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ISSUES PAPER

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FROM: ANE/PD, Ronald F. Venezia *W*
SUBJECT: Morocco Cereals Marketing Reform (608-0195) - PID
Issues Review

On October 23, 1987, a review of the Cereals Marketing Reform Project [CMR] PID was held by the Project Review Committee. In attendance were representatives from ANE/PD, ANE/TR, S&T, GC/ANE, ANE/MENA, ANE/DP, PRE, PPC and the Department of Commerce.

SUMMARY:

Name and Number: Morocco Cereals Marketing Reform (608-0195)
Life-of-Project: FY 1988 - FY 1992
Funding: ESF; Grant \$12,500,000
 Loan \$ 7,500,000
 Total \$20,000,000

Problems: Morocco is heavily dependent on cereal imports and per-capita production has steadily declined, even though the country has a comparative advantage in wheat production. The Government of Morocco (GOM) has not effectively procured cereals, neither domestically nor internationally.

Description: The Cereals Marketing Reform Project (CMR) is designed to improve the economic and social efficiency of the domestic cereals market by assisting the GOM with deregulation of the market, fostering private sector involvement and competition, and selection of appropriate policies supporting that development. The major activities and their estimated costs include:

1. Market Information and Monitoring System	\$2,500,000
2. Improved Grading and Quality Testing System	500,000
3. Development of Specific Policy Implementation Plans	3,000,000
4. Monitoring and Analysis of Farm-level Impact of the Reforms	3,000,000
5. Reformation and Creation of Cooperatives	3,500,000
6. Credit for Market Intermediaries (TA) (Credit Fund Loan)	1,000,000 7,500,000
7. Project Coordination	1,000,000
Estimated Total	<u>\$20,000,000</u>

The project will result in a liberalized cereals market which utilizes market forces to determine economic activities. It will result in substantial cost savings to the GOM, income gains to farmers, appropriate prices to consumers, and a better allocation of national resources for greater benefits and economic returns. The project lies within areas where AID can make a major contribution and conforms with USAID's agriculture strategy of improving the policy environment and assisting with training and technology transfer.

Recommendations: The Project Review Committee recommends that the Mission proceed to draft a project paper. If the first issue can be resolved in the field, it is also recommended that the Mission be delegated the authority to review and approve the project paper.

ISSUES:

1. It is appropriate for AID to assist, in an effort paralleling that of the World Bank through the Agriculture Sector Adjustment Loan II, with the Morocco Structural Adjustment Program. However, a crucial question is raised. What are the economic and social impacts of the project on farmers, farm productivity, public finance, market intermediaries, efficiency of the marketing chain, and consumers? Do the activities represent the best alternatives for intervention in the sector?

Discussion: The potential impact of the project on the Moroccan rural and urban economies is not elaborated. It is not clear what benefits are to be gained from the various activities when only a limited amount of cereal production goes through the official channels. The gains in marketing efficiency are not clear. There was limited analysis of the overall impact of project-induced changes on public finance, consumer and producer subsidies, and the value of key imports.

Recommendation: At the Project Review Committee (PRC) meeting it was agreed that further analysis of the above points is required, yet a consensus was not reached on whether such an analysis should be reviewed in AID/W or in the field prior to PP authorization. This will have to be determined at the ANPAC review.

2. In the discussion of one of the major project activities, Credit Facilities, the PID did not clearly show a linkage between credit for purchases of grain and certain infrastructure and the project purposes of market deregulation, private sector involvement and competition, and a revised import policy supporting the domestic cereals market.

Discussion: This component, over 40% of the budgeted level for the project, does not meet any identified constraint to the liberalization of cereals marketing. The credit might be used for grain purchasing, construction of storage facilities, and for grain handling and conditioning equipment, yet no

analysis/study has been done showing a requirement for these inputs. The PID acknowledges this and states that an examination of the overall credit system will have to be made. Recommendation: The Project Review Committee (PRC) supports the Mission's approach of requiring a thorough study and analysis of cereals market credit and infrastructure requirements. It is recommended that the incrementally-funded project defer funding of the credit components until such a study/analysis is done. This will probably preclude allocation of resources for credit until FY 1989 or later.

3. Another major project component is Cooperative Support, described as reforming/creating cooperatives on a pilot basis. The potential role of Moroccan cooperatives in a restructuring of cereals markets is not yet understood, nor whether the project should assist in designing and implementing cooperative participation in the reform effort.

Discussion: A deregulated domestic market in which the private sector plays the key role in the buying and selling of cereals is a major focus of this project. The means of strengthening and expanding the private sector role have not been firmly determined. The potential role of cooperatives and use of existing cooperative organizations has not been explored extensively, nor has the current cooperative sector been studied thoroughly. It is unclear why the PID has identified cooperatives as appropriate marketing tools while they appear to function as parastatals and GOM administrative bodies. The PID states that studies will be performed through another project component to determine how the GOM "SCAM and CMAs" could be transformed into decentralized, farmer-controlled cooperatives.

