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2. COUNTRY/ENTITY MOROCCO	3. PROJECT NUMBER <input type="checkbox"/> 608-0195 <input type="checkbox"/>
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4. BUREAU/OFFICE ASIA NEAR EAST A. Symbol _____ B. Code <input type="checkbox"/> 608 <input type="checkbox"/>	5. PROJECT TITLE (maximum 40 characters) <input type="checkbox"/> Cereals Marketing Reform Project <input type="checkbox"/>
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6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION A. Initial FY <input type="checkbox"/> 8 <input type="checkbox"/> 8 B. Final FY <input type="checkbox"/> 9 <input type="checkbox"/> 2 C. PACD <input type="checkbox"/> 9 <input type="checkbox"/> 3	7. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$1 =) <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <th style="width:50%;">FUNDING SOURCE</th> <th style="width:50%;">LIFE OF PROJECT</th> </tr> <tr> <td>A. AID</td> <td>20,000</td> </tr> <tr> <td>B. Other U.S.</td> <td></td> </tr> <tr> <td> 1.</td> <td></td> </tr> <tr> <td> 2.</td> <td></td> </tr> <tr> <td>C. Host Country</td> <td>5,000</td> </tr> <tr> <td>D. Other Donor(s)</td> <td>- 0 -</td> </tr> <tr> <td>TOTAL</td> <td>25,000</td> </tr> </table>	FUNDING SOURCE	LIFE OF PROJECT	A. AID	20,000	B. Other U.S.		1.		2.		C. Host Country	5,000	D. Other Donor(s)	- 0 -	TOTAL	25,000
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TOTAL	25,000																

8. PROPOSED BUDGET AID FUNDS (\$000)							
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. 1ST FY 88		E. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF				3000	2000	12500	7500
(2)							
(3)							
(4)							
TOTALS				3000	2000	12500	7500

9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)	10. SECONDARY PURPOSE CODE
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11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each) A. Code _____ B. Amount _____	
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12. PROJECT PURPOSE (maximum 480 characters)

To improve the economic and social efficiency of Morocco's domestic cereals market by (1) deregulating the market and reducing public intervention in it; (2) fostering private sector involvement and increased competition in domestic cereals marketing; and (3) instituting a cereals import policy which supports development of the domestic cereals market.

13. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT

Staff: one Agricultural Economist one Economic Anthropologist one Cooperative Specialist one Grain Marketing Specialist Funds \$ 54,000	Mission Project Officer Mission PDO Mission Program Economist
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14. ORIGINATING OFFICE CLEARANCE	Signature Title Mission Director	Date Signed MM DD YY 10 16 87	15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY
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16. PROJECT DOCUMENT ACTION TAKEN <input type="checkbox"/> S = Suspended CA = Conditionally Approved <input type="checkbox"/> A = Approved DD = Decision Deferred <input type="checkbox"/> D = Disapproved	17. COMMENTS
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18. ACTION APPROVED BY	Signature _____ Title _____	19. ACTION REFERENCE	20. ACTION DATE MM DD YY
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PROJECT IDENTIFICATION DOCUMENT

CEREALS MARKETING REFORM SUPPORT PROJECT

I. PROGRAM FACTORS

A. Conformity with Recipient Country Strategy and Programs

The macroeconomic objectives of the Government of Morocco's medium-term development strategy include: increasing and sustaining sectoral and, consequently, national GNP growth rates; reducing external debt servicing requirements to manageable levels; improving economic efficiency in resource allocation; and rationalizing the government's financial support of development programs.

Priority actions to achieve these objectives are improved mobilization of public resources, promotion of greater private savings and investment, increased exports, decontrol of domestic markets and promotion of greater private sector participation, increased productivity by sector, and reduction of inequities in income distribution.

The key macroeconomic policy adjustments to accomplish these objectives that have been undertaken, or are planned for the next five years, include: implementation of an exchange rate policy that would stimulate exports and reduce imports; removal of import licensing, introduction of a trade liberalization policy, and redirection of effective protection patterns to reduce the bias against the agricultural sector; deregulation of domestic markets through the removal of legal constraints to entry and a reduction in direct government intervention in the marketplace; and the introduction of strict economic and financial efficiency criteria into public investment decision-making.

The above macroeconomic strategy has been supported by a series of World Bank loans, including two Industrial and Trade Policy Adjustment Loans (ITPA I and II) and the First Agricultural Sector Adjustment Loan (ASAL I). This strategy is being further supported by the current Standby Agreement with the International Monetary Fund (IMF). The overall strategy for the agricultural sector will be further defined and reinforced by the World Bank's Second Agricultural Sector Adjustment Loan (ASAL II). This second loan will finance the importation of essential agricultural inputs in order to ensure that the current adverse balance of payments situation facing Morocco does not unduly constrain growth prospects in the agricultural sector. Policy reforms tied to disbursements under the ASAL II loan are:

1. Reduction in the level of effective protection provided to the irrigated crops sub-sector relative to that provided for the rainfed sub-sector;
2. Elimination of subsidies on a wide range of agricultural inputs;
3. Decontrol of domestic markets for agricultural inputs and crop marketing;
4. Elimination of current public export monopolies; and

5. Redirection of public investment patterns toward accelerated technological innovations, particularly in the rainfed crops sub-sector.

Within this strategy for restructuring the agricultural sector, reform of the cereals marketing system and promotion of a greater degree of self-reliance in cereal production has been selected by the United States Agency for International Development (USAID) as a priority objective. Assistance in the successful attainment of this objective is the central focus of the proposed Cereal Marketing Reform Project (CMRP).

There are two cereals marketing systems in Morocco, the traditional, unregulated market, and the official, or controlled, market. This latter encompasses roughly 10-15 percent of domestic grain production, but up to 50 percent of domestic bread wheat production. The government also controls all grain imports, primarily bread wheat. With respect to this official market, the Government of Morocco will implement the following specific reforms:

1. Elimination of the present system of establishing fixed prices for domestic bread wheat based on estimated "costs of production" calculations and substituting a "target price" system linked to world market prices (taking into account the subsidy granted by major grain exporting countries to producers and exporters);
2. Decontrol of the domestic cereals market by the abolition of grain traders licensing and by authorizing millers to purchase cereals from any domestic source; payment by the government to millers to eliminate outstanding arrears; and payment of an adequate level of compensation to millers as long as consumer subsidies exist;
3. Elimination of public controls on cereals storage, shipments, and fixed marketing margins for private grain marketing agents; and
4. Gradual replacement of quantitative restrictions on agricultural imports, including durum wheat, barley, and corn, by tariffs and/or fees.

These specific reforms will be conditions precedent to release of World Bank funds over the next two years under the ASAL II loan agreement.

