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Project File

608-0184

Action Memorandum

To: Robert Chase, DIR

From: Malcolm Purvis, ADO

Subject: Amendment to the Drought Recovery Credit Project Paper and Authorization - Explanation of Changes and Justification

Recent developments have necessitated changes to the Drought Recovery Credit Project Paper and to the Project Authorization. The description, background, and justification for these changes are presented below.

Statement of the Problem

Negotiations of the 13.5 million Loan Agreement and 1.5 million Grant Agreement have been underway with the GOM for the last 10 weeks. During the course of these negotiations, it has become apparent that 1) demand for credit in the 1984/85 crop season by rescheduled farmers had been overestimated and 2) the GOM and the Caisse Nationale de Credit Agricole (CNCA) were not fully aware of AID requirements for sole attribution of its funds to particular subloans made to eligible CNCA clients.

It is now apparent that the actual demand for new loans by rescheduled CRCA farmers and Agrarian Reform Cooperatives during the 1984/85 crop year will not totally utilize all of the funds to be provided by AID in FY 1984/85, as originally envisioned. The actual demand now appears to be 11 million dollars or less than half that calculated in the Project Paper last September. The two principal reasons are :

(a) The design team's calculation assumed that the demand for new 1984/85 loans by the Project's target group would be equal to the average for CRCA clients as a whole. However, the project's beneficiaries are smaller and lower income CRCA clients, and their demand for new 1984/85 loans has been less than that of CRCA clients as a whole.

(b) Because of their weak financial position, due to successive years of drought, smaller-scale farmers appear to have been far more hesitant to take on new loans than had been expected. This is in contrast to the large increase in demand for institutional credit experienced after the 1980/81 drought. The 1980/81 drought, however, was the first in the cycle. It is probable that the accumulated experience over the last four years has now made farmers much more cautions about taking on additional credit.

Even more importantly, the CNCA has now informed USAID that it cannot certify that all of its 1984/85 lending to rescheduled CRCA clients can be attributed solely to AID loan funds. The CNCA's medium-term credit for 1984/85 has already been attributed to the pre-existing IBRD Fifth Agricultural Credit Loan and, consequently, the CNCA can only certify that its short-term (annual) loans can be attributed to AID funds. Short-term lending accounts for about half of 1984/85 borrowing by the Project's rescheduled CRCA

beneficiaries, or about 6 million dollars. It should be noted that certification by the CNCA of the attribution of subloans triggers the release of dollar loan funds to the GOM.

Proposed Solution.

In order to resolve this difficulty, it is proposed that USAID accept as attribution for its funds, but without changing the target group for rescheduling, the CNCA's short-term loans made during the 1984/85 crop year to: (1) rescheduled, drought-stricken CRCA farmers with fiscal incomes of equal to, or less than, 6000 dirhams and rescheduled Agrarian Reform Cooperatives; (2) drought-stricken, small farmer CLCA clients who have been rescheduled by the CNCA; (3) non-rescheduled CRCA farmers in drought stricken provinces that are within the same income level, and (4) non-rescheduled small farmer CLCA clients in drought stricken provinces. The provinces considered to be drought-stricken are those for which the entire province (not just a part) was targeted by the CNCA for rescheduling assistance based upon the severity of the drought. The last two groups (the non-rescheduled farmers) would only become eligible after the credit needs of the rescheduled CRCA and CLCA farmers have been met. The European Economic Community has financed a rescheduling program for drought-stricken CLCA farmers, but has not financed new 1984/85 crop loans to these farmers.

Total demand for short-term credit during the 1984/85 season for all four categories is estimated by the CNCA at 170 million dirhams (approximately 17 million dollars). This level of demand will assure full and rapid disbursement of the AID loan prior to the end of FY 1985. Although the final amounts of the 1984/85 loans will not be known for sure until the end of the crop year, the bulk of the loans have now been made. It is estimated by CNCA that not less than 44 percent of AID funds will go to group 1, the original target group of eligible farmers, and not less than 30 percent to group 2 (for a total of 74 percent to rescheduled farmers). The remainding 26 percent of AID funds would support subloans to farmers in groups 3 and 4, which include farmers in drought-stricken provinces who have not been rescheduled. [FYI These estimates are made at today's exchange rate of 10 Dh/dollar. Using the 9 Dh/dollar exchange rate used in the Project Paper in October, the demand for short-term credit would equal 18.8 million dollars, and 82 percent of AID funds would go to the rescheduled CRCA and CLCA farmers making up groups 1 and 2].

In addition, a covenant will be included in the Project Agreement that the CNCA will guarantee priority claim on its resources for the duration of the Project to CRCA clients who, under the Project, have had their loans rescheduled. Further, the CNCA will provide A.I.D. with auditable records of CNCA lending to these clients.

