Country case study

External finance for rural development

Country case study: Morocco

Javier Pereira

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Key messages

- Agriculture and rural development are central to Morocco's economic development and poverty reduction efforts. The new agriculture strategy, 'Generation Green', aims to tackle key socioeconomic issues in rural areas and support the emergence of a rural middle class.
- Demand for external development assistance for agriculture and rural development will expand only slightly in the coming years, following a surge of investment from 2008 to 2018.
- Concessional loans are preferred over non-concessional loans. Non-concessional loans have, however, been used when provided at below-market rates, and combined with grants or targeted investment that can generate revenues.
- Morocco has a strong preference for external development assistance that is aligned with national priorities. Government borrowing decisions may also be influenced by procurement and financial management procedures, sector expertise and knowledge transfer.

Introduction

Background

Rural development worldwide relies heavily on private funding. Yet the public sector has a key role to play in providing both investment and policy support to tackle persistent market failures. These include the under-provision of public goods (such as infrastructure, and research and development), negative externalities (such as the need to adapt to and mitigate the effects of climate change), informational asymmetries (e.g. the development of rural financial services) and the lack of protection for vulnerable people through, for example, social protection.

Far more finance is needed to achieve food security and promote sustainable agriculture in line with Sustainable Development Goal (SDG) 2. The United Nations (n.d.) estimates that an additional $267 billion per year is needed to achieve every SDG 2 target: almost twice as much as total official development assistance (ODA) each year from all donors combined. Official development finance (ODF)[1] to agriculture and rural development rose slightly from $10.2 billion in 2015 to $10.9 billion in 2018. This is only a fraction of the total ODF disbursements of $254 billion in 2018. Public expenditure on agriculture development also remains low: since 2001, governments have spent, on average, less than 2% of their central budgets on agriculture (FAO, 2019).

Objectives, definitions and methodology of this country case study

This country case study summarises key findings from a country analysis of financing for rural development in Morocco. It is one of 20 analyses that is synthesised for comparison in Prizzon et al. (2020).

The case study has two main objectives:

- to map demand from the Government of Morocco over the next five to 10 years for external development assistance to support public investment in inclusive and sustainable rural development
- to analyse the financial and non-financial terms and conditions of such demand, its main preferences and the type of instruments that the government wishes to access or scaleup to support public investment in rural development.

Definitions

What we mean by public investment in inclusive and sustainable rural development (see Prizzon et al., 2020, for more details): Our research has focused on six areas that contribute to such investment: access to agricultural technologies (research and development) and production services; agricultural value-chain development (e.g. crops, livestock, fisheries); climate-resilient agricultural practices; rural basic infrastructure (e.g. water and irrigation systems, local roads, local energy generation and storage facilities); rural financial services; and rural investment environment (e.g. policy, legal and regulatory frameworks).

What we mean by external assistance for inclusive and sustainable rural development: We look beyond ODA to include government-to-government funds from bilateral and multilateral donors that do not meet concessionality criteria[2] (usually defined as other official flows, or OOFs). We call this official development finance (ODF). As a proxy for financing rural development, we examine data on external assistance to the agriculture sector and rural development (cross-cutting) based on an Organisation for Economic Co-operation and Development (OECD) definition. This is not a

1 The sum of ODA and OOFs: the latter flow from bilateral and multilateral donors that do not meet the concessionality criterion for ODA eligibility.

2 The definition of concessionality is based on the share of the grant element. With the 2014 OECD reform, the grant element varies according to the income per capita of the ODA-eligible country to be counted as ODA: at least 45% for low-income countries (LICs), 15% for lower-middle-income countries (LMICs) and 10% for upper-middle-income countries (UMICs). The International Monetary Fund (IMF) discount rate (5%) is also adjusted by income per capita group: 1% for UMICs, 2% for LMICs and 4% for LICs, including least-developed countries (LDCs).

perfect measure, but given the lack of a sectoral definition or attribution to rural development as such, it is the closest we can get to a consistent, cross-country mapping of external assistance from development partners. As a second-best option, we rely largely on quantitative and qualitative data on agricultural development. While the agriculture sector is a major component of rural development, data on agriculture alone cannot capture important non-farm activities.

