance program is about twice AID's DA level.

Increasingly, the financial difficulties of the government can be expected to have some impact on donor strategic planning and programming:

- The GOM's ability to undertake costly new investments, e.g. for such stated high priorities as fisheries, phosphoric acid production and natural gas exploitation, will be very limited. The availability of capital for lower priority investment is open to serious question.

- The tentative and fluid nature of the GOM budget process, coupled with a Five-Year Plan reflecting only modest attention to resource constraints, makes it difficult to ascertain true Moroccan priorities.

- New initiatives which cannot be shown as inscribed in the Five-Year Plan will be slow to win financing.

III. USAID PROGRAM

The following sections comment upon the ways in which the priority avenues identified by current AID policy for achieving our programmatic objectives (the "Four Horsemen") are being handled in the Moroccan program.

They also address the overall level and composition of our program in the planning period, staff resource needs, and strategic planning.

A. Policy Dialogue

As a general matter, USAID believes there are significant potential opportunities for productive policy dialogue on key issues facing Moroccan Development. Certainly given the relatively minor scale of our total resource transfer viz-a-viz the Moroccan needs (as well as the size of certain other donor contributions), we are in no position to execute "leverage" in the sense of quid-pro-quo conditionality. Nor would the state or style of our overall diplomatic relationship, or the deep-seated Moroccan sense of national sovereignty permit such a heavy-handed approach. On the other hand we do believe that by judicious selection of a few topics, the careful positioning of our program elements, the sustained cultivation of informal relationships, and first-rate analysis introduced with sufficient delicacy and persuasiveness, it should be possible to influence the direction of various developments of a sectoral nature. The reasons for this guarded optimism would include: a genuine openness on the part of senior Moroccan government officials to explore alternative paths out of their current problems; an ambience of goodwill toward America and Americans (at a high point given the "special" relationships between our current respective political leaders); and a high-degree of confidence in American technology, management know-how, and problem solving ability.

A few caveats are essential. Sudden and/or dramatic shifts in policy orientation are not likely under any but the most dire of economic-political scenarios. While the current macro-economic trends must lead one to consider the possibilities of such an eventuality, the Government has demonstrated an almost uncanny ability to maintain relative economic and

social stability in the face of adversity. Only a serious political or economic tragedy is likely to transform its deliberative, consensus-building style of leadership. Equally important, it should be underlined that we currently see little likelihood of the U.S. Government engaging the key decision-makers (essentially the King and his immediate Palace entourage) in a dialogue on major macro-economic issues. There are several reasons for this, but two are most relevant for this purpose: as noted, the level of our program assistance is not sufficient to command GOM attention on such issues; and secondly, we do not have at our disposal - and do not foresee having - a sufficient cadre of in-country economic expertise to penetrate the complexities of their financial problems (see Section II above), and prepare considered options that we can urge them to take seriously.

This is not to suggest however, that we need to - or can afford to - turn our back on such issues altogether. At both the Washington and field level we can, and are, making a concerted effort to stay abreast of IBRD and IMF negotiations and to gain access to their data, analysis, and recommendations. Where we believe it appropriate, we will independently associate ourselves with such recommendations.

Moreover, at the margin, we can try to influence the pattern of macro-resource allocation, as in recent efforts to press the GOM to maintain the relative budget priority of the rainfed cereals sector and to seek a broader role for the private sector (see below). To maintain such thrusts, much less to increase their sophistication and complexity will require additional economic support staff within the USAID.

In addition, at the program level we can support the maintenance of sound nationwide policies that appear to be moving in a sensible direction. Our substantial assistance to the Government's efforts at population control -

perhaps their single most critical, and manageable, long-run problem - is one example of such assistance. USAID's policy dialogue concerning population issues has been subtle, but extremely satisfying in its near-term results. The GOM continues to eschew explicit population pronouncements couched in neomalthusian terms, largely in deference to political and religious elements who would be compelled to respond negatively to such declarations. On the practical level, however, the Ministry of Public Health is applying USAID assistance to implement a family planning (FP) program at least as expansive and rigorous as those found in many, more "committed" countries. Under the policy rubric of reducing infant and maternal mortality, for example, the MOPH is proceeding to deliver contraceptive services door-to-door in eleven of Morocco's most populous provinces (comprising 40% of the total population). The Health Ministry is also looking to USAID to help expand nationwide availability of clinical FP services such as IUD-insertions and sterilizations.

USAID's success to date in contributing to this liberalization of access to FP services derives from very close working relationships with senior MOPH staff, and a conscious USAID effort to mirror the Ministry's own low key but deliberate approach toward broadening the availability of FP services. USAID expects that the GOM will continue to reply, over the near future, on donor assistance and the relatively narrow "health" definition of its FP program to maintain its current high-activity/low risk posture. The GOM will nonetheless continue to seek out targets of opportunity such as the Moroccan Royal Academy meetings and the recent (November, 1982) international meeting of the Maghrebian Population Association, to call public and official attention to broader population issues -- and thereby to establish an enduring legitimacy of the GOM's FP program.

