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Report No. P-1107

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED CREDIT TO THE KINGDOM OF MOROCCO AND A PROPOSED LOAN TO THE CAISSE NATIONALE DE CREDIT AGRICOLE (CNCA) WITH THE GUARANTEE OF THE KINGDOM OF MOROCCO FOR A SECOND AGRICULTURAL PROJECT

June 15, 1972

Public Disclosure Authorized

CURRENCY EQUIVALENT

US$ 1.00 = DH 4.66098

DH 1.00 = US$ 0.214547

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1. I submit the following Report and Recommendation on a proposed development credit for the equivalent of $10 million to the Kingdom of Morocco, and on a proposed loan to the Caisse Nationale de Credit Agricole (CNCA) for the equivalent of $24 million with the guarantee of the Kingdom of Morocco. The Credit and Loan would help finance a three-year program for agricultural development through medium and long-term credits provided by Caisse Nationale de Credit Agricole (CNCA). The development credit would be on standard IDA terms. The Government would make its proceeds available to CNCA for use under the agricultural credit program and would leave the funds permanently with CNCA as a Government capital contribution. The loan would have a term of 15 years, including four years of grace, with interest at 7.25 percent per year.

PART I - THE ECONOMY

2. An economic report entitled "Current Economic Position and Prospects of Morocco" (Sec. R 71-222) was distributed on September 20, 1971. An economic mission visited Morocco in April. Its findings are reflected in the present Report. The Government has asked the Bank to review the next five-year Development Plan (1973-77) presently in preparation. The Bank intends to organize a basic economic mission for this purpose as soon as the preparation of the new Plan is sufficiently advanced, possibly in the spring of 1973.

Characteristics

3. Forming for centuries a well defined geographical unit between the Mediterranean, the Atlantic, the Atlas mountains and the Sahara, Morocco has developed a distinctive civilization with a traditional monarchy. Independence was achieved in 1956, after 44 years as a French protectorate. The Government is highly centralized with supreme power held by King Hassan II, who acceded to the throne in 1961. Arab-Berber cultures are predominant, and conservative Islamic tradition, in which the King is the religious as well as the political leader, remains an important unifying force. France left a deep imprint on culture, business and administration, and French is the prevailing language in government circles, and in education above the primary level.

4. In the period since independence the traditional social and political order has been essentially maintained while the economic structure began to change gradually. Traditional subsistence rainfed agriculture still absorbs more than half of the active population. A small but growing modern type agriculture provides a substantial part of the commercialized agricultural production. Phosphate mining has remained the major industrial activity. The relative importance of manufacturing industry is growing only slowly and is oriented toward import substitution. The traditional crafts and trades provide substantial employment and supply the Moroccan population as well as a growing number of tourists. Construction of hotels and the fast growing tourism traffic have made tourism the most dynamic sector of the economy. In 1971 foreign exchange earnings from tourism amounted to $151 million; from phosphate, $117 million; from workers remittances, $95 million; and from citrus exports, $77 million. Major constraints to balanced economic growth continue to be the vulnerability of agriculture to drought, low savings, and insufficient dynamism of the private sector, especially in industry. Unemployment in cities and on the countryside is high and large differences in cultural and economic level between regions and population groups exist. Rapid growth of the population aggravates the problems.

Policies

5. The objectives pursued by successive governments since independence include: (i) acceleration of economic growth; (ii) preservation of social and political stability; and (iii) promotion of "Moroccanization", i.e. a larger share for Moroccan ownership and management in foreign-owned land, commercial and financial companies, and selected industries.

6. The moroccanization policy has been consistent but moderate. Foreign businesses have not been nationalized with the exception of the take-over in 1963 of land held under concession by foreign owners. The number of foreigners declined from 400,000 in 1960 to 100,000 in 1971. "Moroccanization" of the services sector implies the gradual increase of the share of Moroccan capital and labor in foreign-owned commercial, financial and transport concerns, often associated with an expansion of capital. At the same time new foreign investment in industry, tourism and mining continues to be encouraged by the Government. Other recent economic measures include: tariff cuts and trade liberalization on the occasion of Morocco's association with the Common Market, slight increases in long term interest rates applied by certain financial institutions to reflect better the opportunity cost of capital, and increase in tariffs for water supply helping to increase public savings in that sector.

7. The political and social structures have been resistant to change, but the Government recognizes that their stability is increasingly in question unless growth and change are achieved at a more rapid pace, and are accompanied by a more equal income distribution. In recent speeches, the King has stressed several social-economic objectives, in particular redistribution of income, creation of jobs, land distribution, extension of education and reform of administration and justice. A new constitution has been enacted and a Government formed to prepare elections which would provide a wider basis for the

next administration. The Government has increased civil servants basic salaries and workers minimum wages by 15 percent, extended family allowances, introduced a modest progressive income tax and reduced the price of sugar, an important consumption item of the low income classes. It intends to accelerate the distribution of ex-colon land, to extend pension and health insurance schemes, to embark on a wide-scale replacement of slum areas, and to help set up small farms.

Development Plan

8. The 1968-72 Development Plan is nearing completion and a new five-year Plan (1973-1977) is under preparation. During the present Plan period the production growth in most sectors has surpassed the Plan targets substantially:

(percent average annual growth)

	Actual 1968-71	Plan Targets
Agriculture	6.4	2.1
Energy	7.2	5.4
Mining	2.1	7.9
Industry and Handicraft	5.7	4.3
Building and public works	5.9	8.5
Non-government services	5.4	4.6
Total (government services excluded)	5.6	4.3

9. Results in agriculture appear better than they really were because of a mediocre crop in the base year. But even taking more normal periods as a base, the average growth of agricultural output has been about 3.5 percent, well above expectations. Only mining fell below the Plan target, largely because competition on the world phosphate market depressed production, and 1971 output was only three quarters of the volume planned. Prospects have recently improved and the Government phosphate company expects to reach the plan target in 1973. Most other mining declined due to depletion of resources. The political events of mid-summer 1971 had limited immediate effect on the overall growth rate. The acceleration in manufacturing output and construction activity was interrupted, but good weather helped to increase agricultural output. Total production increased by 5 percent in real terms, only slightly lower than that of the preceding three years.

