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MEMORANDUM

TO : AA/PPC, Mr. Alexander Shakow
PPC/DPRE, Mr. Arthur Handly

March 4, 1976 5p.

FROM : PPC/DPRE/PR, Bruce J. Odell

SUBJECT: Morocco - Doukkala Zemamra Irrigation

On the basis of a February 27 meeting, the Near East Bureau (NE) appears to be prepared to proceed in processing the subject loan for third quarter authorization. While $5.0 million has been tentatively earmarked for FY 76 financing, NE is hopeful of our coming up with sufficient funds to permit full, immediate financing of $13 million. This, jointly with an anticipated IBRD loan of $30 million, will constitute the external financing for a $94 million sprinkler irrigation scheme encompassing some 15,400 hectares in the central coastal area of Morocco. AID's contribution will largely be limited to foreign exchange financing.

This project proposal causes us concern. It is very mindful of the Triffa Irrigation project which so troubled PPC last spring that we felt compelled to appeal (unsuccessfully) to Mr. Murphy for its disapproval. As both a concept and as a formal proposal within the AID project approval system, Doukkala also has its own unique flaws which, we believe, mandate serious consideration of disapproval.

1. Responsiveness to the Congressional Mandate

If a hierachy of problems with the proposal was to be constructed, the issue of equity to the small farmer would have to be placed at the top. On August 5, 1975, Bob Nooter wrote to Mr. Murphy requesting his approval of a conditional AID commitment to the Moroccans and IBRD of our financial participation in the Doukkala project. In recognition of the then recent NESA/PPC go-round on Triffa and land tenure issues Mr. Nooter stated that ... "our criteria should be that land should be at least as equitably distributed as it is in the Triffa area. If we cannot satisfy ourselves on this point, I believe we should not participate in the project." When NESA sent the memo in August, detailed information on the Doukkala land tenure equity situation was not known. By the end of October, Sy Taubenblatt was able to inform Mr. Nooter that the Doukkala case was not better than Triffa, but in fact somewhat worse. To quote from Taubenblatt's memo, "The data show that in the Doukkala Project 78 percent of the farmers with 0-5 hectare plots own 44 percent of the land area, while in the Triffa Project 84 percent of the farmers (0-5 hectare plots) own 66 percent of the land area." The large farmer side of the spectrum similarly compared. A major difference between Triffa and Doukkala was that the former area had substantial acreage in government lands which could be distributed to small farmers to mitigate the land ownership disparity; this advantage is lacking in Doukkala where virtually all land is privately held and, therefore, there is none to redistribute. Mr. Taubenblatt then pointed out that while Doukkala's equity was not as good as Triffa's, this could be compensated during loan negotiations by pressing the Moroccans to raise water, pumping and land improvement levies to recover a greater share of the project investment costs from the farmer and **ensuring** at least as good progressivity as obtained under existing legislation. It is correct to state that this negotiating stance would have gone a long way to alleviate the Doukkala inequities if successful. The problem is that the IBRD/AID team were not successful in obtaining Moroccan agreement to specific adjustments in the rate structure. The GOM pointed out that the prevailing (1969) structure was being reviewed and that it wished to do nothing in Doukkala which would preempt recommended adjustment arising out of its own review. After protracted negotiations, the GOM would only agree to establish an inflation-adjustment index by December 1977, leaving to "best efforts" other water, power and land betterment levy adjustments which would ensure adequate progressivity and cost recovery.

There are several other disturbing aspects of the equity question. Page 4B of the PP illustrates that while the net, after-tax cash income of 2 hectare farmers will increase 3.7 times to $1,280 with the project, 25 hectare farmers will see a more than six fold increase in income to $10,720, further improving their relative as well as absolute economic position vis-a-vis the small farmer.1/ Another aspect is that 1) farmers previously on poorer (Class IV) land will stay on (or be reassigned to) equivalent land as a result of the project, and 2) farmers will be allotted the same amount of land after the project as before. NE/CD states that to redistribute land would be "politically infeasible" in Morocco, which we believe brings into real question GOM views on equity.

Essentially, the critical IBRD/AID loan preconditions on equity have not been met and, therefore, the Hooter/Murphy understandings have not been fulfilled. It would not appear prudent in view of the strictures of the Congressional Mandate to proceed until they are.

2. Cost

If social infrastructure costs are included, the project costs per hectare amount to approximately $6,000. Netting out the electric power network, village infrastructure, major roads and telecommunications, and agricultural credit, as the IBRD and NE/CD prefer to do, reduces the per hectare cost to $4,230 -- still high in comparison to the approximately $3,000/hectare cost at Triffa. Either way (and we still believe the $6,000 figure is a closer approximation of true development costs), this is an extremely expensive solution for achieving higher farmer income and increased agricultural production. It is worthy to note

1/ Presumably assuming existing rate legislation here that the project paper gives no indication that truly lower cost alternatives were ever seriously considered for Doukkala during the feasibility phase. Repeatedly, expert studies seem to have approached Doukkala from an irrigation perspective on the premise that capital intensive irrigated agriculture was the only way to go. Despite the fact that Doukkala has substantially higher per hectare and per farm costs than Triffa, we still have no assurance at this point that the old 1969 cost recovery formula will be superceded in favor of a revised financial formula yielding results more closely satisfying the GOM's own 40% cost recovery standard.