Additional policy reforms which will be advocated under the proposed CMRP are:

1. Disengagement of the government from a direct role in the management and decision-making of the 13 regional grain marketing cooperatives (i.e. Sociétés Coopératives Agricoles Marocaines, SCAMs, and Coopératives Marocaines Agricoles, CMAs), as part of an effort to transform them into true cooperatives or private entities;
2. Re-evaluation by the government of the concepts and methods used for constituting, financing and managing Morocco's security stocks with greater private sector participation. This will entail analyses to determine: (a) the optimal volume and distribution (geographically and over time) of the security stock and (b) the respective roles of

the state and private sector in the creation, financing, management and distribution of these stocks.

3. Development of a specific bread wheat importation strategy and decision-rules to mitigate price depressing effects on the domestic cereals market of untimely or excessive wheat imports, both commercial and concessional.

B. Relationship to the Country Development Strategy Statement (CDSS)

USAID's agricultural strategy for Morocco has three sub-objectives:

1. Strengthened agricultural education and technical/socio-economic research systems;
2. Increased availability of agricultural inputs and production-increasing technologies;
3. Improved economic policy environment for growth through increased reliance on market forces.

The proposed CMRP contributes substantially to the third element of the USAID strategy by actively reinforcing the general economic reform strategy of the Government of Morocco, as assisted by the World Bank and the IMF. The project supplements, and significantly increases the effectiveness of, the integrated AID-financed portfolio in agricultural research, training, investment, and policy reform. It improves the cereals marketing system, to the benefit of both farmers and consumers, and improves relative income and employment conditions in the sector. Successful execution of the CMRP contributes directly to reducing present Government of Morocco balance of payment problems and shortfalls in the operating and investment budgets.

There are specific links between the proposed CMRP and USAID's present agricultural projects. For example, technical assistance provided by USAID under the present Planning, Economics, and Statistics for Agriculture Project (608-0182) has assisted the GOM and the World Bank in analyzing the agriculture sector and in developing reform proposals. In turn, the CMRP will complement Project 0182 by increasing the government's technical capacity to analyze agricultural policy options and to monitor the specific effects of policy reform on different groups within the sector.

By removing present distortions, the cereal marketing reforms proposed under the project will increase farmers' options vis-a-vis the market and result in better prices for their cereals output. The Project will thereby increase the ability and willingness of these farmers to adopt the technological innovations flowing from the Dryland Agriculture Applied Research Project (608-0136).

Finally, the CMRP will supplement resources of the National Agricultural Credit Bank (CNCA) and selected commercial banks to increase the private sector's role in cereals marketing. The CNCA's overall management capabilities and its program for lending to agribusiness are presently being strengthened under the ongoing Drought Recovery Credit Project (608-0184).

II. PROJECT DESCRIPTION

A. The Perceived Problem

Morocco is heavily dependent on cereals imports, even though, as demonstrated in a recent USAID-financed study of Agricultural Prices and Incentives, the country has a comparative advantage in wheat production. Per capita production of wheat declined from 121 kg during 1970-74 to 85 kg during 1981-1986. Indeed, cereals imports grew by an average of 11 percent per year during the 1963-83 period. Since 1980, wheat imports have averaged approximately 1.86 million tons, at an average annual cost of approximately US\$-275 million. Further, the cereals marketing system fails to provide price signals to the majority of domestic producers of food grains.

The present official cereals marketing system in Morocco is heavily encumbered by an array of direct government interventions. These include:

1. The setting of cereals prices by a cost of production formula;
2. Limitations on trader entry into the market (e.g. licensing requirements for official traders) and on their freedom of operations;
3. Regulation and control of the movement of grain from farmers to millers to consumers; and
4. The setting of margins for transaction costs all along the marketing chain.

This rigid system of government intervention has introduced multiple distortions into the domestic cereals market. The basic economic premise underlying the Moroccan ASAL II cereals market restructuring strategy, and hence this project, is that increased competition in the domestic cereals market, coupled with government withdrawal from a wide array of direct market controls and interventions, will greatly increase the efficiency of the marketing chain in both financial and economic terms. This increased efficiency will benefit the government, farmers, market intermediaries and, in the long run, to consumers.

ASAL II has proposed reforms in the method of calculating the target price for bread wheat and target and support prices for hard wheat, barley and corn. These reforms will result in these prices being tied, by a formula, defined by reference to undistorted world market cereals prices, rather than based on domestic cost of production estimates.

Under these reforms, domestic cereals prices would be linked to the international price level by an established formula. A target price at the mill will be set administratively by taking a reference price (for example an adjusted Kansas City Board of Trade price for hard red winter wheat), adding the costs of delivering the grain to a Moroccan mill, and adding a tariff (the World Bank has proposed 25 percent of the reference price) which will equalize the protection of Moroccan agriculture and industry. This target price will then be paid by millers in procuring grain domestically or, with a slight

differential added, in procuring an equivalent quality of wheat from the international markets. This differential will be included to encourage millers to use domestically produced grain.

This linking of domestic cereals prices to the world market is seen as the preferred method for providing the Moroccan cereals producer and the government with correct price signals upon which to base national and farm-level resource allocation decisions. These price signals would then function both in the allocation of resources among the various rainfed crops and between the rainfed and irrigated sub-sectors.

Currently world cereals prices are extremely low due to overproduction and subsidized exportation by major grain exporters. Tying the prices received by Moroccan producers to such artificially low world prices would unfairly penalize Moroccan grain producers and lead to undesirable declines in domestic grain production. Therefore, the GOM has developed policies and measures to permit Morocco to protect its domestic production. These measures have been accepted by the World Bank under ASAL II. Under that agreement, Morocco will initiate the procedures required to link domestic grain prices to world prices. However, the official price of grain would remain at no higher than 1986 real levels until world grain prices come closer to reflecting actual costs of production.

The restructuring strategy envisions that a decontrolled and competitive domestic cereals market will correct certain rigidities inherent in the present government-dominated market. Essentially, the problem is that the government's fixed purchasing price for bread wheat is constant throughout the official wheat purchasing period and thus makes no allowance for seasonal, locational or qualitative differentials in wheat purchases. The official price provides no incentive for on-farm or local storage of bread wheat, and concentrates the burden of all storage on private traders and SCAMs and CMAs under less than fully remunerative conditions. As a result of the low margins, millers generally do not store grain beyond their immediate inventory needs. Similarly, since it is at this time neither technically nor administratively feasible to grade domestic wheat for milling and baking quality, Moroccan producers have no incentive to improve the quality of the wheat they produce and store. Furthermore, grain storage losses are very high.

The present cereals marketing system appears to be less than fully effective in meeting the government's objective of assuring domestic levels of prices for bread wheat producers that provide incentives to adopt improved technologies and increase yields, and of guaranteeing access of all farmers to these prices. The following reasons may account for this:

1. Only a limited number of bread wheat farmers have access to the existing market structure (SCAM and CMA) and benefit from the price fixed by the state. The other farmers must sell their wheat to local buyers for essentially open market prices. To the extent that these prices fall below the official bread wheat price in any particular period, farmers selling their grain outside official channels receive less than the price fixed by the government.