Research questions

This country case study reflects our four main research areas:

- the government's priorities for public investment in inclusive and sustainable rural development
- financing for public investment in inclusive and sustainable rural development
- borrowing (external development assistance) for this public investment
- the government's preferences in relation to external development assistance for public investment, including its demand for specific types of instruments.

As this project took place during the early stages of the Covid-19 pandemic, we also reflect the short- and medium-term implications of the crisis for government priorities and preferences for public investment, as well as the amount and type of external assistance demanded.

Methodology

We used a qualitative case study approach, with the analysis of individual countries informed by a political economy framework, as developed by Greenhill et al. (2013) for aid negotiations (see Prizzon et al., 2020).

Our approach comprised a critical review of relevant policy literature[3] and data analysis,[4] which also helped us to identify country stakeholders. This was followed by interviews with key informants, informed by an electronic questionnaire submitted before each interview. For Morocco, we held nine interviews between April and June 2020, and received 10 questionnaires (see Annex 1 for a list of those interviewees who agreed to their names being shared).

Morocco: country context

Morocco is a lower-middle income country and is eligible for non-concessional finance only from multilateral development banks. It has been eligible for World Bank non-concessional finance on International Bank for Reconstruction and Development (IBRD) terms since 2007, as well as finance from the African Development Bank (ADB) under ordinary terms.

Agriculture production and private consumption are the main drivers of economic growth (IMF, 2019). While annual gross domestic product (GDP) growth averaged 3.6% from 2010 to 2018 (Figure 1), the growth rate is very variable from one year to another, with some years far below that average. Changes in agricultural output as a result of bad harvests and weather events have had a major on impact Morocco's economic performance and explain the steep drop in economic output recorded in 2016 (IMF, 2019). Remittances, tourism and the automotive industry are also important sources of revenue for the government (IMF, 2019; IMIS, 2020).

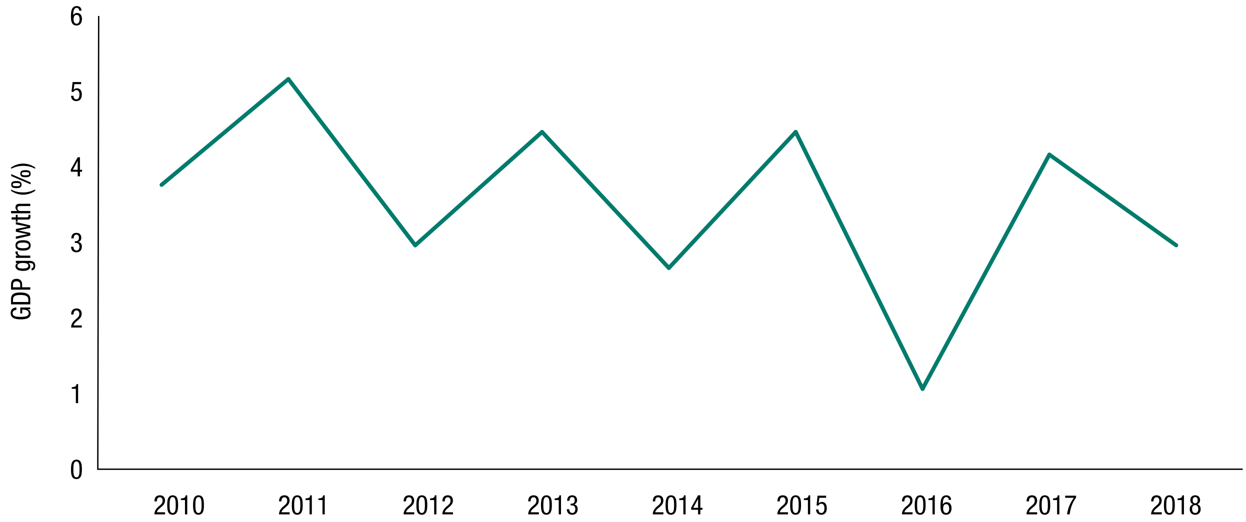
Despite the country's progress, major gaps remain, particularly in rural areas. Over the past three decades, Morocco has made impressive progress on economic development, poverty reduction and human development (HCP and World Bank, 2017). In 2018, the poverty headcount ratio at $3.20 per day stood at 7.7%, down from 27.8% in 2000 (IMF, 2019; World Bank, 2020c). However, poverty rates are twice as high in rural areas as the national average, and the rural population accounts for 79.4% of the country's poor people (World Bank, 2019).