Recommendation: It is recommended that a thorough analysis of the cooperative sector, including the SMAs and CMAs, be performed prior to the allocation of any resources for reforming/creating cooperatives on a pilot basis in Morocco. Decisions to support cooperatives with project resources should be deferred until the analysis is completed and reviewed by the Mission.

4. There are reservations about the actual level of Government of Morocco (GOM) political will and commitment to a structural adjustment program that requires major changes in methods of government operations and that could result in significant social upheavals. The CMR Project activities can be carried out only if the GOM Structured Adjustment Program and essential cereals marketing reforms are implemented.

Discussion: The GOM has initiated a program of reforms which will liberalize and privatize many activities hitherto operated and controlled by the government. In a pragmatic fashion and with assistance from the World Bank and other international bodies, the GOM has designed and initiated implementation of the Structural Adjustment Program. Although the timing for the

implementation of certain reforms may not be ideal, they are considered practical and reasonable in the present circumstances.

Recommendation: Project implementation should link the timing of activities to the policy reform measures and progress made in agricultural sector structural reform. External components considered crucial to effective implementation of the project include GOM budgetary resources and regulatory change, PL 480 support of structural adjustment, and progress in implementing the GOM-IBRD Agriculture Sector Adjustment Loan Program II. These components should be integrated in the implementation plan of the project.

5. Under the terms of ASAL II, the GOM is not required to change the "production cost plus margin" formula use in the government control price of soft wheat until 1990. Yet the current price is considerably above the world price and continues to be a drain on the GOM and economy. Similar formulas are also used for pricing barley, hard wheat, flour, and bread, with substantial subsidies paid by the GOM.

Discussion: The world price for soft wheat is recognized as being considerably below current production costs. EEC and USG subsidies and concessions have driven prices down. As a consequence, IBRD has agreed to a continuation of the current formula until 1990, when market prices plus a 25% incentive will be used as the base price for Moroccan soft wheat.

Recommendations: The "production cost plus" uniform price formula should be accepted in the present circumstances, yet the actual level should be altered as costs change. Factors such as quality, cost effective input use, transport differentiation, etc... should be included and re-evaluation should be done at least once a year. Such re-evaluations should also calculate appropriate production cost formulas for all points in the production-to-consumer chain. A market-determined pricing mechanism should be applied when world prices "normalize". The PP should determine whether project resources will be used effectively if a uniform price formula for soft wheat continues to be used throughout the life of the project.

In addition to the key issues shown, a number of concerns were raised that should be included in the project paper. These are listed below, as items for brief discussion during the ANPAC review.

Concerns:

1. GOM Budget Impact: The GOM will have substantial recurrent costs, as well as savings, in the performance of the project and in implementing related portions of the structural adjustment program. Both costs and savings to the GOM should

be discussed in the PP. The discussion should include an analysis of the impact of possible GOM budget short-falls and the adjustments that would be required within the CMR project.

2. Impact on Farmers: The PID states that a clear linkage between project activities and a positive impact on farmer income must be shown in the PP. We wish to emphasize this requirement, but expand it to include other project beneficiaries. These beneficiaries should include women, middlemen, millers, bakers, and consumers. Measurement of impact should be made against a gender disaggregated baseline. Data on production and consumption patterns should be disaggregated by sex and other relevant economic variables and included as part of the Impact Monitoring component.

3. Pricing and Incentives Study: In FY 1987, the Mission funded the Pricing and Incentives Study, used as a basis for the ASAL II. The results and analyses should be used as both background and considerations for the PP, as much information empirically supports both project purpose and activities.

4. PL 480 Activities: PL 480 activities in Morocco will have a direct impact on the structural adjustment program and on the CMR project, in the form of a safety net, income generation/employment creation, improved farming, local currency generation, and balance of payments support for the economy. The linkages and integration of the food aid activities with the project should be made explicit in the PP.

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AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

MEMORANDUM

October 28, 1987

TO: Distribution

FROM: ANE/PD, Ronald F. Venezia 

SUBJECT: Morocco Cereals Marketing Reform (608-0195) - PID
ANPAC Review

The ANPAC meeting to review subject project PID will be held on Thursday, October 29, at 10:00 AM in Room 6660 N.S. The review will be chaired by ANE/PD Director Ronald Venezia.

Please find attached an Issues Review, generated at the Project Review committee's meeting held on October 23. This will be used as the basic agenda for discussion.

Participation in accordance with ANE Bureau guidelines is invited.

Attachments: Issues Paper

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