



Millennium Challenge Compact with the Kingdom of Morocco

I. Introduction

Over the past three decades, the Moroccan economy has grown slowly -- from 1980 to 2006, per capita incomes only grew 1.5% annually. Despite recent macroeconomic stability, slow growth has left unemployment consistently high and extreme poverty remains around 11%.

In this context, the Government (the “GoM”) of the Kingdom of Morocco (“Morocco”) launched a national growth strategy, the Plan Emergence, in 2005, which aims to “modernize and strengthen existing industrial sectors, and target investments in sectors such as textiles, agribusiness, fishing and the crafts industries, where the country has domestic and international competitive advantage.” As a complement to this strategy and to ensure that the poor benefit from growth in high potential sectors, the GoM has proposed a Millennium Challenge Account investment program (the “Program”), the funding of which will be memorialized in a Millennium Challenge Compact (the “Compact”), that seeks to stimulate economic growth by increasing productivity and improving employment in high potential sectors.

II. Program Overview and Budget

A. Goal and Objectives

The goal of Morocco’s proposed \$697.5 million Compact is to reduce poverty through economic growth. The Program’s objective is to stimulate economic growth by increasing productivity and improving employment in high potential sectors. The Program focuses on investments in fruit tree productivity, small-scale fisheries, and artisan crafts in order to modernize and unlock opportunities in these sectors. Small business creation and growth will be supported by investments in financial services and enterprise support. The Program budget is summarized in the table below:

Project	CIF ¹	Yr1	Yr2	Yr3	Yr4	Yr5	Total
<i>USD millions</i>							
Fruit Tree Productivity	6.96	25.86	84.32	93.86	60.80	29.10	300.90
Small-Scale Fisheries	7.01	35.45	35.80	33.43	2.25	2.23	116.17
Artisan & Fez Medina	6.14	15.88	32.88	24.57	19.07	13.34	111.87
Financial Services	0.50	19.30	14.10	6.70	4.30	1.30	46.20
Enterprise Support	0.00	2.18	1.08	10.29	15.28	5.02	33.85
Monitoring and Evaluation	1.84	3.67	4.04	3.64	3.03	4.52	20.74
Program Admin/Oversight	9.95	13.13	11.79	12.18	10.73	9.98	67.77
Total MCC Contribution	32.40	115.46	184.01	184.67	115.45	65.50	697.50

¹ Compact Implementation Funding (CIF) provided pursuant to Section 609(g) of the Millennium Challenge Act of 2003. CIF will be used prior to entry into force of the Compact for feasibility and design studies, environmental assessments and plans, monitoring and evaluation activities and certain other administrative expenses and start-up costs.

B. Program Description

1. *Fruit Tree Productivity Project (\$300.90 million)*

The objective of the Fruit Tree Productivity Project is to stimulate growth in the agricultural sector and reduce volatility of agricultural production. This project aims to (1) reduce water needs in agriculture by moving from high water-use, low-value cereal grains to low water-use, high-value commercial fruit tree species; (2) reduce volatility in agricultural production and farm revenues by expanding the area of commercial tree species that produce more stable yields and can better handle moisture stress; (3) protect the natural resource base by eliminating wheat production from hillsides, replacing it with trees that reduce erosion and conserve the soil; (4) replace wheat, where Morocco is not competitive on the international market, with commercial tree crops, where it has a natural competitive advantage; and (5) organize and link small-holders to high-value markets.

This project's investments target the length of the value chain, with the majority of the proposed project's activities supporting the growth of the olive oil and table olive sectors. This project will fund the intensification and rehabilitation of approximately 55,000 hectares (ha) of olive, fig and almond trees and the expansion of the same crops on approximately 120,000 ha in rain-fed areas. It will support the intensification and rehabilitation of existing olive tree production in small- and medium-sized irrigated perimeters. In Morocco's oases, this project will support the upgrading of existing small-scale irrigation infrastructure, as well as intensification and rehabilitation of existing date trees. A variety of critical value chain support services have been designed to ensure the success and integration of the various activities, and include training, scientific support, agribusiness organization development, marketing support and gender integration and support for women's projects. MCC funding will help determine this project's potential to qualify for carbon offset credits, recommend actions that stakeholders should take to link into the carbon finance market, and develop guidelines for the selected approach and procedures that must be instituted.

