

PD-ABH-345
85510

USAID/GOVERNMENT OF MOROCCO

CEREALS MARKETING REFORM PROJECT

QUARTERLY REPORT 5

For the period:
July -- September 1992

by

David C. Wilcock, COP

October 15, 1992

Report CMR-QR5

USAID Cereals Marketing Reform Project

ACCOMPLISHMENTS OF THE FIFTH QUARTER (July-September 1992)

This quarter, usually dominated by the summer holidays in Morocco, was relatively busy for the cereals marketing reform project. Execution of the Phase II work program is well underway. ¹ This quarter work was undertaken on six applied research/technical assistance activities. Contracts were negotiated with two new CMR subcontractors: ICEA-Enterprise (Paris, France) and INSEA, Rabat (the GOM's National Institute of Statistics and Applied Economics). ²

Applied Research in the Wheat Flour Subsector

A large part of the work program defined for Phase II of the CMR Project involves the potential impact of policy changes on the country's cereals milling industries and future competition among the products of these groups of firms, which we can think of as collectively making up the milling portion of the wheat flour subsector.

In CMR Phase I, it was confirmed that Morocco's privately-owned but state-controlled industrial flour mills constitute a serious barrier to the final liberalization of the country's cereals subsector: Normally the country's milling industries (soft wheat industrial mills, hard wheat and barley industrial mills, and the 9,000 plus small-scale or "artisanal" mills) should play dominant roles in coordinating the operation of the vertical marketing channels. However, one of these three competing channels is completely controlled by the state. The other two, while showing clear signs of entrepreneurial dynamism and innovation, are constrained and distorted since they are competing with the subsidized *Farine Nationale de Blé Tendre* (FNBT) produced by the state-controlled channel. ³

Two major changes must occur before the critical soft wheat flour industry can begin to modernize and restructure itself to operate in a free market: (1) decontrol of bread wheat supply to the mills (now all soft wheat going to the industrial mills, whether domestic or foreign, does so under ONICL orders and at state-fixed prices); and (2) elimination of subsidies to and controlled prices for FNBT, approximately 60% of the output of the industry, or changing the GOM FNBT subsidy policy to one involving market competition in the production and distribution of this product.

¹ The CMR Phase II work plan was initially presented in Report CMR-QR2/3 of April, 1992.

² For more detail on the origins and objectives of the project, see Report CMR-QR1, October, 1991.

³ The rationale for using the "subsector approach" to study and promote reforms to Moroccan cereals was described in Report CMR-2: David C. Wilcock, "Agribusiness in the 1990's: The Commodity Subsector Approach", Rabat, June 1991.

In April a general strategy was developed for studying the transition of the flour milling industries to competition and likely structural and operational consequences.⁴ As that program has been further elaborated, nine activities have been identified as part of the Phase II "applied research program in cereals milling". These are defined in more detail in a separate working paper.⁵ In order to implement this applied research program in a coordinated manner, the CMR chief of party negotiated a new subcontract with ICEA-Entreprise to be the overall coordinator of activities in this area and to undertake some of the component activities themselves. This subcontract, covering work to be undertaken between September 1992 and April 1993, was signed by DAI and ICEA in September. Of the nine activities in the program, initial work was carried out on five of them during the quarter:

- o Qualitative assessment of consumer and industrial demand for the output of Moroccan flour mills;
- o Analysis of quantitative survey data on Moroccan consumer spending on cereals and flour products;
- o Conducting a second national survey of artisanal flour milling; and
- o Development of a linear programming "transportation model" to begin to assess major impacts on individual mills of subsector liberalization; and
- o Analysis of alternatives to the GOM's current FNBT wheat flour subsidy program.