2. Actual access to official wheat buying agents is limited by:
 - a. The location of the purchasing centers vis-a-vis producers;
 - b. The fact that the actual buying period for bread wheat at the official price is essentially concentrated in the two or three months directly following the wheat harvest; and
 - c. The budgetary constraints faced by the government which limit its ability to purchase grain at the official price.

A corollary set of problems is posed by the Government of Morocco's necessary ventures into the international cereals markets for wheat and corn. First, poor timing of arrivals for international wheat purchases and donated commodities, and the lack of defined decision rules tying those arrivals to domestic market conditions and producer price objectives, has a dampening effect on the government's ability to actually support local wheat prices. Periodic foreign exchange constraints and massive use of official exporter credit also impede timely procurement and operation in the futures market.

It is believed that a more comprehensive and sophisticated cereals trading strategy on the government's part could substantially cut Morocco's costs in the international cereals trade and, hence, contribute to improving the present trade deficit.

B. The Project Goal and Purpose

The Project Goal is to increase the domestic production of wheat in the long-term, consistent with Morocco's comparative advantage.

To attain the Project Goal, the Project Purpose is to improve the economic and social efficiency of Morocco's domestic cereals market by assisting the GOM in: (1) deregulating the market and reducing public intervention in it; (2) fostering private sector involvement and increased competition in domestic cereals marketing; and (3) instituting a cereals import policy which supports development of the domestic cereals market.

C. Project Activities, Outputs, and Proposed Implementation Mechanism

Given the policy reform objectives, the CMRP proposes to work through the existing Government of Morocco mechanism for implementation of the Agricultural Structural Adjustment Loan II (ASAL II). The principal policy-level mechanism for such implementation activities is the ASAL II Inter-ministerial Coordinating Committee (AICC) and its Secretariat in the Ministry of Agriculture and Agrarian Reform (MARA). The AICC is currently chaired by the Minister of Agriculture and Agrarian Reform and staffed by the Ministers, or their designates, from the Ministries of Finance, Interior, Commerce, and other concerned ministries. The AICC Secretariat is based in MARA, chaired by its Secretary-General and staffed by the MARA directors concerned.

Proposed implementation activities related to execution of ASAL II reforms are currently detailed and managed by the Secretariat, after review

and approval by the AICC. USAID proposes that the same system be utilized to plan, execute and monitor the specific policy-related activities of the CMRP.

Activities under the proposed project will serve the needs of both the government and of private grain marketing agents under the deregulated marketing system. These activities will require specific actions by government agencies and cooperation from the private sector at virtually every step in the process. As described in greater detail below, these activities would include:

1. Development of a comprehensive marketing information system which would cover both the domestic and international grain markets;
2. Development and installation of an improved system of cereals grading and quality testing for the domestic grain markets;
3. Improvement of MARA's capacity to monitor and analyze the impact of reform activities at the farm-level;
4. Execution of necessary studies and development of specific policy implementation plans for key aspects of the overall reform strategy, including decision rules to guide the cereals import policy;
5. Assistance to the SCAMs/CMA's and local-level cooperatives to improve their ability to compete effectively in a restructured cereals marketing environment.
6. Provision of targeted credit to private sector cereals marketing agents (i.e. millers, cooperatives, private traders) for financing seasonal grain purchases in the domestic markets, for decentralization and improvement of grain storage, for cleaning and handling equipment, and for modernization and expansion of the vehicle fleet engaged in grain marketing operations.

These activities will be developed and monitored under the direction of the AICC and its Secretariat. Implementation of public sector activities will be by the Ministry of Agriculture and Agrarian Reform (MARA) through the Directorates of Planning and Economic Affairs (DPAE), Agricultural Extension and Agrarian Reform (DVARA), and Crop Production (DPV), the National Agricultural Credit Bank (CNCA), and the National Cereals Marketing Board (ONICL). In the private sector, the principal participants will be millers, cooperatives, and private traders acting in their individual interests in a deregulated market. These groups are represented professionally by the National Association of Licensed Millers, the Union of Moroccan Agricultural Cooperatives, the National Association of Licensed Cereals Traders, the Moroccan Association of Farm Producers. An important issue for the project paper preparation will be the specification of the most effective implementation agencies and institutional linkages for this project.

Specific activities under the CMRP are described below:

1. Market Information and Monitoring System

Agents involved in the presently public and regulated cereals market

obtain their market information through an informal network of contacts with market intermediaries and through a formal system of weekly reporting by field agents making cereals purchases at official grain prices during the buying period. This grain purchasing period lasts for approximately three months after the cereal harvest. ONICL, at present, has little information on the "parallel" cereals markets because they function outside the official price channel. Nor does ONICL have an adequate daily monitoring system for the international market.

In a cereals market which permits cereal purchases by private agents in both the domestic and international markets, there will be a much greater need for access to information on prevailing conditions in both domestic and international markets by both the government and private agents. The project will collaborate with the Government of Morocco in creating such a market information system. This system will ensure that relevant market information is routinely available to all participants in the restructured marketing system.

The GOM's current plan is that ONICL will continue to control cereals importation (at least to the extent of letting bids to private traders for all grain imports). Therefore, an information service to cover international grain markets would be provided, perhaps under a contract with an international cereals market reporting firm, with appropriate training of local cereals marketing specialists. This would be coupled with development of an increased capacity within ONICL and MARA to monitor and report market conditions, prices and other information from the domestic cereals market, in collaboration with private cereals traders. Note that strengthening ONICL's capacities to monitor grain markets is a condition to the release of the third tranche of ASAL II (June 1989).

2. Cereals Grading and Quality Testing Systems

In a deregulated domestic cereals market, an objectively based system of cereal grading will be necessary to allow arbitration and thus avoid conflicts between buyers and sellers of cereals over appropriate quality margins and other such issues. The project will assist with the development and installation of an appropriate grading system for the domestic market and will supply the equipment and train the personnel necessary for an independent cereal quality testing organization. This activity will require the active collaboration and participation of MARA, ONICL, mills and private cereals agents operating in the domestic market.

At the design stage, existing laboratory facilities will be examined to determine whether they can provide this service. The institutional experience of AID in implementing cereals grading activities will also be carefully examined at that stage.

3. Monitoring of the Impacts of Cereals Market Restructuring at the Farm Level

In order to successfully implement the changes envisioned in the cereals market deregulation and restructuring program, the capacity in MARA to accurately monitor and evaluate the impacts of the reforms at the farm-level must be strengthened. Without this capacity, the Government of Morocco, and

the donor agencies assisting with the implementation of the reform program, will be unable to assess the need for, and to formulate, critical mid-course adjustments as the reform progresses.