10. The volume of total fixed investment increased by 6 percent annually during the 1968-71 period, slightly lower than was assumed in the Plan. Central Government investments accounted for about half of the total and was close to the targets which were revised upward in 1969. About 70 percent of the Government investment program in agriculture was allocated to large scale irrigation schemes. While dam construction proceeded on schedule, land preparation lagged behind and progress with regard to rainfed agriculture and

livestock was slow. Construction of power stations is in line with Plan targets. Other government investments did not differ by more than 10 percent from Plan targets except for delays in investments for urban development, health, education and communications.

11. Since the abortive coup of July 1971, many private investors seem to be awaiting the outcome of the political reorganization which is under way, and public investments have also been stagnant largely due to some reconsideration of policies and changes in cabinet and civil service. Total fixed capital formation in 1971 dropped by about 2 percent in real terms and represented 14.1 percent of GDP. Consumer demand was sustained by good crops and the social measures taken by the Government since mid-1971. The impact of these measures on government savings was offset by better performance of public enterpirses, while the good crops and remittances from emigrant workers stimulated private savings. However, total gross national savings remain around 12 percent of GDP, which is low for a country at Morocco's stage of development. The current account deficit was reduced from $144 million to $78 million, and thanks to larger public capital inflow and SDR allocation, the reserve position improved and reached a level of $235 million in March 1972, equivalent to about two and a half months of imports of goods.

Development Prospects

12. Appropriate fiscal, monetary and trade policies could ensure that GDP will continue to grow at about 5 percent per year until 1977. However, to achieve this modest target, per capita annual consumption would have to be limited to 1.5 percent. This would not be easy in view of the increased attention given by the Government to social progress, but would be necessary because a growth rate of 5 percent would require savings and investments to be raised from about 12 percent and 14 percent of GDP respectively to 14 percent and 17 percent of GDP in 1977. The other growth assumptions could probably be achieved without major difficulty. On the basis of present trends, foreign aid disbursements in 1977 might be projected as follows, although the actual flows will depend on future commitments still to be made by the respective donors:

(million of dollars)

	Annual Average 1966/68	Annual Average 1969/71	Actual 1971	Projection 1977
Bilateral	112	125	144	156
USA	(48)	(56)	(56)	(36)
France	(39)	(27)	(30)	(54)
Germany	(19)	(17)	(28)	(17)
Other Countries	(6)	(25)	(30)	(49)
Bank Group	11	18	25	59
Total Gross Official Flow	123	143	169	215
Repayments	45	50	64	95
Net Official Flow	78	93	105	120

13. While the above projections appear feasible, the Government's targets are likely to be more ambitious. It is considering an annual growth target of 6.5 percent for the next Five-Year Plan, and is working out its implications. These would clearly include stronger growth of gross national savings and additional foreign aid. If more aid could be obtained, it would be desirable for it to be on concessionary terms, since the terms of aid which is already in prospect are likely to deteriorate as a result of the decline in grants, especially from the United States, and of the increase in medium-term credits which would be the normal form of part of the projected larger French aid.

External Debt

14. Disbursed foreign debt is at present $804 million and may grow to about $1,500 million in 1977. The debt service ratio may rise from 8.9 percent in 1971 to 12 percent in 1977 and further thereafter. While Morocco remains creditworthy for substantial additional loans on conventional terms, a substantial proportion of new external assistance should be made available on concessional terms if the growth of the debt service burden is to be restrained in the long run. The share of the Bank Group in Morocco's total outstanding external debt is increasing. From about 7 percent at the end of 1968 it had reached 10 percent at the end of 1971 and may rise to 20 percent by the end of 1975. Projects already approved and those under consideration would lead to disbursements equivalent to about one-fifth of Morocco's projected foreign capital needs in the mid-seventies.

PART II - BANK GROUP OPERATIONS IN MOROCCO

15. Bank and IDA lending since the first Bank group project in 1962 amounts to $211.4 million, net of cancellations, for 12 projects, three of which were financed under IDA credits totalling $28.4 million. These loans have helped finance industry ($85 million), agriculture ($71.1 million), transportation ($14.6 million), education ($10.5 million), and tourism ($17 million). IFC has made investments totalling $2.4 million in the Banque Nationale pour le Developpement Economique (BNDE) and a canning factory. Annex I contains a summary statement of Bank loans, IDA credits and IFC investments as of May 31, 1972 and notes on the execution of on-going projects with particular reference to those which are encountering problems.

16. The Bank group strategy is to respond to the requirements of Morocco's economic and social objectives, which appear in line with most previous Bank recommendations. Specifically the Bank group program aims at assisting Morocco in maintaining a growth of GDP at roughly 5 percent per year, the rate achieved in the recent past, financing key projects in priority sectors, and devising and implementing policies to limit unemployment, develop agriculture and improve urban and rural living conditions. It contemplates primarily lending from the Bank, but with some blending of IDA funds, as in the present case, in order to moderate the build up of external debt service requirements. In the last three years Bank and IDA lending ranged between $45 and $75 million. Projects now in course of preparation could lead to a higher level of lending over the next two or three years, but this much depends upon Morocco's capacity to prepare projects, upon solving the difficulties encountered in creating new institutions or in improving existing ones and upon finding competent management.

Sectors and Projects

17. The key sectors on which the Bank concentrates its action are agriculture, tourism, urban infrastructure, industry for export and transport. Amongst these key sectors, agriculture and urban infrastructure provide special opportunities to help devise and implement policies responding to the Government's new emphasis on social development.

18. In agriculture the proposed $34 million second financing for agricultural credit would help develop modern farming. The problems of traditional agriculture would be dealt with through a project for the integrated development of rainfed agriculture now being prepared with the help of the FAO/IBRD Cooperative Program; this project would combine consolidation, basic infrastructure, soil preparation and credit, and could have a substantial effect on rural underemployment. It may be ready for consideration by FY 1974. A study of the Oum er Rbia basin development was recently completed in cooperation with the Bank, and an irrigation scheme is now under preparation. Originally planned for financing in FY 1972, it has been postponed to FY 1974 because of delays in initiating the feasibility studies. The Bank is also helping the Government define and prepare a project to develop the production of off-season fruits and vegetables for export.