Consumer and Industrial Demand for Moroccan Wheat Flour

This is the first activity under the ICEA-Enterprise subcontract. It involves interviewing groups of consumers (and separately industrial users) about their quality/price preferences and substitutions among the milled products (flour, semolina) of the three industrial channels, concentrating on the output of the industrial mills. In September ICEA and DAI collaborators began to organize the application of consumer panel techniques to Moroccan consumers in different urban/rural, region and income classes. Industrial interviews will be conducted with "flour-using industries" (bakeries, cookies, pasta, etc.). Initial results indicate that consumer preferences are strongly negative to the current low quality of FNBT and strongly oriented toward hard wheat flour to the extent that family budgets permit. This and other findings indicate that the firms that make up the industrial flour industry would be likely to aggressively modify their product mix and quality level if allowed freedom in product marketing and in buying

⁴ A general description of the current state of Moroccan milling and a description of the types of information needed for this subsector research program were given by Claude Falgon in CMR-10, *La Minoterie en Concurrence*, June 1992.

⁵ David Wilcock, "Summary Description of CMR Phase II Applied Research in Cereals Milling", Rabat, October, 1992 (Report CMR-WP9).

their own supplies of wheat. Preliminary study results on consumer demand should be available by the end of November.

Analysis of Survey Data on Consumer Behavior

Dr. Stryker of AIRD spent two weeks in Rabat in July designing a set of activities focused on analysis of data from the *Enquête Nationale sur le Niveau de Vie (ENNV)* conducted by the Statistical Department of the Ex-Ministry of Plan in 1990-1991. His work, to be jointly sponsored by the CMR and USAID 191 projects, will conduct detailed analysis of the ENNV food expenditure data to estimate the likely impacts on the "poorest of the poor" of doing away with the FNBT subsidy and to refine demand elasticities earlier derived using 1984-85 household budget and consumption data. This effort will also develop a national "social accounting matrix" across all economic sectors. This latter work will be conducted with economists in the Ministry of Commerce and Industry and will hopefully allow for the estimation of the socio-economic impacts of a broad range of economic policy changes.

Artisinal Flour Milling

In June, 1992, the CMR project agreed with ONICL to support faculty and students at INSEA in undertaking a repetition of the 1989 study of Morocco's almost 10,000 artisinal flour mills and the roles they play in competition with the industrial flour mills. A new CMR subcontract (for \$38,000) was negotiated and signed with INSEA in July. This applied research effort has three specific objectives:

- o In rural areas, to assess the impact of the 1991-92 winter drought on household use of artisinal mills and obtain a better picture of rural household's "coping strategies";
- o In urban areas, to get a more accurate picture of the larger scale, more sophisticated artisinal mills that, by having the capacity to produce sifted flour, are able to compete more directly with industrial mills; and
- o To obtain a picture of the evolution of the artisinal milling subsector since 1989.

Survey work began in July with enumerator training. With assistance from ONICL field personnel, data collection (interviews with 360 mill operators and 2,100 mill consumers) and data entry were completed in August. Preliminary tabulations and an analysis plan were reviewed in September and a preliminary report and a cleaned data set are to be delivered by early November.

Development of an LP Model for the Milling Industry

The initial objective of this activity will be to construct an LP model that contains the geographical location all the industrial soft wheat mills, to assess the likely first steps

in decontrol of the industry: impacts of elimination or cut-back of transportation and/or storage subsidies on the financial position of mills in different parts of Morocco. Later, this model may be used to assess other dimensions of competition among mills, particularly those involving different costs of production and economies of scale in production and marketing as well as locational advantage.

Initial model development was done in July and September by Omar Aloui and Azzouz Jakhjoukhi of subcontractor Agro-Concept. While initial results of the first versions of the model look intriguing, much additional detail will have to be added to make it operate in a realistic manner.

Alternatives in Providing Targeted Food Subsidies to the Poor

It is clear that no matter how administratively flawed the GOM's *Farine Nationale de Blé Tendre* (FNBT) wheat flour subsidy system is, its reduction or elimination will have some negative impact on Morocco's poor. Therefore, the donor community to Morocco (particularly the World Bank under its new SAL II) has been dialoguing with the GOM to try and identify opportunities for more targeted assistance to the poor. DAI staff economist and home office technical backstop to the CMR project, Ann McDermott, undertook several weeks of interviews and desk research in Washington on the experience of other countries in the Mediterranean basin in closer targeting of food subsidies. In addition to reviewing the most recent academic literature, she examined recent targeting experiences in Tunisia, Algeria, and Egypt, as well as in Morocco. Her working paper on the topic will be available by the end of October. ⁶

Needs for Agricultural Statistical Data in Morocco

The needs of Morocco's public and private sectors for good-quality agricultural statistics have changed in recent years, in large measure due to:

- o Changes in GOM policy orientation with more emphasis on agricultural development being led by the private sector;
- o Changes in computer data processing and communications technologies, creating new opportunities for the production of useful information; and
- o Changes in the professional training of MARA staff with a much larger number of economists, who need different types of information to do their work.

