

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



MOROCCO

**COUNTRY DEVELOPMENT
STRATEGY STATEMENT**

FY 82

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FOR MOROCCO

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FY 1982 COUNTRY DEVELOPMENT STRATEGY STATEMENT

MOROCCO

1. INTRODUCTION

Things have not turned out as we thought they would a year ago for the FY 1981 CDSS. We had postulated a strategy which envisaged using our assistance to encourage the Government of Morocco to devote more resources to programs focusing directly on the poor by (a) project activity which would create financial and disciplinary pressures for more GOM resources for that project, sub-sector or sector and (b) discussion with the GOM on a macro level about reallocation of Moroccan resources, again to focus greater developmental effort on the poor.

We recognized a year ago that our task was a difficult one for we were a small donor, Morocco was historically averse to advice from foreigners on macro planning questions and the Moroccans were likely to think that they knew more about the needs of their country than we did. Nevertheless, we thought we might make some progress with our two-pronged tactic.

The reality turned out to be different -- both better and worse. Better because we found in a number of sectors not only a new eagerness for assistance but an enthusiasm which frankly surprised us. We intend to discuss at some length the reasons for the new Moroccan attitude for they color what we should do in the future. On the other hand, we have got nowhere in our macro discussion.

Whom to talk to was always a difficult organizational problem. There is no true Ministry of Planning and the Ministry of Finance is not responsible for long-range development. The problem was compounded by a government change soon after last year's CDSS was written. We had thought that a dialogue might be possible with the Prime Minister's office but that office, which handles the affairs of some donors, (different donors are backstopped by different entities) became less important in the new government organization. The possibility of a joint commission for Morocco has also been discussed but, from our point of view, aid affairs under joint commission aegis are usually not dealt with very effectively and, however a subcommission on aid might be insulated from larger political questions, such a subcommission would still remain a political animal. The frequently broached idea of yearly working level meetings has also not reached the point of fruition, partly because of the government reorganization and partly because of the internal conflicts in the GOM as to who should be the lead point.

More important than all of this, however, has been what has happened to the Moroccan economy and to its budget. Moroccan resources available for development in 1979 were lower than before and lower than anticipated. While it might have been possible to make some resource allocation changes in an expanding economy, with a larger budget, resource reallocation in a situation where resources for all ministries were already being lowered was politically and economically infeasible. The situation in our own country is not any different. In Morocco it would be difficult, for example to take money away from higher education, where the pressures for more education from the politically most articulate groups in the society are already great,

and to divert such resources to primary education. Were the economy expanding one could, of course, add resources to primary education without reducing higher education, thus changing the emphasis. A little of this is being done but the limitations of what is possible are real. The same case can be made for almost any sector.

This CDSS is, therefore, written against a bleak economic picture but with a much heightened sense of optimism about working effectively in selected sectors and the probability that such work will eventually lead to a more promising resource allocation situation.

2. THE MOROCCAN ECONOMY

Twenty-five years after independence, Morocco finds itself in a difficult economic situation. It is paying for a development investment policy which has, since independence (1955) emphasized infrastructural, industrial and mineral development to the detriment of agriculture; emphasized irrigated and coastal export-oriented agriculture to the detriment of interior dryland agriculture and food grain self-sufficiency; is (since 1975) paying for a war in the Sahara; suffering from continuing bad times in Europe, affecting exports and causing more limited worker remittances; reaping less-than-hoped-for benefit from tourism; faced with potentially serious competition from the southern tier of the EEC countries which tend to produce the same agricultural commodities which Morocco can most easily export; and paying for the large increase in the cost of energy imports and servicing of debt. Even in those areas of GOM emphasis, for a variety of historical and other reasons (the Moroccans miscalculated on the rise of phosphate prices; limited post-colonial land redistribution led to production decreases), many programs, projects

and enterprises have not succeeded as well as they might have. It is probably less than useful to take apart these often intertwined reasons for where Morocco finds itself today. There is, for example, some controversy as to the importance in the present economic malaise of the Sahara war. Assuming Saudia Arabia is covering much of the foreign exchange cost of this war, and since thus far increased military mobilization has been limited (though it is now scheduled to accelerate), it is difficult to see why the cost of the war in material terms should be as all-resource consuming as is sometimes suggested. (The real cost is in human terms, in political terms and in the fact that the war consumes the attention of Morocco's most able brains.) From the point of view of the economic maneuverability which the Government of Morocco has, the portion of blame arising out of each factor is obviously less important than the final result: a squeeze on resources which is longer lasting than had at first been predicted. 1980 was supposed to be the last "austerity" year, but problems will continue.

The economy now is showing some signs of dislocation as the result of planned austerity measures initiated in 1978 to counter the serious budget and BOP deficits. Coverage of imports by exports rose in 1978 but still hovers around 50 percent. The balance of trade deficit is covered by remittances from Moroccan workers in Europe, tourism and foreign loans or supplier credits. It is questionable if, in the short run, the improvement in the balance of trade can continue. Food and energy imports which rose in 1977 and 1978 will increase further in 1980 and beyond. Capital good imports which fell rapidly in 1978, will have to increase to benefit agriculture and industrial growth and prevent exports from stagnating.

Moroccan manufacturers and food exporters are complaining about shortages and delays in receiving final equipment, spare parts and packaging goods. The government has promised selected relief from some of the stringent import controls.

In the longer run, the government strategy seems both clear and sensible. It has little control over imported energy prices (Morocco is almost totally dependent on imported oil) and it has, therefore, launched a campaign to conserve energy and is seeking actively to develop all potential domestic energy sources. Not unlike the U.S., it is finding energy conservation a difficult matter to put across and the efforts, thus far, have not been very successful. The government also seeks, through diplomatic and commercial channels, to protect the flow of worker remittances, promote tourism, hold existing European markets for exports (especially citrus and vegetables) and seek new markets as a hedge against the threat of competition from new southern EEC members. As the sustained campaign to irrigate a million hectares nears completion, much needed attention can be focused on dryland grain producing regions. The success of these longer run efforts will depend partly on factors beyond Morocco's control and partly on the government's ability to implement policy and administer programs, an ability in which Morocco is no worse off than most AID-assisted countries, yet where its performance is not strong.

At present, the man in the street knows that jobs are hard to find and that prices are moving inexorably upward. The urban cost of living index, based upon a 1971 'market basket', advanced 19 percent in 1978 (compared to 14 percent in 1977) and 9 percent annually through the

first nine months of 1979. These figures probably understate the true inflation rate. As ameliorative measures, basic food commodities continue to be price controlled and the minimum wage has been increased.

According to preliminary figures, the Treasury deficit for 1979 has been reduced. Export coverage of imports has risen to 55 percent. Gross domestic production grew 3 percent in real terms (thus only matching population growth) despite the weak performance of agriculture. The government announced increased prices for major crops destined for internal consumption. The income tax exemption was doubled from 3000 to 6000 dirhams and new consumer and income taxes were directed at the rich. Firms were asked to curtail layoffs and to increase employment by 5 or 10 percent. An emphasis was placed on small and medium size firms under a revised investment policy which also favors dispersion of industry in 25 zones away from the crowded industrial heartland of Casablanca. Finally, the rich were asked to reduce their conspicuous consumption and everyone was urged to pay taxes as an act of patriotism.

Morocco's current economic recession masks a lot of questions. For the first two decades of its independence, Morocco, as has been said, continued to pursue an infrastructure and industry production development strategy -- development from the top -- in effect, trickle down development. Part of this was because the Moroccans believed that this was the best way to develop their country and to assure the well being of their people. Partly it was a matter of no choice: one could hardly not put in that extra portion of resources needed to complete an already costly piece of infrastructure largely built up during the colonial era. The development

strategy which Morocco followed is different from the one AID espouses, but it is not inherently evil or necessarily maladroit. One test comes in the eating. Would the products of growth in the modern sector eventually be used for the benefit of the poor? Would growth be trickled down or would it be plugged up? Would a massive GOM strategy change make things worse for both growth and equity? The current recession obscures the answer to this question. Whether Morocco will do well in BHN terms once it emerges from the current short and medium term problem remains in doubt. There are forces in the society working both ways. On the one hand, the key elements upon which the present regime rests -- the wealthy, particularly the land holders, the Army, the urban proletariat -- either benefit or are not seriously harmed, by and large, by the trickle down approach. On the other hand, Morocco is not immune to the winds of change and is sensitive to the image which it presents to the rest of the world and particularly to Moslem and African countries. There are many influential Moroccans within and outside the government who represent a strong force for change and who are strong espousers of social conscience programs. One of the arguments for the AID program in Morocco is our influence, small and indirect though it be, in strengthening this element.

Within these broad confines the auguries are good. The FY 1979 austerity budget, aside from increased military allocations, did provide operating expenditure budget increases over FY 1978 of 15.33 percent in education; 17.67 percent in agriculture and 8.48 percent in health. On the investment side, increases were 85.0 percent in education (not necessarily a good thing, as we shall explain below); 20.0 percent in agriculture; and a decrease of 18.8 percent in health explained partly by large earlier outlays on infrastructure.