The rural population has been falling as Morocco has developed, but at a relatively slow pace. In 2017, those living in rural areas still accounted for 38% of the country's population.

3 Government strategies, IMF Article IV, World Bank reports and analysis from think tanks and other sources.

4 Spanning IMF, OECD and World Bank sources.

Figure 1 Annual GDP growth in Morocco



Note: GDP, gross domestic product.
Source: World Bank (2020c)

Rural areas remain highly dependent on agriculture, which accounts for approximately 12% of GDP (2018 data) and employs 38% of the population (2019 data) (World Bank, 2020c). Well-developed and expert-oriented intensive agriculture co-exists with small-scale and subsistence farming, mostly in mountainous areas.

Youth unemployment and gender inequality persist. Average unemployment stood at 9.8% in 2018, but is far higher among youth (26%) and graduates (17%) (IMF, 2019). The UNDP Gender Inequality Index ranks Morocco at 118th out of 162 countries in the 2018 index, with a value of 0.492. This is far lower than rankings for other countries in the region such as Libya (41st) and Tunisia (63rd) (UNDP, 2019).

Government priorities for rural development

Agriculture and rural development are central to Morocco's development and poverty reduction efforts. The National Sustainable Development Strategy (SNDD) describes agriculture as one of the country's main economic drivers and a key sector in the transition towards a more sustainable economy, fighting climate change and protecting the environment and biodiversity (Royaume du Maroc, 2017). As noted, agriculture also accounts for 38% of employment and is the main activity in the poorest and most vulnerable areas (generally in the mountains).

Between 2008 and 2019, Morocco implemented an ambitious plan for agriculture and rural development: 'Plan Maroc Vert' (the 'Morocco Green Plan'). The plan attracted sizeable volumes of private and public investment (see next section) and was based on two key pillars. The first pillar focused on the development of intensive agriculture with high added-value. The second concentrated on improving agriculture practices among rural and vulnerable populations, aiming to fight poverty and vulnerability.

Government priorities today respond to the continuing challenges for agriculture and rural areas, and aim to close some gaps in the previous strategy. The priorities defined by the government are underpinned by the importance of agriculture as a driver of economic growth and its vulnerability to climate change and weather events, as well as high levels of youth unemployment.

In 2020, the government launched a new plan: 'Génération Green 2020–2030'. This aims to consolidate the gains made by 'Maroc Vert', but includes a stronger focus on human development and social issues. The plan will build on previous efforts around value-chain development, increase the added-value of agricultural products and promote the use of technology and modern sustainable farming techniques.

According to our interviewees, the main difference between 'Generation Green' and 'Maroc Vert' is its stronger focus on maximising the social impact of agricultural production. Climate change and sustainability are also embedded in 'Generation Green' as cross-cutting issues, given the vulnerability of the sector and its importance for the economy and rural livelihoods. Despite a stronger social focus, the plan also aims to bring an additional one million hectares of land into production. This will require large investments in infrastructure.

On the social side, the new plan targets youth as a key group in the quest to create a new agricultural middle class in Morocco. The plan is to create 350,000 jobs for young people by bringing another one million hectares of collective land into production, together with a set of supporting measures and training opportunities (Ministère de l'Agriculture, 2020). This would, in turn, help to tackle the problem of youth unemployment. The plan also aims to increase the coverage of social protection systems to reach 3.3 million farmers, up from 250,000 today.

The impact of the Covid-19 pandemic is not likely to change government priorities for agriculture and rural development, but could sharpen the focus on social aspects. The World Bank, the Food and Agriculture Organization (FAO) and the International Fund for Agricultural Development (IFAD) are working together to assess the specific impact of Covid-19 on agricultural production, including potential recovery measures. Given the importance of agriculture for the rural economy, it is possible that the government will link social protection and recovery measures in rural areas to ease the impact of the crisis on agriculture and rural development schemes.