We can also help to build up the GOM's institutional capacity to deal with

policy issues and resource trade-offs in a more rational, systematic fashion. One example of such indirect policy-support is the assistance we are making to the Ministry of Plan to enable them to insure that data from the recently completed census is properly analyzed and made available to the parties who can draw from such data in the policy formulation process.

Another example of how we are affecting sectoral policies is an AID contract where an American contractor, with an AID-financed computer and a software model of the Moroccan energy sector, has served as the catalyst for the development of a planning unit in the Ministry of Energy (MOE). With increasing frequency this capacity is being looked to in order to determine the economic feasibility of alternative energy-related investments and shape the pattern of budget allocations. Given the enormous current foreign-exchange burden of imported fuel oil (30% of all imports), and the recent tantalizing prospects of significant domestic gas finds in the Meskala Basin, the need for efficient allocation of these resources is obvious. One of the principal sources of data input to this model is the MOE "tutellary" ONAREP where a cadre of U.S. petroleum engineers from another AID contract are helping to both direct the exploratory gas-drilling operation and to draw up plans for the most efficient use of this resource under various assumptions as to its scale, quality, and accessibility. Thus, under these projects AID is building an institutional capacity to deal with broad sectoral issues, is influencing current decisions, and is providing information and access for USAID selectively to intervene in key policy issues (pricing, and the role of private investment both loom large) at appropriate times.

Our major programmatic thrust will remain in the Agriculture Sector. Projects now underway, including proposed expansions thereof, together with new activities proposed for the rainfed cereals sub-sector, will provide us

a significant presence in that Ministry, information, and assured access to senior management. In the upcoming rainfed agricultural project we hope to build-in a component of assistance to the policy analysis and evaluation staff of the Minister of Agriculture to enable them to make, for the first time, valid projections of domestic cereal crop production so that the Ministry can in turn utilize this information in making informed judgments about import requirements. (Our analysis of available data indicates little historical correlation between these variables.)

We also intend to capitalize upon our critical mass in this sector by maintaining a dialogue on selected policy issues which will often transcend the immediate scope of any given project. Prior discussions of "policy dialogue" in the agricultural sector have tended to focus on pricing issues (i.e., farm-gate support prices; input prices; and consumer prices). The premise has been that these issues were not only crucial in establishing the environment for successful interventions (which they are), but that they were likely to be currently inimical to the health and growth of this sector (far less certain), and that we could make a contribution to their efficiency (as yet unfounded). In oversimplified summary our findings to date, confirmed by contract economists and the World Bank, suggest that: (1) support prices are adequate (although implementation could be improved); (2) we have not uncovered any convincing alternative to input subsidies which would not serve as an effective disincentive to farmer (although input availability has been identified as a major constraint and will be addressed in the new rainfed project); and (3) while we know that consumer prices (particularly for bread-wheat) are far too heavily subsidized, the political ramifications of relieving this burden on the budget are so immense (the Casablanca riots still weigh heavily) that we do not feel equipped to offer a remedy other than to

provide support to the IERD/IMF remonstrations, to which the GOM seems to be quietly responding.

There are, on the other hand, a number of agricultural issues which are more relevant to our interests and competencies and which we intend to pursue (i.e., the notion of "appropriate conditionality"). The first of these is the extent of the GOM's commitment to the rainfed cereal sector. There has been no public - or private - backing off the priority espoused in the Five-Year Plan for this sector. However, tangible evidence of full support is still lacking, an issue which is exacerbated by the difficulty of tracking the allocation of budget funds. We have informed the Government (Mission Director letter to the Ministry of Agriculture) that we will look to an official endorsement of some version of the recent FAO/MARA draft strategy for cereals development, as well as high levels of budget commitment as earnest of the Government's continued commitment to this sector. It should be understood that these are not matters of simple maintenance-of-faith. The MARA/FAO plan calls for major policy innovations, and expenditures that exceed budget levels called for in the Five-Year Plan. Given the enormous fiscal difficulties facing the entire Government (see Part II) there are particularly high opportunity-costs associated with undertaking substantial new initiatives in this sector. Thus, as a practical matter a declarative reaffirmation is unlikely in the short term. In the meantime and until we have a better sense of how their priorities will sort out, we will wish to avoid any all-out commitment (i.e., programming a multi-year \$200 million package) to a sub-sector which they themselves may not be prepared to support at the level of their original expectations. We do intend, however, to proceed with a selective, incremental program that will enable us to influence the shape of their deliberations as they progressively evolve.

Other policy issues in this sector involve a more vigorous role for the private sector (particularly timely in a period when the government's capacity to invest in the sector is limited), and a strengthening of functional and organizational linkages among the institutions involved in agricultural research, education, and extension. We have formally notified the Minister of our continuing interest in these issues, but as a practical matter our understanding of their dynamics and possibilities is now too limited to enable us to suggest specific policies or programs. These will be the subject of continuing analysis in the coming years.

Thus, in agriculture as well as other sectors in which we have project involvement, we will continue to seek out opportunities to assist concerned government officials in making effective policy decisions. We will, for example, take special pains to structure mid-term evaluations to identify elements in the policy or institutional setting of DA projects which impede successful accomplishments of objectives. We will also seek to use the occasion of our release of annual dollar tranches in the amendment to program-agreements to register broad concerns that transcend project-operations.

