

## Morocco

### National Agricultural Credit Project

Report Date: March 2001

Field Survey: August - September 2000

#### 1. Project Profile and Japan's ODA Loan



Site Map: The Whole of Morocco



Poultry Farm Owned by an End User  
(in the suburbs of Casablanca)

#### (1) Background

The agricultural sector in Kingdom of Morocco as a whole accounted for approximately 19% of the country's GDP, while it employed slightly under 40% of the workforce. Agricultural product represents approximately 30% of the value of Morocco's exports. Clearly it is an important sector of the national economy. The fishing sector accounted for 1.5% of GDP, 3.5% of the workforce and 11% of export value (at the time of the appraisal in 1993).

The agricultural sector has played an economically vital role by creating jobs, giving citizens a stable livelihood, developing rural areas. The Government implemented policies favorable to the agricultural sector, such as the abolition income tax for farmers in 1962. Structural adjustment has been carried out in Morocco since the start of 1990. The effects of this adjustment have reduced public investment in the agricultural sector while stimulating private sector investment through the expansion of policy based banking. La Caisse National de Credit Agricole (CNCA), which was the executing agency for this project, has delivered approximately 60% of the total value of finance to the agricultural sector (the remainder is short-term finance from commercial banks). Nearly all development funds were provided by CNCA. In addition to its own funds, CNCA uses two-step loans (in which it borrows from bilateral and multilateral assistance agencies such as the World Bank in order to extend loans to domestic borrowers), which support its reinforcement of agricultural development investment.

#### (2) Objectives

This project was to support the Agricultural Credit Expansion Project (1989-1993), which was being carried out by CNCA under the direction of the Moroccan government, in order to improve production in agriculture, fisheries and small-scale processing of agricultural products, and to raise living standards among small and medium-scale farmers and coastal fishers.

### (3) Project Scope

This ODA loan served as the funding source for the sub-loans and was used to procure goods and services needed for the reorganization of CNCA, and for consulting services concerning the applications of the ODA loan. The loan agreement was signed in September 1993.

This project assisted the Agricultural Credit Project planned by CNCA over the 5.5 years between July 1989 and December 1994. The ODA loan was applied during the second half of the credit project, from January 1992 to December 1994, providing \$95 million of the anticipated \$850 million total project cost. The Agricultural Credit Project as a whole was a co-finance project by JBIC, the World Bank, the African Development Bank (AfDB), the European Investment Bank (EIB), the Kreditanstalt für Wiederaufbau (KfW) and the Arabian Economic and Social Development Fund (FADES).

**Table 1 Funding Plan for the Agricultural Credit Project as a Whole (first and second phases)**

(Unit: US\$ million)

	First Phase 1989-1991	Second Phase 1992-1994	Total
World Bank	135	55	190
African Development Bank (AfDB)	70	-	70
European Investment Bank (EIB)	60	-	60
Kreditanstalt für Wiederaufbau (KfW)	21	17	38
JBIC (ODA loan)	-	95	95
Arabian Economic and Social Development Fund (FADES)	30	-	30
CNCA own funds	142	430	572
End user own funds	178	253	431
Total	636	850	1,486

Source: JBIC materials

**Table 2 Details of Funding Plan for the Agricultural Credit Project:  
Second Phase (January 1992 - December 1994)(Plan)**

Item	End-User		CNCA		World Bank		KfW		ODA Loan		Total	
	Million DH	\$ million	Million DH	\$ million	Million DH	\$ million	Million DH	\$ million	Million DH	\$ million	Million DH	\$ million
(1) CNCA Credit Provision	2,259	253	3,813	429	450	50	153	17	855	95	7,530	844
Small Farmers	702	79	1,151	129	54	6	72	8	360	40	2,339	262
Medium Farmers	878	98	1,653	186	90	10	81	9	225	25	2,927	328
Greenhouse Horticulture	90	10	138	16	72	8	-	-	-	-	300	34
Agricultural Produce-related Industries	216	24	280	32	135	15	-	-	90	10	721	81
Low-income Farmers' Housing	223	25	430	48	90	10	-	-	-	-	743	83
Coastal Fishing	94	11	40	4	-	-	-	-	180	20	314	35
Local Mom-and-pop Industries	56	6	121	14	9	1	-	-	-	-	186	21
(2) Institutional Reform	-	-	8	1	45	5	-	-	-	-	53	6
(3) Consulting Service	-	-	0.08	0.009	-	-	-	-	1.213	0.136	-	0.145
Total	2,259	253	3,821	430	495	55	153	17	856	95	7,583	850

Source: JBIC materials

Notes:

- 1) DH = Morocco Dirham
- 2) The ODA loan was applied to the shaded portions
- 3) Exchange rate: US\$1=DH8.92

The ODA loan was applied to the second phase of the agricultural credit project, providing support, through CNCA, to sub-projects of the following end-users.



