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Memorandum

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TO : AA/PPC, Mr. Philip Birnbaum

DATE: February 28, 1975

3p.

FROM : PPC/DPPE, Arthur M. Handly

SUBJECT: Triffa/Dukkala Irrigation Projects

We have received and reviewed a NESA Bureau memo on the subject projects. The memo attempts to be responsive to the issues which we raised concerning the projects.

There are no new facts or information provided so that issues essentially remain as before, with one exception. We indicated our concerns for possible political problems relating to a large number of extremely small land owners which did not want to be relocated or to be excluded from the project. Apparently they will be excluded from the project and, according to the NESA Bureau, this will not be upsetting to them. We will accept this.

The issues concerning beneficiaries, equity and costs remain. In summary, they are as follows:

Beneficiaries: We believe that the fact that 25% of the land owners in the scheme will own approximately 50% of the land is indicative of a skewing of the project to the larger land owners. The NESA Bureau position is that the fact that 75% of the land owners will have 50% of the land is reasonable and therefore that the issue should be dropped.

While a serious issue in our mind, it could be alleviated by adjusting the distribution of benefits so that they are distributed equally or preferably equitably with the greater benefits going to the smaller land owners. (See below)

Equity: As we stated in our memorandum, while the charges to the beneficiaries are somewhat progressive the benefits are skewed to give substantially more benefits to larger land owners than to the smaller, as they are distributed on the basis of hectares.

The primary benefit in the irrigation scheme is the increased value of the land which we assume is the land development cost, approximately $3,000 per hectare, the land improvement charge being $349 per hectare. Thus, a land owner of 25 hectares would

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have his land values increased by $3,000 x 25 or $75,000 at a cost to him of $8,750 (net subsidy $66,250). The land owner who had five hectares would receive a benefit of $15,000 (net subsidy) with no land charge, and the land owner with 15 hectares would receive a benefit of $45,000 at a charge of $3,500. Obviously, the benefits are skewed very heavily to the larger land owner. They are obviously unequal and clearly inequitable.

The NESA Bureau asserts it is unrealistic to expect a larger land owner to assume charges in closer relationship to benefits and further, that this approach is common among LDCs and in the U.S.

We believe that the fact remains that this is a grossly inequitable scheme and should not be supported.

The NESA Bureau further states that this approach is in Moroccan law, and is not subject to negotiation.

Economics: The facts here are not at issue. That is, that the scheme, according to Moroccan design is to provide a net income of $925 to a farmer who owns from 5 to 8 hectares. Assuming a land development cost of $3,000per hectare, we are locking at a project in which costs are between $15,000 and $24,000 with a net return of $925, which in our view is not a sound economic investment.

In our memo to the NESA Bureau concerning the projects we stated that the communication to the field "should note the serious difficult issues raised by the projects and reflect the substantial analysis which must be performed prior to proceeding with the two irrigation projects."

We further stated our "doubt that you will be able to satisfactorily resolve all the issues involved prior to the end of the fiscal year."

The NESA Bureau does not agree with the seriousness of the issues which we raised, and "in view of the uncertainty of the DL programs in Morocco in FY 76" plans "to make a major effort to ready both projects for FY 1975 funding."

In view of the fact that the NESA Bureau does not accept the validity of our concern relating to equity, and indicates it is not practical to consider any change, we must assume that we will recommend that the projects not be supported by AID.

While it is probable that further study and analysis could identify additional indirect benefits, we must assume that the cost to benefit ratios in terms of the direct beneficiaries will not be substantially changed. We would thus not recommend the project for AID support due to its inadequate economic returns. We believe, therefore, the issues are clear, with little disagreement as to the facts and it is appropriate that a decision be made at this time concerning the efficacy of proceeding with any further work on the projects.

We recommend that the projects not be pursued and that this be the subject of a meeting between yourself and NESA AA. I am attaching for your information a memorandum on the projects from Ted Owens of the Rural Development Committee. I am also attaching copies of our memo to NESA dated February 13 and their response dated February 25.