B. Institutional Development

1. Agriculture

The principal elements of our agriculture strategy combine continued emphasis on strengthening the government's institutional capacity to conduct dryland research and train professionals in agricultural sciences, with new institutional initiatives in extension, planning and provision of productive inputs.

Extensive analysis done as the basis for USAID's rainfed agriculture strategy concludes that cereals production on unirrigated lands falls well below potential because farmers generally lack access to inputs, suitable

technology and credit; and to production and marketing services and information on available technology. The public and private institutional network to serve these functions, insofar as it exists, is neither reliable nor effective in the rainfed agricultural zones, particularly in areas of lower precipitation. A principal element of our agriculture strategy is to expand the scope of assistance to Morocco in order to build the institutional capacity to deliver services and inputs to farmers on rainfed lands in a timely, reliable and effective manner. The institutional development objectives outlined below and elaborated in the Rainfed Agriculture PID (608-0170) constitute a major new focus of USAID attention in coming years.

The extension function is one of the weakest links in the institutional chain in agriculture. Inadequate training and technical support are reflected in ineffective field operations. Bureaucratic fragmentation of extension and closely related functions is another major obstacle to ultimate impact on farm production. To address these constraints, the Rainfed Agriculture Program proposes to couple development of an on-going in-service training program for extension agents with implementation of campaigns to extend two existing new barley strains and related techniques in the low rainfall Settat region. Several key actors will work together to implement the barley campaign. The plant production division of the Ministry of Agriculture will provide seeds and other inputs, the division responsible for plant related extension will conduct field operations and a new in-service training center established under an IBRD project will assist in organizing and preparing extension agents. Farmers themselves will be asked to provide land and labor for demonstration plots. The initial phase of the extension operation will be limited in geographic scope and program aims so that techniques can be carefully monitored. By year five of the Rainfed Program, when demonstration

methodologies and institutional working relationships have been perfected in this limited context, the expectation is that parallel production campaigns will be initiated on a broader geographic scale to encourage use of other new cereals strains and related techniques that will be introduced over the next few years.

The second new institutional initiative in agriculture focuses on the Agriculture Ministry's Department of Planning and Economic Affairs. If this entity is to contribute effectively to policy formulation and program planning for rainfed agriculture, and the sector as a whole, it will have to progress from its essentially data gathering and storage operations to an office capable of a full range of analytic functions. The Rainfed Agriculture PID and background documents point to numerous critical weaknesses in the Ministry's analytic capability at both the macro-level (e.g. supply and demand in the cereals sub-sector) and the micro-level (e.g. farm production costs and factors affecting farmer resource allocation decisions). While much information is at hand on institutional constraints, little has yet been done to draw together in a form useful to agricultural planners what is known about technical and service needs as perceived by the farmer himself, and to fill gaps in this information base where they exist. The absence of this element in the planning process requires that much be assumed and makes it more difficult to enlist farmer involvement in programs which he may or may not see as in his immediate interest. Thus the area of micro-level farm research and analysis will be a matter for early attention as part of the Rainfed Program.

The third institutional element of the new Program seeks to promote wider farmer access to needed inputs and storage and marketing services. The specific initiatives comprising this aspect of the strategy are not yet fully defined, however the Moroccan private sector has an established

and substantial role in the process. The Rainfed Program now envisions assistance to cooperatives and other farmer associations in the area of storage, input distribution and credit. Some of these organizations will be essentially private associations, while others will reflect varying degrees of government involvement. Marketing of such inputs as herbicides, pesticides and equipment is largely the province of the private sector. One approach being considered to interest private firms in potential new markets is to enlist entrepreneurs in input demonstration activities organized by the extension service and targeted at small farmer groups.

USAID's active agriculture projects have institutional development objectives which bear upon implementation of the institutional aims described above. The third phase (through 1990) of our long-term Title XII Agronomic Institute project begun in the early 1970's to help develop a Moroccan college for advanced training in agricultural sciences is now in design. The Hassan II Agronomic Institute is the principal source of the highly educated professionals needed to plan, administer and assess governmental policies and programs to stimulate cereals production. The Institute already participates in implementation of the AID-assisted Dryland Research Project through social and economic research and supervision of graduate field research funded through USAID participant training channels. The new phase will give additional emphasis to training and research in those disciplines most directly related to agriculture. The Dryland Applied Research Project is being revised to provide the technical expertise and other resources necessary to accelerate the research activities (e.g., farm mechanization) and participant training for Moroccan researchers and counterparts.

