I. Introduction and Context

Country Context

Representing 15 percent of Morocco’s GDP and 23 percent of the country’s exports, and employing close to half of the labor force, the agri-food sector (together with the forestry and fishing) is a key pillar of the Moroccan economy. In the rural areas it is the primary source of employment and income for about 80 percent of the labor force. Although rural poverty decreased from 25 percent in 2001 to 14 percent in 2007 largely due to the combined effect of increases in the value of agricultural production, diversification of the rural economy, and increases in remittances, the contribution to overall inequality of the gap between rural and urban living standards in Morocco is the highest of any Middle East and North Africa (MENA) country. In fact, poverty rates in rural areas are almost 3 times as high as in urban areas and 70 percent of poverty in Morocco remains rural. With a Gini coefficient of 0.6, land remains inequitably distributed: a majority of low-productivity smallholders owns only 26 percent of cultivated land, while a minority of less than one percent of mostly commercial and export-oriented farms owns about 14 percent.

Despite some successes in selected commodities, the agri-food sector’s growth potential is constrained by the dualistic nature of farming in Morocco. The vast majority of the 1.5 million agricultural holdings are semi-subsistence farms that have low productivity and product quality levels and limited market integration. These farms are small (70 percent are less than 5 hectares), largely rainfed, typically engage in the production of low-value agricultural commodities such as wheat and barley, and vulnerable to recurrent droughts. This large group of smallholder farmers co-exists with a small but very efficient group of commercial farmers producing crops (such as citrus, tomatoes, strawberries, grapes, melons, and peppers) for high-value export markets and milk for domestic markets. This sub-sector of mainly irrigated production accounts for 7 percent of GDP, 50 percent of Morocco’s agricultural value added, generates over 75 percent of Morocco’s agricultural exports, and provides jobs to 50 percent of the rural labor force. This duality is partly a result of policies that have limited the opportunities of traditional agriculture and smaller farmers. First, an antiquated legislative system of commercialization of certain agricultural products designed to raise municipal revenues raises the cost and lowers the quality of fruits, vegetables and meat. The results are lower producer and higher consumer prices and reduced incentives for quality and value-addition. Second, the effectiveness of the traditional support (extension, credit, technology), particularly for small farmers, has eroded due to the absence of an integrated approach that takes account of the links between production and marketing, availability of adequate technical support and attention to quality of the products. Third, the participation of the farmers and communities in the design and implementation of support policies has been limited, with a centralized approach dominating.

Sectoral and Institutional Context

Morocco launched a transformative agricultural development strategy - the Plan Maroc Vert (PMV) for the period 2008-2020. The PMV is an ambitious strategy that aims to transform the agri-food sector into a stable source of growth, competitiveness, and broad-based economic development in rural areas through a combination of agricultural investments and systemic public sector reforms. The PMV addresses important constraints in the sector and embodies a paradigm shift from a highly protected to a more open market oriented agriculture and away from concerns with only farm-level production and towards integrated value-addition all along the agri-food chain that will bring better opportunities to small and large farmers alike. Institutionally, it represents a major shift from state intervention that replaces the private sector to one that focuses on delivering public goods and services and developing Public Private Partnerships...
(PPPs) to support the sector. In the period 2009-2020, an estimated 140 billion MAD of combined public and private sector investments are envisaged in around 1,500 commercial (Pillar I) and smallholder (Pillar II) agriculture investment projects. Of the 1,500 projects envisaged under the PMV, 218 are currently being implemented. They include 106 Pillar I projects totaling MAD18.9 billion and 112 Pillar II projects totaling MAD5.6 billion. In combination with the GoM’s ongoing Programme National d’Economie d’Eau en Irrigation (PNEEI), a 15 year development program supporting the conversion of an estimated 550,000 hectares of surface irrigation to drip irrigation, and the systemic public sector reforms undertaken by the PMV, these investments are to realize the agri-food sector’s domestic and export growth potential, particularly in fresh and processed high-value fruits and vegetables, stemming from Morocco’s geographic position and privileged access to the EU and US markets, rising domestic demand for quality food driven by growing incomes, favorable climate, and abundant and relatively low cost labor.

