



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation plans to negotiate a Millennium Challenge Compact with the Government of Morocco.

If you or your staff would like to arrange a meeting to discuss the proposed negotiations with the Government of Morocco, please contact me or Jim Mazarella at (202) 521-3850. This notification is being sent to the Congress on July 20, 2015 and negotiations with Morocco may be started on or after August 5, 2015.

Sincerely,

/s/

Paul Weinberger
Vice President
Congressional and Public Affairs

Enclosure:
As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

Pursuant to the heading “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Acts, 2010; that heading as carried forward by Division B of the Full-Year Continuing Appropriations, 2011; the heading “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2014; the heading “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2015; and section 610(a) of the Millennium Challenge Act of 2003, as amended, this notification is (1) to advise you that the Millennium Challenge Corporation (MCC) intends to start negotiations with the Government of Morocco for a Millennium Challenge Compact and (2) to initiate Congressional consultation before the start of negotiations.

Attached please find a summary of the objectives and mechanisms to be used for the negotiations of this Compact.

SUPPLEMENTAL INFORMATION – PROPOSED MOROCCO COMPACT

Overview

The proposed Morocco Compact seeks to assist the Government of Morocco (“GoM”) in addressing two major constraints to economic growth: education quality and land productivity, with an approach and methodology that incorporate the core issues of government and public-private coordination.

Background and Context

Morocco was selected for compact eligibility in December 2012 and the subsequent constraints analysis identified (i) education quality; (ii) land policy and implementation (with qualitatively different issues for rural areas and industrial land); and (iii) governance, notably labor market regulations, taxes, and the judiciary system as binding constraints to economic growth and investment. In addition, the analysis identified the effectiveness of the Moroccan government’s level of coordination as an overarching issue that directly impacts the binding constraints identified and the efforts of the GoM to address them, resulting in low productivity of government investment.

Morocco’s economic and political stability have contributed to relatively strong growth and significant poverty reduction over the past decade as the country graduated to Lower Middle Income (LMIC) status; however, significant constraints remain to accelerating private sector-led growth and improving access to opportunities. The Moroccan economy remains dominated by a small group of large enterprises, with relatively few small and medium enterprises (SMEs) and a majority of the population employed in the informal sector. While poverty trends are improving, regional inequality is significant, with an urban/rural divide in access to public services and economic opportunities. Morocco places 133rd out of 142 countries worldwide in the 2014 Gender Equality Index of the World Economic Forum and has one of the lowest female labor force participation rates in the world. Youth (ages 15 to 29) represent 30 percent of the population and experience the highest unemployment rates, with 40 percent of urban youth unemployed.

As discussed above, the chosen sectors of land and education represent binding constraints to growth and provide opportunities to develop policy responses to both the supply and demand for skilled labor. Both education and land constraints have been acknowledged and widely debated recently in Morocco, particularly by bringing the private sector and civil society into dialogue with the government. The GoM has elevated these issues to clear national priorities, and has openly acknowledged the root causes of the problems (including a poor government track record). There is consensus among government and non-government actors regarding the need for reform and the general direction it should take, and successful small-scale pilots that have demonstrated the utility of private sector engagement. In the proposed compact, MCC is asking the GoM to commit to and operationalize challenging institutional and policy reforms.

Program Overview and Budget

Given the complexity of the sectors and the need for a focused compact, MCC and the GoM narrowed the proposed areas of intervention to subsectors where MCC can achieve systemic impact and concrete results within a 5-year timeframe as well as add the most value by either complementing or leveraging GoM, private sector, or other donor funds.

The proposed program directly addresses the binding constraint root causes of:

- (a) secondary education and workforce development systems, which produce a supply of workers that do not meet private sector skills demand, and
- (b) poor land policy and implementation, which inhibit access to and productive uses of rural and industrial land, thus diminishing investment and consequent demand for labor.

By improving the policy and institutional environment and creating models to engage the private sector, the two projects will address both the supply and demand sides of the labor market. Both projects support the shift from static, state-led systems to competitive, dynamic systems that engage the private sector and respond to market needs. Further, both projects take a targeted approach to developing and demonstrating new models and building capacity so that those models can be replicated and scaled up post-compact.