19. Tourism has become the largest source of foreign exchange for Morocco and its further expansion should help finance the substantial imports necessary for future development. The Bank finances the Moroccan development bank for hotels (CIH) for which a second loan of $15 million will shortly be presented to the Executive Directors. The Bank might also well be Executing Agency for a proposed UNDP study which could lead to a tourism infrastructure project for FY 1974. Finally the Bank is helping the Government to coordinate a number of other studies and reviews of the sector.

20. Urban infrastructure projects include one for bulk water supply in the Casablanca-Rabat region for which a $48 million loan will be presented shortly to the Executive Directors, to be followed by a second project in FY 1974. A Bank sector mission has recently reviewed the Government's proposed urbanization policies and identified a site and service project which may be ready for financing in FY 1974. Finally, a power project planned for FY 1973 is designed to meet urban needs.

21. The Government is now placing more emphasis on exports. The Bank has assisted this orientation through an industrial review completed 18 months ago and is now helping define the required policies and the measures to implement them, particularly in manufacturing and mining. In this line, the Bank is considering two proposed loans for FY 1973, i.e. a sixth loan to the industrial development bank (BNDE) and a loan for a phosphoric acid plant whose production would be entirely exported.

22. Morocco's transport network requires some expansion to meet growing needs. After a first loan to finance the road between Marrakesh and Agadir and a transport survey, a transport sector mission visited the country in late 1971. A second road project is now under preparation for presentation in FY 1973. A port expansion project may also be ready for FY 1974.

23. Education represents a major bottleneck in Morocco's development: students represent a low proportion of the school age population, the proportion of drop-outs is high, curricula are not well adapted to economic development, graduates are too frequently unable to use the skills acquired and, as a result, unrest in the student population is high, leading to strikes and a further lowering of the standard of education. If this deterioration is allowed to continue social stability could be affected while the qualified personnel needed to insure economic expansion would be lacking. Projects for education in Morocco undoubtedly have a high priority; two credits already have been made and another is planned for FY 1974. However, its presentation will depend on a substantial improvement in the execution of the first two projects and on the completion of the study of higher education whose financing is included in the second credit (Annex I C. para. 1).

Other Assistance

24. A Consultative Group for Morocco was formed in April 1967. The Group is chaired by the Bank and includes Belgium, Canada, France, Germany, Italy, Kuwait, The Netherlands, Spain, Switzerland, United Kingdom, United

States, IMF, UNDP, OECD/DAC, African Development Bank and European Investment Bank. At its last meeting, in October 1971, the Group welcomed Government's new policies and affirmed continued support.

PART III - THE AGRICULTURAL SECTOR

25. Agriculture in Morocco contributes about one fourth of GDP, while the rural population amounts to about 10 million, or about 65 percent of the total population. Major farm areas are between the Atlantic Coast and the Atlas mountains where annual rainfall averages 400 to 600 mm. Only about 3/4 of the cultivable area is used in any one year, because traditional methods of cultivation and climatic conditions require extensive fallows. Major crops are cereals and citrus; livestock and fruits and vegetables have good prospects.

26. There are no recent figures on farm ownership; it has been estimated that 90 percent of farm families hold less than 1/3 of the arable land of which 2/3 are in farms of less than 10 hectares. Small farms in the traditional sector suffer from inadequate agricultural practices, and their production is particularly subject to the vagaries of the weather. Considerable rural underemployment contributes to migration to urban centers and foreign countries. The modern sector comprises about 1/5 of the cultivated area, produces most of the cash and export crops and consist mainly of medium and large farms, often using mechanized techniques. From 1963 to 1970, agriculture as a whole grew at a rate of 2.8 percent per year, as compared with 3.6 percent for the overall economy and 9 percent for modern agriculture. The principal reason of these disparities is the low productivity of the subsistence-oriented traditional sector.

Land Reform

27. In line with its growing emphasis on social-economic objectives, the Government has paid increasing attention to the problems of land tenure and of attaining viable farm sizes. About 250,000 hectares formerly farmed by foreign settlers are to be redistributed to small farmers and landless laborers. Land reform in the irrigated zones is the main objective of the agricultural investment code published in 1969. From 1966 to 1968, about 24,000 ha were distributed. An additional 75,000 ha were to be distributed from 1969 to 1972, and the Government has announced its intention to accelerate the distribution of formerly foreign-held land. Another measure involving about 34,000 hectares aims at the consolidation of small holdings into economic units.

Major Products

28. Cereals are the most important crop but there is a chronic deficit in soft wheat. Import requirements vary from year to year depending on the weather. Over the past five years, despite better than average harvests,

the deficit averaged about 500,000 t per year, or about a $50 million worth of imports. By the end of the decade, Morocco could be self sufficient in cereals if the appropriate technology, based on seeds, fertilizers and mechanization were applied. This would require considerable effort and investment.

29. Morocco is one of the leading Mediterranean suppliers of citrus and citrus exports represent nearly one third of agricultural exports. Citrus growers have attained high standards in production techniques and plantation management. Output and exports have grown at about 10 percent per year over the last decade and present exports are about 600,000 t per year worth about $100 million. More than one half of Morocco's citrus exports goes to EEC countries, and since the Association Agreement of September 1, 1969, Morocco has slightly increased its citrus exports to EEC countries other than France which always has taken a large share. According to a 1969 FAO study on citrus fruit, Morocco's potential for exports would make it possible to increase the country's share of the world market to about 15 percent by 1980. This would imply a growth rate in output of 5.2 percent which would require substantial investments in plantations.

30. Market gardening in Morocco provides export revenues of about US$44 million, of which about half is represented by tomatoes. Given its favorable climate and its experience in marketing vegetable, Morocco should find outlets for the additional 50,000 t that will be generated under the project.

31. Because only a small share of milk produced is marketed through commercial channels, an assessment of the supply-demand situation is difficult. There are indications, however, of a rising demand in urban centers, while production suffers from strong seasonal fluctuations sometimes compounded by excessive import of dairy products.