A preliminary examination of the FY 1980 budget reveals a continuation of the trend of increased attention to the social sector. Agriculture shows an 11 percent increase over FY 1979 on the investment side; health 1.6 percent and education 7.8 percent. Operating budget increases are approximately matching.

It should also be noted that support for joint GOM/AID activities is unaffected and remains good. Partly this results from funds having been programmed ahead in less lean times. But Morocco has also demonstrated a commitment to joint endeavors which has been honored. Morocco also continues to finance a Trust Fund to support USAID administrative costs.

3. OTHER DONOR ASSISTANCE AND DONOR COORDINATION

Although Morocco gets considerable quantities of aid from a variety of sources, it is particularly difficult to present a true picture of the importance of this aid to the economy. Assistance from the Arab oil producing countries is substantial and represents by far the largest bloc of external assistance, but the amounts are not known and a large percentage may be devoted to military purposes. Moreover, much Arab assistance, particularly from Saudi Arabia and Kuwait, comes in the form of lines of credit, the draw-down on which is unclear and the totality of which is particularly susceptible to double counting. The World Bank expended about \$135 million in 1978 with commitments for 1979 up sharply to \$350 million but with considerably lower draw-down. IBRD loans, in line with Bank policy, have shifted emphasis from capital intensive projects (infrastructure, irrigation and industry and tourism) to projects aimed at the alleviation of poverty (education, farmer credit, small scale enterprise, rural electrification, water supply, slum upgrading). France is by far the largest bilateral donor with an estimated contribution

of \$200 million in 1978 (although a large part of this is cultural in content and another part subsidizes the permanent or semi-permanent French resident population in Morocco). France, the U.N., Belgium and East European countries are the biggest technical assistance donors.

There is no central Moroccan ministry which coordinates aid assistance and various aid donors deal with different ministries. (We deal with the Ministry of Finance.) The United Nations does little coordination; the World Bank has no permanent Rabat office. Rabat is a small city and the Moroccan elite whose members occupy all important government posts is small, interrelated and well informed. On the informal plane, therefore, there is a good deal of knowledge about what each ministry does, what each donor is doing and has been asked to do, and how it all dovetails. This informal awareness of who does what has important ramifications which will be discussed later.

U.S. agencies work well together and there is strong coordination of projects and programs with the Peace Corps. Three current or projected projects have important Peace Corps inputs and there is also considerable involvement of voluntary agencies in joint and separate projects.

4. STATUS OF DIALOGUE WITH GOM

Language is one of the keys of our (AID) relationship with Morocco. Morocco is a country in which secondary and higher education is conducted in a foreign (French) language which is sometimes the second and sometimes the third (after Moroccan Arabic and one of the three kinds of Berber) language which a child learns. Impregnated as French is in the society, it has not been historically present for very long (some 70 years).

Morocco, accordingly, finds itself needing to conduct business in a foreign language whose roots are not historically deep and which, as it turns out, does not even provide a sufficient technological and scientific base needed in many disciplines to deal with a complex outside world. It is this set of circumstances which explains the urge to learn English and some of the interest in America and things American. We believe this is one of the important factors in Morocco's new found enthusiasm for American economic assistance.

"No body politic is healthy until
it begins to itch". Heywood Broun

A second factor is the present recession. AID provides, sometimes quite visibly, projects and project prospects which allow the GOM to demonstrate a concern for the poor. This at a time when the GOM frequently cannot afford the resources necessary to demonstrate its own concern without outside assistance. We believe that this growing Moroccan concern -- partly real, partly synthetic -- is irreversible. We do not believe the clock will be turned back or that the pressures generated for resource allocation in the sectors in which we are involved will be withstood. Paradoxically, therefore, the very recession which dooms our macro economic dialogue to failure provides one of the reasons for our success in selling our programs and concepts in a variety of sectors and ministries.

While economic aid is not particularly important in comparison with military assistance, it is, nevertheless, a political factor which also needs to be included. Morocco not only wants aid in various sectors but it wants to be seen as receiving economic aid as an offset to the more important signs of support it seeks on the military side.

It is these three factors which, in our view, explain what cannot be mere coincidence: the receptivity in population, in health, in vocational education, in energy and in housing which we found in the last year. The size of the program which we could engender in these and other sectors is limited only by our time and by size of staff limitations, lack of a sense of grandeur and by common sense. These aside, there is no practical limit to how much we could do. Even absent the sort of over-all program-wide planning tete-a-tete which would be intellectually most comforting (although given resource lacks not particularly conducive to resource reallocation) USAID contacts with various line ministries are astonishingly close. The atmosphere between USAID and many of these ministries was usually friendly, but there was no feeling in the past of colleague speaking to colleague and of continuing close contact with high and middle level officials as is the case now. (There are several ministers in the government with whom members of the staff talk at least on a weekly basis.) Where we have been able to cultivate the favorable soil, good projects and project possibilities emerge. Moreover, where we have technicians of quality, our influence is being felt and the traditional frontier between taking advice on small points versus taking general policy advice is beginning to break down.

Given the reasons why Morocco wants U.S. economic assistance, the possibility of getting alternative assistance from other sources is frequently irrelevant. In certain areas, the Moroccans are convinced that we provide the best and in certain areas they are right, but for the reasons stated, the factor of the U.S. being a window to the outside is particularly important. We are not, in the areas which we are hacking

out for ourselves (vocational education, housing, certain aspects of agriculture, energy and population/health) a donor of last resort. When we are asked to do something, there has already been a conscious decision not only not to go to a Francophone country but specifically to go to an English speaking one. Since the U.K. is not interested in development assistance in Morocco, that leaves Canada and the U.S. and the Moroccans probably estimate that they have exploited the Canadian channel about as deeply as they can. For our part, we are conscious of our inability to do everything and of how thinly we are stretched, but that still leaves a wide area to be covered. Even so, there is considerable other donor input in many of our projects and in sectors in which we work. The Agronomic Institute, where we are one of several donors, is a good example.

Under these circumstances, Moroccan failure to obtain more American private investment is curious. True, the Moroccan economy has been historically developed to be complementary to that of France. True, Moroccan trade and commercial practices are attuned to those of France. True, that while Morocco makes some effort to attract investment, it is not very good at it. True, American investors are, on the whole, lethargic in this geographic area and those who have an investment here have had less than shining experiences. Nevertheless, given the strong Embassy effort to encourage investment (including the prospective use of reimbursable technical assistance) and given the factors alluded to on the economic aid side, the lack of success on the investment side is disappointing. The economy has, however, unquestioned potential for investors and future successes may be possible.

5. MOROCCO AND ITS POOR

We noted in our paper "A Statistical Distribution of Morocco's Poor" (1979) that:

"Modern, capital intensive industries rely heavily on imported inputs and external markets, while people in the traditional sectors lack the income to purchase the output of the modern sector. At the same time, the modern sector lacks the employment generation characteristics to absorb the burgeoning labor force and government revenues are hard pressed to provide adequate transfer payments to meet the basic human needs of the population in the traditional sectors."

"Modern/traditional" and urban/rural household expenditure levels were in a ratio of about 2.1 with an estimated 44 percent of the total population (almost 2 1/2 million urban and 6 million rural) living below an arbitrary poverty line expenditure level of \$250 per capita. High relative concentrations of the poor were found in the four mountain zones and the dry pre-Saharan interior. (We know, but cannot systematically demonstrate, that increasingly large numbers of the poor live in the slum areas of Casablanca and Rabat).

Our analysis was based largely on a multipurpose household expenditure survey and a general census of population and housing, both conducted in 1971. These were and still are the latest available data for all of Morocco's population, including the urban and rural poor. What has happened to the dynamics of the situation and the evolution of income and delivery of services to the poor in the intervening years? We do not know and will not know in detail until processing of urban employment, education

and migration surveys is completed and the scheduled 1981 general census of population and housing and specialized post-census surveys are conducted. Also expected shortly is a U.N. basic human needs report but the analysis in this report will, perforce, be limited to the same outdated data sources.

Nevertheless, some tentative conclusions on the dynamics of income growth and delivery of services can be made. The poor are unquestionably paying more for goods and services now than they were 10 years ago. In current dirhams, prices of a fixed market basket of food, clothing, housing, transport and other services has virtually doubled from 1972 through September 1979. Food prices have exactly doubled in advancing slightly faster than the general urban retail cost of living index. Recent annual inflation rates have varied from 7 to 15 percent. The degree to which inflation, personal income growth and distribution of expenditure has rearranged the market basket is unknown. Some tentative and indirect evidence can be interpreted to indicate that disparities have increased. However, through price controls on some food items and recent austerity measures, the inflation rate has tapered off in the latter part of the period, if month-to-month cost of living statistics can be relied upon.

This obviously poses the question of whether real income growth matched inflation and this leads one into the thickets of Moroccan national income accounting. In current dirhams, GDP advanced briskly. In constant dirhams of 1960, annual growth rates varied between 1.4 and 9.8 percent from 1971 to 1976 when the series stopped. Commencing in 1977 and working backward to a 1969 base, a new series was initiated to capture income streams felt to be poorly represented in the old series.