Justification

The proposed changes in eligibility for attribution purposes is not, in USAID's view, a substantive change to the project. The goal, purpose, inputs, and outputs of the project remain the same. As stated in the Project Purpose, the project will "assist drought-stricken farmers to restore the productive capacity of their farming operations by providing temporary relief on unpaid loans and access to fresh credit."

2

The primary beneficiaries of the project remain those drought stricken CRCA clients who, under the Project, will be rescheduled by the CNCA. The proposed change in the attribution of AID's funds to cover 1984/85 short-term loans to all rescheduled small farmers and to non-rescheduled small farmers in the same drought stricken provinces will not alter the level or distribution of benefits expected to be generated by the Project. By recapitalizing the CNCA, the project is designed to permit the implementation of the rescheduling program. This program, as designed, would not be possible without the AID project loan.

Technical Changes to the Project Authorization

Several other, minor technical changes to the Project Authorization will also be made. These changes are necessitated by the fact that USAID/Rabat's revised draft authorization (handcarried to AID/Washington at the time of the November NEAC) was not used in preparing a final Project Authorization for the signature of the Assistant Administrator. In particular, the terms and conditions of the loan from the USG to the GOM were omitted in the Authorization as it currently stands. Other changes are: 1) The covenant requiring the designation of a CNCA counterpart is modified to reflect revisions in the composition of the TA that will be provided under the grant component, and 2) The covenant requiring the CNCA to onlend the AID funds to farmers within 90 days is no longer needed (since AID loan funds are now being attributed to short-term loans, most of which will have been made prior to the signature of the Loan Agreement). In addition, because the final language of the Covenants has now been negotiated with the GOM, the amended authorization now contains the verbatim language of the covenants.

An Additional Change in the Project Paper

In negotiating the Project Grant Agreement, the composition of the technical assistance component has been modified. The Project Paper provided for a single long-term credit/agribusiness advisor (three person-years) who would also have provided assistance in developing a management information system for the CNCA, supervised special credit studies, and monitored short-term overseas training. In addition, 42 person-months of short-term technical assistance was planned to carry out the selected studies. Instead, that the technical assistance package will be composed of a Management of Information Systems Advisor (2 person-years), an Agribusiness Advisor (1 person-year), technical assistance in training and staff development (approximately 3 person-months), and a U.S.-based project manager to supervise the technical assistance effort. In addition, the CNCA will employ or assign an individual to serve as full-time in-country coordinator for the life of the project. USAID will have a voice in the selection of this individual, as he or she will work very closely with USAID staff in order to ensure adequate management of the various grant-funded activities and continuity of the effort. Finally, the amount of short-term technical assistance earmarked for the special studies has been reduced to roughly 24 person-months. In part, this is because the longer-term advisors will now undertake some efforts originally envisioned as special studies. In addition, the CNCA will take on greater responsibility for carrying out the studies. The total number of studies remains roughly the same, and contingency funds exist which can be used to finance additional short-term technical assistance, as necessary. The above changes are consistent with the project's overall objectives and should not diminish its ability to achieve its stated outputs, purpose, and goal.

Recommendations

That, based upon the above justification and the authority redelegated to you under Redelegation of Authority 113.3A to amend project authorizations, you sign the attached Amendment to the Project Authorization to the Drought Recovery Credit Project.

That, by your signature to this Action Memorandum, you approve the proposed changes in the Project Paper. This Action Memorandum will then be attached as an addendum to the Project Paper.

Approved _____ 3/19/85

Disapproved _____

Robert C. Chase
Mission Director

AMENDMENT NUMBER 1

TO PROJECT AUTHORIZATION

Name of Country: Morocco

Name of Project: Drought Recovery Credit Project

Number of Project: 608-0184

Number of Loan: 608-K054

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, the Drought Recovery Credit Project for Morocco ("Cooperating Country") was authorized on December 28, 1984. That authorization is hereby amended by deleting the text in its entirety and inserting the following in lieu thereof:

"1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Drought Recovery Credit Project for Morocco (the "Cooperating Country") involving planned obligations of not to exceed Dols 13,500,000 in loan funds and Dols 1,500,000 in grant funds over a one year period from date of authorization subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is three years and six months from the date of initial obligation.

2. The project consists of the provision of assistance to the National Agricultural Bank (Caisse Nationale de Credit Agricole-CNCA) to enable it to reschedule loans to small- and medium-sized farmers affected by the drought and to make new loans to farmers for the crop season 1984/85 and to strengthen its capability to promote and assist the development of small- and medium-scale dryland farming operations. Such assistance consists of loan funds which are to be relent to drought-stricken farmers and grant funds for the provision of technical assistance, training and commodities.