#### **(4) Borrower/Executing Agency**

La Caisse Nationale de Credit Agricole (CNCA) / La Caisse Nationale de Credit Agricole (CNCA)

#### **(5) Outline of Loan Agreement**

Loan Amount/Loan Disbursed Amount	¥13,319 million / ¥13,259 million
Exchange of Notes/Loan Agreement	July 1993 / September 1993
Terms and Conditions	Interest rate: 3%, Repayment period: 30 years (10 years for grace period), General Untied
Final Disbursement Date	January 1998

## **2. Results and Evaluation**

### **(1) Relevance**

The agricultural sector in Morocco accounts for approximately 19% of the country's GDP, and employs slightly under 40% of the workforce. As such, agriculture retains its position as an important industry in the domestic economy. The provision of funding for the sector is an important and ongoing task. Directed credit for the agricultural sector was vital to meet demand for medium and long-term credit and for regional development funding. So, it was significant that the funding resources were provided through co-finance from international and bilateral development assistance agencies.

However, the implementation skill of CNCA, the executing agency, cannot be deemed doubtless due to its deteriorated financial position, namely non-performing loans, and inadequate fund management, which was found during the implementation of the project, as described below.

### **(2) Efficiency**

The project was scheduled to run for three years from January 1992 to December 1994, but in fact it took four years and three months (September 1993 - January 1998). The delay occurred because demand for funds declined and measures were taken to extend the project schedule. Also, the consulting service, was initially planned to provide technical advice on finance for coastal fishing and to manage the progress of the project, was ultimately cancelled due to the delays. While the project fell behind schedule, almost the full value of the project was used, as ¥13,259 million was disbursed from an approved ¥13,319 million.

This project was designed to provide medium-term and long-term development funds to small and medium sized farmers, small and medium sized agricultural produce-related industries, and coastal fishing. Between 1992 and 1996, the cumulative total value of approved loans to end-users (recorded disbursement value) reached 99.5% of the value planned at the time of appraisal. The values disbursed to each of the four categories, relative to the planned values, were 98.5% for small farmers, 118.8% for medium sized farmers, 106.5% for small and medium sized agricultural produce-related industries and 57.8% for coastal fishing, which fell below the initial forecast. The main reason for the shortfall in lending to coastal fisheries was that the fishing sector fell into a severe slump during the 1992~1996 project period. Demand for new funding declined and the value of finance actually disbursed appears to have fallen below the initial plan as a result. Therefore, CNCA obtained approval from JBIC six months before the completion of the project to reassign a portion of the funding allocation for coastal fishing to farmers and small and medium sized

agricultural produce-related industries, where demand for funds was stronger.

**Table 4 Achievement Ratio of Sub-loan Value**

	Plan	Actual (Value approved by JBIC)		Achievement ratio
	Amount (¥)	Amount (¥)	Amount (DH)	
Small Farmers	5,594,405,594	5,508,999,796	471,455,910	98.5%
Medium Sized Farmers	4,273,726,274	5,078,001,596	435,596,239	118.8%
Small and Medium Sized Agricultural Produce-related Industries	1,398,601,398	1,489,999,533	130,648,445	106.5%
Coastal Fishing	2,019,980,020	1,168,436,729	102,394,216	57.8%
Consulting Service	18,981,019	0	0	-
Central Branch (CL) Commission	5,594,406	5,508,995	471,456	-
Head Office (CL) Commission	7,711,289	7,736,425	668,638	-
Total	13,319,000,000	13,258,683,074	1,141,234,904	-

Source: CNCA

The breakdown of sub-loan end users shows that small farmers were the most numerous, taking 116,164 loans, amounting to 84% of all the loans disbursed, by number. The next largest group was medium farmers, who took 20,251 loans (14.6%), followed by small and medium agricultural produce-related industries (1,106 loans, 0.8%) and coastal fishing (777 loans, 0.6%). The characteristics of the project are that a vast majority of the sub-loan end users were small farmers, and that the loans themselves were small, averaging ¥47,424 (DH4,059) per agreement.