For comparable years, the new series averages 33 percent higher than the old series in current dirhams. Unfortunately, the detail is not well developed. Household consumption, for example, on the expenditure side of the accounts, is derived by subtraction to equilibrate with the sum of sectoral contributions on the generation side. The sectoral contributions which appear to have grown fastest, such as services and commerce, are the same sectors which are least susceptible to external verification. In sum, we have little faith in the aggregate household consumption estimates and, in any case, as in all such aggregates, we have no notion of distribution between the rich and the poor.

Population is estimated to be growing by over 3 percent a year. The constant dirham series of GDP divided by estimated population shows a typical annual advance of 4 or 5 percent, barely ahead of population growth. Even this meager performance is dependent upon the rather soft GDP account estimates.

We are on somewhat firmer ground in assessing the aggregate picture of service deliveries, particularly in the key public health and education sectors. An infant is slightly more apt than 20 years ago to have been born in a public health facility. Births in such facilities have increased from 45,000 to 94,000 between 1960 and 1978, for a rate of 4.2 percent per year, slightly ahead of population growth. Under a rough assumption of 750,000 births per year, only one in eight births occurs in a public health facility, though the rate of increase has accelerated in recent years. The same is true of hospital admissions which are advancing with the rate of population growth. Consultations of all sorts are growing slowly and average two per person per year. Thus, it can be said that

the average Moroccan does indeed come in contact with a public health facility, although the word "average" masks a lot.

The total number of hospital and health center beds has remained constant but this has been due to the closing of TB sanitoriums and the corresponding expansion of bed space in hospitals and health centers. Occupancy rates have been stable at 70 to 80 percent. The growth of public health outreach facilities has been quite pronounced, although problems of efficient management of the existing budget in terms of training and stocking need attention. Health centers have increased from 185 in 1972 to 239 in 1978. There are 100 centers in urban areas (40 percent of the population is urban and some of the centers in small towns serve a rural clientele), and 139 in rural areas. From 1971 to 1978 dispensaries increased from 602 to 809 (200 urban and 609 rural). The public health budget between 1971 and 1979 tripled and expenditure per capita has more than doubled but inflation reduces the real value of the increases. Similar expansion of village and urban water supply, electricity and a major urban sewerage program are underway, but accurate estimates of coverage of the population cannot be made.

A poor young Moroccan is more apt to be in school now than a decade ago, but the standard of education is declining for many reasons, but in part because a larger base means enrollment from more homes where parents and older siblings are illiterate. Expansion of educational opportunity has been marked. Primary enrollment has increased between 1970 and 1979 from an estimated 29 percent to 39 percent of the school age group which, itself, is growing faster than the total population. Primary enrollment

has doubled in this period to over two million students, 97 percent in public schools. Koranic schools are not included in this figure. Annual growth in primary enrollment is 6,3 percent. Girls have advanced from 33 to 36 percent of primary enrollment. Encouragingly, the dropout rate for girls is the same as for boys, The percentage of young women in the university population had advanced from virtually nil to 24 percent. Secondary school enrollment has advanced at 11 percent per year, even more rapidly than primary enrollment. Unfortunately, the traditional system of education does not meet Moroccan needs. (See below.)

In agriculture, the picture is bleaker. Agriculture's contribution to GDP has declined from 32 percent to 25 percent according to the old series, or remains stable at about 20 percent according to the new. During the same decade, food products slipped from 53 percent to 32 percent of exports. Food products fluctuated around 19 percent of total imports by value. In 1974 the positive trade balance in food products became negative. Morocco has slipped from a net exporter to a net importer and is failing to feed itself with all the obvious repercussions that this has on the poor. We shall, however, discuss some hopeful auguries below.

This picture, while far from rosy, is probably less bleak than many interested observers outside of Morocco believe. Moreover, when one looks at what has happened to the Moroccan economy since independence 25 years ago, the disparity between the rich and the poor is probably less than might have been anticipated. When USAID looked for country performance indicators in the social and economic sectors, we found the following stood out:

Life expectancy increased from 45.4 years in 1960 to 53 years in 1975 while, during the same period, the crude death rate per 1,000 fell from 21 to 15.

Literacy grew from 14 percent in 1960 to about 25 percent currently. We have already indicated the growth in school enrollment.

Agricultural production grew at an annual rate of 2.3 percent from 1960 to 1978.

Industrial sector production grew at a real annual rate of 4.4 percent between 1960 and 1976.

We cite these figures, not all of which are wholly reliable, precisely because they are unimpressive. As our section 102 presentation demonstrated this year, there has been more progress and commitment to equity than is generally appreciated. It may be a far fetched defense, but it appears to us that the Moroccan problem is fundamentally lack of growth itself, or too slow growth, rather than maldistribution of resources. Maldistribution -- a nearly universal phenomenon, would be of far less importance in Morocco if the country were able to maintain an acceptable growth rate. If AID can contribute to this end in the key productive sectors, we can help the basic human needs of the poor, even apart from the BHN skew of our particular efforts.

6. P.L. 480

USAID regards PL 480 as a development resource like any other. Much of what is said in this CDSS applies to PL 480 as much as to HIGs and development assistance. Nevertheless, there are special considerations in the cases of Title I and Title II which have to be dealt with individually.

(The matter of Title III does not arise in Morocco for many reasons, the most obvious of which is Morocco's GNP.)

The rationale for continuing the Title I program in Morocco is largely political. From the point of view of tilting the GOM toward a greater focus on BHN, Title I is largely irrelevant. It is true that we attach self-help provisions to Title I and that we have made these provisions focus much more on the needs of the poor in recent years, but this linkage could be achieved in other ways and it is not a particularly useful tool for influencing the GOM. What remains as rationale for this program is its unique feature of quick response to GOM needs both because of the rapid flow of resources which it releases into the economy and thus because of its obvious responsiveness in meeting short-term foreign exchange difficulties. It is our position that the Title I spigot should not be turned off; that this form of economic assistance should be an available option and that the levels should be in line with past levels and not appear derisory to Moroccan eyes. This U.S. support augments what the United States is able to do for Morocco in other realms. Beyond this, however, we do not argue for a high level of assistance, nor can we really say that the difference in support between a 100,000 metric ton program and a 200,000 metric ton program is significant in over-all balance of payments terms for an economy hovering at around \$15 billion (1980) GDP with food grain imports approaching 3 million tons per year. Our strategy does not, in the final analysis, depend upon the aggregate level of aid input; it depends on the financing of enough of the kind of projects which will facilitate our efforts to prod Morocco into eventually redirecting its resource allocation.

The case of Title II is totally different. We have argued in the past that there is a political and socio-political importance to this activity and that it lies as a centerpiece of U.S. aid efforts in Morocco. It is generally acknowledged that the political element exists and is strong, but it is probably wise to factor it in after the economic and social arguments are made. Some of this argument will be contained in a paper to be prepared by USAID early in CY 1980. For the purposes of this discussion, let us assume that the present Title II program is targeted correctly from a nutrition viewpoint and that it is well run. The second assumption is generally accepted; the first will be further elaborated upon in the 1980 paper.

The main difference between Title I and Title II is that the latter program is specifically and to a unique extent targeted on Morocco's poor. It is the one economic program with wide outreach throughout the country but with a specific tilt toward those areas and groups most specifically identified as the poorest in the country by our 1979 paper "A Statistical Distribution of Morocco's Poor".

According to our calculations, the cost of this program is just slightly more than \$20 million per year. This cost estimate includes GOM, USG and CRS costs. We have somewhat arbitrarily excluded costs for personnel in all organizations whose responsibilities include, predominantly, activities other than Title II. On the GOM side, we have also made some heroic assumptions excluding, for example, officials in the field who spend more of their time now on Title II than on anything else but whose presence in their present positions would be required whether or not a national Title II/Entraide Nationale program existed. We have included all commodity, warehousing, inland transport and ocean freight costs on

both the U.S. and Moroccan sides.

On the beneficiary side, we estimate that there are slightly over 500,000 enrollees. It is true that some of the participants are not in a position where they absolutely require government support to stay alive and/or to escape the worst kind of squalor. The availability of food undoubtedly has some effect in drawing in more marginal participants. Nevertheless, the vast majority of participants do need the help that this program provides and were it not available the GOM would have to meet their needs in some other way. Leaving aside, therefore, the small grey area of marginal participants, the cost per beneficiary of this program is a little over \$40 per person per year.

This calculation raises several questions. To what extent is the service needed? What would happen if the program didn't exist or was sharply reduced? Second, can the service be provided more cheaply in some other way? (It is not only a question of money but also a question of the use of Morocco's human resources.) Third, how would alternate ways of providing for this group of needy be financed? Fourth, assuming alternate ways can be found and other than PL 480 financing obtained, when would it be reasonable to make the changeover? Over what period of time could the changeover be carried out? Fifth, how can the present program, while retaining its eleemosynary qualities, be moved into a more developmental direction and how can this movement itself become part of any changeover in ways of mounting the present program or in financing alternatives?