According to our interviewees, the Covid-19 crisis is most likely to have an impact on export-oriented high added-value agricultural production. Smallholders, particularly those in supply local markets and are less likely to be affected once normal economic activity resumes. Rural farmers and those in other vulnerable areas were already being targeted by food distribution programmes following a severe drought.

Financing rural development

Public investment

Public investment in agriculture almost tripled between 2008 and 2017. Under the plan 'Maroc Vert', annual public investment in agriculture increased at an annual rate of 11.7% (DEPF, 2019) and, in real terms, it soared from 3.5 billion dirhams in 2008 (around $380 million)[5] to 9.5 billion dirhams in 2017 (just over $1 billion). Excluding grants to promote private investment, Morocco spent a total of 43 billion dirhams over the period 2008–2017 (around $4.7 billion). Private investment also expanded and reached 56 billion dirhams (around $6.1 billion) over the same period (ibid.) – a figure that includes public grants and promotion programmes.

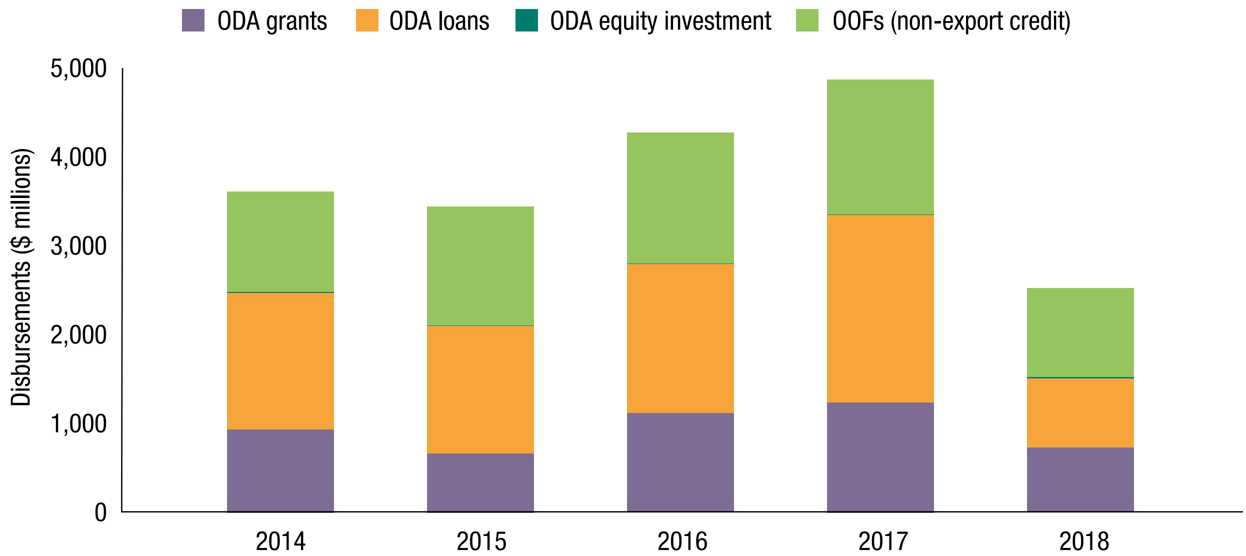
Public investment in rural development and agriculture is likely to expand over the next 10 years of implementation of 'Generation Green' 2020–2030. Estimates from the government foresee that the implementation of the plan will require an average annual increase of the public budget of 2.5% over the same period (Ministère de l'Agriculture, 2020).

External development assistance

Morocco is not an aid dependent country, but it does receive large volumes of ODF. ODA receipts averaged 1.8% of GNI from 2014 to 2017 (World Bank, 2020c). As shown in Figure 2, Morocco received an average of $2 billion a year in concessional resources (ODA grants and ODA loans) in the period 2014 to 2018. Over the same period, it received an average of $1 billion in non-concessional resources (OOFs). OECD data and our interviewees indicate that the drop in gross disbursements in 2018 was linked to the phase-out of major projects, combined with government efforts to reduce debt levels. The drop is mostly perceived by our interviewees as

5 Currency conversion as at 19 November 2020.

Figure 2 Official development finance disbursements to Morocco across all sectors



Note: 2017 constant prices. ODA, official development assistance; OOF, other official flow.
Source: OECD (2020)

circumstantial, and they expect ODF to have increased again in 2019.