The proposed operation is the second of a programmatic series of two single-tranche Development Policy Loans. The first DPL was adopted by the Board of the World Bank on 15 March 2011 and closed on 15 March 2012. The DPL series is structured around four of the key cross-cutting policy and institutional reform priorities identified in the PMV, including: (i) domestic markets; (ii) agricultural investment support; (iii) agricultural services; and (iv) irrigation water. The proposed DPL builds on recent World Bank operations in the agriculture and agriculture-related sectors. The DPL builds on the experience of the Irrigation-based Community Development Project (DRI-PMH), the Rainfed Agricultural Development Project (DRI-MVB), and the first National Initiative for Human Development (INDH) project all of which have been supported by the World Bank. The implementation of these projects has highlighted important institutional and structural constraints to effectively promote integrated rural development. It has also underlined the need for greater attention to the marketing aspects of agricultural development as well as the importance of support structures for producers and producer organizations. The actions aimed at improving the sustainability of irrigation water use and management under the DPL include some of the actions originally foreseen under the irrigation water component of the previous Water Sector DPL series. The recently completed PARL DPL series, in which the MAPM has been actively engaged, strengthened the GoM’s overall public sector management through improved budget management, human resources management, control of the public payroll, and e-government.

The proposed DPL would be complemented by other World Bank operations recently approved or currently in the pipeline. The proposed second INDH project would further strengthen the capacity of local governments, civil society actors, and marginalized groups, to effectively participate in decision-making processes concerning local development projects. The SCCF/GEF grant for Integrating Climate Change in the PMV (PicCPPMV), which became effective in October 2011, is closely aligned with the DPL, supporting the integration of climate change adaptation measures into selected Pillar II projects in five target Regions. Similarly, the proposed Social and Integrated Agriculture project (ASIMA) to be financed under GEF-5 is expected to support land, water, and biodiversity conservation measures in selected Pillar II projects in marginal areas. The proposed Climate Change DPL, which would build on the Bank’s previous analytical work with respect to climate change mitigation and adaptation, will reinforce the actions undertaken with respect to the sustainable use of land and water resources. The institutional and policy reforms supported under the irrigation water component of the DPL will improve the effectiveness and the sustainability of the investments financed within the framework of the ongoing Oum-Er-Rbia Basin Irrigated Agriculture Modernization project aimed at the modernization of irrigation systems and the improvement of farmers’ access to technology, financing, and markets. Furthermore, the ongoing Education Sector DPL series supports human capital building in rural areas through improved effectiveness and efficiency of service delivery and learning outcomes at the primary and lower secondary education levels. Finally, the proposed First Competitiveness DPL and the proposed Second Financial Sector DPL will contribute to an improved business environment for the agriculture and rural sector. While the First Competitiveness DPL seeks to improve the investment climate, further trade policy reform and trade facilitation, and improve economic governance, the Second Financial Sector DPL will aim to foster household and SME access to financial services, increased financial stability, supervision and regulation, and capital market development.

Relationship to CPS

The proposed DPL is aligned with the objectives and priorities defined in the existing Country Partnership Strategy (CPS) 2010-2013. It addresses the three long term development challenges facing Morocco identified in the CPS: (i) enhancing growth and employment; (ii) reducing social disparities; and (iii) ensuring sustainability. By supporting the GoM’s pursuit of institutional and policy reforms in relation to domestic markets, agricultural investments and services, and irrigation water resources, it contributes directly to the three thematic pillars around which the Bank’s program is structured: (i) growth, competitiveness, and employment; (ii) service delivery to citizens; and (iii) sustainable development in a changing climate. Furthermore, it is linked to the two cross-cutting themes of governance and territoriality. Though most pronounced in the proposed Pillar II component, both themes are mainstreamed across the four components of the proposed DPL.

II. Proposed Development Objective(s)

Proposed Development Objective(s)

The development objective of the PMV, supported by the DPL series, is to increase the agri-food sector's productivity and diversification with the goal of maintaining higher rates of agricultural growth and employment. The objectives of the DPL series are to: (i) improve the efficiency of domestic markets; (ii) improve the socio-economic impacts of Pillar II projects; (iii) improve agricultural services; and (iv) improve the use and management of irrigation water.