In addition, analysts undertaking economic policy studies for CMR and for other projects and GOM offices, have encountered serious problems in the lack of appropriate information on the economics of Moroccan agriculture. For these reasons, three AID projects working with MARA (CMR, the MARA institutional strengthening project 182 --

⁶ Ann K. McDermott, "Targeting Cereals Subsidies: Case Studies of Morocco, Algeria, Egypt and Tunisia", Rabat, October, 1992. (Report CMR-WP7.)

PESA, and the new agribusiness project 210 -- MAP), combined resources to undertake a review of Morocco's public and private agricultural data needs, and current and future data collection and dissemination systems for this information.

CMR COP Wilcock, in collaboration with the 182 project coordinator, drafted the terms of reference for this study, and recruited the three US and three Moroccan consultants who completed this assignment in July. The team was directed by Dr. Wally Tyner, CMR collaborator from Purdue University. The team's report (CMR-12) contains numerous recommendations for improving the collection and distribution of statistical data by MARA. For example, they argued strongly for a new agricultural census since the last one was conducted about 20 years ago. Knowledge of the size-distribution of production is vital in assessing the likely impact of policy changes, particularly price supports, etc. In addition, the team's recommendations have helped to resolve which MARA unit should collect cereals price information, the *souk* and *halle de grain* levels, under the CMR-proposed SIM (*Système d'Information sur le Marché*).

Cereals Marketing Reform and the Feed and Livestock Industries

AIRD agricultural economist Jeff Metzger arrived in Rabat in late September to begin a rapid assessment of the livestock sector and its use of cereals and cereal forages, and to examine policy issues which derive from livestock use of cereals feeds. This activity comprises several specific tasks:

- o To identify trends in livestock feed use;
- o To assess the current health of feed sector: its competitiveness, and reliance on international markets for primary feed inputs;
- o To evaluate the impact of cereals market policies on the feed industry and the livestock sector; and
- o To identify areas for further applied research in the area.

A revised draft report on this work is expected to be available by early November (CMR-WP8). Several of the likely policy implications have to do with import policies for maize and barley used largely for feed purposes.

CMR Training Activities

The project's three long-term trainees continue to make good progress in their Master's degree training programs. ONICL employees Kchit and El Harti left the Economics Institute in Boulder, Colorado, and transferred to the Agricultural Economics Department at Purdue University to join the ever-expanding community of Moroccan students.

EVENTS AND ISSUES IN PROJECT MANAGEMENT

In September DAI received a "no-cost extension" of its CMR contract completion date through the end of September, 1994. This will allow long-term trainees to complete their Masters degree programs and practical training at USDA. It will also allow short-term technical assistance to be conducted in project year three after the anticipated departure from Rabat of the project COP in July, 1993.

As noted in the last quarterly report, an important issue for the CMR project is the **lack of progress on the cereals reform agenda**. The CMR project has a dual mission to (a) undertake studies that help to inform the process of subsector liberalization but also (b) to use seminars and others means of information dissemination to help advance the process of reform (or, once policy decisions are taken, to assist in planning transitional measures to help attain policy goals in a practical manner). In the case of cereals, while various commitments have been made by the GOM in the context of agreements with the World Bank or in anticipation of other national (new Foreign Trade law) and international (GATT) agreements, many of the implementation decisions have not been undertaken.