Policies

32. Under the current 1968-72 Development Plan, government investment in agriculture accounted for about $94 million annually, of which $65 million for irrigation, and $17 million for progressive improvement of traditional rainfed agriculture and livestock development. Bank Group contribution to the agricultural investment program consisted of the Sebou irrigation project and the first agricultural credit project which is described below (para. 35).

33. The Government seems now prepared to give more emphasis to rainfed agriculture, small scale irrigation and livestock, which is in accordance with economic priorities. A proposed UNDP study for a Water Master Plan with the Bank as Executing Agency should eventually provide the basis for a more rational resource allocation to irrigation. The Government is also accelerating land distribution in the Sebou project area. A Bank agricultural sector review planned for the spring of 1973 should also help in defining agricultural development strategy.

Agricultural Credit

34. In 1962, the Government established a new agricultural credit system under which CNCA provides short-term advances as well as medium- and long-term credit to commercial farmers. It also operates the Caisses Locales de Credit Agricoles (CLCA) which provide seasonal and longer term credit to smaller farmers under simplified procedures. Limited advances to subsistence farmers are made through Societes Agricoles de Prevoyance (SOCAP), separate institutions which do not operate on a commercial basis. In 1971, these credit institutions together with commercial banks made about 230,000 farm loans.

35. The Bank's first Agricultural Credit Loan in Morocco (Loan 433-MOR), in an amount of $10 million, was signed in 1966. It was for a three-year agricultural development project, with a total cost of about $26 million, covering medium and long-term loans to farmers and institutions for machinery, equipment, processing and storage facilities, to help improve agricultural productivity. Part A of the project consisted of on-farm development and Part B of equipment loans for Centrale de Gestion des Exploitations Agricoles (GCEA), the agency responsible for managing land taken over from foreign settlers. Initial progress on the project was disappointing. On-farm investment loans lagged behind schedule, mainly because of CNCA's shortage of qualified personnel; moreover, the credit policies followed by CLCA, seriously affected CNCA's financial soundness. Part B was used satisfactorily until CGEA was dissolved and its assets transferred to provincial authorities. Because of these developments, withdrawals under Part A were suspended and the balance of Part B amounting to $0.2 million equivalent cancelled in February 1968, indicated at that time to the Executive Directors (R68-38). Eventually, CNCA's and CLCA's accounts were separated, lending programs revised, staff was strengthened and disbursements under Part A resumed in September 1968 (R68-167), and were completed in September 1969.

PART IV - THE PROJECT

36. The proposed Second Agricultural Credit Project was prepared by CNCA and the IBRD/FAO Cooperative Program; it was first appraised by a Bank mission in November-December 1970. Negotiations were delayed until April 1972 because of the discussions between the Bank and the Government of Morocco on the question of appropriate interest rates for CNCA's lending. The initial appraisal of the project was updated and negotiations took place in Washington on April 10-14, 1972. CNCA was represented by Mr. Lahlou, General Manager and Mr. El Mesmoudi, General Inspector; the Government was represented by Messrs. M. Tazi and Ben Mansour of the Ministry of Finance and Mr. Belkoura of the Prime Minister's Office.

Description

37. The project would be a three-year program for the development of farms selected for their development potential and priority. It would help

finance medium and long-term investments for mechanization of grain farms in rainfed areas, citrus development through groundwater and plantation development, winter vegetable production, livestock development and packers' marketing facilities mainly for export produce. Total expected investment amount to about $69 million of which more than 50 percent would be for tractors and other farm machinery, about 22 percent for citrus plantation development and about 13 percent for winter vegetable production. The project would involve about 8,000 loans to individual farmers, groups of farms and operators of packing facilities. Farms receiving loans would range in size from 5 to 50 ha on irrigated land, or from 15 to 200 ha on dry land. A description of the project is given in Annex III to this Report. The Appraisal Report (No. PA-95, dated May 15, 1972), is being circulated to the Executive Directors separately.

Execution

38. The proceeds of the loan and credit are expected to be committed over three years starting September 1, 1972, coinciding with the start of the planting season. The project will be administered by CNCA, a public credit institution responsible to the Minister of Agriculture who heads its Board of Administration. The Chief Executive is the General Manager who is appointed by a joint decree of the Ministers of Agriculture and Finance. CNCA is well organized, with 17 regional offices in the major agricultural provinces. Staff has more than doubled over the past five years and is generally well qualified. There is an active internal training program at all levels and, as a result, the last expatriate left this year. Lending procedures provide that responsibility for loans below DH 40,000 (equivalent to US$8,700) is delegated to the regional offices, while loans above that level have to be approved by the head office; these procedures operate efficiently.

Cost Estimates and Financing Plan

39. Total project cost is estimated at DH 320 million (equivalent to US$69 million), with a foreign exchange component of US$34 million (49 percent) which would be met by the proposed Loan/Credit. These estimates are based on prices to farmers of the goods to be financed and therefore include duties and taxes amounting to about $5.7 million. The Bank loan would be made to CNCA, to be repaid in 15 years including four years of grace. The proceeds of the IDA credit would be made available by the Government to CNCA as part of the Government contribution to CNCA's equity. CNCA would contribute 21 percent of project cost from its own resources. Thus subloans to farmers made by CNCA from Bank/IDA and own resources would amount to 70 percent of project cost. Farmers and other borrowers would contribute the balance of 30 percent. The Government would carry the foreign exchange risk on the Loan and Credit.

Financial Position

40. At the close of its last fiscal year, August 31, 1971, CNCA's total resources were about DH 365 million (equivalent to $72 million at the exchange rate then prevailing) of which 36 percent came from capital grants from Government and reserves; 13 percent, from a special liquidation account for government operations carried out by CNCA; 13 percent from the first Bank loan and 38 percent from short-term resources, mainly rediscounts and deposits. CNCA has been raising funds from individual deposits in rural areas since 1970. Financial results including government operations carried out by CNCA in 1967-71 show a satisfactory operating position. Administrative costs averaged less than 3 percent of the capital employed. Over the period 1967-71, total income on the combined CNCA and government operations averaged 6.3 percent of total capital employed, and return on equity, quasi-equity, and general reserve averaged 1.8 percent. In 1971, these ratios were respectively 6.2 percent and 2.8 percent. The debt/equity ratio was 1:3.9 at the end of 1971. The repayment record was good, and provisions adequate in respect of CNCA's own operations.