Presently, MARA's system for collecting grain production cost, supply response, and marketing data at the farm-level is inadequate to meet the monitoring and analysis responsibilities it faces under ASAL II. The project will strengthen the ability of MARA in general, and the DPAE in particular, to collect and organize the data necessary for estimating net farm income and effective returns to labor, capital and management for various-sized cereal producers using different levels of production technology.

This analytical effort will allow government decision-makers to more accurately assess and predict the impact of cereals pricing and marketing reforms on a broad spectrum of Moroccan grain producers. It will also provide, for the first time, a basis for calculating the real financial and economic costs and benefits of the entire cereals production-marketing-processing chain, from the farmer to the consumer, under conditions of increasing deregulation and market liberalization.

USAID's ongoing Planning, Economics and Statistics for Agriculture Project (608-0182) is currently strengthening the institutional capacity of the DPAE to do farm-level analysis. The relationship between the proposed CMRP and Project 0182, in terms of implementation, will be specified at the PP design stage.

4. Analyses and the Development of Reform Implementation Plans

The project will finance short-term studies and technical assistance required to implement certain aspects of the market restructuring and reform program. This will include:

- a. Short-term assistance to the government in (i) analyzing the dimensions of, and developing operating procedures for, a national cereals security stock and (ii) establishing decision rules to govern the tradeoffs between cereal imports and procurement from the domestic market. The final product of this effort will be a set of recommendations for the management of a national cereals security stock and rules to govern imports. This assistance will reinforce work already underway in the Ministry of Economic Affairs' Directorate of Pricing to develop a partial equilibrium model showing the linkages between producer prices, mill prices, subsidies, and consumer prices. It will also complement DPAE efforts to develop pricing rules for wheat which ensure appropriate incentives to producers.
- b. Studies of SCAMs and CMAs to evaluate their individual financial, physical and institutional situations in order to identify the most appropriate actions to be taken, including possibly steps to improve their competitiveness in the deregulated cereals marketing environment.

- c. Comprehensive analysis of the present national cereals storage capacity and its distribution, relative to grain producing areas and processing facilities, and recommendations for improvements to meet the needs of a deregulated domestic market and cut losses.

The above set of activities will be more clearly elaborated at the PP design stage.

5. Cooperative Formation, Training and Support

The twelve functioning SCAMs and CMAs, although called cooperatives, are in effect parastatals whose major objective is to implement the official national cereals policy. The majority of the capital of these cooperatives is represented by shares of public institutions. Further, their governing bodies and management are constituted largely by public sector representatives. It is clear that the role of the SCAM/CMA cooperatives will change under a liberalized cereals market. The project will support detailed financial, economic and institutional analyses of the individual SCAMs/CMAs to determine the options available for (1) transforming them into true cooperatives, (2) selling or otherwise giving up their assets, taking into account the existing legal framework, to the private sector, or (3) formally dissolving them. The GOM has opted for the first alternative, since viable cooperatives could provide farmers with critical bargaining power in the newly deregulated market. It is not yet clear, however, just how the highly centralized SCAMs and CMAs could be transformed into decentralized, farmer-controlled cooperatives. This will be defined in feasibility studies to be financed by the project.

To the extent that the studies indicate organizational potential, support will be given to several SCAMs/CMAs in their effort to become true cooperatives which can successfully compete in the deregulated cereals market. Subsequently, within the zone of action of the selected SCAMs/CMAs, the project may support the organization of a network of local grain marketing cooperatives. As these groups become active in the cereals market, the SCAM/CMA would be assisted to gradually assume the activities and responsibilities of a regional grain marketing union. Project support to this component will include technical assistance, training (e.g. in cooperative organization and management, accounting, grain marketing, and techniques of grain storage and handling), and commodities. Experience gained in privatizing the above SCAMs and organizing a few local cooperatives may be used as the basis for extending the reform of SCAMs/CMAs in other regions.

Section III-A, Social Considerations, discusses a number of issues concerning this activity which will be more closely examined at the PP design stage.

6. Credit Facilities for Improved Cereals Marketing

At the present time, one of the most serious limitations on the expansion of domestic cereals marketing is a lack of local grain storage facilities. Although SCAMs/CMAs have adequate storage, some warehouses are poorly located for fumigation purposes and others have facilities which are old and in poor condition. Newly formed local cooperatives and small private operators may need to construct storage facilities. In addition, substantial funds may be

needed for grain purchasing by local and restructured cooperatives, including SCAMs/CMAs, as well as by private traders. It is also anticipated that, in a reformed cereals market with official grades and standards, there will be an increasing demand for grain handling and conditioning equipment and for expanding and modernizing the transport fleet.

The project proposes to make funds available to the CNCA and interested commercial banks for on-lending to the private sector as a means of meeting these credit needs. At the PP design stage, the level of liquidity in the overall credit system must be examined to determine whether credit availability is a constraint.

D. Expected Project Achievements and Accomplishments

The proposed USAID project will complement and facilitate reform efforts planned under the World Bank's \$225 million ASAL II loan. Under ASAL II, the World Bank loan is providing balance of payments support to Morocco in exchange for the GOM's commitment on structural reforms in the agriculture sector. ASAL II does not provide the GOM, and in particular MARA, with the resources needed to actually implement the agreed upon reforms. USAID's project will actually provide these resources, and hence ensure the effective and timely implementation of the reform program.

The project will result in a liberalized cereals market, one in which economic signals to producers, traders, millers and government policy makers are derived from real economic conditions in both the domestic and international cereals markets. This contrasts with the existing system of relatively static price and other signals fixed by government calculation and political negotiation. The project should result in a market in which all actors have greater freedom to evaluate economic conditions and reach individual decisions concerning the best strategy to accomplish their own economic interests.

As a result of the project, participants in the production and marketing chain will have greater and more equal access to information on conditions in the market throughout the year. Moreover, the project will result in conditions of greater equity in terms of farmer incomes, private entry and successful participation in the marketing chain, particularly by reformed cooperatives, the smaller traders, and the millers.

Lastly, the project will help the GOM define an import policy which sets appropriate parameters for import decisions, in order to reconcile the financial benefit from importing wheat at externally subsidized world prices with the long-term benefits of a viable domestic cereals market.

III. FACTORS AFFECTING PROJECT SELECTION AND DEVELOPMENT

A. Social Considerations

The project will have an impact primarily on bread wheat producers and marketing agents, as this is the most rigidly controlled cereal under the present system. Markets for other important grains (i.e. durum wheat, barley and corn) are already much less regulated than that of bread wheat.

Within the agricultural sector, a major social concern is the relative poverty of small farmers in low rainfall areas. One cause of inequitable income distribution between dryland and irrigated crop farmers has been the differential impact of official price and investment policies. This project should benefit farmers in the rainfed cereal production sub-sector by increasing both the number and efficiency of markets available to them. Farm size for bread wheat producers appears to be somewhat larger than the average farm size in Morocco. A more detailed analysis of project beneficiaries and their economic characteristics will be completed during the PP design.