Key Results

The key results of the DPL series include:

- Successful introduction of new ownership and management models for fruit and vegetable wholesale markets and slaughterhouses;
- Increased participation, transparency, and accountability in the decision-making and implementation process of Pillar II projects;

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1 These projects were identified through a participatory planning and consultation process at the regional level and each year specific projects are/will be further developed into bankable projects by the regional directorates. The design of these investments is based around a supply chain concept. Priority supply chains have been defined for each region based on their economic and agro-climatic conditions.
- Increase in the share of small farmers benefitting from government support;
- Improved coordination and synergies between the different stakeholders in the agricultural innovation system;
- Increased availability to farmers of more diversified and higher quality extension and advisory services;
- Enhanced sanitary control system and reduced food safety risks;
- Monitoring of groundwater abstraction in areas where drip irrigation is developed;
- Equitable development of drip irrigation in LSI areas;
- Improved performance of irrigation service operators; and
- Improved coherence of planning of investments in water mobilization and investments in irrigation systems.

III. Concept Description

Component A. Improve the efficiency of domestic markets

The objective of Component A is to improve the efficiency of domestic markets by reducing marketing costs and improving marketing services through the modernization of fruit and vegetable markets and slaughterhouses. To this end, the DPL series supports the following two main institutional reforms: (i) Modernizing management and rationalizing the revenue structure of fruit and vegetable wholesale markets; (ii) Modernizing management and rationalizing the revenue structure of slaughterhouses

Prior actions of this component for DPL/2 are: (i) the signing of the three conventions between local government and relevant ministerial departments for implementing fruit and vegetable wholesale market pilot projects that will introduce new management models; (ii) the adoption of specifications concerning technical, administrative, and contractual requirements for operating municipal slaughterhouse concessions (Cahier des Prescriptions) by inter-ministerial decision of MAPM and MI.

Component B. Improve the socio-economic impacts of projects directed to small farmers

The objective of Component B is to improve the effectiveness of agricultural investments directed to small farmers. To this end, two main reforms are pursued through the DPL series: (i) Improving the governance and public financial management of the Pillar II projects; (ii) Establishing a legal and institutional framework to support contract farming

Prior actions of this component for DPL/2 are: (i) the implementation by ADA of a pre-selection technical committee for projects directed to small farmers at the provincial level; and (ii) the submission of a draft law on contract farming (Projet de Loi sur l’Agrégation) for Government approval.

Component C. Improve agricultural services

The objective of Component C is to improve agricultural services. To this end, the DPL series supports the following two institutional reforms: (i) Improving the effectiveness of the agricultural innovation system; (ii) Establishing an effective food safety control system

The prior actions of this component for DPL/2 are: (i) Operationalization of the National and Regional Coordination Committees, comprising the MAPM, agricultural research and educational institutions, and professional organizations, with uniform rules of operation to coordinate agricultural research, extension, and training activities; (ii) Adoption by the MAPM of the National Agricultural Advisory Services Strategy and Action Plan for developing a mixed (public and private) integrated system for delivering agricultural advisory services, including the associated regional implementing actions; (iii) Adoption by the Council of Government of the draft Law 25-11 establishing the National Agency for Agricultural Advisory Services (ONCA); (iv) The publication of the implementing Decree of the Law No. 28-07 concerning the sanitary safety of the food products and the adoption of the associated implementing regulations (Arrêtés) by the MAPM; and (v) Adoption of a cost-recovery system for veterinary and/or phytosanitary services by the MAPM and MEF.

Component D. Improve the use and the management of irrigation water and the planning of irrigation infrastructure

The objective of Component D is to improve the use and management of irrigation water and the planning of irrigation infrastructures. To this end, three main reform areas would be supported through the DPL series: (i) Improving the efficiency and sustainability of farmers’ water use; (ii) Improving the performance of irrigation service operator; (iii) Improving irrigation infrastructure planning by the government

The prior actions of this component for DPL/2 are: (i) the submission to the Government Secretary General of a draft amendment of the Law 23/97 on direct contribution concerning farmers’ financial contribution rates to the cost of modernizing off-farm irrigation systems; (ii) the implementation of the adjustment plan for irrigation water tariffs according to an updated calendar; (iii) allocation of resources for the irrigation perimeters located downstream dams under construction or programmed in the budget law

IV. Safeguard Policies that Might Apply

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<td>Environmental Assessment OP/BP 4.01</td>
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Indigenous Peoples OP/BP 4.10 | X
Involuntary Resettlement OP/BP 4.12 | X
Safety of Dams OP/BP 4.37 | X
Projects on International Waterways OP/BP 7.50 | X
Projects in Disputed Areas OP/BP 7.60 | X

V. Tentative financing

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<td>Total</td>
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