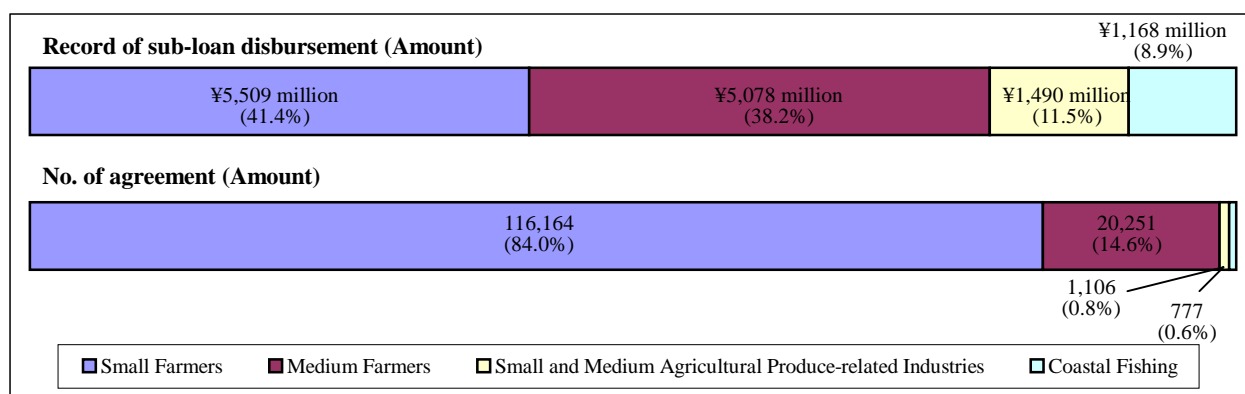
The purposes for which end users in each of the four categories used loans was as follows. Among small farmers, the highest share by value (71.8%) was used to buy livestock. Other applications were purchase of agricultural machinery (8.8%) and improvement of agricultural irrigation facilities (8.8%). Among medium sized farmers the biggest application was purchase of agricultural machinery (41.9% by value), followed by improvement of agricultural irrigation facilities (25.7%) and purchase of livestock (16.8%). Among small and medium sized agricultural produce-related industries the applications were manufacturing of sundry goods (27.7%), cereal processing (23.3%), canning (14.4%), poultry raising (12.5%), and oil making (12.4%). Among coastal fishers, the applications were construction of supply storehouses (24.0%), construction of fishing vessels (22.8%), purchase of fishing vessels (17.0%), construction and improvement of marine produce processing facilities (8.9%), and shipbuilding and repair yards (7.7%).

**Table 5 Loan Agreement Numbers for Each Type of Sub-loan End User**

End User	No. of agreement	Average sub-loan value per agreement	
		Amount (¥)	Amount (DH)
Small Sized Farmers	116,164 (84.0%)	47,424	4,059
Medium Sized Farmers	20,251 (14.6%)	250,753	21,510
Small and Medium Sized Agricultural Produce-related Industries	1,106 (0.8%)	1,347,197	118,127
Coastal Fishing	777 (0.6%)	1,503,780	131,781
Total	138,298 (100%)	95,870	8,252

Source: CNCA

**Figure 1 Record of Sub-loan Disbursement**



### (3) Effectiveness

At the time of the appraisal, the qualitative effects listed below were anticipated for this project.

i) Effects on small and medium sized farmers, and small and medium sized agricultural produce-related industries

For the cultivation of crops, the introduction of irrigation facilities and other improvements could enable intensive cultivation, reduce fallow land, increase unit yields, enable the growth of cash crops, diversify the crops grown and increase crop quality. For livestock, the introduction of superior breeds and the improvement of livestock hygiene could increase the volume and quality of production.

ii) Effects on coastal fishing

The purchase or replacement of fishing vessels and the building of refrigeration and freezing facilities could increase the volume of fish caught and help maintain quality.

In order to gauge project effects for this evaluation, an interview survey was conducted on two small farmers, two medium sized farmers, four small and medium sized agricultural produce-related businesses and two coastal fishing businesses. The interview findings showed that most of the ten end users interviewed had succeeded in increasing production, maintaining or improving quality, raising sales and gaining other benefits from their CNCA sub-loans. These findings confirmed the positive effects of the project. Seven of the ten interviewees stated that they were either “highly satisfied” or “satisfied” with their

sub-loans. Some expressed the opinion that the terms of the loans should be eased, such as by reducing the interest or raising the value limit. All end users had strong expectations for further assistance, which they felt was needed from CNCA, indicating that demand for funds remains high in all sectors. From the results of this survey of a limited sample size<sup>1</sup>, the project has obtained end-users' support and appears to have made a contribution in each sector. This reflects the efforts of CNCA, as Morocco's main agricultural finance agency, to play an active role in distributing assistance widely to small farmers, as mentioned earlier in this report.