2. *Small-Scale Fisheries Project (\$116.17 million)*

Total annual value-at-landing of Morocco's fish catch is about \$832 million, making fishing one of the most important industries in the country. Despite this volume, Morocco is unable to satisfy current domestic demand for quality fish. Demand is expected to increase, driven by an expanding tourist sector and expected growth in domestic fish consumption, which is currently well below Morocco's neighbors. Due to inadequate coastal landing sites and port infrastructure, lack of unbroken cold chain from sea to consumer, weak integrity of the value chain, limited access to open markets, and insufficient training for fishers and their cooperatives, small-scale fisheries remains the most undeveloped segment of Morocco's fishing sector.

The Small-Scale Fisheries Project targets the transformation of the small-scale fisheries sector by modernizing the means of catching, storing, and marketing fish, thereby improving the quality of the catch, maintaining the value chain, and increasing fishers' access to both local and export markets. MCC funding will be used to construct up to 20 fish landing sites ("PDAs") along both coasts, and to construct or upgrade fishers' facilities in up to 13 major ports; build or re-build up to 6 modern wholesale markets in selected cities and provide technical assistance and training required to ensure proper management; and to partially fund the acquisition of fresh-fish transportation equipment by mobile fish vendors, together with associated technical assistance and training.

3. Artisan and Fez Medina Project (\$111.87 million)

The Artisan and Fez Medina Project seeks to stimulate economic growth by leveraging the links between the craft sector, tourism, and the Fez Medina's rich cultural, historic and architectural resources. Despite potentially rich offerings, tourist spending on artisan products is currently substantially lower than in comparable markets such as Turkey and Tunisia. Artisans lack the training and skills necessary to modernize their production and capitalize on the growing tourist industry and export market. MCC funding will strengthen the national system for literacy and vocational education to benefit artisans and the general population, in particular women and girls. MCC funding will be used to enable artisans to increase the quality of their goods by supporting access to training in modern production techniques and business management, as well as access to bank or micro-credit loans to invest in modern kilns and workshops. MCC funding will support the renovation of historic sites within the Fez Medina, including feasibility and market studies, a design competition, and supporting infrastructure, with the goal of creating sites of architectural significance to better serve local residents, attract tourists and increase artisan sales in Fez.

4. Financial Services Project (\$46.20 million)

The Financial Services Project seeks to increase financial services for micro-enterprises in Morocco by addressing the key constraints to the development of a broader, deeper, and market-based financial sector. To address the constraints in access to funding for microcredit associations, MCC funding will support an investment in the subordinated debt tranche of Jaida, a non-bank financial institution launched in late 2006 to provide debt to the Moroccan microcredit sector. MCC funding will also be used to analyze the regulatory and operational requirements to allow microcredit associations to change their legal structure (i.e., undergo "transformation") in order to offer savings and other non-credit financial services, as well as to mobilize shareholder equity. A detailed action plan will be developed and agreed to by the GoM, MCC and the accountable entity that will be established ("MCA-Morocco"), including the appropriate legal structure for transformation, next steps and timeline for implementing the necessary reforms. MCC funding will support technical assistance to financial institutions to implement the recommendations from this action plan. MCC funding will support investments and technical assistance to improve efficiency and transparency in the financial sector and lower borrowing costs on a sustainable basis for micro-enterprises.

5. Enterprise Support Project (\$33.85 million)

The Enterprise Support Project addresses two economic priorities: to reduce high unemployment among young graduates and to encourage a more entrepreneurial culture. According to a recent World Bank report, urban unemployment ranges upwards of 26% for highly educated people, with unemployment rates of 65% among female university graduates under 24 years of age. High unemployment is associated with high job destruction rates, modest formal sector employment generation, and growing labor supply. The objective of this project is to improve the outcomes of two existing high-priority Government initiatives, Moukawalati (which translates as "My Small Business"), a relatively new national program initiated to drive Morocco's businesses to be more competitive in the face of globalization and to address high youth unemployment rates, and the National Initiative for Human Development ("INDH"), a multi-year Government initiative aimed at creating opportunities for the poor, vulnerable, and socially excluded.

A pilot approach is being pursued at the initiative of the GoM because of a dearth of quality evidence on the impact of current initiatives on the sustainability of small businesses. This project is structured in two phases. First, a set of three pilots will measure the impact of several training initiatives offered to current beneficiaries of these Government programs who would receive further training and technical assistance designed to increase their rate of survival. Second, if results reported by an independently conducted evaluation are promising, training initiatives will be expanded beginning in Year 3 of the Compact. In addition, the Government agency sponsors of the programs would receive support to help them better manage the selection and training processes for these entrepreneurs.