Our best judgment is that feeding programs for the population now benefitting from Title II must continue. The precise degree of malnutrition in Morocco is subject to a variety of interpretations and will be a focus of our 1980 nutrition paper. There is no doubt, from the evidence accumulated in our 1979 paper on the distribution of Morocco's poor, and from the evidence cited of the rise of prices for basic goods above, that over one third of Morocco's people live below a poverty line and need help. Given Moroccan laws and mores affecting women and women's rights, the high rate of divorce and abandonment of women and children and the ensuing non-support by men of their families, the plight of women with small children, who are the principal beneficiaries of the Title II program, is severe. Entirely aside from the importance of feeding programs in supporting activities which train women to be producers, there is the real need to provide the nutritional underpinning which the plight of the beneficiaries demands. We believe that, given the compounding of misery that a sharp reduction or termination of Title II would engender, the GOM, despite the budgetary pressures under which it finds itself, would be forced to finance, in effect, its own Title II program. It is not so much that the GOM would find the political pressure unbearable if the program were terminated (the rural poor are not the political flash point in Morocco) but that social conscience could not permit this extra load of misery to descend upon the poor. While we are not here dealing with the political implications vis-a-vis the U.S., it is clear that an abrupt cutoff of Title II or a sharp reduction which would force the GOM to maintain its own program would have extremely serious consequences in

how the Moroccans see the U.S. and U.S. willingness to be helpful. Moreover, on the social side, there would be major difficulties in USAID simultaneously espousing a BHN aid philosophy and cutting Title II.

If then, phase-out/rapid phase-down and/or immediate takeover by the GOM is not recommended, is the present way of subventing the poor the best and cheapest way of going about it? From the point of view of money, we do not see a better way. Logically, it should follow that a special system of supply and distribution is more expensive than a system under which all food grains were supplied and distributed through commercial channels with the GOM subventing distribution at the local level by monetary inputs. (This of course leaves out of consideration the much greater concessionality of Title II versus commercially procured food grains even if they, too, have a concessional element.) In fact, the economies to be made in this society by a unified system of distribution do not seem to be all that great. The local organization of Entraide Nationale would need to remain in place and the savings that could be effected otherwise would be more than eaten up by the lessened concessionality of the food grains and by the need to put in place a considerable degree of control to preclude excessive graft. If this argument has merit it, of course, applies no matter where food grains are obtained (U.S., EEC) if they are obtained at a reduced rate of concessionality. Cash input (or Title I sales for Title II purposes -- which we understand are possible under the new PL 480 legislation) are subject to the same considerations.

Of course, it would be possible to finance the present system without making any change in the supply and distribution mechanism. Moroccan

financing is subject to the objections already raised. Financing by the EEC, through its concessional food grain commodity programs, is a possibility but the concessionality here is less than under Title II and the supply subject to even greater uncertainty than Title II. The same applies to U.S. Title I. What remains is the possibility of financing these programs with money rather than food and, certainly, this is a viable alternative. As far as the U.S. is concerned, however, assuming a mechanism could be found to effect such financing which is consistent with our legislative needs, it is difficult to see where the money would come from -- certainly it would be subject to uncertainty as great as, if not greater than, Title II. In our view, all that remains is for Moroccan development programs, particularly on the education side, to take hold in such a way as to reduce substantially the number of people needing help from feeding programs. The Ministry of Social Affairs is working at making its educational efforts more economically targeted at employment creation and we are helping at the edges in a number of vocational activities. But, given the economic framework of high unemployment and recession in which these efforts are taking place, the time frame for success is a long one.

Does the present program, however, in its very availability impede Moroccan thought and action? Does the very availability of cheap food slow down the creation of programs to make that food unnecessary? There is some evidence that this is so. Entirely aside from the calls upon Title II from other countries and the increase in prices of food grains which the U.S. supplies -- both factors arguing for a phase down of the program -- USAID supports an eventual phase down for the above incentive reasons. In our view, however, such phase down is premature during the

present Moroccan economic squeeze and premature from the point of view of the taking hold of the various vocational education and other programs. For just as Title II may be a disincentive to launching other programs, it fuels U.S. efforts to help the GOM start up programs such as these which are the best long term hope for being able to terminate eleemosynary programs.

We argue, therefore, for a much slower phase down and a more gradual phase out which will take into account the larger economic picture and progress in agricultural production where we can also be an actor. (See below.) We suggest maintenance of the present program, or as close to it as traffic will bear, until FY 1984, under the condition that we will start right now with the GOM on a discussion of phase down and what comes next and that discussion will be incorporated in formal agreements and commitments on the part of the GOM and ourselves.

The foregoing discussion focuses exclusively on the main part of our Title II program -- that administered by Catholic Relief Services and Entraide Nationale. The small American Joint Distribution Committee (AJDC) program is subject to different considerations and has a different social rationale. It should be continued for the foreseeable future at present levels.

7. MOROCCO AND THE U.S.

We do not have the space to make the full case for Morocco's political importance to the U.S. There appears to be general agreement, that as a moderate Arab state, Morocco's importance is real and probably growing. Moreover, over the years, Morocco has given every indication of friendship

for the U.S. and interest in being associated with the U.S. and receiving U.S. support -- political, military, economic, cultural and perhaps moral. We work well with the present government and on the economic side there is a good degree of mutual trust.

From Morocco's point of view, it is difficult to think of an alternate government which would do as good a job as this one does -- this despite all of the faults and failures which we discussed in our FY 1981 CDSS. With all of these faults, this is not a government which, in terms of world wide norms, is repressive. There are not many people in jail for political reasons. Discussion of political and social issues is relatively open. Labor unions, strikes, multiple political parties and vocal students all exist. No one looks over his or her shoulder before criticizing government actions and the police and security apparatus is reasonably unrepresive. The press, which is terrible in quality and often sycophantic is, nevertheless, under loose control and there are opposition organs and some dissenting articles; the Monarchy and Islam are sacrosanct but that's about all. In human rights terms, Morocco does quite well.

The problem arises on the economic side. If one believes that a full stomach and the provision of essential services is part of freedom, then Morocco has not done well by many of its citizens; its failures have been failures in the selection of "right" policies and in making the policies selected work. There are some signs of change which can easily be sniffed. The proof would lie in long term development plans, budget appropriations and actual allocations. Because of the financial crunch, it is not clear what the government would have done had circumstances

permitted; i.e., whether there has indeed been some real change of tactics. Within the serious limitations in which Morocco finds itself, augeries, as we have said, are good, but that's about all that can be said.

We have a large country of some 20 million people which has not pursued a BHN strategy historically, which is undergoing hard times and which may, or may not, wish to move in the direction of programs more focused on the poor. We have a country friendly and open to us which has sought our help and is getting it, both on the military and on the economic side. On the economic side, it is a country which seeks our help in precisely those areas which are philosophically to our liking. Perhaps this is because the GOM has finally learned enough about us to know what we will or will not finance. But perhaps, and this is more likely, an important factor in the change that is detectable in the last year is Morocco's wish to escape in a number of fields from exclusive reliance on France and French ways and means of doing things, coupled with a positive desire and faith in U.S. technology and expertise.

There are, therefore, a number of sectors and sub-sectors where Morocco's wishes for assistance and AID priorities coincide. In these sectors and sub-sectors, a case can be made that U.S. project inputs will inevitably lead to continuing demands for the kind of services that are being established. When we phase down, these demands will have to be met by the GOM and this will form support for those in the GOM and in the larger Moroccan society who feel they must do more for their people. Despite the GNP, despite the look of the modern coastal irrigated sector, all of this takes place in a country the number of whose poor equals the population of four of the Sahel countries.

8. SECTORAL EMPHASIS

The situation we have described in the FY 1981 CDSS, modified by the discussion above in this CDSS, imposes on us, as one of the obvious strategies, a pattern of working in Morocco in individual sectors and sub-sectors without great regard for the larger macro picture. Such a strategy has some obvious pitfalls: it is staff intensive and difficult to manage and it does not necessarily obtain maximum political effect or, at least, it does not obtain such effect at minimum cost. The staff intensive problem is not so much that the strategy requires more direct hire personnel -- though some increases may be called for. Rather the problem lies in the retail approach -- a technician, under whatever auspices or arrangements, costs the USG upward of \$100,000 per year! No other strategy, however, appears to us to provide what we consider the essential core or reason for AID presence in Morocco: that such presence, to some degree at least, changes the way Morocco delivers services to the poorer elements of the population and has some effect, eventually, on Moroccan resource allocation for programs which focus on the needs of the poor.

From a tactical point of view, there is an obvious problem with this strategy. It is difficult to demonstrate that a particular level of assistance is required. Heuristically, everyone would agree that there is a threshold level below which it does not make sense to carry on. But we are not talking about this hypothetical threshold level. The question which arises is, at some level higher than threshold, where should we stop? USAID readily admits that there is no logical answer to this

question which demands \$25 million rather than \$20 million per annum. The level really has to be determined by adding up the sectors, involvement in each one of which is also subject to a threshold minimum. In looking over each sector and sub-sector, as we shall begin to do now, the question we asked ourselves, and which should be asked of us, is whether involvement in the particular sector is desirable/necessary. The depth of involvement which obviously must also be examined, is really a less difficult question.