Morocco has attracted major volumes of ODF for agriculture and rural development. According to government reports, support from official donors to the plan 'Maroc Vert' reached a total of 34 billion dirhams ($3.5 billion) (Ministère de l'Agriculture, 2020). This figure accounts for approximately 40% of the public budget dedicated the sector (according to interviews with government officials).

The share of ODF to agriculture and rural development has increased over time and reached approximately 9% in 2017, up from less than 5% in 2014 (Figure 3). There was a major departure from this trend in 2017 as a result of the fall in ODA flows discussed above. Over the period 2014 to 2018, around 52% of external development assistance was concessional (ODA) (see Figure 4). This figure is split evenly between ODA grants and loans (with each accounting for 26%). The remaining 48% was provided in the form of non-concessional loans. The spike in grants recorded in 2017 was the result of a large grant from the United Arab Emirates.

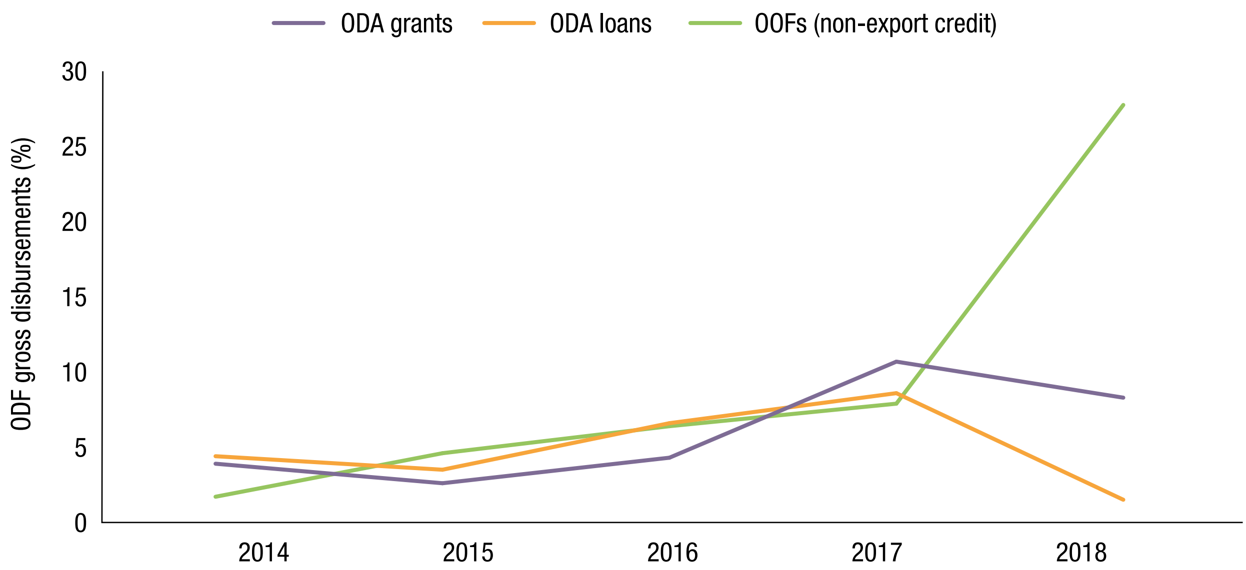
Compared to other sectors, agriculture and rural development have received a higher share of non-concessional finance. ODA grants for the whole country accounted for 24% of ODF received from 2014 to 2018, with the share of ODA loans increasing to 40%. In comparison, OOF accounted for 35% of ODF (Figure 3).

The government is expected to increase the share of concessional resources in the finance mix. Future demand for external development assistance is likely to stabilise or expand slightly in line with the public investment needs foreseen in the 'Generation Green' plan, with a 2.5% increase in annual budget. While demand for hard investment projects will continue, the new strategy places greater emphasis on social aspects than its predecessor. In this context, our interviewees believe that support for these social priority areas will require concessional resources, as they are unlikely to generate additional tax revenues that can service loans at markets terms. These priorities include aspects linked to capacity-building, extension services, climate change and biodiversity.

Development finance can have an important added-value beyond financing – a value that is often specific to the development partner. Four key aspects of this added-value emerged from our interviews and survey.

