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Report No. 19529

PERFORMANCE AUDIT REPORT

KINGDOM OF MOROCCO

**AGRICULTURAL SECTOR INVESTMENT LOAN (ASIL I)
(LOAN 3403-MOR)**

June 21, 1999

Operations Evaluation Department

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Currency Equivalents (annual averages)

Currency Unit = Dirham (DH)

1991	US\$1.00	DH8.71
1992	US\$1.00	DH8.54
1993	US\$1.00	DH9.30
1994	US\$1.00	DH9.20
1998 (month of June)	US\$1.00	DH9.68

Abbreviations and Acronyms

ASAL I	Agriculture Sector Adjustment Loan
ASAL II	Second Agriculture Sector Adjustment Loan
ASIL I	Agriculture Sector Investment Loan
ASIL II	Second Agriculture Sector Investment Loan
CAR	Country Assistance Review
CNCA	National Agricultural Credit Bank
DPAE	Directorate of Planning and Economic Affairs (of MARA / MAMVA)
ESW	Economic and Sector Work
FDA	MARA's Technology Development Program
ICR	Implementation Completion Report
MADRPM	Ministry of Agriculture, Rural Development and Sea Fishery (successor to MAMVA and previously MARA in respect of agricultural responsibilities)
MAMVA	Ministry of Agriculture and Agricultural Operations (see also MARA & MADRPM)
MARA	Ministry of Agriculture and Agrarian Reform (from 1993 called MAMVA)
MTASAP	Medium Term Agricultural Sector Adjustment Program
OED	Operations Evaluation Dept
ONICL	National Interprofessional Cereals and Pulses Office
O&M	Operations and Maintenance Costs
ORMVA	Regional Agricultural Development Office
PAR	Performance Audit Report
PCR	Project Completion Report
PERL	Public Enterprise Restructuring Loan
SAL	Structural Adjustment Loan
SAR	Staff Appraisal Report

Fiscal Year

Government: July 1 to June 30

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ROBERT PICCIOTTO
Director-General
Operations Evaluation

June 21, 1999

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

**SUBJECT: Performance Audit Report on Morocco
Agricultural Sector Investment Loan (Ln 3403-MOR)**

Attached is the Performance Audit Report on Morocco, Agricultural Sector Investment Loan (ASIL I), prepared by the Operations Evaluation Department (OED). ASIL I was supported by a loan of \$50m which became effective in March 1992 and was closed in May 1994, having been fully disbursed.

The primary objective of ASIL I was to finance a time-slice of the Moroccan government's total investment program in agriculture, estimated at US\$640m. Further objectives were: to improve the Ministry of Agriculture and Agrarian Reform's investment process; to strengthen the Ministry's institutional capacity; and to continue to advance key sector policy reforms, notably in the livestock and irrigation sub-sectors. Thirty-one percent of the loan was earmarked for FDA grants to farmers to promote improved farming techniques. Planned policy reforms were designed to tackle unfinished business from earlier agricultural sector adjustment loans (Loan 2590, approved FY85 and Loan 2885, approved FY87).

Investments financed by ASIL I included: small and large scale irrigation, crop diversification and area development (including roads); de-stoning and land consolidation; equipment for plant protection; forest management and plantation establishment; technical equipment, vaccines; range land improvement for livestock. The project also financed agricultural extension, focusing on improved use of machinery, small-scale irrigation, and crop storage. Attempts to strengthen the Ministry of Agriculture emphasized improvements to budget execution, organizational structure and the criteria for selecting projects

Implementation of ASIL I was challenging, given the hybrid nature of the operation. In practice, supervisions focused on easing procurement and disbursement problems related to the

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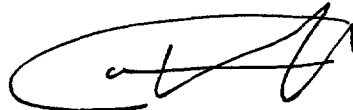
investment component, paying less attention to policy and institutional issues. The operation did not serve as a vehicle for extending the policy dialogue. The Ministry of Agriculture was lukewarm toward the loan because it was perceived as a transfer to the Ministry of Finance, bringing no additional funding for Agriculture and yet imposing the cost associated with unfamiliar and demanding procurement procedures.

The results of ASIL I are hard to measure because very few quantitative benchmarks were established at appraisal. The leverage provided by the Bank's funding of a time-slice was less than expected because the overall public agricultural investment budget was 31 percent below appraisal expectations. Also, there are no data on the investments financed by FDA making it impossible to see how well these were targeted and whether they met their intended purpose of upgrading farmer technologies. By providing grants to farmers and collectives, ASIL I leveraged substantial investment by the state-owned agricultural bank, but it is less certain that it leveraged private risk capital. ASIL I did not help to consolidate trade liberalization. Overall, there was no substantial institutional capacity building and little evidence of improvement in the efficiency of the Ministry of Agriculture. The Ministry was substantially restructured during the loan period, but largely *without* the involvement of the Bank. However, there is one area where the project did make a significant difference: veterinary services were successfully privatized. Independent veterinarians now contract with the state for provision of prophylactic services while animal health problems without significant externalities are provided privately.