#### **(4) Impact**

The project impacts anticipated at the time of the appraisal included improvement of the national diet, a higher food self-sufficiency rate and increased exports, as well as stimulus and job creation in rural areas. Considering the focus this project placed on support for the small farmers, who comprised the majority of the end users, it is reasonable to say that the major intended impact was to reduce poverty and to raise living standards among rural agricultural workers, who are mainly small farmers. A separate impact survey is needed to make a comprehensive evaluation of the effects and impact of the project.

According to the World Bank report, no indicator-based impact survey has been conducted by CNCA or the World Bank, a lack of sufficient information prevents the bank from judging whether this project achieved its objective of raising productivity over the entire agricultural sector.

#### **(5) Sustainability**

At the end of 1997, CNCA had 54 central branches (CRCAs), 28 agencies and 129 branches (ten of the branches are combined with central branches). Its staff numbered 3,265 nationwide.

The following points concerning the CNCA's fund management were pointed out during the implementation of the project:

- [1] CNCA has managed the secondary sub-loans, which are lent from the repayments of the primary sub-loans, in a single account regardless of the sources of co-finance, i.e. JBIC, WB, KfW. This arrangement led to inadequate management of each individual lender.
- [2] At the time of the appraisal it was reported that CNCA used computers for credit management, but to date no account handling system has been introduced for integrated account processing. In practice, sub-loan is managed by a separate branch, thus the head office is unable to keep track of credit management information such as the outstanding loan balance, recovery of payments and loans in arrears.

CNCA does not have a sufficient credit management system, which prevents its head office from keeping track of credit management information such as the outstanding loan balance, recovery of payments and loans in arrears. As a result, in June 1996, the World Bank, KfW, JBIC and other co-financiers reached a joint agreement with CNCA on a restructuring plan, which contained the following points:

- [1] Replacements of CNCA management.
- [2] A capital injection to CNCA from the Moroccan government.

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<sup>1</sup> The number of samples was small, which means that the findings of this interview survey do not necessarily represent the beneficiaries of the project as a whole. However, the interviewed end users were selected randomly to cover each type and size of end user and each geographical region. As such, the results of this survey reflect the fact that the CNCA's wide-ranging support to end users has been positively received.

[3] Improvement of the recovery ratio on overdue repayments on unrecovered loans.

Management changes and capital injection were made in line with the plan, but special measures, including debt rescheduling, repayment, deferral, the mitigation and write-off of loan terms were also implemented to cope with drought damage. These measures raised CNCA's non-performing loan ratio in the three years from 1995 to 1997 (in 1997, non-performing loans exceeded 30% of the outstanding loan balance), and CNCA failed to disclose credible management information. This situation made it difficult for JBIC and other agencies to improve the CNCA's management to yield significant results.

CNCA is now carrying out a Five Year Management Plan (ending in 2003), which includes organizational reforms. It aims to put its financial position on a sound footing, deal with non-performing loans, reform its organization, improve its managerial ability, promote the use of computers, and take other steps to rebuild its organization. These efforts are intended to overcome the CNCA's major shortcomings:

[1] The lack of specialist knowledge and skills for banking operations.

[2] Delays in building a computerized information system.

[3] Inefficient organization.

[4] Increasing non-performing loans.

The progress of the Five Year Plan and the CNCA's implementation scheme shall be monitored.

#### Comparison of Original and Actual Scope

Item	Plan	Actual
Project Scope	(1) Provision of development funds to the agricultural sector via the La Caisse Nationale de Credit Agricole (CNCA). (Eligible end users) -Small Farmers -Medium Farmers -Small and Medium Agricultural Produce-related Industries -Coastal Fishing (2) Organizational reform of CNCA (3) Consulting service	(1) Same as left      (2) Same as left (3) The consulting service was not carried out
Implementation Schedule	Jan. 1992 - Dec. 1994	Sep. 1993 - Jan. 1998 (*)
Project Cost (Overall second term of Agricultural Credit Project)		
Foreign currency (**)	\$167 million	\$115.8 million
Local currency (**)	\$683 million	\$342.0 million
Total	\$850 million	\$457.8 million
ODA loan portion	¥13,319 million (=\$95 million)	¥13,259 million (=\$101 million)
Exchange rate	DH 1 = ¥16.90	DH 1 = ¥13.48

\* The planned project period was from January 1992 to May 1996, but actual disbursement extended from September 1993 to January 1998.

\*\* Foreign currency fund figures are totals from JBIC, KfW and the World Bank. Local currency fund figures are totals from the CNCA's own funds and end users' own funds.