2. Nutrition

USAID has a long-standing supportive relationship with the

Ministry of Social Affairs based upon provision, through Catholic Relief Services, of PL 480 Title II food commodities which MASA channels into an array of social service and welfare-oriented programs. The FY 1984 CDSS summarizes the rationale for our interest in a more mature donor relationship with MAAS characterized by greater effectiveness in resource use and progressively more assumption by the GOM of budgetary responsibility for the Ministry and its programs. The vehicle for this is the implementation of a \$3.5 million nutrition improvement project in the context of a gradual phase-down of Title II grant aid. This strategy remains essentially in effect, despite earlier determined resistance on MAAS's part to further reductions in Title II assistance. The phase-down of Title II food used in support of MAAS nutrition/MCH programs would commence in FY 1985 and extend through FY 1988. Title II assistance for other (OCF/FFW) MAAS programs is currently scheduled to terminate in 1984; however, in order to provide MAAS an opportunity for a more orderly transition, as well as to make the entire phase-out program more palatable, an extension of these elements is planned subject to an evaluation in the spring of 1983. USAID has also indicated to the Ministry of Finance our willingness to agree to limited allocations to MAAS over five years of local currency generations from future Title I programs to buy locally available food products to replace decreasing Title II contributions. We regard GOM willingness to do so as one indication of its own commitment to the MAAS activities we are being asked to assist.

3. Family Planning/Health

USAID has also supported the Ministry of Health for more than a decade in efforts to create an institutional capacity to maintain a nationwide family planning service. Based on experience gained in an earlier pilot phase (1977-80) of the project, efforts to expand availability of services

geographically began in 1981 and are now well underway. A complementary Health Management Project is helping the Health Ministry to improve its central planning, management, and logistical support functions. The FY 1984 CDSS treats these projects and plans for development of the FY 1984-88 phase of the family planning program in detail.

4. Energy

In FY 1980 USAID began a Renewable Energy Project designed specifically to create in the Moroccan Government the institutional capacity and professional expertise necessary to plan and conduct research on technologies to exploit Morocco's renewable energy resources, and to enable these resources to be weighed in decisions affecting national energy policies. Funding for this program will conclude in FY 1986 and no further assistance is contemplated. In addition, centrally-funded projects now underway aim at providing the GOM with a capacity to systematically project on a sectoral scale, the energy supply and demand picture, and to assess alternative energy policies with respect to importation, pricing, domestic resource exploitation and similar concerns. These centrally funded projects are extremely important to the GOM and enable AID to place American experts in positions from which they are able to substantially affect policy, ~~institutional~~ issues of coordination, and the functional capacity of the Ministry of Energy and Mines to implement its energy responsibilities. In order to assure continuity of services, and in order to maintain an American foothold in this important sector (for purpose of policy dialogue, as well as to press for the presence of private U.S. investors/contractors) USAID strongly supports continued funding of these activities at least through 1985. Our proposed assistance levels as presently constituted cannot accommodate continuation of the centrally-funded programs so we are recommending ST/Y funding for at least another year.

As a next step in our assessing our energy sector role, we are seeking an in-depth evaluation of the centrally funded energy project package.

C. Technology Transfer: Research and Participant Training

Morocco presents wide ranging contrasts in the levels of technology it employs and among those it can readily absorb. Though for the most part computers are just beginning to come into use as tools of management within the government and larger private enterprises, there are nonetheless some industries and commercial operations which could be classified as efficiently run and up to date technically. The phosphate industry, the port of Casablanca, and the new dairy industry would be so classified. At the other end of the technology spectrum is the average Moroccan farmer walking behind a burro and a camel hitched together to pull a wooden plow through rocky terrain. USAID's strategy for the 1980's envisions the introduction of new, more efficient and appropriate technology and techniques to both the Moroccan public and private sectors primarily through the vehicles of project-related technical advice, research and training.

1. Research

Research has been, and in the 1980's will continue to be, a large component of the USAID program. Future support will be directed toward research which promises improvement in productive opportunities and well-being for the poorer segment of the population, and which offers most immediate application to USAID objectives in food production, family planning, and energy use. At the same time, USAID will ensure that research results to date in these sectors are disseminated and put to use.

In agriculture our support of the Hassan II Agronomic and Veterinary Institute during the past decade has aimed at creating a Moroccan faculty and research staff and an applied research program emphasizing field work and applicability to specific needs and problems in Moroccan agriculture.

This goal will have been largely attained during the forthcoming five-year extension of this project. Thus, at our urging, AID-funded doctoral research being undertaken by prospective faculty members is now being conducted in Morocco. Two new strains of barley already developed under this activity may be the first produced and disseminated under the new Rainfed Agriculture Program.

The Dryland Agriculture Research Project finances U.S. technical expertise through a contract with the University of Nebraska to strengthen the field research capacity of the National Institute of Agricultural Research. Under recently arrived and highly effective leadership, an excellent team is fully engaged with its GOM counterparts in field-testing innovations in rainfed agronomy.

The existing research project is now being accelerated and expanded, e.g. with the addition of a small-farm mechanization component, as part of USAID's enlarged agriculture program. Our experience to date shows that agricultural research has largely been a self-contained activity lacking effective channels for dissemination of results. Establishing such linkages will be emphasized in the initial phase of the rainfed agriculture program for example in the form of USAID support for in-service training of extension agents who will conduct campaigns to introduce new barley strains in certain rainfed zones. In addition, AID has financed the most comprehensive small farmer attitudes and practices research conducted to date by the Faculty of Economics and Sociology at the Hassan II Agronomic Institute. The results of this survey are shaping the design of initial activities in the rainfed agriculture program. One such activity is initiation of sociological research and analysis as an integral part of the activities of the Ministry of Agriculture's Department of Planning and Economics.