The ICR rates project outcome as satisfactory but the audit rates it unsatisfactory, mainly because the project was of limited relevance: arguably, the Bank's priority should have been to complete the unfinished business of sector adjustment before backing an investment operation. Institutional development was rated modest by the ICR, a judgement with which the audit concurs given progress with privatizing veterinary services and improving the Ministry of Agriculture's budget process. Sustainability is rated uncertain, contrary to the likely rating in the ICR, mainly because the follow-on project was canceled. Because of the limited relevance of the project and weak supervision, Bank performance is rated unsatisfactory, revising the ICR's satisfactory rating. The audit endorses the ICR rating of borrower performance as satisfactory.

This audit points to three main lessons. First, it suggests that time-slice funding for sector investment programs should be deferred until policy reform has been sorted out. Second, time slice operations need also to be preceded by requisite measures of government restructuring, based on comprehensive public expenditure reviews, coordinated with other donors. Third, when designing sector investment operations it is important to establish clear progress benchmarks.

Attachment

A handwritten signature in black ink, consisting of a large, stylized 'A' with a horizontal line extending to the left and a small loop at the bottom.

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<p>This report was prepared by Mr. John Heath, based on the input of Dr. Jonathan Kydd (Consultant, Wye College, University of London). Mr. William Hurlbut edited the report.</p>
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Principal Ratings

	<i>Audit</i>	<i>ICR</i>
Outcome	Unsatisfactory	Satisfactory
Sustainability	Uncertain	Likely
Institutional Development	Negligible	Modest
Bank Performance	Unsatisfactory	Satisfactory
Borrower Performance	Unsatisfactory	Satisfactory

Key Staff Responsible

	<i>Task Manager</i>	<i>Division Chief</i>	<i>Director</i>
Appraisal	H. Stier	R. O'Sullivan	P. Baudelaire
Implementation	L. Tuck	O. Knudsen	K. Dervis
Completion	M. Nightingale	T. Sinha (Acting)	D. Ritchie

Preface

This is a Performance Audit Report (PAR) of the Agriculture Sector Investment Loan, Kingdom of Morocco, for which Loan 3403-MOR in the amount of US\$50 million was approved on September 17, 1991 and made effective on March 24, 1992. The Loan was closed on June 30, 1994, six months behind the appraisal schedule. It was fully disbursed, and the last disbursement took place on May 17, 1994.

The PAR is based on the Implementation Completion Report prepared by Michael Nightingale of the Middle East and North Africa Region, on the Staff Appraisal Report, President's Report, the legal documents, on study of the project files, supervision reports and project documents, and on the findings of an Operations Evaluation Department mission which visited Morocco in October 1998 and met with officials of the Government of the Kingdom of Morocco and with persons familiar with the project. The collaboration of these officials and other persons is gratefully acknowledged.

Following standard OED procedures, copies of the draft PAR was sent to relevant government officials for review and comment. No comments were received.

1. Background

Audit Rationale

1.1 There are two reasons to audit the Morocco Agriculture Sector Investment Loan. (ASIL I). First, sector investment loans are still comparatively new lending instruments. As a proto sector investment loan, ASIL I may contain valuable lessons. Its focus on improving the allocation and quality of public expenditure strikes a chord with current Bank priorities. The Bank's sector strategy paper on rural development (*From Vision to Action*, 1997) states: "Sector investment lending is rapidly becoming a privileged instrument; although not yet proven, it has the potential to generate systemic change in the whole public rural expenditure program." For Morocco specifically, *Vision to Action* recommends a truly "integrated" rural development strategy, noting that public expenditure re-allocations will be "key to this effort."

1.2 Second, subsequent developments in Morocco suggest that the outcome of ASIL I was not as satisfactory or as sustainable as reported in the implementation completion report. The follow-on loan, ASIL II, which became effective in 1995, was cancelled in June 1998 with 50 percent of funds undisbursed. The Ministry of Agriculture welcomed the cancellation, arguing that the loan had not brought additional resources to the ministry. The Ministry of Finance, reluctant to finance the budget deficit with external borrowing, was also sceptical about the rationale for a sector investment loan. The Bank was equally dissatisfied, noting that ASIL II had failed to bring leverage over the Ministry of Agriculture's budget priorities, or over the broader framework of agricultural policy. The audit considers to what extent these problems with ASIL II were incipient in ASIL I.¹

Sector and Policy Background

1.3 Relative to the growth of the economy as a whole, agriculture in Morocco has underperformed. The sector grew at an annual average rate of 2.1 percent in 1975-85 and 0.1 percent in 1986-96; economy-wide growth was respectively 4.4 percent and 2.9 percent. The latter period included a severe drought in the mid-1990s, from which there was a spectacular recovery in 1996 when the agricultural sector grew by 79 percent compared to a decline of 44 percent in the previous year.