Among the various existing subsidies and incentives in the Moroccan economy, one of major importance to every consumer is the price of bread. The Government of Morocco has subsidized bread prices largely below real production costs since 1970. Review of the subsidy is already underway, with a view to rationalizing markets and easing the pressure on the government's budget. If compensatory programs are required, targeted to the poorest families in both urban and rural areas, this special safety net would be supported in part by financial and administrative resources from approved Title II compensatory food programs.

A carefully designed transitional program is expected to be developed to strike a delicate balance between consumer prices, and hence urban incomes, on the one hand, and price incentives to farmers, on the other. This project will help provide the data bases and analytical methods necessary for the GOM to develop rational policy instruments.

An issue requiring attention is the feasibility of the cooperative model in the Moroccan context. Some sociologists feel that trust in Morocco is closely tied to the immediate family, making cooperative efforts difficult among larger social groups. Nevertheless, there are examples of mutual cooperation in traditional Moroccan society. There are also over 2000 cooperative societies in the country, most of them in the agricultural sector, many of them conducting profitable operations, and not all of them suffering the degree of state control imposed on the SCAMs and CMAs.

Rural women in Morocco seem to have a relatively limited voice in farm-level decision-making. Moreover, they appear to play a very limited role in the current cereals marketing system. Nevertheless, the question of whether explicit activities should be built into the project to involve or benefit women will be addressed during the project design.

B. Economic Considerations

At the PID stage, according to AID Handbook 3, the Mission should consider and comment upon the appropriateness of investing scarce resources in the selected problem area, the merits of the proposed project approach vis-a-vis alternative approaches, and, finally, the possibilities of achieving internal efficiencies by the use of different designs, implementation methodologies, etc. Comments on these items are presented in the following sections.

1. The Appropriateness of Investing in the Selected Problem Area

Restructuring the domestic cereals market is the centerpiece of the agricultural sector adjustment strategy formulated by the Government of

Morocco, with assistance from the World Bank and the International Monetary Fund. It will lead to major shifts in the allocation of both government and private sector resources in agriculture over the next five years. The planned restructuring program will prepare the way for the effective deregulation of the entire cereals sub-sector from the producers, through market intermediaries and processors, to the retail consumers, in the 1990s.

Given the sensitivities and difficulties involved in the government's progressive withdrawal from its present pattern of intervention in the cereals market, it is essential that the restructuring strategy be executed with finesse and with a high degree of professionalism. While the World Bank and the IMF have assisted the Government of Morocco in charting its restructuring strategy, neither is providing the technical expertise and/or other specific resources needed to plan and execute specific pieces of the strategy. For this reason, we believe that judicious investment of AID resources in planning, executing, evaluating, and reformulating the specific steps in the reform process will yield very high returns in this key policy area.

2. The Merits of the Proposed Approach in Comparison to Alternative Approaches

Given that one of USAID's major strategic objectives in assisting the agricultural sector in Morocco is to enter into a substantive policy dialogue with the government on detailed matters concerning the rainfed sub-sector, and that cereals are the dominant crops in this sub-sector, there are relatively few alternative project approaches to the one adopted in this PID.

The principal alternative considered was to simply define a sub-set of desirable cereals market policy changes to be executed by the government in return for a substantial injection of ESF money for direct budgetary support as, or when, the changes were carried out to the satisfaction of AID. This approach might be feasible if AID were prepared to make a contribution of ESF monies substantially greater than those currently available to USAID/Morocco.

Another more serious weakness of this alternative is that, even if successful, such a project would obtain a discrete set of one-time policy changes without involving the Mission in a significant and continuing dialogue on agricultural sector reforms. In this respect, the perceived problem discussed in Section II.A., above, is not that the Government of Morocco is unwilling to affect the necessary structural reforms in the sector, but rather that it does not have the technical expertise and other means to formulate with precision and execute the reforms already agreed upon as highly desirable. In short, it is one thing to agree in principle with a reform package, it is quite another to implement such a package effectively. In the form proposed in this PID, the project would be oriented toward successful implementation, through continuing analysis, monitoring, and policy adjustments, as required throughout the life of the project.

The projected benefits of the CMRP, to be validated and, if possible, quantified by the PP design team, are:

1. Cost savings to the government derived from eliminating the financing of many control mechanisms in the domestic cereals market;

2. Income gains to farmers derived from greater access to a decontrolled market, i.e. greater competition among buyers in bread wheat purchases, lowering of marketing margins subtracted from the producer's price;
3. Cost savings to government from better use of the cereals futures market in external cereals purchasing under an improved market information system;
4. A reduction in budgetary burden on the state as a result of the conversion of the SCAM/CMAs into true cooperatives;
5. More efficient allocation of the remaining subsidy programs of the government through improved targeting to truly disadvantaged groups and farmers.

The principal costs of project implementation to USAID are the funds needed to supply the required technical assistance, training, logistical support, and credit facilities for the project components discussed in the project description above. Costs to the Moroccan government over time may include transitional subsidies in price supports for wheat producers, costs of maintaining the new market information and farm-level monitoring systems, and the costs entailed in preparing the existing SCAMs/CMAs for transformation.

With respect to the type of financial and economic analyses to be conducted during project design, a logical comparison would be one which compares the relative cost-effectiveness of the present controlled cereals marketing system and the proposed deregulated one, in terms of meeting societal objectives. Since the government is implementing the reform program, the orientation of such an analysis should be toward carefully detailing the projected costs and benefits to the government of each system. Consideration should also be given to describing, quantitatively to the extent possible, the major winners and losers in the reform process .

C. Relevant Experience with Similar Projects

Several donor agencies were instrumental in helping create cereal marketing boards in selected Sahelian nations in Africa. As in Morocco, the boards gradually regulated and monopolized the markets. Similarly, they gradually accumulated large budgetary costs for their respective governments and distorted the cereal markets. By the early 1980s, the situation had become intolerable to several of the concerned governments.

In Mali, for example, the cereals marketing board was partially dismantled and its role redefined with the assistance of AID and other donors. The project was quite successful in removing consumer subsidies on grains and in installing incentive grain prices for producers. In Senegal, the cereals marketing board was abolished with full moral, but no financial, support of the donor community. It was done abruptly, on the assumption that the private sector had adequate resources (i.e. credit, transport, storage) to carry out the marketing program. This assumption did not prove to be correct for the first year and the marketing campaign was severely disrupted as a consequence.

The World Bank ASAL I loan to Morocco, recently completed, successfully established a momentum for agricultural policy change within the government. The absence of major adverse consequences from ASAL I has facilitated discussions on the deregulation of the domestic cereals market under the ASAL II follow-on loan. For example, successful removal of import licensing of numerous agricultural products paved the way for an agreement to deregulate the cereals market. Similarly, marketing of all cereals, except bread wheat, was successfully decontrolled under ASAL I. Also, the concept of economic efficiency became more firmly established in the government's thinking as relative protection coefficients between irrigated and rainfed agriculture were adjusted to provide relatively more protection for rainfed agriculture.