D. Impacts

The Program is expected to increase Morocco's GDP by approximately \$118 million annually and to benefit approximately 600,000 people directly and 3 million people indirectly over the Compact term.

The Fruit Tree Productivity Project is expected to improve the livelihoods of approximately 136,000 farm households in rural areas of the northern, central and southern regions of Morocco. As production and crop values increase, this project will indirectly benefit the network of input suppliers, transporters, processors, and traders along the olive, almond, fig and date value chains. In addition, terrace construction is expected to create benefits for approximately 11,000 agricultural laborers.

The Small-Scale Fisheries Project is expected to benefit approximately 25,000 small-scale fishers, boat owners, wholesale fish merchants, mobile fish vendors and their household members. The construction of boat landing sites complete with basic, commercial and social infrastructure is expected to create the enabling environment for higher fish quality and value, increased income for fishers, and better management of the fish resources. Similar facilities will be built at selected ports where fishers land their catch. The construction and modernization of 6 wholesale markets, mostly in the interior of the country, will strengthen market integration and facilitate an increase in the number of buyers and sellers, and result in increased market-clearing quantities and a more efficient market price. It is anticipated that these improvements to the Moroccan fish market will result in increased domestic consumption of fish, rather than its use as low-value fish meal. Further, it is anticipated that investments to improve standards of hygiene, handling and preservation of fish in the cold chain will contribute to the maintenance of the value of fish and greater sales. Finally, a more efficient and transparent network of wholesale fish markets will contribute to the distribution of a more affordable protein source to the interior of the country where a high level of poverty exists. Approximately 2,000 mobile fish vendors, earning on average \$2,250 per year, will benefit from this project. Mobile fish vendors will be able to increase the value and volume of fish sold as well as their marketing range. As a result, it is estimated that mobile fish vendor net incomes (once their loans are repaid) will increase approximately 62%, enabling the vendors to exit subsistence-level poverty.

The Artisan and Fez Medina Project seeks to stimulate economic growth by leveraging the links between the craft sector, tourism, and the Fez Medina's rich cultural, historic and architectural assets. It is expected that 50,000 master artisans will be trained in new design and production methods by the end of the Compact term. Thirty new career tracks will be created and installed in OFPPT schools that will diversify, expand and deepen competencies of students for better employment and incomes. Innovative mobile training programs are expected to reach at least 15,000 people during the Compact term. Approximately 3,250 artisan workers and 550 master artisans are expected to receive production assistance. This project's

activities are expected to reduce poverty by stimulating the Medina’s main industries, tourism and artisan production, and are estimated to directly benefit approximately 20,000 low-income workers in the Fez Medina.

The key beneficiaries of the Financial Services Project will be individuals or micro-enterprises that borrow from microcredit associations operating in Morocco. The intended impact of this project is to increase the supply of financial services for these clients. Furthermore, to the extent that this project causes investments that lead to service upgrades and helps microcredit associations improve efficiency, clients should benefit from better services, and either some additional increase in lending or reduction in borrowing costs. Today, the microcredit sector serves approximately 1.2 million clients. Assuming this project facilitates a net increase in the client growth rate of a quarter of one percent per year, and assuming that without this project the client growth rate is 30% per year, then there would be 43,000 additional clients by the end of the Compact term. If the net increase in growth is one percent per year, there would be 174,000 additional clients by the end of the Compact term.

During the pilot phases of the Enterprise Support Project, approximately 600 enterprises will receive training. The project will also analyze the regulatory and operational requirements to allow micro-credit associations to change their legal structure in order to offer savings and other non-credit financial services to their customers. MCC assistance will also support investments and technical assistance to improve efficiency and transparency in the financial sector in an effort to lower borrowing costs on a sustainable basis for micro-enterprises.

E. Program Management

1. Governance Structure

The implementation and management arrangements are designed to ensure strong governance, oversight, management, monitoring and evaluation, and fiscal accountability in the use of MCC funds. The Government, through passage of a law, will create an independent agency (an “*établissement public*”) (“MCA-Morocco”), which will be authorized to act on behalf of the Government to manage and oversee the Program’s implementation. MCA-Morocco will be composed of: (1) a strategic steering committee to oversee implementation, make strategic decisions, and ensure the execution of agreed policy reforms; (2) a management unit to manage the day-to-day operations. The strategic steering committee will be composed of representatives from the Government, the private sector and civil society. The management unit will be composed of professional staff hired through an open and competitive recruitment, and MCC will have approval rights for all key personnel.