1.4 An important part of the background to ASIL I was the imbalance between government support to irrigated and dryland agriculture. The irrigated area grew rapidly

1. A cluster audit of ASIL I and II was not possible because the ASIL II implementation completion report had not been completed when the audit mission was staged.

under the government's *politique des barrages*, launched in 1968. In the late 1980s, irrigated agriculture covered 1.3 million hectares, accounting for 16 percent of total arable land and 45 percent of agricultural value added. Irrigated land produced almost all the output of citrus, vegetables and cotton, and over one-half of sugar and milk. Two-thirds of the irrigated area is made up of small and medium-sized farms. However, yields for these family farms are lower than they might be, owing to poor water management and the lack of an adequate market for agricultural finance—which reduces input use by smaller farmers.

1.5 The dryland area provided farm employment to three-quarters of the rural population, producing the bulk of the country's basic food supplies of cereals, pulses and oilseeds. Most of the rural poor—who comprise 18 percent of the total rural population—live in the dry lands. Rain-fed agriculture was subject to two types of policy bias. First, it received about 25 percent of total public investment in agriculture between 1965 and 1987, although over half of agricultural gross value was produced under rain-fed conditions. Second, policy interventions operating through a range of mechanisms (subsidies, taxes, overvaluation of the exchange rate, external trade policies) resulted in net transfers from rain-fed agriculture.²

1.6 Before the reforms of the early 1980s, Moroccan agricultural policy emphasised self-sufficiency in cereals and import substitutes (notably sugar). A strong conviction that the modernisation of agriculture depended on “drought proofing”, was accompanied by scepticism about the scope for developing rain-fed areas, a scepticism based on the conspicuous failure of a major dry-land modernization initiative dating back to 1957-61. Attitudes to the traditional export sector were complacent, characterised by a failure to seek out new markets, and a lack of response to competition in traditional markets. The marketing and processing of key products (cereals, sugar, oilseeds and, to a lesser extent, citrus and vegetables) and major inputs (fertiliser and seeds) was subject to rigid public control. Heavy consumer subsidies compensated for the high costs of production, processing and distribution caused by high border protection and inefficient state marketing.

1.7 The government's Medium-Term Agriculture Sector Adjustment Program (1984-90)—supported by the Bank—was based on a broad-based critique of earlier policies. The thrust of the reforms was to reverse the bias in public spending, favoring dry-land and small-scale farm families over better-off farmers and urban consumers. Irrigation charges would be raised to allow recovery of operations and maintenance costs. Farm support would shift from recurrent input and output subsidies to improving agricultural services for farmers and exporters, with preference to be given to rain-fed areas.

1.8 Two Agriculture Sector Adjustment Loans were approved in the 1980s. ASAL I (Loan 2590, approved FY85) was driven by the imperative to cut spending. Agreed reforms included the gradual elimination of fertilizer subsidies, fuller recovery of the costs of water and of marketing services provided to farmers by irrigation agencies, the phasing out of the system of price and distribution control for animal feed, and the setting

2. Jonathan Kydd & Sophie Thoyer, “Agricultural Policy Reform in Morocco, 1984-91.”

of higher floor prices for cereals (then below world market prices). Key policy changes implemented were a 35 percent increase in fertilizer prices, increased scope for the private sector in fertilizer marketing, and improvement in the recovery of water charges from 47 to 64 percent (although later investigations showed that water charges were set at about half of true costs). However, one agreed measure of compensation to agriculture for these subsidy cuts—the raising of floor prices for cereals by an average of 35 percent—was not implemented.

1.9 ASAL II (Loan 2885, approved FY87) aimed to widen the scope of policy reform. It sought to liberalize foreign trade by progressively eliminating quantitative import restrictions (a process that was completed in 1992), to make further progress in improving the collection rate for water charges, to initiate deregulation of sugar, (reducing real producer prices while increasing consumer prices), to privatize veterinary and breeding services, and to study options for liberalizing edible oils.