Below is a summary describing the components of the proposed compact with the GoM. The budget and expected impacts are preliminary based on initial due diligence and project appraisal and are subject to change following compact negotiations. The anticipated budget for the compact is up to \$450 million, not including the GoM contribution of 15 percent of the total MCC funding.

Table 1: Morocco Productivity Compact Budget

Component	Total (in US\$ Mil)
1. Education and Training for Employability Project	
1.1 Secondary Education	95.9
1.2 Workforce Development	100.7
1.3 Policy and Performance Management	21.4
Sub-total	218.0
2. Land Productivity Project	
2.1 Governance	12.0
2.2 Rural Land	33.0
2.3 Industrial Land	127.0
Sub-total	172.0
3. Monitoring and Evaluation (M&E)	
3.1 Monitoring and Evaluation	10.0

Sub-total	10.0
4. Program Administration and Oversight	
4.1 MCA-Morocco II Program Administration	35.4
4.2 Fiscal and Procurement Agents	13.9
4.3 Audit	0.7
Sub-total	50.0
Total Estimated MCC Contribution	450.0
Country Contribution	67.5
Total Program Budget	517.5

Proposed Projects

Education and Training for Employability Project: The proposed project aims to increase the employability and employment rate of Moroccan youth by improving the quality, relevance, and equitable access to secondary education and workforce development programs in target regions in response to private sector needs. Given significant social and gender inequalities in Morocco, a concerted effort has been made to ensure that the Education and Training for Employability Project results in equitable outcomes for both girls and boys and reduces social, gender and regional inequalities.

- ➔ **Secondary Education:** the objective of this activity is to demonstrate a cost-effective, sustainable, and scalable model of 21st Century Schools for delivering quality and relevant secondary education focused on employability competencies.

Schools will receive a multi-faceted package of interventions in the three key areas of school management, pedagogy, and infrastructure. This package will support schools in meeting the terms of new performance contracts and will work in complementarity to create an enhanced learning environment for students that better meets their developmental needs and prepares them for tertiary education or entry into the labor market. Specific interventions will include targeted regulatory reform, technical assistance for school leadership and management, training for pedagogical reform and innovation for student-centered learning, rehabilitated infrastructure, and new information/communications equipment. A standard package will be developed that will then be adapted to each school based on its specific conditions and School Improvement Plan.

- ➔ **Workforce Development:** the objective of this activity is to 1) increase the employability and employment rate of Moroccan youth by improving the quality, relevance, and equitable access to technical training programs that respond to private sector needs; 2) provide effective employment services to help unemployed or economically inactive women and unemployed, at-risk urban/peri-urban youth obtain quality jobs; and 3) support the operationalization of a labor market observatory to provide a broad range of stakeholders with dynamic labor market information to improve data-driven decision-making. The compact will build on the pilot experiences in public-private partnership (PPP) training

centers and directly incentivize public providers to engage industry through a competitive grant facility. Grants would support a demand-driven training sector by: (i) establishing new training centers through public-private partnerships with sector and industry associations and federations; and (ii) transforming existing public centers from a traditional supply-driven model to an industry-driven model. MCC funds would be used for start-up costs including initial capital costs, technical assistance, and capacity building. In response to the significant problems of youth unemployment and low women's labor force participation, the Results-Based Financing for Inclusive Employment sub-activity will provide job-placement support for unemployed and economically inactive women as well as unemployed at-risk urban/peri-urban youth. Innovative pay for results mechanisms will be used to replicate or expand proven programs that provide integrated support including short-term (one to six months) job readiness skills training, technical training, job matching, follow-up to ensure longevity, and other services.

- ➔ **Policy and Performance Management:** this activity will promote effective sector performance management through policy reform and reinforcing data-driven decision making by providing technical assistance and support for improvement of student assessment and education management information systems, piloting a new approach to operations and maintenance of schools, and supporting to the Moroccan government to develop and implement a new demand-driven vocational training sector strategy and policy.