Another question also involves threshold. Is there a minimum number of sectors or sub-sectors in which our involvement is required to make our program credible and to make our "beyond sector" goals achievable? We have set ourselves a litmus test: does either our involvement in a particular activity have or can it have an important effect on how Morocco does something and/or is there an eventual, probable/possible effect on allocation of resources to that activity, or sub-sector or sector in which the activity is located?

In effect, the sectoral emphasis means a high option strategy which makes considerable demands on the Bureau's non-SA funds, on Bureau ceilings for small staffing increases in USAID/Rabat and on time by Washington staff, both in Washington and in Morocco, to help us formulate and run the program.

9. POPULATION

Five years ago, although the population growth rate in Morocco, as now, was over 3 percent per annum, this section would have been blank. Even two years ago there would have been little to say, although the need was such that we were on the point of launching the VDMS project in Marrakech. This is the perspective from which the present situation should be viewed. When field visits to Marrakech by USAID and AID/W staff take place and serious, indeed, fundamental weaknesses in project implementation are noted, they also need to be viewed from this perspective though, of course, without complacency and with a need to take corrective measures.

During the past 12 months, there has been more and more intensified rhetoric about population at high levels of the GOM as well as considerable positive action in strengthening government sponsored family planning services. As in most societies, but perhaps more than in many of them, rhetoric is a prerequisite to action in Morocco. In November of 1978, King Hassan II punctuated a speech to Parliament with comments on the urgency of addressing the demographic problem, calling for an international seminar to study Morocco's demographic situation and recommend corrective actions. This speech was followed by more pointed comments by the Prime Minister leaving little doubt that the government was thinking of strengthened population control measures as well as increased agricultural production to alleviate problems caused by the country's rapid population growth.

The proposed international seminar has not taken place but the pronouncement of November 1978 did have a positive effect on the willingness of GOM ministries to adopt bolder measures. One official

commented that family planning had now emerged from its clandestine period. In more specific terms, there follow some real actions taken by the GOM in the past year which we view as positive and significant.

- Palace-directed changes in top leadership of the Ministry of Health (MOH), with the three principal policy makers being strong family planning advocates;
- insistence on the rapid completion of the Marrakech VDMS project (an AID-sponsored pilot household visiting program which makes contraceptive information and services available at the doorstep of the 1.2 million persons in Marrakech province);
- a reaffirmation of the intent to expand household delivery services to the next three provinces (Beni-Mellal, Kenitra, El Jadida) beginning in early 1980 and, eventually, to the rest of the country; planning is well advanced for this expansion;
- a policy decision to permit paramedical workers in the nation's 900 dispensaries to prescribe and supply oral contraceptives for new acceptors (previously, only doctors in the 200 health centers and hospitals had this authority);
- a decision and a signed agreement to launch a National Training Center for Reproductive Health in Rabat, which will train paramedicals and physicians in advanced techniques of fertility management, including surgical contraception, and which will open circa April 1980;
- a step up in the training of administrators, paramedicals, technicians and physicians in family planning methods and programs;
- the installation of two new laproscopes in Fes and Meknes,

- accompanied by public announcements of the new service;
- strong support for the development of a computer-assisted audio-visual presentation (RAPID) for Morocco, to be used by the Ministry of Health to inform and convince senior GOM officials and opinion leaders of the interrelationships between rapid population growth and various sectors of the Moroccan economy;
- the launching of a National Fertility and Family Planning Survey aimed at providing accurate estimates of fertility and mortality on a national level, as well as other useful information on family planning needed for improved planning.

It may be useful to take a closer look at what we believe to have been the positive results of just one of the above-mentioned activities, the Marrakech VDMS project. We divide these into two categories: "hard" and "soft" results.

Among hard results:

- 30,000 pill acceptors in Marrakech city alone;
- baseline data on all women in rural areas and on 51,000 urban women useful for research and planning;
- an MOH decision to expand VDMS to other provinces right away, without waiting for the final results of the Marrakech pilot effort;
- the MOH decision to permit paramedicals to distribute pills to new acceptors in the nation's 900 dispensaries;
- the training of several hundred paramedicals in family planning methods;

- MOH agreement to consider Marrakech province as a testing laboratory where innovative family planning and basic health delivery systems may be tried out, following completion of the VDMS program.

Among soft results:

- pride in doing something demonstrably positive, for a change;
- confidence in themselves and in USAID;
- improved collaborative relationships: warm, productive, promising;
- willingness (eagerness) to consider new AID interventions and to seek AID assistance, not only in family planning;
- increased competence in the design, execution and evaluation of family planning delivery programs;
- desensitizing with respect to possible political repercussions;
- recognition of existing demand for family planning services, even in rural areas;
- better USAID understanding of mechanics of GOM internal financing.

We believe that some of the so-called "soft" results may be more far-reaching and more important than the "hard" results.

Programatically, USAID believes we need to proceed with the VDMS program as quickly as possible, beyond Marrakech, in CY 1980 to Beni Mellal, El Jadida and Kenitra provinces and beyond, nationally, as soon as feasible. We need to add on whatever the traffic will bear to present VDMS programs related to medical and paramedical problems. We need to proceed with our efforts in education of Moroccan officials, physicians and technicians and we need to, with the help of U.S. and international private organizations, institute new efforts in such areas as population education.

Changed atmosphere notwithstanding, and important as it is, the program must eventually be judged by results. It is too early yet, but results will need to come. With all due hesitation, we offer the following projection against which to judge ourselves and the GOM:

MOROCCO: PROJECTIONS OF NEW ACCEPTORS BY METHOD, 1980-1984
(Ministry of Health Only)

I. ORALS ¹	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	r ²
	A. Real Data	59.8	63.8	80.0	91.9	110.1	-	-	-	-	-
B. Derived Values											
1. Linear Regression	55.4	68.3	81.1	94.0	106.9	119.7	132.6	145.5	158.3	171.2	1.00
2. Exponential Curve Fit	57.6	67.5	79.1	92.6	108.6	127.2	149.1	174.7	204.7	239.9	0.98

II. IUDs

A. Real Data	7.5	5.9	8.4	11.5	16.1	-	-	-	-	-	-
B. Derived Values ²											
1. Linear Regression	-	5.4	8.8	12.2	15.5	18.9	22.3	25.6	29.0	32.4	1.00
2. Exponential Curve Fit	-	5.9	8.3	11.6	16.1	22.5	31.3	43.7	61.0	85.0	1.00

III. CONDOMS

A. Real Data	4.9	7.8	8.5	9.2	14.9	-	-	-	-	-	-
B. Derived Values											
1. Linear Regression	4.8	6.9	9.1	11.2	13.3	15.5	17.6	19.8	21.9	24.0	0.9
2. Exponential Curve Fit	5.3	6.7	8.5	10.8	13.7	17.4	22.1	28.1	35.7	45.3	0.9

¹ NOTE THAT VIMS results are not included in the above data and projections. VIMS can be expected to double or triple the number of new acceptors of oral contraceptives wherever it is well applied.

² Derived values for IUD projections are based on real acceptor figures for 1976 through 1979 only, as 1976 is presumed to have been the bottom of the previous acceptance cycle, and IUDs seem to be making a strong comeback.

10. HEALTH

In Section 5 we have already indicated, to some degree, how Morocco is providing health services to its people and what progress it has made.

For a number of reasons, we conclude that health is a strong opportunity sector for U.S. involvement. First, Morocco is not managing its health sector resources particularly well and management weaknesses are precisely in areas where the U.S. is strong and could be helpful (See below). Second, given our hesitation to face frontally the formal education morass (see below), health is the sector of the economy where considerably better services could be provided for the poor and where we know something about how this might be done. Third, improvements in programs would make a real difference in how people live. Fourth, health programs would, in many ways, make the propagation of family planning easier and would lessen the risk of backlash against population activities. Fifth, health elements could be a relatively uncostly add-on to population activities. Sixth, in the Ministry of Health, largely because of our involvement in population activities, we have a Minister and senior staff anxious to work with us and easy to work with in a professional and collegial relationship.

The difficulties are almost the other side of the coin. There are able people in the ministry but the ministry is thin and already over its head in dealing with various donors, including ourselves, and in managing its own program. (We sometimes find that when we take up health questions with the ministry it merely means that our counterparts do

not have time for us on the population side.) The disorganization of the ministry and of health services in Morocco means that unless this can be put right, very little else can or should be done in the immediate future.

Our general conclusions are that:

a. The estimated morbidity and mortality structure suggests that dirham for dirham, prospective public health outreach activities will be far more cost effective than future investments in curative treatment facilities.

b. In this period of tight budgets, fixed budget items in the operational budget and financing for new physical facilities in the investment budget squeeze out needs for the functioning of the health system.

c. Costs of services have not been identified or evaluated. There is no systematic way to direct or control utilization of health resources into priority activities. Budget requests at the national level are controlled by non-technical staff who use administrative, rather than health, criteria for establishing resource requirements. Budget rubrics at both central and provincial levels are almost never program specific. (For example, the item for gasoline in a provincial budget is intended to power ambulances for emergency treatment, for limited transport of referrals from health centers to hospitals, for medical supervision of hospitals and health center operations, for mobile clinics, school health, hygiene and sanitation, health education and patient followup.)

d. Resource allocation at the local level is the prerogative of the doctor in charge who normally has little or no orientation to public health.

e. Given the present distribution of health facilities and dispersed habitation patterns of the rural population, preventive health care will continue to be expensive unless community health activities can take over and be better managed and supervised.