1.10 When work began on the project that is the focus of this audit, ASAL II was still disbursing and few of the agreed reforms had been fully carried out. Nevertheless, the Bank's reading of the situation was upbeat, arguing that the government had already implemented the most difficult reforms and remained strongly committed to liberalisation. Reference was made to the government's good record on complying with the loan covenants of the adjustment operations, and the rapid disbursement of the first of these.³

3. Staff Appraisal Report, Agriculture Sector Investment Loan.

2. Objectives And Design

2.1 The objective of the Agriculture Sector Investment Loan (ASIL I) was to increase the efficiency of Morocco's agricultural investment program, and further improve the policy environment for such investments. The loan was intended to finance an estimated eight percent of a two-year (1991-92) time slice of the government's total agricultural investment program of US\$640 million. In addition, ASIL I was to support reforms in the investment process and specific reforms in the irrigation and livestock sub-sectors. Thirty-one percent of the loan was earmarked for grants to farmers to promote improved farming techniques.

Investment Component

2.2 According to the Staff Appraisal Report (paragraph 4.08), "Rather than finance a small percentage of each line item of the total 1991-92 investment program, the loan would fund a number of specific items in the Government's investment budget... These investments were initially selected by the Bank during the [1990] Agricultural Expenditure Review and subjected to further screening during appraisal".

2.3 The investment components financed by ASIL I included the following: small and large scale irrigation, crop diversification and area development (including roads), de-stoning and land consolidation, equipment for plant protection, forest management planning and plantation establishment, and technical equipment, vaccines and rangeland improvement for livestock. Support was also given to a broad-spectrum extension effort which included promoting better use of machinery, raising the efficiency of small-scale irrigation, upgrading crop storage, improving stock feeding, encouraging the planting of fruit trees, and training in land improvement.

2.4 The appraisal report notes that specific line items were "selected because they constitute priority activities for the Government, they are not subject to any external donor financing and thus are most at risk of budget cuts, and they are easy to disburse against" (paragraph 4.08). A proportion of the costs borne by each of the Ministry's ten directorates would be reimbursed by the Bank. Budget items were chosen because they accorded with the Bank's priorities (e.g. dryland agriculture; rehabilitation of existing irrigation rather than new irrigation schemes; rising cost recovery in irrigation) or because they would raise the quality and impact of expenditures (e.g. improved investment appraisal methods, monitoring, staff training). Many of the items financed were actually recurrent expenditures, classified as "investments" in the "development phase" of projects.

Policy and Institutional Component

2.5 According to the appraisal report (paragraph 4.10), ASIL I also supported:

- (a) Reforms in the investment process in three different areas: *budget execution and monitoring*, including faster delegation of funds and better monitoring of budgetary expenses; *institutions*, including improvements in the staffing and organizational structure of the Ministry of Agriculture; and *project selection*, including greater use of formal project selection criteria.
- (b) Livestock sector reforms, involving further privatization of services, development of a sector strategy, and continuation of efficient milk pricing:
- (c) Irrigation water charge recoveries, specifically preparation of an action plan to improve recovery of water charges, and improvement in the accounting system for water charges.

2.6 At the negotiations for ASIL I it was agreed to exclude from project conditionality reform measures which were not under the full control of the Ministry of Agriculture. It was argued that experience in implementing the adjustment loans indicated that conditions under the Ministry's control were generally implemented satisfactorily and quickly, while those which required the intervention of other ministries and the legislature were delayed. This may have been true but design of ASIL I failed to address the weak incentive for the Ministry of Agriculture to cooperate in achieving the loan's objectives given that, in line with the practice for all Bank loans to Morocco, funds would be transferred to the Ministry of Finance without adding explicitly to the budget of the Ministry of Agriculture.

Relevance

2.7 The relevance of the project's objectives to Morocco's development needs requires some consideration. There are some indications that the loan did not address key client concerns, nor was it anchored in an effective policy dialogue. First, a sector investment loan needs to be based on prior consensus between Bank and Borrower about investment priorities. In one area this was lacking. The selection of line items for project financing addressed only incidentally the issue of defining an appropriate balance between public expenditures on irrigated and dryland areas. The Staff Appraisal Report states (paragraph 4.02) that "many of the investments are of particular benefit to the poorer farmers in the rainfed areas". Implicitly, the Bank believed that it was important to redress the government's tendency—uppermost in the 1970s, but qualified in the 1980s—to give the lion's share of resources to irrigated areas. By the 1990s, opinion in Moroccan government circles was beginning to swing back to its earlier skepticism about the wisdom of committing major resources to dryland development. The Bank could have made a stronger effort to address Moroccan skepticism about the potential of dry-land agriculture, which may be partly justified. Dry-land farming is vulnerable to drought and the rain-fed areas were badly hit in the 1990s. While irrigation can cause serious environmental damage—salt build-up in soils is a particular problem in Morocco—there

are also concerns about the environmental effects of intensifying crop production in marginal dry-land areas.⁴