Land Productivity Project: The proposed project will increase land productivity and investment in Morocco by enabling rural and industrial land markets to better respond to investor demand and by modernizing the legal, regulatory, and procedural frameworks related to land and property rights.

- ➔ **Governance:** the objective of the Governance Activity is to support the GoM in developing a land productivity strategy to guide reform and to strengthen the legal, regulatory, procedural, and institutional building blocks necessary to respond to governance and land market constraints.
- ➔ **Rural Land:** the objective of the Rural Land Activity is to improve the process for moving Morocco's two million hectares of arable collective land into the hands of smallholder farmers to improve land productivity. The activity will pilot a process on 46,000 hectares that will move the GoM from its current outdated system to one that is faster, fairer, and can be replicated by the government.
- ➔ **Industrial Land:** the objective of the Industrial Land Activity is to transform the way the GoM brings industrial land to market, from a state- to a market-driven approach. By developing GoM expertise and using public-private partnerships ("PPPs") for industrial development, the activity seeks to foster private sector participation in the development and management of zones to ensure that such development and management responds to private sector demand and meets the needs of enterprises in terms of location, land offering, infrastructure and services.

Economic Rates of Return

All components of the compact exceed the ERR hurdle rate, with a limited set of national policy activities for which separate ERRs were not calculated as laid out in the table below. For the Policy and Performance Management Activity, some of the elements of the activity directly contribute to the success of the other activities in the Education and Training for Employability Project, and the costs associated with these components were included when calculating their ERRs. The remainder of the budget scales these same policy reforms beyond MCC's direct intervention zone to a regional or national level. The Governance Activity will support a national land strategy and roadmap, as well as the long-term sustainability and impact of the other two activities in the Land Productivity Project.

The compact is expected to reach a total of more than 2.1 million beneficiaries.

Table 2: Compact ERRs and Beneficiary Numbers

Project/Activity	ERR	Beneficiaries
1. Education and Training for Employability Project		
1.1 Secondary Education	12.4%-15.1%	1,667,853
1.2 Workforce Development	13.2%	275,022
1.3 Policy and Performance Management		
2. Land Productivity Project		
2.1 Governance		
2.2 Rural Land	23.0%	108,272
2.3 Industrial Land	13.4% to 16.7%	96,304

Policy Reform and the Compact

Morocco is still in a strong economic reform period following the post-Arab Spring Constitutional reform in 2011. Through the proposed compact, MCC has the opportunity to accelerate reform in alignment with GoM priorities and strategies, as well as put in place effective execution mechanisms that directly address the public-public and public-private coordination problems identified in the Constraints Analysis that significantly hamper the cost effectiveness and results of public investment.

The compact promotes public resource allocation to the most effective models in addressing education and land constraints. In both projects, MCC is requesting policy/regulatory changes to (1) enable the innovative models pursued through the program, (2) ensure replicability/scalability of MCC projects by the GoM beyond the compact term, and (3) ensure compliance with international social and gender standards. MCC is also strengthening commitment to evidence-based decision making, with conditions requiring continuous evaluation and data to inform policy and investment decisions. Finally, MCC is requesting strategic allocation of government contributions exceeding MCC requirements as demonstration of political commitment and to facilitate post-compact scale-up and ensure sustainability.

Specific examples of reforms include:

Education and Training for Employability Project:

- Instituting international and national student assessments throughout the country to improving evidence-based decision-making.
- Reforms to enable MCC-supported schools to have more control over their budget and operations to enable autonomous school management.
- Developing a new model for school operations and maintenance by bringing in the private sector to provide periodic maintenance to improve sustainability of MCC infrastructure rehabilitation investments. This pilot will be co-financed and scaled up to a regional level by the GoM.