These managerial problems are not only serious in themselves but feed the already strong tendency to stress centralization, curative health care and a strong skew to provide services for the rich, i.e., elitism. We believe the USAID strategy should, therefore, stress managerial and system analysis in the first instance. We are working on a project to do this. Without the information that this project would help develop, it is difficult to go the next step and to provide further assistance, not to speak of establishing goals and long range plans. Such goals and plans would need to take into account the availability of help from a number of other donors, bilateral and multilateral. There will be opportunity for such a broad look since in health, as in agriculture and other sectors, Morocco is at a point where much of the infrastructural and capital intensive projects which have had a long gestation period have now been built or at least financed.

On the potable water sub-sector, USAID has, for some time, been trying to devise a potable water project in one particularly poor province (Ourzazate). Because of jurisdictional problems between ministries responsible for such activities, this project has not got off the ground. We are still trying.

But this attempt, potentially useful because of its replicability and its suitability for AID/Peace Corps cooperation, is at best small scale, time and labor intensive and retail. USAID is simultaneously pursuing the possibility of a larger project in potable water for small towns, but this is at an early stage of discussion.

It is premature to think of a sector loan or to engage in sectoral studies in health.

11. AGRICULTURE

In our FY 1981 CDSS we discussed several of the difficulties facing our agriculture program in Morocco. In Section 5 of this CDSS, we briefly limned the sorry state of the Moroccan agricultural sector and its decline in recent years. While there have been some minor changes for the better (in the staffing of the Ministry of Agriculture; in more emphasis on dryland agriculture), the situation has not changed grosso modo. Cereal production fails to increase; in the important livestock sector, red meat production continues to increase at only about 1.5 percent per year and even the export-intensive modern sector is doing less well than before.

Nevertheless, USAID firmly believes that agriculture is the one sector of growth in the Moroccan economy with which we could usefully be further associated on a larger scale and soon. In spite of all the difficulties we and other donors have encountered with the Ministry of Agriculture, we are now firmly into project activities in higher agricultural education and on the point of project implementation in dryland farming. Projects in range management and forestry are at the point of development and we

anticipate no difficulty in securing project agreements or in project implementation. These projects, useful as they are, nibble at the edges of the problem -- low production, high imports with resulting balance of trade problems and low farmer income in the grain growing dryland areas. From almost every conceivable point of view, the one area of sensible growth in the Moroccan economy is agriculture. Food grain production increases are surely possible. Past production levels surely demonstrate this and even an inexpert look at the land demonstrates abundant opportunity. The other side of the demographic/food grain production operation, while desperately important, will only yield marginal results in the short term. Only increased production will lessen the burden on the Moroccan treasury for importing food and involve the mass of the population in productive activity.

The time appears to have arrived, however, where USAID, with its actual and potential activity, has probably gone as far as it can or should without some master framework or goal. USAID believes that a long range goal for increased dryland wheat and barley production leading to self-sufficiency in small grain production for Morocco is a logical umbrella under which to organize an agricultural sector program and to make sure that what we do and what we encourage the GOM to do forms a cohesive and sensible course of action. Moreover, this goal provides linkages to other elements of our program already in place; it is an area where the U.S. has a comparative advantage relative to other donors; it will benefit numerous small dryland farmers and, as has been said, it should be attractive to the GOM in macro-economic terms. We already have two projects which support increased domestic small grain production. What is needed as an add-on is a separate project in wheat and barley demonstration/extension. Such an activity has the following advantages:

For the GCM:

A. Lower drain on foreign exchange and improved balance of payments. The "subsidies" which now go to foreign farmers can be reduced and the money saved can be invested in domestic farm production.

B. Less dependence on increasingly uncertain foreign supplies. The U.S., Canada and a handful of other exporters will probably face increasing demand from China and Eastern Europe, including the USSR, and from developing countries. Without increasing domestic production, Morocco will have to stand in line not only for concessional PL 480 programs, but for regular purchases. While the events of January 1980 cast doubt on this formulation, in the long-run the point remains valid.

C. An opportunity for Morocco to improve the incomes of the poorest segments of its population without resorting to make-work or welfare programs. Such an activity would support the current planning emphasis on the reduction of social and regional income disparities and would have the implicit support of the King who has stated that it is inconceivable that Morocco should always continue to seek outside assistance in feeding itself and, therefore, that Morocco will place its emphasis on agriculture in the next planning period.

D. Possible long term reduction in rural/urban migration.

For USAID:

A. A long range payoff for its projects in agricultural education and dryland research.

B. A graceful way to withdraw or reduce the PL 480 programs. As domestic production increases, some of the domestic wheat can be rechanneled

to replace the foreign Title II wheat which supports the Ministry of Social Affairs and MCH programs while still keeping the distribution system and desirable job training and health-nutrition aspects of these programs intact and correctly targeted.

C. A way to combine a project activity with study and knowledge about the core of the Moroccan agriculture scene and a chance to influence Moroccan efforts.

D. Program cohesiveness and discipline.

Not that there are no problems. The World Bank has reached the conclusion that "the Extension Service is encumbered with administrative tasks, employs agents with little practical farming experience, and lacks organization, materials and a systematic method of extension."

Another major problem is our lack of knowledge about certain aspects of Moroccan agriculture. Concentrating on a production project by means of help to the Agricultural Extension Service (because the inadequacies of that service are seen as being a major factor inhibiting agricultural production growth) only makes sense if we are sure that there are not other blocks to growth which will vitiate any efforts in agricultural extension. We are particularly concerned with Moroccan incentives, for example. There is a great deal of information which needs to be collated and expanded and some major gaps where GOM assistance will be needed.

We are really talking about a sector study of Moroccan agriculture tied to a dryland grain production project. Such a study, concentrating on extension, is the direction in which we think we should go but a lot of preliminary and difficult discussion with the Ministry of Agriculture is required.

12. EDUCATION

We do not propose to analyze the Moroccan education scene in this document. A recent USAID memorandum (Analysis of Progress in Expansion of Formal Education Opportunities for Moroccan Youth, Rabat, November 23, 1979) provides a resume of the situation. The further obvious reason for not delving into this sector is our decision not to be involved in traditional education in Morocco. Some of our friends in the GOM have indicated to us privately that this is a mistake; that this is the most moribund of all Moroccan sectors; and that it most needs a new look and fresh ways of doing things. Nevertheless, we have decided this is a morass we wish to avoid. The system is still heavily influenced by the French who continue to provide massive inputs of teachers and administrators at all levels. The system is a traditional system, long outdated even in its homeland (France), which does not meet the needs of Morocco. The emphasis is on the academic and students at each level are prepared to enter the next level. Unless students complete their baccalaureates (or even get a university degree) they are not truly prepared for ordinary employment and must make do. At each level of education, moreover, a crush for spaces develops which the system cannot handle and even if it could, it would produce more graduates than are needed in many of the sectors in which students are trained.

At the local level there simply are not enough schools and, in certain sections of the country, schools in rural areas are almost totally absent because of a rule that no school can be established which is not within walking distance of 400 prospective students.

The quality of teaching is not high and is deteriorating -- partly, though, because more children are being tapped and are, therefore, entering school from lower socio-economic strata. An additional complication is language. Secondary instruction continues to be in French and policy on Arabization and Moroccanization is not altogether clear, although Morocco has stated its determination to Moroccanize the system and there has been some significant movement in this direction. Nevertheless, we continue to be skeptical as to the speed with which this movement will take place. Arabization is a still slower process. During the past year several additional Arabic texts were developed and there was a notable increase in material relating to Islamic philosophy. A new education material distribution center has been created; on the other hand new State-run pre-school programs still give dual instruction in French and Arabic. From our point of view, we have no wish to enter into the Moroccanization controversy. We see some logic in Moroccanization but it is a process in which our help is unlikely to be sought and in which we are certainly not competent.

A final reason for our holdoff policy is the availability of World Bank financing. During the year, Morocco was a recipient of one of the largest World Bank educational loans ever (\$113 million) and technical expertise is readily available from the World Bank and elsewhere. The World Bank loan, incidently, includes an amount for a manpower study which is of great interest to us for it will provide much needed data for our vocational education activities.