3. The Project Agreement(s) which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Interest Rate and Terms of Repayment

The Cooperating Country shall repay the Loan to A.I.D. in U.S. Dollars within forty (40) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. Dollars interest from the Date of first disbursement of the Loan at the rate of (a) two percent (2%) per annum during the first ten (10) years, and (b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the project shall have their source and origin in Morocco or in the United States except as A.I.D. may otherwise agree in writing. Except for ocean shipping and short-term training, the suppliers of commodities or services shall have Morocco or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Short-term training in Code 935 countries is authorized.

Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States. The requirements of the Cargo Preference Act will be met with respect to all commodities financed by A.I.D. that are transported on ocean vessels.

c. Conditions Precedent

The Project Grant Agreement shall have conditions precedent in substance as follows:

(1) Prior to disbursements under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the CNCA shall provide to A.I.D. in form and substance satisfactory to A.I.D. a statement designating the CNCA employee who will be the full time coordinator for the implementation of Grant-funded activities.

(2) Prior to disbursement under the Grant for the procurement of computer equipment, the CNCA shall have selected the type of equipment to be procured for the overall computer system to be financed by the IBRD. Computer equipment procured with A.I.D. funds shall be compatible with that procured for the overall CNCA computer system.

(3) Prior to disbursement under the Grant for the development of the Training Division and Technical Library, the CNCA shall provide to A.I.D., in form and substance satisfactory to A.I.D., assurance that adequate facilities are available to house these activities.

d. Covenants

The Project Loan Agreement shall have covenants in substance as follows:

(1) The Borrower agrees to relend the dirham equivalent of funds made available under the Loan to the CNCA under the same terms and conditions as made available in this Agreement.

(2) The Borrower agrees to make the dirham equivalent of the Loan available to the CNCA within seven (7) days of receiving disbursements under the Loan.

The Project Grant Agreement shall have covenants in substance as follows:

(1) During the first ten years of the Loan, beginning on August 31, 1985, the CNCA will record in its financial accounts and statements at the end of each fiscal year a provision for bad debts supplementary to its currently established provision and practice, and equal to at least 2 percent per year of the outstanding Loan. The CNCA will inform A.I.D. of the methods of calculation and accounting for this provision.

(2) The CNCA agrees to provide the funds from the Loan to eligible clients, and at those interest rates and other terms and conditions currently applied by the CNCA to new loans.

(3) The CNCA agrees that the loans of individual clients of CRCAs (with fiscal incomes of less than or equal to 6000 dh) and Agrarian Reform Cooperatives who have been granted a one year deferment on overdue payments will be rescheduled at an interest rate of 7 percent and with a repayment period reflecting the balance of short-term and medium-term loans rescheduled and on average not more than 8 years.

(4) The Grantee and the CNCA agree that standard provision B.5 set out in Annex 2 to the Grant Agreement will apply to the Loan, as well as to the funds provided by this Grant.

(5) The CNCA agrees that the funds received by it under the A.I.D. loan to the Kingdom of Morocco will be attributed to short-term seasonal loans for the 1984/85 crop year to eligible clients of CRCAs and CLCAs only. Eligible clients are:

(a) Individual farmer clients of CRCAs and CLCAs with fiscal incomes of less than or equal to 6000 dh for whom the rescheduling of unpaid loans has been approved based upon an assessment by the CNCA that their failure to repay was directly attributable to the drought conditions which have prevailed since 1980/81; or

(b) Agrarian Reform Cooperatives for which the CNCA is rescheduling overdue loans based upon an assessment by the CNCA that their failure to repay was directly attributable to the drought conditions which have persisted since 1980/81; or

(c) Individual farmers in drought-stricken provinces, who are clients of CRCAs or CLCAs, with fiscal incomes of less than or equal to 6000 dh, but who have not had loans rescheduled by CNCA.
Drought-stricken provinces are defined for this purpose as those for which the entire province has been determined by the CNCA in 1984/85 to be eligible for assistance under its rescheduling program, on the basis of severity of the drought. This category of eligible clients may only be considered if, 120 days after the first disbursement or by July 31, 1985, whichever comes first, the demand for new loans by rescheduled CRCA and CLCA clients has not exhausted the funds provided by A.I.D.

(6) The CNCA agrees that clients of CRCAs who have had their loans rescheduled under this Project and who meet the financing criteria of the CNCA will receive priority claim on CNCA's resources for the duration of the Project and the CNCA will provide A.I.D. with auditable records of CNCA lending to these clients over that period."

2. The Authorization cited above remains in force except as hereby amended.

Robert C. Chase
Director, USAID

3/19/85
Date