2.8 Second, there are good grounds to argue that, before proceeding with a sector investment loan, it would have made more sense to focus on the unfinished business of sector adjustment, making sure that conditions under the second sector adjustment loan were fully met. The government did not implement these conditions, nor did it undertake the radical liberalization of the sugar sector that it agreed to in a May 1991 letter. The state withdrew from setting producer prices for maize, durum wheat and barley, but traders' prices and quantities remained subject to regulation by ONICL. Protection for bread wheat, vegetable oil and sugar remained exceptionally high, with nominal protection coefficients of 1.4, 2.2 and 1.7 respectively in 1995. The grain milling and sugar industries (characterized by public and private monopolies and maintained by regulation and subsidies) were left essentially unreformed. Failure to press harder on adjustment was partly attributable to senior management's lack of faith in this approach. Instead, some staff suggest, there was pressure to lend, management responding to the perception that the agriculture division was underprogramed.

2.9 Third, interviews with staff suggest that, in order to push the loan through, the Bank's management was too ready to accede to pressure from the Borrower to tack on the FDA grants component, in spite of a lack of convincing guarantees that this money would be effectively targeted.

4. The Bank's FY98 Rural Development strategy revisits these issues.

3. Implementation

3.1 There were seven supervision missions for ASIL I, the first in October 1991 and the last in May 1994, followed by a completion mission in September 1994. Supervision intensity averaged 13.5 staff weeks per year compared to an average for the same period of 12.2 staff weeks per year for the Middle East and North Africa region. Early supervision reports focus on problems faced by the Ministry of Agriculture in adapting to Bank procurement and disbursement procedures. Subsequent reports highlight delays in the completion of studies, including the study intended to assess the effectiveness of the FDA grant program. The report from the final supervision mission gave a fairly upbeat account of the project, stating that “the investment objectives and associated policy adjustments were for the most part realized”.

3.2 ASIL I was not easy to supervise. It required the Bank to engage the full spectrum of the Ministry of Agriculture’s operations, dealing with directorates that had no previous experience of Bank procedures. Much time was consumed helping mid-level officials understand and comply with the Bank’s procurement guidelines and lending rules. Compounding this difficulty was the requirement that the loan finance budget line items at provincial as well as central level. The Ministry of Agriculture was required to contract with 320 entities nationwide. The provincial budget process entailed a bundling of these contracts which made it difficult to verify whether individual contract’s exceeded the Bank’s procurement threshold for international competitive bidding. At the task manager’s request, the Bank’s leading disbursement expert visited Morocco to advise on the problem; he concluded that the problem was intractable.

3.3 Because supervision was obliged to devote so much time to thorny procurement and disbursement issues there was relatively little engagement with institutional capacity building designed to strengthen the Ministry of Agriculture. One official commented that “missions spent most of the time talking to the Planning Directorate”, bypassing the other directorates.

3.4 The Bank had little success in engaging with the FDA agricultural and rural grants program, a component that was included at government’s request but about which Bank staff were never enthusiastic. This program of grants to individual farmers and rural collectives was part-funded under ASIL I, although the Bank had little information about who benefited and what they did with the money. However, it is known that many of these grants provided the equity component of investments co-financed with loans from the state agricultural credit bank. The Bank commissioned a study on the use to which

grants were put. But this arrived late in the project cycle and proved to be of poor quality. When the loan was closed the Bank was almost as ill-informed about FDA and its activities as it was at appraisal. Subsequent reports were commissioned but are still not available.

3.5 A striking feature of ASIL I was the very low level of “ownership” by the implementing agencies (with the exception of veterinary services)—at least during the supervision phase. The audit mission encountered an almost unanimous view among Ministry of Agriculture officials that ASIL I was no more than an instrument to allow the Bank to make a dollar loan to the Ministry of Finance and that Bank funding of Ministry of Agriculture’s budget simply replaced domestic funding. From this perspective ASIL I was unwelcome as it brought no additional resources while imposing the costs entailed in accountability to the Bank, notably unfamiliar and demanding procurement procedures.

3.6 This negative conclusion is puzzling as evidence indicates that the Ministry of Agriculture *did* receive additional resources. At the time (and this is still the case today) the estimates of expenditure for the budget were “over-programmed”, i.e., the total approved budgets of line ministries tended to exceed the resources available, especially for capital items. A consequence is that line ministries’ approved budgets do not represent the culmination of negotiations with the Ministry of Finance, but rather a framework for subsequent discussions throughout the fiscal year to secure release of funds.

3.7 In these circumstances, the Bank, with its significant influence in the Ministry of Finance and sector-wide involvement in the Ministry of Agriculture’s operations implied in ASIL I, should have been a key ally in the struggle to ensure that budgeted commitments were actually financed. The Bank probably supported the Ministry of Agriculture but was not given full credit for doing so. It would have been undiplomatic for the Bank to trumpet this role and the Ministry of Finance had obvious reasons to underplay it. Also, year-on-year volatility in the extent to which the formal budget was funded—a function of macroeconomic developments and the vagaries of other donors—helped to mask the Bank’s contribution. Finally, some senior officials in the Ministry of Agriculture officials evidently felt uncomfortable about aspects of the Bank’s sector policy agenda, and possibly felt no urgency to communicate to their staff the budgetary payoff to the Bank’s involvement.