These are sensitive issues politically and, to some extent, decisions of this type in Morocco are often put off due to the current political situation ("la conjuncture"). For example, the growing effects of the 1991-1992 winter drought on domestic cereals availability and prices make mid-1992 a less desirable time to begin to reduce the FNBT consumer subsidy. It has also become clear that donors also dramatically underestimated the dimensions of the restructuring of the milling industry as it enters into free competition. Morocco's industrial millers are a politically powerful group and will not easily accept a clear reduction in their financial position as a group, even though individual firms will emerge from future competition with larger market shares. Further, pending national elections also induce (as in the US) a certain "temporary public policy paralysis". It is important that these issues be addressed directly by the USAID agriculture and program offices in anticipation of an evaluation of the CMR project planned for January 1993.

UPDATE ON FINANCIAL STATUS OF CMR

The CMR Project, by the end of the fifth quarter, has spent approximately 45% percent of contract funding. The details by main budget line items are contained in the table on the next page.

More detailed budget projections have been made to isolate those budget amounts that will not likely be spent by the end of the first two years of the project when the presence in Morocco of the long term advisor is scheduled to end. This information should be useful in discussions of the third year of the project (through September 1994) that can take place with MARA and USAID once the mid-term evaluation of the project is conducted in January 1993.

CMR BUDGET SITUATION

CONTRACT NO 608-0191-C-00-0047-00

OCTOBER 1992

CATEGORY	BUDGET AMOUNT	INCEPTION TO		CUMULATIVE AMOUNT	PERCENT OF BUDGET EXPENDED
		LAST REPORTED PERIOD (THRU JUNE 92)	THIS PERIOD JULY 92 THRU SEPTEMBER 92		
1. TECHNICAL ASSISTANCE					
DAI COSTS					
SALARIES	\$360,195	\$135,325	\$24,409	\$159,733	44%
FRINGE BENEFITS	\$31,353	\$18,236	\$2,593	\$20,829	66%
OVERHEAD	\$278,305	\$111,902	\$19,058	\$130,960	47%
TRAVEL & TRANS.	\$85,502	\$54,347	\$5,491	\$59,838	70%
ALLOWANCES	\$162,026	\$77,788	\$17,876	\$95,663	59%
SUBTOTAL	\$917,381	\$397,597	\$69,426	\$467,023	51%
FEE	\$61,383	\$26,400	\$4,610	\$31,010	51%
TOTAL TA DAI COSTS	\$978,764	\$423,997	\$74,036	\$498,033	51%
.....					
SUBCONTRACT COSTS					
PURDUE	\$193,306	\$24,588	\$35,253	\$59,841	31%
AIRD	\$203,795	\$78,919	\$2,742	\$81,661	40%
AGRO-CONCEPT	\$112,651	\$47,866	\$23,074	\$70,940	63%
SUBTOTAL	\$509,752	\$151,373	\$61,069	\$212,442	42%
FEES	\$33,644	\$10,051	\$4,055	\$14,106	42%
TOTAL SUBCONTRACT COSTS	\$543,396	\$161,424	\$65,124	\$226,548	42%
.....					
2. TRAINING					
SEMINARS AND TRAINING	\$306,000	\$19,149	\$20,165	\$39,314	13%
SUBTOTAL	\$306,000	\$19,149	\$20,165	\$39,314	13%
FEE	\$20,196	\$1,271	\$1,339	\$2,610	13%
TOTAL TRAINING COSTS	\$326,196	\$20,420	\$21,504	\$41,924	13%
.....					
3. DIRECT COSTS					
OTHER DIRECT COSTS	\$35,896	\$17,373	\$4,119	\$21,492	60%
PROJECT SUPP. COSTS	\$200,168	\$118,153	\$17,954	\$136,108	68%
SUBTOTAL	\$236,064	\$135,526	\$22,073	\$157,600	67%
FEE	\$15,580	\$8,999	\$1,466	\$10,465	67%
TOTAL DIRECT COSTS	\$251,644	\$144,525	\$23,539	\$168,064	67%
.....					
GRAND TOTAL	\$2,100,000	\$750,367	\$184,202	\$934,569	45%