USAID's Family Planning Support Program also strongly emphasizes research. Project resources have brought Ministry of Health personnel in contact with U.S. and third country researchers in conducting such studies as an ambitious contraceptive prevalence survey now in progress, which have immediate application in project planning. Extensive research of this type will continue to measure changes in family planning attitudes and practices as the project enters a major geographic expansion phase in the FY 1984-88 period.

The energy sector is the third important area of USAID emphasis for technology transfer and research. Through the Renewable Energy Development Project AID provides equipment and outside expertise to the Center for Renewable Energy Research. This assistance will enable the Center and the Ministry of Energy, in the next few years, to test simple solar, wind, biomass and small-hydro technology for low-cost application to regions of the country beyond the reach of existing or planned power systems. At the other end of the spectrum, centrally-funded assistance to the Energy Ministry's planning office is applying sophisticated computer modelling techniques to sectoral policy and resource allocation problems.

2. Participant Training

The new Sector Support Training Project (608-0178) is to be a principal means for transfer of U.S. technologies in the next decade. It will supplement specialized training components within AID projects now underway or being designed. Along with other highly technical subjects, that of management will be included. The project will fund training in management and business aspects of agriculture which are not addressed in any of USAID's more narrowly targeted agricultural projects. Through this project USAID will attempt to build up a critical mass of management, operations,

administrative and computer specialists to be placed at various levels of government as well as in the private sector, especially where a stronger entrepreneurial role can reinforce broader sector objectives, as in agriculture.

With such new data now at hand as the 1982 census provides, and from area frame sampling being extended to most productive agricultural areas, the project will provide an analytical means akin to the latest methods of data gathering now employed, and assist in providing the GOM with a much sounder base in its decision making.

One aim of the new project is to provide the training necessary at central and local government levels to plan and implement significant new Moroccan steps toward decentralization. In this respect USAID views recently evolved methods of data collection and analysis and organizational structuring and management, most being carried out in the context of fairly simple computer technology, as perhaps the most important technological input that the U.S. could provide at this time. It would take place at a juncture when Morocco is assessing recently acquired data, none of which is yet being handled in a way which would allow economic modelling, in preparation for programs which will do much to shape the economy and the society over the next twenty years.

D. Private Sector

The Moroccan economy is a complex admixture of traditional and modern sectors with the latter characterized by a broad spectrum of both private and Government activities. World economic conditions, the persistent drought, and the GOM's perception of its essential military requirements are among the principal factors contributing to the country's current economic doldrums. As in many LDC's it is probably also fair to attribute some

portion of the current malaise to the underlying structure of the economy and the GOM's inability to provide an environment that stimulates private sector activity. Certainly, additional capital could be mobilized and a more efficient allocation and utilization of available resources would ensue if the government were less deeply involved in various dimensions of economic activity.

Filling a vacuum left by the French at Independence, the Government copied the French model and established an extensive structure of parastatals in sectors that otherwise might be candidates for private sector activity. These latter operate under various forms of "tutelary" arrangements with Ministries, and while we do not fully comprehend the overall operation or impact of their activities, it is clear that they vary markedly in terms of their efficiency and effectiveness. Some, such as the phosphates office (OCP) and the Post and Telecommunications Department, are known to make net cash contributions to the Government. Others are characterized by inefficient management structures and practices and constitute serious drains on the national treasury. There are periodic declarations of the need for public corporation reform, including suggestions that some parastatals are writing "performance contracts" with their tutelary ministries in exchange for less control, but the results of such developments are not yet discernible.

Certain sectors have been reserved for the private sector (e.g., tourism, marketing, light industry, fishing, some minerals), yet private businessmen complain - perhaps predictably - that the various direct and indirect controls exercised by the Government preclude more active participation. Such controls include various approvals over investments, price controls, regulations over trade, the availability of credit, etc.

The 1981-1985 Plan calls for almost 70% of total investment capital to be supplied by the private sector and parastatals (the precise division is unclear), including private foreign investment. The need for the private sector to generate new economic activity is underscored as the Government finds its own resources increasingly strapped (see Section II). The Government has in place a number of special concessions designed to attract private investments, both foreign and domestic, into socially-desirable sectors and to galvanize entrepreneurial activity (e.g., tariff duty exemptions; industrial parks; moratoria on new taxes). Additional initiatives are included in the recently revised industrial investment code. A new Bilateral Investment Treaty now being negotiated with the United States is further evidence of the GOM's interest in expanding private foreign investment.

Yet, despite these measures, coupled with persistent exhortations from the King and his key Ministers for the private sector to fulfill its "public duty," it appears that domestic private capital mobilization at the levels contemplated has not been forthcoming. Unfortunately, there is little reliable data on such matters, but based on USAID and Embassy discussions with national business leaders, it appears that there is considerable capital flight and that private investment in the manufacturing sector remains well below its potential in both quantity and scope and is likely to remain so as long as the Moroccan economy remains stagnant and potential investors are frustrated by bureaucratic impediments. This is particularly unfortunate since it appears that there is a cadre of Moroccan entrepreneurial talent and investable capital available in this sector.