41. Recoveries on CNCA's loans made under the direction of Government remained unsatisfactory, and the Government has now agreed to separate these operations from those made by CNCA proper so that all costs accruing to CNCA in connection with Government operations be chargeable to Government. Another immediate requirement is to strengthen CNCA's capital structure. To this end, the Government would authorize CNCA to transfer DH 44 million from the special liquidation account, referred to above, to equity capital, and would contribute the proceeds of the IDA Credit (DH 46 million) to CNCA as equity. This additional equity capital together with increased medium and long-term debt, and deposits would enable CNCA to expand its medium and long-term lending with limited reliance on short-term resources.

42. A third basic requirement is the increase of interest rates applied to CNCA's loans. Public credit in Morocco is traditionally made at preferential rates, in particular for agriculture. CNCA's lending rate was already raised to 6.5 percent in connection with the first Bank loan (February 1966), and a further increase is now both possible and desirable. Higher rates should foster a better allocation of resources and are well below commercial farmers' financial rates of return which range between 20 percent and 43 percent. Continuation of existing rates would have implied substantial subsidization of investments in mechanization by medium and larger farmers. Furthermore, CNCA's overall financial stability also requires an increase in its interest receipts; the cost of resources to CNCA and its administrative costs are bound to increase substantially over the next few years, and present earnings would not be sufficient to cover such increases. The Government has therefore agreed to adopt a two-stage interest rate structure based on the assessment of farmers' taxable income. Farmers whose annual taxable income exceeds DH 6,000 and all borrowers for mechanization loans (other than groups or cooperatives having an average taxable income of less than DH 4,000) would be charged 8 percent. For farmers with a taxable income below DH 6,000, the present rate of 6.5 percent would be continued. These smaller farmers

will absorb less than 20 percent of the total amount of the Loan/Credit (i.e., $6.8 million). CNCA's income on its own operations only is expected to rise from 6.0 percent of average capital employed in 1971 to 7.5 percent in 1976. Return on equity, quasi-equity, and general reserves, derived from CNCA's own operations, is expected to rise from 2.2 in 1971 to 3.8 percent by 1976.

Procurement

43. The range of items to be financed is wide, and the quantities to be procured by individual farmers are small and would not be suitable for bulk procurement under international competitive bidding. The main types of equipment are tractors and attachments, combines, and pump sets which would be purchased through commercial channels. Major farm machinery manufacturers from at least six Bank member countries are represented in Morocco, their prices are competitive and they have adequate after-sale services through well established dealer networks. As a result of the 1906 Act of Algeciras, Morocco has no preferential tariffs, despite its association with the European Economic Community. Farm buildings are constructed by local artisans or contractors. Dairy development would require about 1,800 in-calf heifers, which would be partly supplied from Government and private dairy farms; however, not all Project requirements would be readily available locally. Provision has therefore been made for importing about 900 heifers through existing livestock procurement channels which are satisfactory.

Disbursement

44. Bank/IDA would reimburse 70 percent of CNCA sub-loans. Disbursement amounts by categories are detailed in Annex III to this report. While CNCA's commitments under the lending program would be made over three years, disbursements to borrowers would require about 3-1/2 years. Assuming a time lag of six months between CNCA disbursement to borrowers and IBRD/IDA disbursements to CNCA, Bank/IDA disbursement is expected to take about four years.

Economic Rate of Return

45. The Project would expand financial support for both commercial farmers in the modern sector, and agrarian reform cooperatives, thus assisting small farmers in making the transition from the traditional to the modern sector. By encouraging investment and modernization it would help accelerate growth in agriculture which, for the last decade, has grown more slowly than the overall economy.

46. The Project's overall rate of return to the economy, based on an average life of 20 years of project investments (30 years for citrus) is estimated at about 18 percent if based on present prices, or 16 percent if cereal prices were reduced by 10 percent in line with projected 1975 world prices, adjusted for transportation and distribution in Morocco. Financial rates of return for illustrative farm models range from 20 to 43 percent.

47. Incremental production generated by the Project would: (a) reduce grain imports and result in annual import savings of about DH 63 million (US$14 million); (b) generate additional export earnings of about DH 74 million (US$16 million) annually by 1980, and larger amounts thereafter, through increased fresh citrus and vegetable exports; and (c) benefit Morocco's urban consumers and tourist industry through increased availability of meat and milk throughout the year. The overall impact on the balance of payments would be substantial. Import substitution of cereals and exports of citrus and vegetable, less foreign exchange required for the replacement of equipment, operating cost and debt service, would be equivalent to net foreign exchange savings of about US$15 million in 1980, rising to DH 98 million (US$21 million) in 1985.

Employment

48. The employment effect of the Project has been carefully reviewed. While some of the increased labor requirements will take the form of increased working hours by labor that is already employed, some will generate opportunities for employing additional people. The investments under the project, other than mechanization, are expected to create employment for about 18,000 persons through citrus, vegetable and livestock development on about 4,000 farms. Additional employment would also be generated through marketing activities, especially for exports.

49. Tractors financed under the project would probably have a net positive effect on employment. While tractors reduce labor requirements for the operations of land preparation and seeding when measured on a per unit basis (per hectare planted or per quintal of output). They permit a substantially larger area to be planted and result in higher yields because of much better seed-bed preparation and because of the short period between the first rains and the latest optimal planting time. When these changes in production methods are combined with the higher levels of other inputs made possible by improved land preparation, the resulting increase in activity and output tends to increase direct, on-farm labor requirements over the cropping period. In addition, it seems probable that the net effect on indirect employment opportunities will be positive in view of the need for tractor maintenance and supply services, and the increased marketing activities directly required by increased output, as well as the multiplier effects on overall employmentof the higher level output.

50. The effect of mechanical grain harvesting on employment would depend on whether the combines would be used to replace existing ones or to mechanize grain harvesting in new areas. No displacement would result through replacement of existing combines, which is estimated at 80 to 90 percent of combines provided for under the Project. The alternative of reverting to hand-harvesting on these farms must be ruled out because the seasonal labor required for relatively short periods could not be mobilized. On the other hand, combines financed under the Project which could replace traditional harvesting (10 to 20 percent), would displace approximately 900 temporary 2-month jobs annually.