- **Technical and sector expertise.** Borrowing agreements can be facilitated by a clear area of focus for cooperation combined with recognised expertise. One example is the support from IFAD, which has a strong focus

Figure 3 Share of official development finance to agriculture and rural development



Note: ODA grants refer to the share of ODA grants to agriculture and rural development on total ODA grants; ODA loans refer to the share of ODA grants to agriculture and rural development on total ODA loans; OOFs grants refer to the share of ODA grants to agriculture and rural development on total OOFs. ODA, official development assistance; ODF, official development finance; OOF, other official flow.
Source: OECD (2020)

on rural and poor populations. This area of work aligns very well with government priorities and has a strong track record on the implementation of innovative and demonstrative approaches.

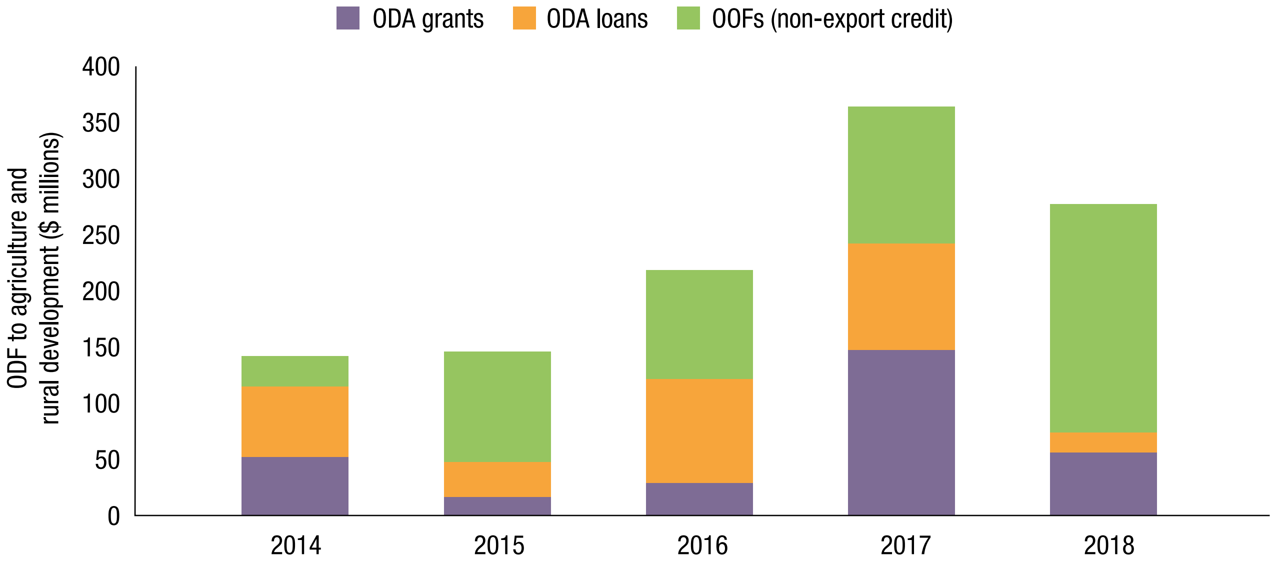
- **Knowledge transfer.** The government values the opportunity to learn from developing country peers in the agriculture sector. It is also more inclined to borrow from partners who can facilitate such knowledge exchange.
- **Partner procedures.** While the government has improved and promoted the use of government procedures (procurement and financial management), partners' procedures at sector level can result in better management, monitoring and implementation. These procedures can, however, have a negative effect if they are too complex and increase transactions costs.
- **Earmarking.** At sector and regional level, earmarking is often seen as positive because it guarantees that resources will be available. When partners use programmatic approaches, such as budget support, the fungibility of central government resources means that resources for specific projects cannot be protected.

The Covid-19 crisis is not projected to have significant impact on finance for agriculture and rural development. While the government has lifted the debt ceiling (see the next section), approved emergency measures and revised the budget, these adjustments are not expected to have a major impact on agriculture investment trends. However, one concern expressed by government officials was a potential reduction in the future offer of external finance if austerity measures and increased global demand reduce the total amount of resources available for developing countries.