AID's response to these issues will take place in ways directed both toward discrete "private-sector" activities, and efforts to introduce a market-orientation and/or larger role for the private sector in the ongoing DA activities

of the USAID. The former activities fall largely within the province of TDP and OPIC. TDP has been active with colloquia and investment missions in the areas of mining, shale oil technology, and fisheries, but results are still inconclusive. These activities tend to be backstopped by the economic staff at the Embassy in this Country Team, but USAID stays involved in these activities and collaborates as appropriate. USAID may also wish to engage the services of an economic consultant to help us look more intensively at the most serious impediments to private investment, and to make recommendations for their relief, particularly in the agricultural sector. We will need the services of an in-house economist before considering this, however.

Within the portfolio of prospective DA activities, our principal efforts will be directed to enhancing private sector opportunities in conjunction with the rainfed cereals project. More focused attention is being paid to the introduction or expansion of private entrepreneurial activities in the introduction and development of both the input and technical assistance components of this project. The scopes of work for the project paper(s) setting forth this strategy will instruct the design teams to explore on a preferential basis utilization of private channels of supply, and the possibility of enhancing these with technical assistance functions, such as extension. Such possibilities vary within the geographic region established for the inauguration of this activity, and each will be tested for its replicability on a national scale. These include the formation of private cooperatives, and fostering the linkages between these and private channels of supply of seeds, pesticides, herbicides and possibly credit. Strengthening the private sector role in agriculture will be the principal private sector emphasis for this mission.

Another area of considerable potential may prove to be the

conventional energy sector, especially if the GOM determines it has substantial gas resources and that - as we suspect - it is unable to exploit these without private sector help.

E. PL 480 as a Resource for Intergration Development

The resurgence of PL 480 Title I proceeds as a major resource during the past two years was predicated mainly on the disastrous drought of 1981. From a developmental vantage point the continuation of high levels of assistance will be founded mainly upon the Governments's willingness and demonstrated ability to make effective use of local currency generations, and its effectiveness in drawing attention to broader policy issues. Moreover, they help to meet the serious balance of payments deficit, contribute substance to our overall political interest, and form an integral part of a package of USDA blended-credits which the GOM has accepted.

In both the last two years the local currency proceeds emanating from these sales were used to finance mutually agreed activities within the agricultural sector which could not have otherwise been undertaken because of critical budgetary constraints. These fell within three general categories of activities: reforestation; production, storage and distribution of new seed varieties; and local currency components of World Bank financed integrated agricultural projects. We are basically satisfied with the implementation of these understandings.

Starting in FY '83, the local currency generated by the sale of PL 480, Title I imports will be fully integrated into the ongoing A.I.D. program in Morocco. Discussions are now under way with the ministries concerned to earmark at least 80 % of the PL 480 proceeds anticipated during the ensuing years for the Rainfed Agriculture Production Project now being designed. A portion of these could be scheduled for use in funding the local costs of

GOM institutions undertaking an expanded role in various components of the rainfed cereals project. The greater part of these generations would be used to provide essential credits now lacking by farmers in the rainfed target areas. To facilitate the orderly management and tracking of these proceeds, we have formally proposed to the Government that they establish a "special account", but the outcome of these negotiations is still uncertain.

Over the next few years, PL 480 Title I generations would also be used in the context of a new Nutrition Development Project, providing the wherewithal for the GOM ministry concerned to identify and make available nutritious foods from the local market to gradually replace those now being provided under the Title II program. The latter would be reduced on a gradual basis over the next five years, with the locally procured foodstuffs eventually becoming the sole source of supply. The hydraulic relationship between the rate of reduction of Title II inputs and their displacement by local foods has been established but will be refined as these local foods are mixed and tested to maintain prescribed dietary standards. Our willingness to make available Title I resources for this purpose is an integral part of a strategy to reduce GOM resistance to the progressive phase over of Title II resources, and the autonomous assumption of the programs they have helped to finance.

The foregoing complete integration of PL 480 Title I resources into both DA technical assistance projects and Title II activities is in keeping with the latest AID/W directives on this matter. However, in doing this, there should be recognition that full integration in multi-year project activities in turn requires some assurance that Title I will indeed be a multi-year resource. The nature and scheduling of the rainfed agriculture costs to be underwritten by Title I proceeds has these distributed throughout the LOP, so it is understood that the PL 480 Title I proceeds will need to be projected

under the same types of caveats by which dollar funds are currently authorized over the life of projects.

In addition to the use of PL 480 Title I proceeds for developmental purposes, we believe the level of such assistance (reinforced by our current overall political relationship) is now sufficient to enable us to use the negotiations surrounding this annual credit as a platform for discussion of broader policy issues. At this moment in the development of our strategy, the principal target issue is the level of GOM budgetary commitment to rainfed agriculture. (Given the serious budget difficulties facing the GOM, the level and use of Title I generations in themselves begin to constitute a means of shaping such budget allocations.) Whether or not we will wish to include language in the self-help section of annual agreements on this or related issues will be determined as our negotiations evolve.