D. Proposed Implementing Agencies and Mechanism

Under the CMRP, the Government of Morocco is to be the grantee. Several agencies under MARA will be charged with implementing the project under the supervision of the ASAL II Interministerial Coordinating Committee. In addition, credit resources under the project will be used by cooperatives, traders, and millers in the private sector. These resources will be managed by the National Agricultural Credit Bank (CNCA) and interested commercial banks. The roles of the various participants are outlined in greater detail in Section II.C. of this PID. A detailed institutional analysis will be a key element in the Project Paper design effort.

E. AID Support Requirements and Capabilities

The project supports other USAID agricultural portfolio projects and will be managed by the Agriculture Office, comprised of four direct hire positions. In addition, that Office has one FSN senior project officer and a second is being recruited. In recruiting the latter FSN, USAID is seeking an individual with experience and training (M.S. in agricultural economics) required to assist in managing this complex economic policy reform project. These staff resources will be adequate for project implementation.

F. Estimated Costs and Source of Financing

The duration of the CMRP, initially estimated to be 5 years, will be specified more precisely at the PP stage. Below is a preliminary estimate of ESF resources needed for the CMRP by project component:

1. Marketing Information and Monitoring System
Long- and short term technical assistance,
training, and commodity support. \$2,500,000 (G)
2. Improved Grading and Quality Testing System
Short-term technical assistance, training, and
commodity support. \$ 500,000 (G)
3. Additional Studies and Development of Specific
Policy Implementation Plans Short-term technical
assistance. \$3,000,000 (G)

4.	<u>Monitoring and Analysis of Farm-level Impacts of the Reform</u> Long- and short-term technical assistance, training, and commodity support.	\$ 1,000,000 (G)
5.	<u>Assistance in Reforming and Privatizing the SCAMs/CMAs and to Create Local-level Cooperatives</u> Long- and short-term technical assistance, training, and commodity support.	\$ 3,500,000 (G)
6.	<u>Provision of Targeted Credit for Market Intermediaries</u> Technical assistance	\$ 1,000,000 (G)
	A credit fund	\$ 7,500,000 (L)
7.	<u>Project Leader/Coordinator</u> One long-term project leader/coordinator and operational expenses for management coordination and administration over 4 years	\$ <u>1,000,000</u> (G)
	<u>Total Estimated Cost (ESF resources)</u>	\$20,000,000
	of which:	12,500,000 (G) 7,500,000 (L)

The above budget is indicative. The distribution of the budget among the components of the project, as well as the Grant/Loan split, may be changed at the PP stage, after the project elements and their relative priority are more precisely determined.

The project should impose no net increase in recurrent costs on the Government of Morocco. Rather, the restructuring of the cereals market and the reduced responsibilities of various government agencies now involved in the control of the cereals trade should reduce government budgetary outlays. The cooperative development activity will not result in increased public costs as it will be structured to permit the absorption by the cooperatives themselves of any expenses for additional cadre necessary to their formation and development. A detailed recurrent cost analysis will be conducted at the project paper stage.

G. Design Strategy

The PID has been prepared on the assumption that the recently negotiated ASAL II loan agreement between the Government of Morocco and the World Bank will be formally approved by both the GOM and the Governing Board of the World Bank. Additional technical analyses, financed by USAID PD&S funds, are now being carried out, employing technical assistance from an agricultural economist, economic anthropologist, cooperative specialist, and a grain marketing specialist.

USAID feels that a critical design challenge is to demonstrate a plausible, verifiable, direct linkage between the proposed project activities and an impact on farmers. This is especially true for the analysis components

of the project. Unless such a linkage can be satisfactorily demonstrated, USAID will not undertake this project, or at least major parts of it as currently envisioned will not be implemented.

Assuming timely approval of this PID, the project paper will be prepared by the Mission in late 1987. In preparing the PP, USAID may request the services of a project development officer from ANE/PD. The PP will build upon the technical analyses now underway, as well as on the PID analysis. It is hoped that the project paper would be approved in the second quarter of FY 1988.

USAID requests AID/W concurrence in Mission approval and authorization of the Project Paper under its redelegation of authority.

H. Recommended Environmental Threshold Decision

See Annex B, Initial Environmental Examination.

I. Evaluation Requirements

Given the policy emphasis of this project and its ties and dependence on larger policy reform objectives of the Government of Morocco, World Bank and IMF, there is a need for frequent monitoring and evaluation. The changing policy environment resulting from the proposed CMRP, and IMF and World Bank activities, will be monitored throughout the life of this project. Mid-term and final evaluations will be done at the end of the second and fourth project years, respectively. The project design team will identify baseline data requirements for project evaluation and, if necessary, will build baseline data collection efforts into the project design.

ANNEX A. MOROCCO: CEREALS MARKETING REFORM PROJECT (608-0195), PROPOSED LOGICAL FRAMEWORK

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>Goal</u> To increase the domestic production of cereals, in the long-term, consistent with Morocco's comparative advantage in wheat production.</p>	<ul style="list-style-type: none"> a. Annual aggregate output of cereals increases. b. Domestic wheat production per capita increases. c. Wheat imports do not exceed 1985 level (1.9 million MT). 		<ul style="list-style-type: none"> a. No major disruption to domestic cereals production and marketing caused by abnormally severe drought conditions. b. Flour subsidies are removed on schedule, with tightly targetted welfare assistance programs' introduced to protect low income consumers.
<p><u>Project Purposes</u> To improve the economic efficiency of Morocco's domestic cereals market by (a) deregulating the market and reducing public intervention in it (b) fostering private sector involvement and increased competition in domestic cereals marketing, and (c) instituting a cereals import policy which supports development of the domestic cereals market.</p>	<ul style="list-style-type: none"> a. Government intervention mechanisms (e.g. public controls on domestic grain flows, cereals storage, licensing requirements and fixed marketing margins for private grain marketing agents) eliminated. b. Direct GOM role in the management and decision-making of SCAMS and CMAs ended. c. Direct expenditures by the GOM in cereals marketing (e.g. credit subsidies to SCAMS and CMAs; OWICL administrative structure; government payment of storage and transportation costs; milling margins) reduced or eliminated. d. A larger number of private marketing agents (traders, cooperatives and millers) operating in local cereal markets. e. Existence of variability in cereals prices during the year which reflects supply and demand conditions in the market. f. A cereals import policy providing clear decision rules governing the importation of cereals established and followed. 		<ul style="list-style-type: none"> a. Internal GOM agreement on questions such as food security vs. efficiency, and consumer and producer welfare vs. the public budget deficit) is possible. b. GOM implements cereals marketing reforms called for in ASAL II. c. Private sector willing and able to respond to economic opportunities in cereals marketing sector resulting from its liberalization. d. Established import policy is superseded by political considerations.