Borrowing for rural development

The government actively seeks to minimise the cost of finance. In its borrowing decisions, the government considers different financials terms and conditions (e.g. interest rate, maturity, etc.). Our interviews reveal that competition among international official lenders has sometimes been used to improve financial conditions, and that Morocco is a highly competitive environment for both multilateral development banks and bilateral donors. The country has attracted many large players as a result of its strong economic and poverty-reduction performance, political

Figure 4 Composition of official development finance flows to agriculture and rural development



Note: constant 2017 prices. ODA, official development assistance; ODF, official development finance; OOF, other official flow.
Source: OECD (2020)

stability, geographical location, and good track record as a debtor.

Prudential debt management by the government helps to explain the importance of lowering finance costs when it comes to external borrowing. Morocco's debt levels were relatively stable at around 65% of GDP in the period 2015 to 2018. In 2018, public debt was 64.9% of GDP. Just under half of this (31.1% of GDP) was external debt.

Multilateral non-concessional lending accounts for 48% of external debt, followed by bilateral non-concessional (18%) and bilateral concessional lending (6%) (World Bank, 2020b). Private creditors account for the remainder 28% of external debt stocks.

Debt levels are considered sustainable, but the government aims to reduce the debt-to-GDP ratio to around 60% in the medium term (IMF, 2019). To achieve this goal, the government has set an annual debt ceiling of $3 billion on external loans.

The Covid-19 crisis will widen the fiscal deficit and increase external debt. Despite swift action by the government, the Moroccan economy is expected to contract by 4% in 2020 and depress government revenues (World Bank, 2020a). The debt ceiling has been officially lifted by the parliament since the start of the Covid-19 pandemic. Additional external borrowing will be needed to pay for additional expenses in the health and social sector, and public debt is expected to increase to around 75% by the end of 2020 (ibid.).

There is an emphasis on concessional and non-concessional finance at below market rates. As discussed above, the government aims to increase the share of concessional external finance in the agriculture and rural development sector. This trend is likely to be reinforced by its prudential debt management and by the wider fiscal deficit resulting from the Covid-19 crisis, which will force the government to increase public debt while trying to minimise the costs. As a result, the government is likely to prioritise concessional operations (ODA grants and loans), followed by official non-ODA loans at below market rates. In general, acceptable conditions would depend on the potential of underlying projects to generate revenues, as well as the added value and expected impact of each individual project.

Grant elements are an important factor in most borrowing decisions. Not all development partners can provide concessional finance, and the availability of grant elements in finance operations (e.g. the loan grant component in IFAD operations) or grants for technical assistance make operations more attractive to the government by reducing the total cost. When financial operations are considered too expensive, the blending of loans and grants has been used to reduce the cost of finance.

One example is the $20 million credit line to 'Credit Maroc' from the European Bank for Reconstruction and Development (EBRD) Green Climate Fund (GCF). The original EBRD $15 million credit line was considered too expensive, but the project was accepted after the GCF agreed to provide an additional $5 million in concessional finance, thereby softening the overall financing conditions.

The government selects the projects that are suitable for borrowing, defining both the projects and the different sources of finance in its annual budgets. Projects and investment needs are identified through a decentralised approach based on the feedback from regional directorates. This means that it is the government that proposes projects to international public financial institutions and donors.

To sum up, the government of Morocco will continue to borrow for agriculture and rural development as long as the project fulfils the following criteria:

- It helps to meet the needs identified by the government.
- It is provided at below market rates, with a preference for concessional resources.
- It can be blended with concessional resources if finance is not available at below market rates.
- Grant elements are included for technical assistance and other 'soft' costs.

Preferences and instruments for rural development

The government of Morocco has no official aid policy management and even major sectoral strategies such as the 'Plan Maroc Vert' or 'Generation Green 2020–2030' have not been put down in writing. These two sectoral plans have been developed from speeches by the King and shared with development partners though presentations and interactions. The available documents provide a clear picture of the objectives and targets, but contain little or no information about preferences in relation to the type of instruments or the qualitative attributes of development finance operations (e.g. flexibility, alignment, etc.). As a result, we can only discuss inferred or communicated preferences in this case study.