ANNEX

BIBLIOGRAPHY OF CMR DOCUMENTS

Major CMR Reports

- CMR-1 PRCC Comité Technique, "Project RCC, Phase I: Programme de Travail", Rabat, 29 Juin, 1991. (In French Only).
- CMR-2 David C. Wilcock, "Agribusiness in the 1990's: The Commodity Subsector Approach" Rabat, June, 1991 (In English and French).
- CMR-3 Philip Abbot, "Trade Modeling in Support of Moroccan Cereals Market Reforms", West Lafayette, Indiana, December, 1991 (In English and French).
- CMR-4 Abderrahim Houmy et.al., "Tendances de la Production des Céréales au Maroc", Rabat, Final version: October, 1992 (In French only).
- CMR-5 Omar Aloui et.al., "Commerce, Stockage et Transformations des Céréales: Rapport Principal", Rabat, January, 1992 (In French only).
- CMR-6 Lynn Salinger et.al., "Commerce Extérieur, Rapport de la Première Phase", Rabat, Final Version: March, 1992 (In French only).
- CMR-7 Amal Britel et.al., "Consommation des Céréales au Maroc", Rabat, Final Version: October, 1992 (In French only).
- CMR-8 David C. Wilcock, "Synthesis Report: CMR Phase I", Rabat, February, 1992 (In English and French).
- CMR-9 M. Falouss, et.al., "Système d'Information sur le Marché des Céréales: Plan d'Action Proposé", Rabat, May, 1992 (In French only).
- CMR-10 Claude Falgon, "La Minoterie en Concurrence" (Plan d'Etudes Appliqués), Rabat, May, 1992 (In French only).
- CMR-11 (DRAFT) Charles Steedman et Hassan Benabderazzik, "Sécurité Alimentaire et Réforme des Marchés Céréalières", Rabat, Juin, 1992 (In French only).
- CMR-12 Benatya, Driss et.al., "Agricultural Data Needs of the Moroccan Ministry of Agriculture", Rabat, July, 1992 (In English and French). NB: This report was jointly sponsored by three USAID Agriculture Sector Projects: No. 182 (PESA), No. 191 (CMR), and No. 210 (MAP).

CMR Quarterly Reports

- CMR-QR1 David C. Wilcock, "The Cereals Marketing Reform Project: Quarterly Report 1", Rabat, October, 1991. (In English and French).
- CMR-QR2/3 David C. Wilcock, "The Cereals Marketing Reform Project: Quarterly Reports 2 and 3", Rabat, April, 1992 (English and French).
- CMR-QR4 David C. Wilcock, "The Cereals Marketing Reform Project: Quarterly Report 4", Rabat, July, 1992 (English and French).
- CMR-QR5 David C. Wilcock, "The Cereals Marketing Reform Project: Quarterly Report 5", Rabat, October, 1992 (English and French).

CMR Working Papers

- CMR-WP1 J. Dirck Stryker, "Groupe Chargé de l'Aspect Consommation des Céréales au Maroc", Cambridge, December, 1991 (In French only).
- CMR-WP2 Philip Boyle, "Situation et Perspectives de l'Aide Alimentaire au Maroc", Rabat, December, 1991 (In French only).
- CMR-WP3 David S. Kingsbury, "Summary of Issues Related to the Use of Agricultural Commodity Price Risk Reduction Mechanisms with Special Reference to Morocco", Bethesda, Maryland, December, 1991 (In English only).
- CMR-WP4 Bruce Schulte, "An Overview of Agricultural Market Information Systems", Rabat, May, 1992 (In English and French).
- CMR-WP5 Henriot Sabourin, "Rapport Technique: Diagnostic du Volet Stockage", Québec, May, 1992 (In French Only).
- CMR-WP6 Philip Abbott, "Agricultural Trade Modeling: Report on Training Course and Current Modeling Efforts", Rabat, June, 1992 (In English only).
- CMR-WP7 Ann K. McDermott, "Targeting Cereals Subsidies: Case Studies of Morocco, Algeria, Egypt and Tunisia", Rabat, September, 1992 (In English Only).
- CMR-WP8 Jeffry Metzler, "The Impact of Cereals Marketing Reform on the Feed and Livestock Industries", Rabat, October, 1992 (In English Only).
- CMR-WP9 David C. Wilcock, " Summary of CMR Phase II Applied Research in Cereals Milling", Rabat, October, 1992 (In English Only).