4. Results

4.1 The results of the investment component are hard to quantify. The Staff Appraisal Report (paragraph 4.08) indicates that the project would finance specific line items, rather than financing a small share of the overall program. Therefore, in principle, it should have been possible to attach physical indicators to the selected line items. But the appraisal report (Annex II) only specifies indicative financial targets. The implementation completion report (Table 6) attempts to retrofit physical targets for the appraisal, matching these against actual achievements. While there is considerable quantitative detail in the achievements column, the correspondence with the original targets has to be taken largely on faith. Moreover, the Bank's money leveraged less government funding than was originally anticipated: the total investment program in agriculture for this period—which the Staff Appraisal Report took as the project cost—was almost one-third less than envisaged at appraisal (down from US\$640 to US\$442 million). This suggests that, in terms of the investment program, the operation achieved less than its intended objectives.

4.2 The FDA grant program spent 25 percent more than envisaged at appraisal, with about 55 percent spent on irrigation technology. An absence of data on individual investments makes it impossible to determine whether there were improvements in the choice of technology or methods of addressing farmer needs. There is some evidence that a larger than expected proportion of FDA money was allocated to large farmers and downstream entrants to agribusiness (e.g. exporters of cut flowers). In these circumstances, the Bank should have pressed more forcefully for earlier completion of the study on targeting of FDA grants.

Changing the Roles of Public and Private Sectors in Providing Agricultural Services

4.3 Veterinary services were successfully privatized. Veterinarians were transferred from government service and given an independent status, contracting with the state to provide prophylactic services while privately providing animal health care in cases where there was no spill-over effect for the community at large. Although there is no formal study of the consequences, Ministry of Agriculture officials believe that the “public good” aspects of veterinary services are now provided more cost-effectively.

4.4 The success of veterinary reforms owes much to two personalities, the head of MARA's veterinary directorate and a Bank staff member, who had previously worked as colleagues in an international animal health organisation (the Moroccan being the more senior). Both had been studying and advocating veterinary service reforms prior to their involvement in ASIL I. This case is a strong exception to the general conclusion that

ASIL I suffered from low government “ownership.” The leadership of the government veterinary services was enthusiastically committed to the reform.

4.5 In other areas, less progress was made, mainly because ASIL I did not provide for an across-the-board redefinition of private/public roles in delivering agricultural services. For example, it is difficult to accept the claim—made in the appraisal report for ASIL II—that more private capital was mobilized for investment in the agriculture sector. The farmers and collectives that received FDA grants under ASIL I did use them to leverage loans from the state-owned agricultural credit bank but it is not clear that they the grants made it easier for farmers to borrow from private sources.

Strengthening the Capacity of the Ministry of Agriculture

4.6. The project did improve the investment process, helping to bring about a faster delegation of funds and better monitoring. Before the project’s inception, the 1990 Agriculture Expenditure Review (paragraph 15) found that few funds were delegated before April of each year, with delegation not completed before December. Since ASIL I, funds have been delegated in the first few months of the year. Also, whereas information on budget execution previously arrived 3-6 months late, reports are now available on the 15th day of each following month.

4.7. The Bank had intended that ASIL I support the restructuring of the Ministry of Agriculture. Indeed, the Ministry was reorganized during the loan period and the Bank was involved in a dialogue on this.⁵ Positive features of the restructuring were the creation of a monitoring and evaluation section, and the amalgamation of research and extension into one department. Planning and research and extension—notably integrated pest management—were significantly strengthened. On the negative side, agrarian reform was dropped from the Ministry’s jurisdiction, and land reform staff were transferred to general extension duties. Also, as noted in the implementation completion report, the creation of additional supervisory structures does not appear to have raised the Ministry’s efficiency.

4.8. The loan provided the Ministry’s planning directorate with the resources for a study on upgrading staff quality. This was intended to focus on reducing the number of unqualified, lower-level staff, raising the technical competence of higher-level staff, and developing a career stream. However, the study was not carried out. Overall, there was no substantial institutional capacity building and—with the exception of veterinary services—little evidence of significant improvement in the effectiveness of the Ministry.