But the traditional sector of education is not the only way in which Moroccan children and young people get trained. A number of line ministries have vocational and other schools to help these ministries fulfill their

staff needs. The largest of these programs is in the Ministry of Post, Telephone and Telegraph. The private sector is also active in vocational education. In addition, three ministries -- Labor, Youth and Sport and Social Affairs -- conduct important training programs for young people who have not and do not benefit from the traditional system of education. Either this is because they are too poor or because they have slipped through the formal system without adequate training. Their programs, with all their faults, tend to be targeted on the poor and often on women. USAID regards the programs of these ministries as essentially subversive: as programs which bypass the traditional system. The faults of these programs are that they are insufficiently professional in management and staffing and that while focused on the right target group, they are not necessarily directed at training people to be part of the productive sector of the economy. USAID has actual and potential projects with each of these ministries which have, as their purpose in each case, the building of models to show what can be done with a view to replication. We view this as the most important contribution we can make to Moroccan education. We are aware of the difficulties which a lack of manpower data creates and of the high per capita costs of these programs. The risk factor is also high. But if these programs do work and manage to demonstrate that there is another way, they will be well worth the money. There are many Moroccans who are as aware of the shortcomings of their traditional system of education as we are. A demonstration of an effective alternate way of doing things is the ultimate subversive weapon.

But we have probably gone as far as is wise in project accumulation without a better idea of Morocco's manpower needs and without some greater

knowledge of the whole vocational education sector. Yet, we are probably not doing enough to force the base for real change in how Moroccans train their young. Part of our need for more information will be filled by the World Bank manpower study. But based on that, we almost certainly will have to take a deeper look at vocational education itself and a sub-sector study is certainly a step which we will need seriously to contemplate sometime in the next 18 months. Timing will, of necessity, depend on the World Bank study and on knowledge garnered through our three projects.

13. ENERGY

The energy demands of the monetized Moroccan economy are met by petroleum products (81 percent), coal (10 percent) and hydroelectric power (8.5 percent). The energy deficit, therefore, is mainly an oil deficit. Virtually all oil is imported. Moroccan oil imports keep increasing at about 8 percent a year and they now stand at 4.5 million oil-equivalent tons for 1979, more than 20 percent of all imports. It is, thus, important that Morocco not only assure itself a reliable source of oil, but also explore every possible use of domestic energy resources so as to reduce its dependence on external suppliers. (This aside from trying to conserve energy by limiting usage -- a particularly difficult thing to do in a country in which increasing industrialization necessitates increased energy use and where use of energy is a status symbol of modernity). The period 1978-1979 was a turning point in energy policy. Increased interest in energy, including renewable energy, is stimulated, in part, by the realization that 1980 onward the cost of imported petroleum might well exceed revenues from phosphate exports and that known domestic supplies of coal, gas, oil and wood, at present rates of utilization, will expire in less than a generation. There are, to be sure, indications that Morocco

probably has significantly larger deposits of coal and may even stumble on an oil field along with its other presumed mineral wealth. But proving the point takes time, effort and, above all, lots of money.

The new Ministry of Energy and Mines, established only in 1977, ably staffed and led, has begun to put in motion a national energy policy which is likely to affect every aspect of the Moroccan economy during the next few years. The plan involves:

A. An extensive on-shore and off-shore exploration program for oil and gas;

B. The acquisition of technology for the extraction of oil from oil shale deposits;

C. The reduction of oil and gas used for power generation by substituting oil shale, coal, hydropower, nuclear energy and other renewable energy sources in meeting future demands for power;

D. Increased conservation in the consumption of energy by bringing the price of energy resources in line with their opportunity cost to the economy.

Concrete steps have been taken in oil shale. Cooperating with both the USSR and the U.S. Occidental Petroleum Company, the GOM is experimenting with several different technical processes and plans to have the first experimental portion of a 1,000 megawatt shale fired electric power generating facility in operation in Timahdit in the Middle Atlas mountains by 1983.

In oil prospecting, the GOM is now working with several international firms, French and American among them, in mainland as well as off-shore drilling, although, so far, with no major strikes.

The GOM has also begun to investigate the prospect for extracting uranium from phosphates as the raw material for obtaining an assured supply of nuclear fuel in the longer term. The GOM has already taken steps to

explore the potential of renewable energies. Detailed studies are now scheduled to be carried out in early 1980 for pilot projects in small, decentralized hydro-electric generation, solar energy, biomass and wind energy; all under the aegis of a new Center for the Development of Renewable Energy scheduled to be established in 1980 in Marrakech with AID financing. Small hydro is particularly attractive to the GOM (and to USAID) because of its potential for contributing to the development of remote, deprived areas in the context of the GOM's policy of decentralization.

The World Bank is a major contributor to GOM energy efforts, having lent \$116 million between 1974 and 1979 to Morocco for electric power generation, transmission and rural electrification. The Bank is now cooperating with the GOM to develop a rural electrification program which will include a major expansion of hydroelectric generation capacity, along with large scale hydro power and small dam development.

The GOM has budgeted almost \$1 billion for the energy sector in the period 1978-1980. About 60 percent is for electricity production and distribution and 30 percent for oil exploration, refining and distribution. This constitutes a 24 percent increase in the rate of investment compared to the previous three years.

Morocco is counting heavily on exploiting its oil shale resources and, at this point, may well be ahead of the U.S. in actually applying retorting technology to commercial scale ends (using U.S. technology). Whether these resources can be developed economically remains to be determined. Moreover, these sources are not suited for development as part of a

decentralized energy system and so cannot bring energy to poor rural areas as a component of development without prohibitively high transmission costs. By assisting the GOM to explore and develop the full economic potential of renewable energy, AID can play a crucial role in directing Moroccan energy sources into channels which will be relatively more decentralized and available to broad segments of the rural population.

Pragmatically, in any case, there is a sine qua non argument for our assisting the energy sector: it is so central to anything that Morocco does that to deprive Morocco of our technical help in those areas where we are preeminent would be ostrich-like. There is a BHN aspect to our assistance but we would espouse such assistance even if there were not.

14. HOUSING

Housing is both different and not different from the other sectors discussed. Not different in the sense that GOM policies have changed and now generally meet AID BHN criteria. Different since HIGs would be an element not only of the sector strategy but also of an alternative strategy to be discussed.

Morocco's housing policies have changed in recent years reflecting the growing importance of the problems created by the rapid expansion of urban centers and the realization that previous programs have not been successful, especially programs directed at benefiting poorer households. The creation of the new Ministry of Housing and Regional Development (MHAT) in 1978 and the unveiling of the Ministry's new housing policies in 1979 signaled the beginning of what is hoped will be a new and more realistic era concerning housing policies.

MHAT's new housing policies are based upon four objectives:

(a) Bidonville Upgrading, (b) Development of Serviced Areas, (c) Support for Private Development, and (d) Fair Distribution of Land. In keeping with these objectives, two new institutions and a new investment code have been proposed.

A. Bidonville Upgrading: Faced with the inability to move bidonville residents to other types of housing, primarily for reasons of poverty, the GOM has decided to "struggle against bidonvilles from the inside itself" through giving title to improved land, building material loans and trying to improve the economic situation in the bidonvilles through job training and job creation activities. The first project of this kind is in Rabat and is being financed in part by the IBRD. The USAID Ben M'Sik project in Casablanca is second and is largely similar to the Rabat project. A second World Bank project for Meknes and Kenitra is already being planned and is expected to be authorized during 1980.

A second type of upgrading project is being proposed for the small and medium size bidonvilles which dot the Moroccan landscape (e.g., up to 3,000 inhabitants) and the GOM has requested AID assistance in carrying out its proposals. This second type of project consists of the provision of basic infrastructure services to the bidonvilles coupled with building materials. A large self-help element is required. This second type of upgrading would be a less costly way of attempting to deal with the bidonville problem on a wide scale.

B. Development of Serviced Areas: The current Three Year Development Plan (1978-1980) envisages providing the services for and selling of 143,000 lots throughout the country. During the previous plan period

(1972-1977) a total of 80,000 lots were to be serviced. In actual fact about 43,000 were completed and another 36,000 are still in progress. It is likely that only 20,000 will actually be built during the 1978-1980 plan period. There is no doubt that this particular program helps to ease the housing crisis for the relatively better-off since what usually happens on these lots is that houses of 3 or 4 floors are constructed and rented out with one family on each floor. In theory, 143,000 lots could produce housing for 2,000,000 people, i.e., three households per lot with five persons in each household. In fact the cost of this kind of housing is prohibitive to the poor since both design standards and construction costs are high. Only those who can afford these high costs can become owners or even renters. The GOM has noted a number of problems with the program, among them the uniformity of architecture of the houses that are built, the state of continuous construction in certain parts of towns, the lack of provision of open spaces and community facilities, speculation by landlords and the permanent loss of land by the state once it is sold outright. Thought is now being given to ways and means to lessen these problems, one possibility being to reserve a certain amount of the developed land for cooperatives.

C. Support for Private Development: MHAT has underlined the importance of private sector developers in undertaking housing development in Morocco and has declared itself ready and willing to assist this sector through the provision of serviced land and approval of projects which are in accordance with GOM policies. In addition, tax incentives are being offered under a new 1975 Finance Law. At the moment, this appears to be

an effort to interest the private large scale developer, but it is not clear what the results will be.

D. Fair Distribution of Land: This objective apparently reflects the results of past abuses of distribution of land. Regional Committees have been set up to oversee the allocation of lots. These committees, headed by the Governor, are serviced by the MHAT regional offices and gather together all interested parties for each allocation.