2. Implementation Arrangements

The GoM and MCC have identified the principal ministries and public institutions that will serve as implementing entities. The current number of personnel in the implementing entities is insufficient to meet the demands of implementation of the Program. Implementation of the Fruit Tree Productivity, Small-Scale Fisheries, and Artisan and Fez Medina Projects will require the services of dedicated implementation teams to be established within the implementing entities for each project, with additional personnel to be

contracted by MCA-Morocco dedicated to Compact-funded projects. The teams will be responsible for coordination of the activities of contractors, to achieve project objectives and timelines; development of Compact-related requirements (work plans, detailed financial plans, and quarterly reports), procurement (drafting terms of reference), and performance monitoring of contractors. The teams will be located within the implementing ministries or public institutions to ensure local capacity development and to guarantee close collaboration and communications.

It is expected that MCA-Morocco will engage up to five procurement agents from within the GoM, assisted by an MCC-funded procurement advisor that will provide support, oversight and technical assistance. The procurement advisor will act as procurement agent in areas where such services are required. The Ministry of Finance will serve as the fiscal agent for the Program, assisted by a “fiscal coordination unit” within the Ministry of Finance, charged with all financial issues, including regular reporting to MCA-Morocco on global and activity-specific budget concerns, and the maintenance and security of the financial management system. Reporting will be coordinated by the chief financial officer and procurement officer within MCA-Morocco.

Implementation schedules were developed in conjunction with the GoM, covering the start-up of the MCA-Morocco and execution of each project over the entire Compact period. This will facilitate communication and Program oversight by allowing MCA-Morocco and MCC to work off of one common timetable. Approximately five percent of the total Compact amount will be available for disbursements before entry into force to facilitate start-up and ensure successful execution of the Compact within the five-year timeframe.

F. Assessment

1. Economic Analysis

The economic rate of return (“ERR”) for the Program is 17.1%. Project-level ERRs are presented in the table below:

Project	Project ERR
Fruit Tree Productivity	13%
Small-Scale Fisheries	37%
Artisan and Fez Medina	21%
Financial Services	18%
Enterprise Support	14%
Program Economic Rate of Return	17.1%

2. Consultative Process

The Program is based on development priorities determined in national consultations that began in 2003 and included 56 provincial, 16 regional, one national and one international workshop. The GoM integrated this input with the opportunities identified through the Plan Emergence. To determine priorities for MCC financing, an inter-ministerial committee, presided by the Prime Minister, consulted with stakeholders at both the central and local levels. The August 2005 concept paper submitted to MCC was based on these consultations.

At MCC's request during subsequent stages of proposal development, sector-level and national meetings refined the focus of the Program and identified additional proposal components. Sector-level meetings in fishing, agriculture, and the artisan sector followed in six key regions of the country and consultation meetings were held with the country's twelve microcredit associations. The Enterprise Support Project was shaped in the September 2005 conference on employment and the 2006 national conference on training, both of which featured ministerial and local government consultations with key actors.

Morocco continues to develop a culture of consultation and transparency. The significant participatory workshops and public outreach efforts that will be required by MCC during environmental and social impact assessments and detailed project design and implementation will reinforce this culture and contribute to further expansion of dialogue among an array of national and local stakeholders.

G. Donor Coordination

Much of the Program draws on lessons learned from smaller donor-funded projects in the targeted sectors. The Fruit Tree Productivity Project builds on experiences of the United States Agency for International Development in supporting conversion to higher value crop production as well as the European Union ("EU") and the World Bank in supporting small-scale irrigation. Similarly, the Japanese and Italian governments have supported GoM efforts to increase returns to the small-scale fisheries sector by supporting PDAs. In addition, the Enterprise Support Project was based in part on lessons learned from EU and GTZ projects aimed at supporting the small business sector in Morocco.

MCC's funding will complement on-going efforts by Morocco's other development partners across several projects. The Artisan and Fez Medina Project will support efforts by UNESCO and the World Bank to preserve and stimulate economic activity in the Medina and leverage the funding provided by FODEP, an environmental fund financed with German assistance. The Financial Services Project seeks to support an investment in Jaida alongside KfW, AFD and the IFC.

Continued coordination will be a priority throughout implementation.