Support for Dry-land Farming

4.9. ASIL I did not play a pivotal role in the Bank’s strategy of increasing support for dry-land farming. Establishing an appropriate balance between resources for dry-land and irrigated agriculture was not a central issue when the loan was appraised. However, ASIL I did seek to revamp the criteria for selecting investment projects, based on an objective

5. In 1993, the Ministry of Agriculture and Agrarian Reform (MARA) became the Ministry of Agriculture and Agricultural Operations (MAMVA).

ranking, excluding projects expected to generate an economic rate of return of less than 12 percent. To the extent that dry-land agriculture was more efficient than irrigated agriculture, this principle could help to counter the historic tendency to under-invest in the dry lands. Also, the loan emphasized the need to rehabilitate existing irrigation perimeters rather than invest in expansion.

The Follow-on Operation

4.10. The follow-on project sheds some light on the limitations of a lending strategy initiated by ASIL I. ASIL II made a loan of US\$121 million, intended to run from 1994-97, and viewed at the time as merely the next in a continuing series of sector investment loans. The appraisal report notes, “A series of sector investment loans forms the backbone of the Bank’s agricultural lending program to Morocco, complemented by stand-alone projects where extra technical assistance and/or project appraisal or supervision skills are particularly needed. Emphasis on sector investment loans is a key feature of the assistance strategy for Moroccan agriculture”.

4.11. Described in the appraisal report as a “time slice of the government’s total agricultural investment program”, ASIL II also incorporated a package of “policy actions.” The investment support covered broadly the same areas as the first operation, but the language gave greater emphasis to the objectives of poverty reduction, environmental protection—a special monitoring unit was to be set up—and redefining the role of government. Policy actions were to include reforms in internal and external trade rules, improvements in the budget execution process, and reforms to the agriculture development fund (FDA).

4.12. Disbursement of ASIL II ran well behind schedule and the loan was closed ahead of time. The fiscal stress produced by a major drought, partly explains the Ministry of Finance’s reluctance to provide counterpart funds for the follow-on operation. The Ministry of Finance also became increasingly reluctant to incur foreign debt for the financing of “investments” that contained a large component of recurrent expenditures, and it doubted the wisdom of creating new units within the public sector. The Ministry of Agriculture was equally unimpressed. Once more it was persuaded that sector investment loans failed to provide it with additional resources, and therefore, once doubts arose about ASIL II, the Ministry did not lobby for its continuation. The loss of momentum in liberalizing the agricultural trade regime undermined support for the operation in the Bank. The loan was eventually closed in June 1998, approximately half disbursed.

4.13. A Bank report on the status of ASIL II, prepared in January 1998, sheds light on the lack of leverage of the two sector investment loans:

“the loan is basically only serving to reimburse the Treasury for expenses of approved budget line items that have already been paid fully out of Treasury resources. Loan funds have had little impact on budget priorities, have not brought additional resources to priority activities and have not facilitated implementation of the targeted investments. The share of MAMVA investment budget going to irrigation in FY97/98 was 62 percent, compared with 44 percent foreseen at appraisal, at the expense of priority rainfed agricultural research and extension investments. The Loan is thus a cumbersome mechanism for providing foreign exchange to the Treasury.”

5. Ratings

5.1 The ICR rated project outcome as satisfactory. After reviewing the ICR, OED substituted a rating of marginally satisfactory, because benefits were undocumented, some reform objectives had failed, and because severe budget cuts had made achieving adequate levels of agricultural investment difficult. This audit finds that the rating should be further downgraded to unsatisfactory.

5.2 The *relevance* of ASIL I is questionable because its design did not address the outstanding policy issues, including trade liberalization—where the second sector adjustment loan had reached an impasse—or the balance of resource allocation between irrigated and dryland farming. Investment projects need to be grounded in a solid policy framework and there was not a sound rationale for the Bank to commit more money when more progress was called for on the policy front. Policy reform could have been completed with the sector adjustment operations—the second was still ongoing when ASIL I was prepared.

5.3 The *efficacy* of ASIL I was also weak. The leverage provided by Bank support to the government's agricultural investment program was limited because the overall budget fell by almost one-third, and the failure at appraisal to specify physical targets makes it impossible to tell how much was actually achieved. In particular, it is impossible to verify how well targeted were the funds provided by the FDA grant program.

5.4 The *efficiency* of the investment was low primarily because it is not possible to estimate the economic rate of return based on a sample of the investment operations supported by the loan: no sampling of these investments was carried out.

5.5 *Institutional development* is rated modest in the ICR, a judgement with which the audit concurs, based on improvements in the budgetary process and successful privatization of veterinary services. *Sustainability* is rated uncertain, contrary to the likely rating in the ICR, mainly because there was no audit of the technical standards and economic viability of the various investments—or a sample thereof—supported by the loan.