F. Program Levels and Composition

In response to a heightened perception of our national diplomatic and strategic interests in Morocco, and in recognition of the opportunities for productive intervention in key economic sectors, the aggregate level of U.S. bilateral development assistance over the next few years is programmed to increase. Development Assistance levels should increase from \$12 million in '83 to considerably more than \$20 million by the end of the planning period, PL-480 Title I levels should be maintained at at least \$25 million annually; Title II levels through the volags should begin a progressive descent starting in about 1985, (although in aggregate levels this may prove to be offset by the provision of Title II emergency food to meet the periodic, but predictable droughts); and AID will be positioned to make effective developmental use of ESF. The overall progression of these levels is demonstrated in section IV below.

We expect the composition of the program portfolio will change rather dramatically between the early and late 1980's. We intend to continue the strategy of both narrowing the range and shifting the focus of our project activities. The smaller USAID program of the late '70's and early '80's was heavily weighted to the social, education, and welfare sectors of the economy. These activities will be allowed to phase out (in some cases on an accelerated basis) and new programs of this sort - whether regionally or centrally financed - will not be undertaken. Rather - as discussed in last year's CDSS - the new programs under development will be concentrated in the two principal areas of rainfed agriculture and population planning. The agricultural sector, in particular, will benefit not only from increased levels of DA, but a concentration of PL-480 Title I proceeds, and ESF funds. USAID believes that this shift in program priorities will increase the likelihood of our making an impact on the rate of national economic growth and a positive impact on policies in this sector; even

more significantly, as a concomitant, it offers greater opportunities for enhancing the long-term economic and social well-being of the average Moroccan citizen.

Within the population sector, we are prepared to move as fast as GOM willingness and effective delivery capacities allow. Within the rainfed agricultural sector, we are working within the parameters of a national figure of \$200 million of assistance over the period 1984-1989 which was indicated to the King during his visit to Washington in the Spring of 1982. We believe there are ample opportunities in the rainfed sector for effective deployment of resources in this order of magnitude - subject to two principal constraints. As noted in section III-A above, the first of these is the willingness of the GOM to commit its own resources to a major effort in this area, and to organize its priorities to do so - as will be evidenced by its eventual treatment of the FAO/MARA plan for cereals development. The second is AID's own ability to find a sufficient number of talented, French-speaking agriculturalists, both in the USAID staff and in the contract/academic community, to capitalize upon these opportunities. Without reasonable satisfaction on these two points over the next year or two, USAID may wish to recommend an alternative strategy.

There is a third area where our programs are now modest, and will remain so at least through FY '84, but which bears special mention because of its enormous potential for high-payoff intervention; that is the conventional energy sector. Depending upon how the gas fields now being intensively explored prove out (we should know by late 1983), the efficient use of this resource for Morocco's balance-of-payments and overall economic well-being will be of the utmost significance. Moreover, it is clear that in the near term the GOM will not have the capacity to manage and direct such developments. AID has a strategic foothold in this sector and should be prepared to capitalize upon it under the

right circumstances. The possibilities for influencing policy issues and private sector development are considerable. For the moment, however, USAID is not recommending any program shift in this direction, and we would not foresee recommending a program that violated agency guidelines concerning the appropriate limits on the scale and nature of such assistance.

G. Staffing Levels

The workload burden on the Rabat Mission is on a sharp upward trend that is not yet reflected in manpower levels. Development assistance is scheduled to grow from a current 3-year average level of about \$12 million to over \$27 million by the end of the planning period. Although span-of-control problems that might otherwise ensue will be relieved by a greater concentration and focus of program activities, that will not be sufficient to counterbalance the overall activity increase. (one manifestation of this is an increase in the number of U.S. contractors from 10 to almost 50 just within the last two years.) Just as significantly, workload pressures are created by the introduction of a new funding source, ESF, in 1984; the negotiations and oversight problems related to \$42 million HIG projects which appear ready to ripen; initiatives required to make developmental use of PL 480 Title I; and the Mission's efforts to establish a policy dialogue on selected issues. In the face of this rising tide of work-requirements, both in quantity and quality, the current staffing levels (16 USDHs as opposed to 18 five years ago when the DA program was \$7 million) are in need of increase. Requirements for economic skills, planning and design help, agriculturalists, and further support in special-projects staff (housing/energy) will more than offset planned decreases in the human resources staff. We will define our specific additional requirements for both USDH and local staff in the ABS, as well as what "must give" in the event such additional help is not forthcoming.

H. Strategic Planning

USAID/Rabat subscribes to the principals of strategic planning. In fact, the foregoing CDSS is the product of such a process. The current programmatic focus on population control and rainfed agriculture flows from several years of deliberation, among many interested parties, concerning the constraints facing the long-range equitable development of Morocco, and how AID might most effectively impact on these constraints.