ANNEX A: Logical Framework (cont.)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>Outputs</u></p> <p>1. Studies and analyses completed on various elements of cereals marketing reform program.</p> <p>2. Strengthened capacity of MARA to monitor and analyze the impacts of reform activities at the farm level.</p> <p>3. Privately-owned domestic grain storage, cleaning and handling facilities, and transport improved and decentralized.</p> <p>4. SCAMs/CMAs reformed and competing effectively in a restructured cereals marketing environment.</p>	<p><u>Outputs</u></p> <p>a. ___ studies completed on various topics, including storage capacity and distribution operating procedures for a national cereals security stock, and decision rules to govern import versus domestic procurement of cereals.</p> <p>a. ___ DPAA staff trained in farm budget and cost of production analysis.</p> <p>b. Program of periodic farm budget and cost of production surveys established by DPAA to provide information on net farm income, effective returns to labor, capital and management for cereals producers.</p> <p>a. Storage in hands of local cooperatives increased by ___ percent.</p> <p>b. Storage in hands of traders at the local and regional level increased by ___ percent.</p> <p>c. Domestic grain is delivered to industrial mills throughout the year, rather than only during a three-month post-harvest season (June-August).</p> <p>d. CNCA providing credit to private cereals marketing agents (e.g. traders, cooperatives, millers) for grain-purchasing, local storage, and transportation and conditioning and handling equipment.</p> <p>a. ___ SCAMs/CMAs operating as independent, member operated entities and competing successfully in deregulated cereals market.</p> <p>b. Studies of financial and institutional viability of SCAMs and CMAs completed.</p> <p>c. Storage and facilities of non-viable SCAMs and CMAs sold or otherwise transferred to the private sector.</p>		

ANNEX A: Logical Framework (cont.)

<u>NARRATIVE SUMMARY</u>	<u>OBJECTIVELY VERIFIABLE INDICATORS</u>	<u>MEANS OF VERIFICATION</u>	<u>IMPORTANT ASSUMPTIONS</u>
5. Local-level cereals marketing cooperatives created and competing effectively in restructured cereals marketing environment.	a. _____ local level cereals marketing cooperatives established in pilot areas and linked to a regional-level cooperative organizations (former SCAM/CHAs).		
6. A comprehensive marketing information system in place covering both domestic and international grain markets.	a. A comprehensive program for collecting and disseminating price information from various points in the marketing chain (e.g. farm gate, trader, mill). b. ONICL and MARA receiving information on international markets from an international reporting firm. c. _____ MARA staff trained in the analysis of cereals markets.		
7. A system of cereals grading and quality testing in place for domestic grain markets.	a. A system of grades for grains (covering test weights, cleanliness, percent broken) elaborated and the necessary legislation enacted. b. Cereal grading system utilized by marketing agents. c. A grain quality testing laboratory established and serving the needs of mills on a cost reimbursable basis.		
<u>Inputs</u>			
1. Technical Assistance, Training, and Commodities	a. \$13.5 million for 28 person years of long-term TA, short term TA, training, and commodities (including grain grading and quality control equipment; a marketing information service for external grain markets; micro-computers for domestic market information system.		
2. Financing for Credit	b. \$6.5 million credit fund for local level storage, transport, grain handling and cleaning equipment, and grain purchases.		

ANNEX B: INITIAL ENVIRONMENTAL EXAMINATION

Present Location: Morocco
Project Title: Cereals Marketing Reform Support
Funding: \$20,000,000
Life of Project: Five Years *RBS*
IEE Prepared By: Ronald Stryker, Mission Environmental Officer,
USAID/Morocco
Date: October 16, 1987
Action Recommended: Mission recommends a negative determination on the grounds that this project will not have a significant effort on the environment as defined in Regulation 16.

Concurrence:

Charles W. Johnson
Charles W. Johnson
Mission Director

10/16/87
Date

Discussion: The activities which comprise this project, i.e. development of a cereals market information system, improvement of cereals grading and quality testing, policy-related studies and analysis, the reform of cooperatives, and credit for cereals marketing, do not have an effect on the natural or physical environment. The project is, therefore, categorically excluded from any environmental action as per AID's environmental procedures set forth in regulation 16, section 216.2.

ANNEX C: ACTION MEMORANDUM FOR THE USAID/MOROCCO DIRECTOR

FROM: Rollo L. Ehrich, ADO 

SUBJECT: Implications for the Cereals Marketing Reform Project (608-0195) of changes in conditions to disbursing funds under the World Bank Agricultural Sector Adjustment Loan II (ASAL II).

PROBLEM

The Project Identification Document (PID) for the Cereals Marketing Reform Project has been revised to take into account changes in the conditions of the World Bank Agricultural Sector Adjustment Loan II (ASAL II). Your signature on the PID facesheet is requested, as well as a decision to submit the PID to AID/Washington.

BACKGROUND

Structural adjustments and policy changes recommended in the PID were substantially based on conditions of the World Bank's ASAL II loan. Delays in completing the World Bank Loan Appraisal Report and further delays in negotiating the terms of the Loan made it necessary to develop several key project activities without full knowledge of the ASAL II Agreement. The Mission approved the project concept, subject to the outcome of negotiations between the Government of Morocco (GOM) and the World Bank (WB). Negotiations in September were successful and the terms and conditions of the Loan are now firmly defined.

A Proces Verbale and Letter of Commitment were drafted on September 4, 1987 and are now going through the WB and GOM approval processes. The GOM is likely to approve these documents before October 19, 1987. The contents have been made available to us, in substance, by the GOM. Certain significant changes in the conditions and procedures specified in the WB Appraisal Report occurred during negotiations. These were on balance improvements and reinforce USAID's strategy vis a vis the cereals marketing subsector. The important changes in conditions and actions include:

(1) The two-year loan is to be disbursed in three, rather than two tranches. The loan amount is \$225 million rather than \$150 million.

(2) The concept of using import policies and procedures to regulate domestic grain prices was made more explicit, and ONICL's role in this regulatory process was more clearly defined.

(3) The National Cereals Marketing Board (ONICL) is to be strengthened toward reaching three objectives: (a) using import policy as a tool in regulating domestic prices of grain, (b) development of a market information system adequate for efficient marketing of cereals and monitoring market performance, and (c) protecting domestic producers.

Terms of reference governing the transformation process for ONICL, acceptable to the World Bank, must be prepared prior to release of the first tranche of the loan in December, 1987.

(4) The new price system for bread wheat was adopted as defined in the PID. However, its application will be delayed until world prices come closer to reflecting actual long-run marginal costs of production. Meanwhile, the official price will not rise above the 1986 official price in "real" terms.

(5) Payment of arrears to millers has become a condition precedent to disbursement of the third tranche (1989). This delay is significant as ONICL will remain a powerful factor in the Moroccan grain market at least until such arrears are settled. The same analysis applies to consumer subsidies. They must be eliminated before ONICL's role could be significantly changed.