Land Productivity Project:

- Authorize creation of the Center of Excellence for Industrial Development (CEID), a new entity formed by the compact in order to jumpstart and institutionalize a new model for industrial development in Morocco.
- Authorize creation of a permanent National Land Agency or other entity with the authority to a) implement Land Productivity Project's Governance and Rural activities, b) lead development and implementation of a land sector strategy, and c) coordinate government actors
- Adopt policies that support an even playing field for investors and do not provide ad-hoc exemptions that undermine transparent, market-driven industrial zone development.
- Adopt procedures for conversion of collective land to private land that are acceptable to MCC and can be completed in 3 years or less, and reform tax policy to support this process.

Update on 2007 Morocco Compact

The GoM completed a \$698 million Millennium Challenge Compact in September 2013. There were five projects in the compact: (i) Fruit Tree Productivity Project, (ii) Small-Scale Fisheries Project, (iii) Artisan and Fez Medina Project, (iv) Financial Services Project, and (v) Enterprise Support Project, and fifteen discrete sub-activities spread across the country.

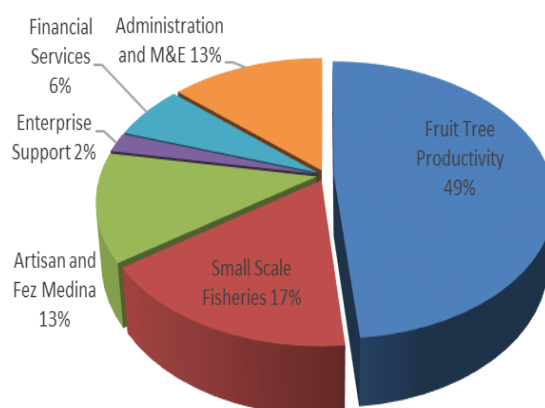
1. **Fruit Tree Productivity Project:** to stimulate growth in the agriculture sector and promote stability of agricultural production by helping to transition farming from grains to fruit tree cultivation.

2. **Small-Scale Fisheries Project:** to improve fish quality and preserve resources, update landing-site infrastructure and equipment, and develop fishing industry value chain activities to encourage greater access to national and international markets.

3. **Artisan and Fez Medina Project:** to increase revenue from cultural and artisan activities and improve educational and professional qualifications of compact beneficiaries.

4. **Financial Services Project:** to improve micro-enterprise services and remove the most severe constraints to the development of the microfinance sector based on market principles.

5. **Enterprise Support Project:** to reduce high unemployment among young graduates and to encourage a more entrepreneurial culture.



The compact is projected to benefit 325,000 households (est. nearly 1.7 million beneficiaries).

The majority of activities were completed within the five-year timeframe. For the Artisan and Fez Medina Project, completion of construction within the compact term was not feasible following implementation delays. The GoM committed and is currently constructing these sites with its own funding.

The Government of Morocco has been making progress on the completion of compact investments. The GoM has assigned a dedicated resource within the Head of Government's office to track sustainability of the first compact projects and provide monthly reporting. Construction is now advancing, and MCC continues to engage with the GoM to ensure a sustainable management framework is in place.

The GoM has also committed to ongoing monitoring and supporting impact evaluation of the projects funded through the first compact, and has appointed the Department of Economic Studies and Forecasts within the Ministry of Finance to liaise with MCC’s monitoring and evaluation team and independent contractors on the execution of the post-compact evaluations. MCC has completed eight independent evaluations—six performance and two impact evaluations — covering the results of a broad range of the Morocco Compact’s projects and activities. Independent evaluators generally confirmed satisfactory implementation of compact activities.

The evaluations have recently completed the formal review process and are in the process of being added to the [Evaluation Catalog](#) on MCC’s website.

Below are the completion rates of output and outcome indicators for the activities whose evaluations have now been posted:

Table 3: Completion Rates for 2007 Morocco Compact Activities

Project/Activity	Completion Rate of Output and Outcome Indicators*
Small Scale Fisheries Project	103%
Financial Services Project	75%
Plantation Expansion in Rain-Fed Areas Activity	78%
Artisan Promotion and Production and Fez Medina Activities	83%
Functional Literacy Activity	93%
Enterprise Support to Small and Medium Enterprises and Income-Generating Activities	84%
Rain-Fed Olive Tree Rehabilitation Activity	113%

*at compact end date