IV. PROPOSED ASSISTANCE PLANNING LEVELS (PAPLs)

FISCAL YEARS

(IN THOUSANDS OF DOLLARS)

CATEGORIES	1984	1985	1986	1987	1988	TOTAL
AGRICULTURE & RURAL DEVELOPMENT	11,200	13,030	16,300	20,000	24,000	84,530
HEALTH	1,600	370	-	-	-	1,970
POPULATION	2,500	4,500	4,200	4,300	3,000	18,500
EDUCATION & HUMAN RESOURCES	3,700	3,100	2,500	700	-	10,000
SELECTED DEVELOPMENT ACTIVITIES	-	-	-	-	-	-
ECONOMIC SUPPORT FUND	7,000	-	-	-	-	-
TOTAL AID	26,000	21,000	23,000	25,000	27,000	122,000
APPROVED PROJECTS	9,600	8,105	6,500	6,500	4,535	35,240
PL 480	35,500	36,500	31,500	31,500	29,000	164,000
TITLE I	25,000	25,000	25,000	25,000	25,000	125,000
TITLE II	10,500	11,500	6,500	6,500	4,000	39,000
HOUSING INVESTMENT GUARANTIES	-	25,000	-	25,000	-	50,000

PROJECT TITLE AND NO.	L/G	PERIOD OF FUNDING	LOP COST	OBLIGATIONS THROUGH FY '82	(COSTS IN THOUSANDS OF DOLLARS)					
					FY '83	FY '84	FY '85	FY '86	FY '87	FY '88
AGRICULTURE, RURAL DEVELOPMENT & NUTRITION				29,361	7,680	11,200	13,030	16,300	20,000	24,000
DOUKKALA IRRIGATION (0127)	L	76-83	13,000	13,000	-	-	-	-	-	-
DRYLAND AGRICULTURE APPLIED RESEARCH (0136)	G	78-88	19,491	4,342	-	3,645	3,204	3,300	3,200	1,800
RANGE MANAGEMENT IMPROVEMENT (0145)	G	80-85	5,075	2,800	1,400	875	-	-	-	-
RENEWABLE ENERGY DEVELOPMENT (0159)	G	80-86	8,600	3,919	1,500	1,880	1,301	-	-	-
AGRONOMIC INSTITUTE (0160)	G	80-90	22,335	6,300	1,800	2,000	3,000	3,200	3,300	2,735
APPROVED PROJECTS TOTAL				29,361	4,700	8,400	7,505	6,500	6,500	4,535
NEW PROJECTS TOTAL					2,980	2,800	5,525	9,800	13,500	19,465
RAINFED AGRICULTURE (0170)	G	83-91	42,000	-	2,980	2,800	3,200	3,500	3,700	3,800
RANGE MANAGEMENT II (0177)	G	85-89	5,000	-	-	-	1,600	1,700	1,700	-
OTHER: NEW AGRICULTURE PROJECTS	G	85-92	-	-	-	-	725	4,600	8,100	15,665

PROJECT TITLE AND NO.	L/G	PERIOD OF FUNDING	LOP COST	OBLIGATIONS THROUGH FY '82	(COSTS IN THOUSANDS OF DOLLARS)							
					FY '83	FY '84	FY '85	FY '86	FY '87	FY '88		
HEALTH				1,585	2,000	1,600	370	-	-	-	-	
HEALTH MANAGEMENT IMPROVEMENT (0151)	G	81-84	2,185	1,485	700	-	-	-	-	-	-	
FAMILY PLANNING SUPPORT II (0155)	G	78-84	100	100	-	-	-	-	-	-	-	
APPROVED PROJECTS TOTAL				1,585	700	-	-	-	-	-	-	
NEW PROJECTS TOTAL					1,300	1,600	370	-	-	-	-	
NUTRITION DEVELOPMENT (0168)	G	83-88	3,270		1,300	1,600	370	-	-	-	-	
POPULATION PLANNING					1,150	2,500	4,500	4,200	4,300	3,000		
FAMILY PLANNING SUPPORT II (0155)	G	78-84	10,834	9,684	1,150	-	-	-	-	-	-	
APPROVED PROJECTS TOTAL				9,684	1,150	-	-	-	-	-	-	
NEW PROJECTS TOTAL			18,500	-	-	2,500	4,500	4,200	4,300	3,000		
FAMILY PLANNING SUPPORT III (0171)	G	84-88	18,500	-	-	2,500	4,500	4,200	4,300	3,000		

PROJECT TITLE AND NO.	L/G	PERIOD OF FUNDING	LOP COST	OBLIGATIONS THROUGH FY '82	(COSTS IN THOUSANDS OF DOLLARS)					
					FY '83	FY '84	FY '85	FY '86	FY '87	FY '88
EDUCATION AND HUMAN RESOURCES				12,663	1,420	3,700	3,100	2,500	700	-
INDUSTRIAL & COMMERCIAL JOB TRAINING FOR WOMEN (0147)	G	78-84	3,236	3,236	-	-	-	-	-	-
DEVELOPMENT TRAINING AND MANAGEMENT IMPROVEMENT (0149)	G	78-84	4,497	4,497	-	-	-	-	-	-
SOCIAL AND ECONOMIC RESEARCH (0154)	G	79-84	450	450	-	-	-	-	-	-
SOCIAL SERVICES TRAINING (0157)	G	80-86	5,400	3,280	320	1,200	600	-	-	-
STATISTICAL SERVICES (0162)	G	80-85	1,500	1,200	300	-	-	-	-	-
APPROVED PROJECTS TOTAL				12,663	620	1,200	600	-	-	-
NEW PROJECTS TOTAL				-	800	2,500	2,500	2,500	700	-
SECTOR SUPPORT TRAINING (0178)	G	83-88	9,000	-	800	2,500	2,500	2,500	700	-