Ecological Risks

51. To insure proper use of limited groundwater resoures, current legislation requires ministerial approval for use of such water in excess of 200 m^3 per day. This approval will be required prior to CNCA granting any loan for investments involving use of groundwater.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

52. A draft Loan Agreement between the Bank and CNCA, a draft Guarantee Agreement between the Kingdom of Morocco and the Bank, a draft Development Credit Agreement between the Kingdom of Morocco and the Association, a draft Project Agreement between the Association and CNCA, the Report of the Committee provided for in Article III, Section 4 (iii) of the Articles of Agreement of the Bank, the Recommendation of the Committee provided for in Article V, Section 1(d) of the Articles of Agreement of the Association, and the texts of draft resolutions approving the proposed loan and credit are being distributed to the Executive Directors separately. The provisions of the draft loan and credit documents conform generally to those included in agreements for agricultural credit projects.

53. I am satisfied that the proposed loan and credit would comply with the Articles of Agreement of the Bank and the Association.

PART VI - RECOMMENDATION

54. I recommend that the Executive Directors approve the proposed loan and credit.

Robert S. McNamara
President

THE STATUS OF BANK GROUP OPERATIONS IN MOROCCO

A. STATEMENT OF BANK LOANS AND IDA CREDITS
(as at May 31, 1972)

Loan or Credit Number	Year	Borrower	Purpose	Amount Bank	US$ million (less cancellations) IDA	Undisbursed
329	1962	BNDE	DFC	15.0		-
389	1964	Kingdom of Morocco	Agriculture	15.4		-
79	1965	Kingdom of Morocco	Education		11.0	3.0
433	1965	Caisse Nationale de Crédit Agricole	Agriculture	9.7		-
447	1966	BNDE	DFC	16.2		-
571	1968	BNDE	DFC	15.0		4.3
167	1969	Kingdom of Morocco	Highways		7.3	4.6
642	1969	Kingdom of Morocco	Highways	7.3		7.3
643	1969	Kingdom of Morocco	Agriculture	46.0		40.5
660	1970	BNDE	DFC	15.0		5.0
704	1970	CIH	DFC(tourism)	10.0		8.7
736	1971	BNDE	DFC	35.0		20.8
266	1971	Kingdom of Morocco	Education		8.5	8.5
	Total			184.6	26.8	102.7
	of which has been repaid			21.2		
	Total now outstanding			163.4		
	Amount sold		1.3			
	of which has been repaid		1.0	.3		
	Total now held by Bank and IDA			163.1	26.8	
	Total undisbursed			86.6	16.1	102.7

B. STATEMENT OF IFC INVESTMENTS
(as at May 31, 1972)

Year	Obligor	Type of Business	Amount in US$ million Loan	Equity	Total
1962	BNDE	Development Bank	-	1.0	1.0 1/
1966	CIL	Canning Factory	0.9	0.5	1.4
	Total gross commitments		0.9	1.5	2.4
	less cancellations, terminations repayments and sales		0.4	-	0.4
	Total commitments now held by IFC		0.5	1.5	2.0
	Total undisbursed		-	0.1	0.1

1/ The original investment was $1.5 million; BNDE has redeemed $0.5 million in October 1968.

C. Projects in Execution

1. Delays in disbursements of several loans and credits have been caused mainly by cumbersome budgetary and accounting procedures, and administrative inefficiency in submitting disbursement applications, rather than by delays in the execution of the project. A Bank disbursement officer visited Morocco last November to investigate the problems and propose solutions. During the recent negotiations further improvements and streamlining of procedure were agreed upon.

2. Considerable delays have been, and still are, affecting the execution of the education credits (79 and 266-MOR). Disbursements under the first credit have been extremely slow and the Closing date had to be extended twice, from the original date of June 30, 1971 to March 31, 1973; disbursements under the second credit have not yet started, ten months after signing. Project implementation has been affected by inadequate management of the project unit, insufficient control of construction works, departures from agreed procedures for procurement, and lack of coordination. The higher education study needed to prepare a proposed third loan is not yet started. Despite numerous supervision missions, little progress has so far been achieved. This situation is under constant review and a new schedule for project implementation has just been sent to the Government.

3. The Sebou irrigation loan (643-MOR) is progressing satisfactorily. Redistribution of expropriated properties to small landowners started more slowly than expected because of delays in enacting the necessary legislation. Substantial cost increases on a number of important items are becoming apparent and as soon as they are reviewed, the Bank will discuss with the Government their consequence for the financing of the project.

4. The first highway financing (167 and 642-MOR), mainly for the Agadir-Marrakesh road, is progressing satisfactorily from a technical standpoint. However, only $2.7 million has yet been withdrawn out of a combined loan/credit amounting to $14.6 million. The Effective date was March 16, 1970, and the Closing date is February 28, 1974. The situation is being reviewed with the Government.

Form No. 81.02
(5-72)

WORLD BANK GROUP

COUNTRY DATA

COUNTRY: MOROCCO

AREA: 505,940 km²

POPULATION: 15.379 million (1971)
Rate of Growth 2.6 % (from 1960 to 1971)

DENSITY: 30 per km²
Ibid 186 per km² of arable land

POPULATION CHARACTERISTICS:

Crude Birth Rate (per 1,000)	(1966-'70)	49.5 9/
Crude Death Rate (per 1,000)	(1966-'70)	16.5 9/
Infant Mortality (per 1,000 live births)		n.a.

HEALTH:

Population per physician	(1965)	12,930
Population per hospital bed	(1965)	660

INCOME DISTRIBUTION:

% of national income, lowest quintile	n.a.
highest quintile	n.a.

DISTRIBUTION OF LAND OWNERSHIP: (early 1960's)
70% of land owned by top 10% owners

ACCESS TO POTABLE WATER (% of population) n.a.
Urban n.a.
Rural n.a.

ACCESS TO ELECTRICITY: (% of population) n.a.
Urban n.a.
Rural n.a.