5.6 Contrary to the ICR's satisfactory rating, Bank and borrower performance are rated unsatisfactory. The *Bank's performance* was unsatisfactory because project objectives were of doubtful relevance and there was no effective monitoring of progress toward the project's development objective. Supervision proved unequal to the requirement of balancing investment, policy and institutional objectives, tending to lose sight of the overall direction of the operation.

5.7 *Borrower performance* is rated satisfactory because, despite delays in procurement, audit reporting and the FDA impact study, the government was open to a technical dialogue with the Bank, made significant progress in budgetary reform and livestock privatization.

6. Lessons

6.1 ASIL I (and ASIL II) point to the difficulties of mounting hybrid operations combining investment, policy reform and institutional development objectives. These objectives are best tackled separately. First, as the Bank's *From Vision to Action* rural development strategy argues, policy reform is best treated as pre-requisite to investment lending; funding a time-slice of government's program should only be embarked on when the policy issues have been sorted out. There is even less justification for financing a hybrid operation when recent or ongoing sector adjustment operations have raised doubts about the government's commitment to reform objectives.

6.2 Second, where ministerial restructuring and expenditure re-allocation is called for, the government should complete this work before the Bank commits to funding a timeslice of the investment program. Restructuring should be based on the results of a review of public expenditures, with the Bank providing technical assistance where appropriate. This exercise should be carried out in close collaboration with other donors so that future development assistance does not involve duplication. Restructuring an overall investment program is a slow and painful process. If time-slice funds are committed ahead of reform they may simply help to prop up the existing structure. The Bank will have less leverage once funds are committed.

6.3 Third, ASIL I illustrates how important it is to establish clear benchmarks for sector investment programs. Before pledging time-slice funds, the Bank needs to agree with government and other donors on a set of performance indicators for measuring progress. Data collection should focus on measuring overall sector wide impact, client satisfaction and the extent of donor participation. This monitoring exercise should provide regular feedback so that managers can make mid-course adjustments to the investment program. The investment program should be used as a vehicle for building in-country capacity for policy monitoring and sector performance analysis.

Annex A

BASIC DATA SHEET

AGRICULTURE SECTOR INVESTMENT LOAN (LN. 3403-MOR)

Key Project Data (amounts in US\$ million)

	Appraisal Estimate	Actual or current estimate	Actual as % of Appraisal estimate
Total project costs	640	442	69%
Loan amount	50	50	100%
Cofinancing	130	100	77%
Cancellation	-	-	-
Date physical components completed	6/30/93	12/31/93	-
Economic rate of return	NA	NA	-

Cumulative Estimated and Actual Disbursements

	FY92	FY93	FY94
Appraisal estimate (US\$M)	14	40	50
Actual (US\$M)	0	32	50
Actual as % of appraisal	0	80	100
Date of final disbursement: 5/17/94			

Project Dates

	Original	Actual
Appraisal	N/A	October 1990
Negotiations	N/A	October 1991
Board approval	January 1991	September 1991
Signing	N/A	October 1991
Effectiveness	January 1992	March 1992
Completion	June 1993	December 1993
Closing date	December 1993	May 1994

Staff Inputs (staff weeks)

	FY91	FY92	FY93	FY94	Total
Through Appraisal	41.7	-	-	-	41.7
Appraisal through Board	25.0	25.0	-	-	50.0
Board through Effectiveness	-	13.5	-	-	13.5
Supervision	-	5.0	15.7	15.0	35.7
Completion	-	-	-	5.0	5.0
Total	66.7	43.5	15.7	20.0	145.9

Annex A

Mission Data

Stage of Project Cycle	Month/Year	Number of Persons	Days in Field	Specialized Staff Skills Represented	Performance Rating		
					Implementation Status	Development Status	Types of Problems
Appraisal	5-6/90	6	18	Economist (2) Agriculturalist Irrigation Engineer Budget Specialist Ag. Educ. Specialist			
Post-Appraisal	9-10/90	4	16	Economist (2) Agriculturalist Procurement Specialist			
Supervision	9-10/91	2	19	Economist Agriculturalist	1	1	
Supervision	2/92	3	4	Agriculturalist Irrigation Engineer Accounting Specialist			
Supervision	3/92	1	15	Economist	2	1	Management
Supervision	6-7/92	5	8	Economist (2) Agriculturalist (2) Accounting Specialist			
Supervision	10/92	6	12	Economist Agriculturalist (2) Livestock Advisor Land Affairs Expert Ag. Training Specialist	2	1	Management
Supervision	4/93	5	11	Economist (2) Agriculturalist Land Affairs Expert Procurement Specialist	2	1	Management
Supervision	5/94	2	10	Agricultural Economist Economist	2	1	Management
Completion	9/94	3	5	Agric. Economist Agronomist Livestock Specialist			

These missions also included significant resources for preparation and appraisal of ASIL II (Ln. 3765-MOR)