The results of our interviews and the survey conducted with Moroccan stakeholders indicate that alignment with the government budget, policies and priorities is a central aspect in any borrowing decision. The government also favours working with partners that have short identification, approval and disbursement procedures. The ability of development partners to provide longer-term finance was also seen as a positive by government officials.

Financial instruments did not come up as an important topic of discussion during our interviews. The use of programmatic approaches was identified as a government preference due to the flexibility it provides from a budget perspective, particularly when working with large volumes of finance. However, there seems to be ample space for other types of approaches at the sector and regional level. As mentioned above, earmarking was seen as important for certain projects as a way to protect budgets and increase the efficiency and effectiveness of implementation. The survey results support these findings.

The most popular instruments are linked to programmatic approaches and other flexible forms of finance that emphasise results from the partner country perspective: multi-phase programme lending, results-based lending and policy-based lending. Another popular instrument is support for project preparation. This preference is probably linked to the regulations and practices that prevent the government from advancing funds from the national budget without a signed agreement with the donor. In most operations with development partners, agreements are signed after design and approval by the executive board, creating a financial vacuum when it comes to project preparation.

Conclusions

Our analysis of the experience and perspective of Morocco on financing public investment for inclusive and sustainable rural development, and particularly its demand for external assistance, is summarised as follows.

- Agriculture and rural development are central to Morocco's economic development and poverty-reduction efforts. The new agriculture strategy, 'Generation Green', builds on the solid foundations of the plan 'Maroc Vert' and aims to consolidate the progress that has been made, while tackling key socio-economic issues in rural and other vulnerable areas. The new plan targets youth as a key way to increase the social impact of the strategy. The Covid-19 pandemic is unlikely to lead to substantial changes or shift government priorities, but could sharpen the focus on social aspects.
- The demand for external assistance for agriculture and rural development is expected to expand in the coming years, but the pace will be slower than it has been over the past 10 years. Under the new plan, the government expects to increase the share of concessional finance. This is the result of the increased focus on social issues and priorities in the new strategy, which are less likely to generate revenues than infrastructure investments. Despite this shift in emphasis, the new strategy provides space for large infrastructure investments as it also aims to bring one million additional hectares into production.
- Borrowing for agriculture and rural development will expand in line with the governments' new strategy for the sector. Three criteria have a particularly strong influence over borrowing decisions: finance at below market rates with a preference for concessional resources; grant elements in loan operations and technical assistance grants that can be used to lower the effective costs of external finance operations; and, a blend of concessional and non-concessional resources if finance is not available at below market rates. The debt ceiling has been lifted since the onset of the Covid-19 pandemic. While this can provide some temporary flexibility to implement emergency measures, it is not expected to have a significant effect on agriculture and rural development.
- This case study reveals strong government preferences when it comes to development finance operations. The most prominent are alignment with national priorities and the availability of grant elements to support project identification and reduce implementation costs. The strengths and weakness of individual partners can also play a role when it comes to borrowing decisions. While it is difficult to generalise, aspects such as procurement and financial management procedures, sector expertise or knowledge transfer can be important factors in some financing decisions.

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Annex 1 List of interviewees

Name	Institution
Fildine Bargachi	European Investment Bank
Mohamed Bicha	Ministère de l'Economie et des Finances
Maelis Borghese	Agence française de développement (AFD)
Said Chatibi	Association Nationale Ovine et Caprine (ANOC)
Hamid Felloune	Fédération Nationale de l'Agroalimentaire (FENAGR)
Mohammed Medouar	World Bank
Florence Rolle	Food and Agriculture Organization (FAO)
Naoufel Telahigue	International Fund for Agricultural Development (IFAD)

Acknowledgements

This country case study on Morocco is part of a project that aims to map future demand from recipient country governments for external development assistance from official donors to support public investment in inclusive and sustainable rural development over the next five to 10 years. It also aims to explore the financial and non-financial terms and conditions of this assistance. Its analysis is also included in the synthesis report for this project (Prizzon et al., 2020), which reviews the experiences of 20 low- and middle-income countries.

We are grateful to the interviewees who gave up their time to take part in this project, share their insights and provide feedback to this country case study, particularly during the challenging times of spring 2020. Their contributions were vital to corroborate and challenge our initial analysis.

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203 Blackfriars Road
London SE1 8NJ

+44 (0)20 7922 0300
info@odi.org

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