NUTRITION:

Calorie intake as % of requirements	(1964-'66)	92 7/
Per capita protein intake (grammes)	(1964-'66)	58

GNP PER CAPITA: $ 242 ('1971)

EDUCATION:
Adult literacy rate n.a.
Primary school enrolment 54% (1968)

GROSS NATIONAL PRODUCT (1971):

	(value in US $ mln.)	%
GNP at market prices	3,728	100.0
Gross Investment	535	14.4
Gross National Savings	457	12.3
Current Account Balance	-78	-2.1
Exports of Goods, NFS	742	19.9
Imports of Goods, NFS	863	23.1

ANNUAL RATE OF GROWTH (%, constant prices):

1960-65	1965-70	1971
3.0	5.1	5.8
5.4	8.3	-2.0
-	-	-
-	-	-
0.7	5.3	6.7
-1.0	9.6	-2.3

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1971:

	Value Added 1/ (US $ Million)	%	Labor Force 2/ millions	%	Value Added Per Worker (US $)	% of national average
Agriculture	1,021	28	3.67	71	(278)	(39)
Industry	907	25	0.60	12	(1,512)	(213)
Services	1,756	47	0.91	18	(1,930)	(271)
Total/Average	3,684	100	5.18 3/	100	(711)	(100)

PUBLIC FINANCES IN 1971:

	All Governments (US$ mln)	% of GDP	% of GDP average 1969-1971	Central Government (US $ mln)	% of GDP	% of GDP average 1969-1971
Current Receipts	n.a.	n.a.	n.a.	672	18.0	18.7
Current Expenditures (incl. transfers)	n.a.	n.a.	n.a.	581	15.6	16.0
Current Surplus/Deficit (-)	211	5.7	5.5	91	2.4	2.7
Capital Expenditures	312	8.4	9.0	258	6.9	6.3
External Assistance (net)	105	2.8	2.7	63	1.7	1.5

PRICES AND CREDIT:

end of year:	Cost of living in Casablanca 4/ index (1963=100)	% change	Bank Credit to Public Sector (US $ mln)	% change	Bank Credit to Private Sector (US $ mln)	% change
1968	105.5	0.5	448	17.4	521	21.7
1969	108.6	2.9	552	23.2	510	-2.2
1970	110.0	1.3	589	6.6	511	0.3
1971	114.5	4.1	602	2.2	583	14.2
(Feb.) 1971	114.3	-				
(Feb.) 1972	120.6	5.5				

BALANCE OF PAYMENTS IN 1969, 1970 and 1971:

	(millions US $)		
Exports of Goods, NFS	667	698	742
Imports of Goods, NFS	709	854	863
Resource Gap (deficit = -)	-42	-156	-121
Interest Payments (net)	-18	-16	-22
Workers' Remittances (gross)	60	63	95
Other Factor Payments (net)	-49	-44	-43
Net Transfers	10	9	13
Balance on Current Account	-39	-144	-78
Direct Foreign Investment 5/	4	19	17
Medium and Long-term Loans (net)	31	99	75
Disbursements	(70)	(136)	(126)
Amortisation	(-39)	(-37)	(-51)
Official Grants	26	20	18
Other Capital (net)	-1	28	28
Increase in Net Total Reserves	21	37	72 6/
All other items	-	15	12
Gross Official Reserves (end year)	114	141	174
Net Total Reserves (end year)	82	118	190 6/

MERCHANDISE EXPORTS (Average of 1969, 1970 and 1971):

	($ mln.)	%
Phosphate	113	23
Citrus fruit	75	15
Tomatoes	32	7
Canned fish	26	5
All other commodities	248	50
Total	494	100

INVISIBLE EXPORTS (Average of 1969, 1970 and 1971):

Tourism	136
Workers' remittances	72
Other	140
Total	348

EXTERNAL DEBT ON DECEMBER 31, 1971:

	($ mln.)
Medium and Long-term Credits, Public	804
Non-Guaranteed Private MLT	n.a.
Total Outstanding and Disbursed	n.a.

DEBT SERVICE RATIO (1971): 8.9

IBRD/IDA LENDING, DECEMBER 31, 1971 ($ mln.)

	IBRD	IDA
Outstanding and Disbursed	70.6	8.5
Undisbursed	95.3	18.3
Outstanding incl. Undisbursed	165.9	26.8

Rate of Exchange 8/ US $1.00 = DH 4.66098
DH 1.00 = US $ 0.214547

Date: May 21, 1972

Department: EME

1/ shares in 1960 prices applied to GDP in current prices.
2/ estimate (results census 1971 not yet available).
3/ excluding 0.8 million unemployed
4/ only price index available
5/ including long term loans to the private sector.
6/ at US $1.00 = DH 5.03 conversion rate.
7/ US Department of Agriculture
8/ exchange rate before December 1971 was US $1.00 = DH 5.06
9/ UN data, which may overestimate natural population growth

MOROCCO

AGRICULTURAL CREDIT PROJECT

Loan/Credit and Project Summary

Borrower:	Loan	Caisse Nationale de Crédit Agricole (CNCA)
	Credit	Kingdom of Morocco
Guarantor:	Loan	Kingdom of Morocco
Amount:	Loan	$24 million
	Credit	$10 million
Terms:	Loan	Payable in 15 years with 4 years of grace at 7-1/4 percent interest per annum
	Credit	Standard

Re-lending Terms: Government will make the proceeds of the credit available to CNCA as part of the government contribution to CNCA's equity. CNCA will lend the proceeds of the loan/credit at an interest rate of 8 percent for farmers having a taxable revenue of DH 6,000 and above, and for all mechanization loans, and of 6-1/2 percent for farmers earning less than DH 6,000. Loans over $110,000 for marketing facilities would require prior Bank/IDA approval.

Project Decription: To provide funds for loans to sub-borrowers to help finance medium and long term investments over a 3-year period.