Thus, these four principles are the ones set forth to guide GOM programs. These programs have, in the past, been funded through both the GOM budget and by various revolving funds which are quite distinct from the budget. For example, the program for servicing of lots is carried out by the FNAET (Fond National Pour l'Achat et l'Equipment des Terrains) which is outside the MHAT budget and which receives its funds from yet other sources such as post office savings, social security investments, etc. The actual MHAT budget forecast for 1978-1980 is quite small, totaling about \$18 million (not including special projects such as Ben M'Sik) and includes minor amounts for sites and services and core housing programs.

USAID is on the point of implementing the Ben M'Sik project in Casablanca. We believe that the small and medium size bidonville program of the GOM is also worthy of support. We are programming a second HIG for this purpose in FY 1981.

In conjunction with the first HIG there will also be a \$250,000 grant which will fund a housing policy resident consultant to the Ministry of Housing and \$350,000 to fund technical assistance for implementation of the Ben M'Sik project. The housing policy advisor is particularly

important as he will work with the Ministry in the preparation of the housing section for the next (1981-1986) 5 Year Development Plan. We hope that the direct impact of this technical assistance will be substantial and will lead to the preparation of viable projects in areas which, up till now, remain neglected, i.e., possible assistance in the housing finance field incorporating a lessening of housing subsidies for middle and upper income households, promotion of low-standard sites and services areas in conjunction with the GOM services areas program, support for core housing programs separate from upgrading and generally more direct and indirect financial support for programs to benefit poorer households.

Important changes in GOM policy have occurred and the orientation does appear to be shifting toward benefiting lower income households. To support this shift and to encourage its extension into related housing fields will be USAID's strategy in the coming years.

15. OPTIONS AND CONCLUSIONS

We feel the recommended strategy follows logically from our discussion of the Moroccan situation in its totality and in key sectors. It is a strategy which is based on last year's experience and our interpretation of the future. We can advance with some confidence to realistic, achievable (albiet difficult) goals. It emphasizes sectors where we see problems and, judging by our reception in the past year, where GOM sees problems as well. The recommended strategy consists, in summary, of seven elements:

A. Consolidation for efficient management of the existing vocational and non-formal education projects; and a sector survey and possible project follow-up if indicated;

B. The new initiative in renewable energy;

C. A HIG, policy analysis and extension of the bidonville housing initiative; a possible second HIG; Title I, PL 480;

D. Continuation and expansion of the existing population program with eventual new initiatives in the Public Health outreach field; and a possible loan for rural and small urban potable water projects;

E. A holding action at present levels of Title II PL 480 programs which are well targeted and support our non-formal education and public health activities. Maintenance of present levels would be contingent on successful pursuit of high level GOM discussion of phase down plans.

F. An increased sector effort in dryland grain farming extension/demonstration leading to increased production.

G. Support projects in statistics and research.

We do not believe that, if we wish to be an actor in moving Morocco toward a more BHN intensive strategy, there are any alternatives to the above described sectoral strategy. We do not believe there is any hard and fast case to be made for a particular level of input in that strategy. For preliminary planning purposes we have abided by the Indicative Planning levels shown in the PAPL table at the end of this paper. We are aware that these levels can change based upon this year's FAA Section 102 exercise, new IPA methodology or a host of other factors influencing Agency and Bureau fund availabilities.

But there are other alternative strategies for Morocco. There is a real possibility of allowing the program to phase out or to phase down very appreciably. This could be done without sending out all sorts of unintended signals by slowing down on implementation and not starting

up new activities except under most unusual circumstances. We believe that Morocco's case for development and our political interest in Morocco dictate against this option. It is a strawman and we are knocking him down.

The second alternative option is a heavy foreign exchange input, fast flowing impact program. This would include the second HIG already discussed, some additional HIG activity, more Title I and a line of credit for Moroccan participants to study in the U.S. and for American specialists to be brought here. There is no doubt that this strategy would have appeal to Morocco and would, therefore, be politically potent. One element of the strategy, participant training, is, in our view, an essential element of any strategy and the best thing that we have, are and can do in Morocco.

But this option is essentially elitist and has little bearing on movement toward greater focus on BFN. As a mission concerned with development and concerned with the well-being of the Moroccan people, we reject this option. It is too easy and ultimately too meaningless. Moreover, it has two faults as a strategy, one of which is major: despite the U.S. interest in Morocco, it is doubtful that, given competing demands, enough resources could be assured to achieve the political end in view, i.e., convince the GOM that we were responsive.

The minor difficulty, which unfortunately also arises in respect to our sectoral strategy, is our skepticism whether AID can handle the placement of the number of heterogeneous participants involved. Without going into who is at fault, our present inability to handle participants with dispatch and minimum human decency is a blot on our program and vitiates whatever good will we are able, otherwise, to build up.

A third variation or alternative strategy would comprise the population program and the line of credit. Nothing else. It is a half-way house which would probably not satisfy the Moroccans entirely and which would also be dependent on our handling of participants in an altogether more efficient and sophisticated manner. It is the fallback which USAID would recommend if AID determines that our sector based strategy is unworkable or, for some other reason, infeasible.

We have already shown our hand. We conclude that we have no real choice. We conclude that we should pursue a policy of active engagement in the above promising sectors where GOM policies are or are likely to become consonant with our BHN objectives. Our task is twofold: to begin to create in each sector, insofar as possible, objective goals for ourselves and a cohesive rationale for each of our activities; and second, to refuse to be tempted by the good little project which is that and only that.

In each sector the coming year will be a trying out period and we do not believe it is useful at this time to stake out the limits of how far we wish to go in each of the five fiscal years. This will depend on our own skill, on the GOM economic situation and on GOM programs and policies. We assume that the quality of our recommendations, based on GOM performance, will affect what we get.

16. A NOTE ON STAFFING

This USAID currently has a ceiling of 17 DH American personnel and 18 FN personnel. We have tried to make economies by eliminating overhead and administrative positions but our effort has had no practical effect because we need to add on staff in the disciplinary areas where we will be operating. Engagement in the sectors where there is reason for us to engage in BHN terms will mean, without any doubt, a need for more, rather than less staff. We are at a phase of program buildup and project conception which is much more labor intensive than the later implementation phases. In this connection, we are disturbed by the kind of economies which we are forced to make in Foreign National staffing. The average FN position costs us less than 10 percent of the average FSR or FSS position. Yet, the ceiling limitations are as strict and sometimes, paradoxically, stricter than for Americans. In order to conserve and limit American staffing, we must have relief on the Foreign National side.

USAID has experimented with joint projects with the Peace Corps trying to use the Peace Corps as the retail arm to help AID in its wholesale approach. We have three projects jointly with the Peace Corps currently under negotiation or being implemented. But unless we can use the Peace Corps as an agent for recruiting personnel who, in effect, substitute for either direct hire or personal service contract personnel, and thus deny the spirit if not the letter of the policy of reducing American positions overseas, this is not a course of action which allows us much further economy.

USAID has four OPG projects in implementation or under discussion. We have made a considerable effort to reflect to voluntary agencies the new Moroccan policy of welcoming such agencies (in addition to CRS and AJDC). Our experience thus far, however, does not by any means indicate that OPG projects take up less of our time than other projects. (Host country contracting, while in our view worthwhile, takes up more time.) The problem is the same as with the Peace Corps: you can use other agency personnel at the retail level in distributing the product or advice and, thus, such personnel can readily substitute, in many cases, for contract personnel, but they do not substitute for Direct Hire staff.

In terms of personnel, therefore, the sector strategy which we espouse has a real cost. The alternative strategies are cheaper in personnel costs. They are not BHN directed. Therein lies one of the problems.

This CDSS has, as a matter of course, been cleared with the Embassy. In the matter of personnel increases, the Embassy reserves its position; staffing increases will need to be discussed with and approved by the Ambassador as the need for them arises.

Proposed Assistance Planning Levels (PAPLs)

Fiscal Years
(In Thousands of Dollars)

Categories	1982	1983	1984	1985	1986	Total
<u>AGRICULTURE</u>	3500	8500	3500	14500	13000	43000
Sector Loans	-	5000	-	10000	8000	
Project Grants	3500	3500	3500	4500	5000	
<u>POPULATION</u>	3000	4000	4500	4000	4000	19500
<u>HEALTH AND NUTRITION</u>	2000	5000	5000	5000	5000	22000
Health Outreach Programs	2000	5000	5000	5000	5000	
<u>EDUCATION AND HUMAN RESOURCES</u>	3000	3000	4000	5000	5000	20000
<u>SELECTED DEVELOPMENT ACTIVITIES</u>	2500	-	2000	2500	4000	11000
Energy	2500	-	2000	2500	5000	
<u>TOTAL AID</u>	14000	20500	19000	31000	31000	115500
Approved Projects	(6000)	(4000)	(4000)	(3000)	(3000)	
PL 480 Title I	7000	7000	7000	7000	7000	35000
Title II	11000	11000	11000	9000	6000	48000
Housing Investment Guarantee	25000	-	10000	-	-	35000