3. Rate of Return

This project boasts an 11.4% internal rate of return, well below the nominal 15% AID standard. With a 20% increase in costs and 20% decrease in benefits, the IRR drops to 6.8%, which reflects relatively high sensitivity and questionable economic viability. And this 11.4% return is based on excluding all but directly productive investment, i.e. netting out those "social" items mentioned above. The rate of return is also apparently dependent upon maintaining the status quo on cost recovery, which is avowedly not desired by the project designers. It appears that the now-standard technique of "shadow" pricing labor and, most importantly, imported materials was not used, although this is not clear one way or the other from the paper.

4. Role of Farmer

This aspect of Doukkala differs little from the Triffa project. The GOM will be following a largely "top-down" methodology, dictating to the farmer what and when to plant, imposing a cooperative structure, running (through its local management office) the entire irrigation system right down to the sprinklers, supplying inputs and marketing important commodities through mandatory government channels. The participatory quality of the project -- a cornerstone of the Mandate -- appears to be very weak. The section of the PP on the Impact of the Project on the Traditional Social Structure is weak and talks in broad generalities. It does not evidence any attempt to survey farmers' expectations in the area, willingness to relocate (cluster) in new village centers, or assess leadership and relative power roles in the community. This lack of detail is probably due to the fact that the IBRD appraisal team's concerns lay elsewhere and the fact that AID apparently had a very limited role in project analysis or design.

5. Role of Women

The PP states that "... we (presumably USAID) are not aware of any studies that have been made uniquely assessing the role of rural Moroccan women in the project area." This section then goes on to point out project benefits to women which, in fact, might apply to any beneficiary in the project area such as improved shelter, nutrition and overall standard of living. Suffice it to say that it is now the responsibility of project designers to conduct such special studies on project impact on women.

6. Evaluation

As Herb Turner has pointed out, the PP's evaluation plan does not adequately meet AID standards. It would be improved by conducting during implementation brief, joint IBRD/AID evaluation:

a. reaffirming the continual relevance and validity of project target;

b. reassessing the validity of assumptions about external assumptions (e.g., timely land consolidation);

c. examining actual progress toward pre-established targets.

Such low cost, annual evaluation will be especially valuable feedback to the project managers and expand our knowledge and control beyond a strictly inputs focus. In view of the fact that the project life will run for almost four years, a mid-term in-depth evaluation/ is desirable during Year Three to measure accomplishments and cause-and-effect and assess need for changes in future direction. All of this evaluation plan detail is superior to relying on a non-specific discussion of IBRD evaluation plans as the PP now does.

7. Logical Framework

Herb Turner again pointed out that this section of the PP seems to show a substantial lack of understanding of the logframe concept and methodology:

The goal statement contains both cause and effect, thus making verification difficult. The suggested single indicator (not labeled as such) is per capita income which support the effect portion of the statement. Income is also cited as part of the purpose target, thus the same target occurs at two levels in the hierarchy. Since the goal statement implies substantial changes in the lives of Moroccans and notes special attention to small scale farmers, one would hope for more than a single quantitative indicator at goal level.

The purpose statement is not adequately supported by EOPs indicators: Key elements of the purpose statement include, inter alia, production/productivity, efficient farming practices, income and new employment; there are no EOPs indicators for these (although the income item is supported by the unlabeled indicator at goal level).

The purpose statement is an admixture of cause and effect.

The causal linkage between purpose and goal is not explicitly clear. If the proposed linkage is that increased productivity/production (purpose) will contribute to increased income (goal) then the PP should say so. The purpose statement mentions "producing crops and livestock according to efficient farming practices ..." but the statement is not targetted (magnitude) nor supported by an EOPs indicator(s).

The causal linkage between outputs and purpose looks nonviable; it suggests that the physical system (outputs are limited to physical elements only) will, in and of itself, result in important socio economic change, e.g., adoption of efficient farming practices, relocation to new village centers, etc. To the extent training, advice, institutional change and other non-physical elements are involved, they are relegated to the assumption column.

8. PPTS

No Project Performance Tracking System network is included in the paper. When asked about this, NE/CD responsed that none was considered necessary in view of the fact that the IBRD had already worked out a detailed implementation and disbursement plan for the project. This reflects a lack of appreciation of the PPTS as, inter alia, a senior management tool in charting the progress of the project and also a questionable AID reliance on IBRD design/implementation modalities and concerns.

9. Environmental Impact

Discussion of environmental impact is limited to the Bilharzia problem, which was singled out by the IBRD for special attention. While Bilharzia control procedures in Doukkala seem to have been thought through other ecological aspects of this $94.0 million project such as soil erosion, waste disposal, and salinity control have not been treated in the statement. I suggest that SER/ENGR take a look at this section in view of the project's magnitude and the recent AID legal consent agreement to improve its environmental analyses.

Clearance: PPC/DPRE/PR:RBobel (draft)

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