Estimated Cost:

Investment Category	Typical Size of Individual Sub-project: Rainfed -ha-	Typical Size of Individual Sub-project: Irrigated -ha-	Sub-loans: Total number of loans	Sub-loans: Average Amount per farm (DH'000)	Average Investment per farm (DH'000)	Total Investment (DH million)
Grain farm equipment						
Tractors and attachments	100		3,500	27	39	136.5
Grain harvesters and balers	200		460	49	70	32.2
Citrus plantation development		20	360	137	196	70.6
Winter vegetable production	48	12	750	38	54	40.5
Dairy farm development	65	13	150	49	71	10.6
Beef and sheep fattening	40		2,920	5.6	8	23.4
Marketing facilities						6.0
TOTAL						319.8

Financing Plan:

Category	Sub-borrowers	CNCA	Bank/IDA	Total Project Cost	% of total
	DH million				
Grain farm equipment					
Tractors and attachments	40.9	28.7	66.9	136.5	43
Grain harvesters and balers	9.7	6.7	15.8	32.2	10
Citrus plantation development	21.2	14.8	34.6	70.6	22
Winter vegetable production	12.1	8.5	19.9	40.5	13
Dairy farm development	3.2	2.2	5.2	10.6	3
Beef and sheep fattening	7.0	4.9	11.5	23.4	7
Marketing facilities	1.8	1.3	2.9	6.0	2
TOTAL	95.9	67.1	156.8	319.8	100
Total in US$ millions	(20.8)	(14.6)	(34.0)	(69.4)	
Percent of total	30	21	49	100	

Estimated Disbursements:

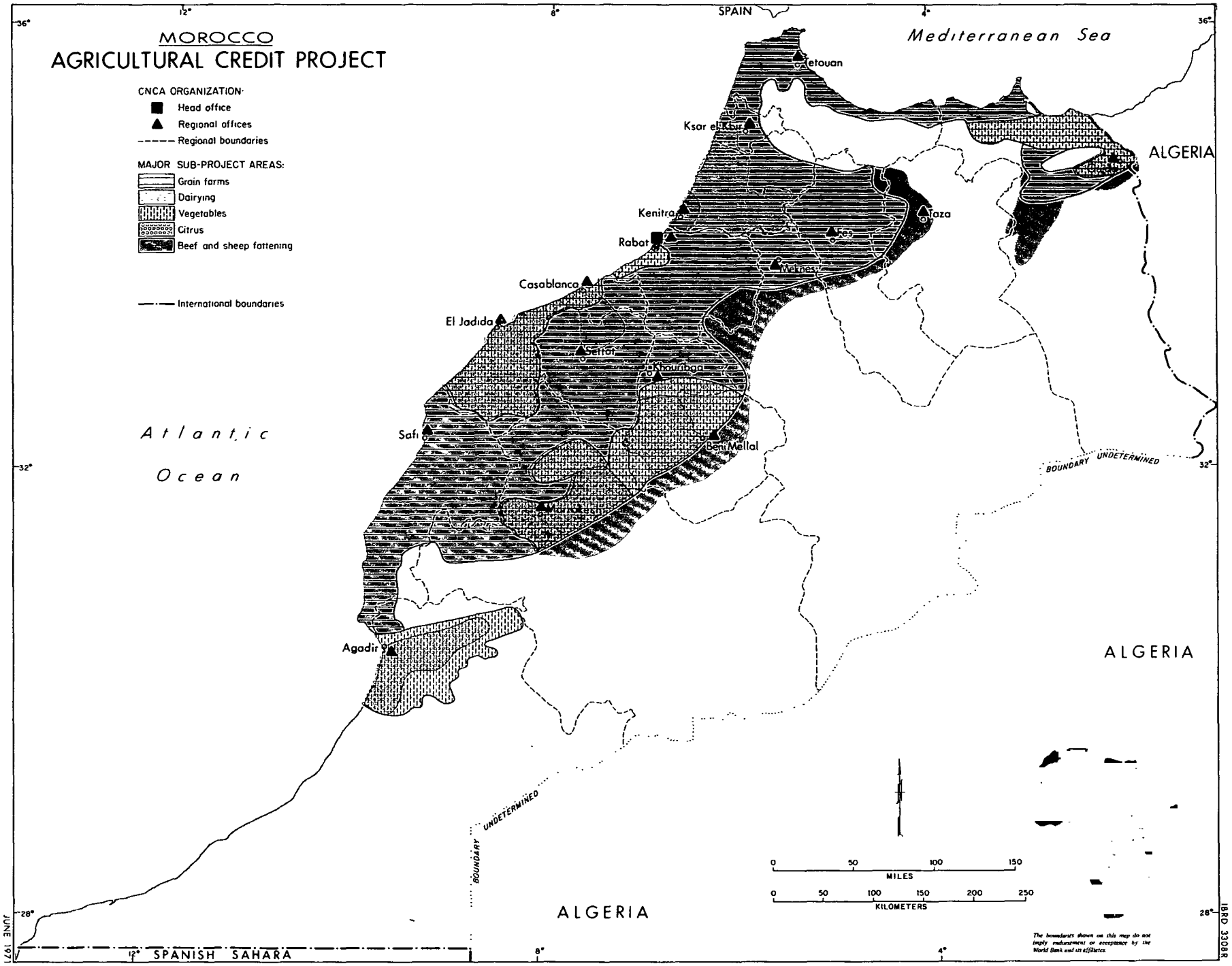
IBRD/IDA FY	DISBURSEMENTS DURING FY ($ million)	CUMULATIVE DISBURSEMENTS
1973	6.-	6.-
1974	10.1	16.1
1975	11.3	27.4
1976	6.6	34.0

Procurement: Through normal commercial channels

Consultants: None

Rate of Return: The economic rate of return from the several types of investments to be financed ranges from 17 percent to 40 percent.

Appraisal Report: Report PA-95a (June 2, 1972)
Agricultural Projects Department


MOROCCO
AGRICULTURAL CREDIT PROJECT
CNCA ORGANIZATION:
Head office
Regional offices
Regional boundaries
MAJOR SUB-PROJECT AREAS:
Grain farms
Dairying
Vegetables
Citrus
Beef and sheep fattening
International boundaries
SPAIN
Mediterranean Sea
ALGERIA
Atlantic Ocean
Tetouan
Ksar el Kbir
Kenitra
Rabat
Casablanca
El Jadida
Safi
Agadir
Taza
Meknes
Fez
Sefrou
Khouribga
Beni Mellal
BOUNDARY UNDETERMINED
SPANISH SAHARA
MILES
KILOMETERS
The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.
JUNE 1971
IBRD 3308R