(6) Complete deregulation of the domestic market will apparently occur only after consumer subsidies on flour are eliminated sometime after June 1990. This fact (or near fact) requires careful attention by the PP design team.

(7) The cost of production study and supply and demand analyses, which had been preconditions for release of the first tranche, will be delayed six months. The program must be defined by December 31, 1987 but the cost survey will not begin until June, 1988.

(8) The timetable for liberalizing the tariff regime for agricultural products is to be moved up. The first ten commodities must be named and methods of liberalization for them defined, prior to December 31, 1987. Laws governing the liberalization must be promulgated prior to July 1988 (second tranche).

ANALYSIS

1) The GOM and the WB agreed in principle to adopting a new system of setting support prices for bread wheat. The new system ties the domestic price to a moving average of world prices and provides a 25 percent protection factor for domestic producers. It would replace the current practice of setting prices according to production costs and therefore would correct the price signal, theoretically improving the efficiency of resource allocation in the subsector. However, "world" prices have been driven artificially low in recent years by subsidies applied by exporters in order to move surpluses into the world market. Consequently, the GOM has extracted the concession that the new, more efficacious pricing system will only be introduced following normalization of the world market.

To the extent that world market prices are indeed artificially low, the compromise serves to protect domestic producers from unfair practices by the major exporters. Defining "normalcy", and therefore conditions under which the new price system will be introduced, is likely to be a difficult process. A probable outcome may well be maintenance of the current, admittedly irrational, support system for bread wheat for an indefinite period in the future. While markets may become more efficient under deregulation, the inappropriate, official pricing system may continue to send false signals to producers.

Fully competitive domestic markets cannot develop until world markets reach a state of normalcy. The GOM is pursuing the only course realistically open to it by protecting producers against artificial or unfair market practices. USAID is forced, therefore, to accept a "second best" policy and work from within the system to perfect the pricing strategy, pushing for competitive pricing wherever an opportunity to do so presents itself.

2) ONICL is to be strengthened and its role in the marketing of cereals imports enhanced during the transition period. ONICL's role is now somewhat more open-ended than we had thought prior to the September negotiations. One can not now foresee a clear time path to eliminating ONICL's direct market intervention role -- at least with respect to bread wheat and imports of other grains. This obviously presents USAID with a mild dilemma -- strengthening ONICL is necessary to achieve efficient domestic and import market conditions, but strengthening ONICL in marketing activities contradicts the idea of liberal markets.

This process seems unavoidable, given the extent to which world markets in grains continue to be distorted by the activities of governments of exporting countries. USAID will apparently have to adopt a "second best" solution in this instance as well. It seems inevitable that USAID must accept the continued role of ONICL in grain marketing for the foreseeable future. The only conceivable answer to the dilemma is to develop a project implementation strategy which provides safeguards against the predictable tendency of ONICL to go on forever. One way of accomplishing this is to conduct an in-depth study during the first year of the project, that will define a feasible, minimum role for ONICL. Such study results could give us the technical and political tools to influence the future role of the GOM in grain marketing -- convincing them to eventually eliminate direct government intervention in the grain market. We also need to look at how to put some "teeth" into this.

RECOMMENDATION:

That you (1) sign the Project Identification Document facesheet for the Cereals Marketing Reform Project, as revised; and (2) submit the Project Identification Document for AID/W review no later than 19 October 1987.

APPROVED _____

CWJ
Charles W. Johnson
Director

DATE _____

12/16/87

DISAPPROVED _____

CLEARANCES

APROG:KSchofield _____

KCS
RM
[Signature]

RLA:RMeighan _____

CONT:RWarin _____

D/DIR:JBallantyne _____

JB

ANNEX D: EXCERPT FROM MOROCCO PROGRAM WEEK REPORTING CABLE
(STATE 073190, pg. 6)
(March 1987).

12. ISSUE: REVIEW OF NEW PROJECT DESIGN. IS THE CEREALS MARKET RESTRUCTURING PROJECT A SUITABLE VEHICLE FOR ACHIEVING PROPOSED POLICY REFORMS?

DISCUSSION: THE PROJECT IS STILL IN EARLY STAGES. THIS IS A FY88 PROJECT (ALTHOUGH USED TO JUSTIFY THE FY87 SUPPLEMENTAL FUNDING REQUEST), WITH PID EXPECTED IN LATE MAY. THE NPD IS VAGUE IN TERMS OF POLICY OBJECTIVES TO BE ADDRESSED AND WHAT, IN GENERAL, THE ROLE OF AID FUNDING WILL BE. WHILE THE ACTION PLAN DOES NOT LAY OUT DETAILED BENCHMARKS FOR POLICY REFORMS IN CEREALS MARKETING, THEY ARE DISCUSSED IN THE NPD. IN VIEW OF THE URGENCY OF SOME OF THESE POLICY REFORMS, IS THE PROPOSED PROJECT THE BEST VEHICLE TO EFFECT THESE REFORMS? BALLANTYNE EXPLAINED THAT MOROCCO BELIEVES THIS PROJECT IS IMPORTANT, BUT IT IS NOT A COMPONENT OF ASAL II. THE TIME FRAME FOR DISBURSEMENT (SEE 9 ABOVE) WILL BE DETERMINED IN THE PID. TR POINTED OUT THAT THE PROJECT MUST BE APPROVED SOON AND BE FAST-DISBURSING IN ORDER TO COMPLEMENT THE GRAIN AND FLOUR SUBSIDY PHASEOUT PLANNED BY 1992 AS PART OF ASAL II. THE MISSION WAS ASKED TO INVESTIGATE THE IMPLICATIONS OF THE PROPOSED COM CHANGE IN THE BASIS, FOR DETERMINING CEREALS PRICING (FROM COST OF PRODUCTION TO BORDER PRICES) ON FARMER INCENTIVES. WORLD PRICES ARE CURRENTLY LOW, AND THE COM RELIES ON SUPPLIER CREDITS FOR FINANCING IMPORTS. THIS MIGHT MEAN IT WILL BE DIFFICULT TO INDUCE THE AGENCY RESPONSIBLE FOR GRAIN MARKETING TO PAY DOMESTIC FARMERS A SUFFICIENT INCENTIVE PRICE WHEN GRAIN CAN BE MORE CHEAPLY PROCURED FROM ABROAD AND FINANCED ON CONCESSIONARY TERMS. THE PID SHOULD CLEARLY IDENTIFY THE MAJOR CONSTRAINTS FACED IN THE AGRICULTURAL SECTOR

AND WHAT PROBLEM AREA(S) THE PROJECT WILL ADDRESS. THIS MAY WELL REQUIRE THE MISSION TO CARRY OUT AND INCORPORATE FURTHER STUDY OF THE CEREALS MARKETING SECTOR IN THE PID.

DECISION: MISSION SHOULD PROCEED WITH PID DEVELOPMENT FOR AID/W APPROVAL.

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