PD-AAS-355

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT IDENTIFICATION DOCUMENT FACESHEET (PID)

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) Revision No. ____

DOCUMENT CODE: 1

2. COUNTRY/ENTITY: MOROCCO

3. PROJECT NUMBER: 608-0189

4. BUREAU/OFFICE: A.I.D — A. Symbol: NE — B. Code: 03

5. PROJECT TITLE (maximum 40 characters): PRIVATE SECTOR EXPORT PROMOTION

6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION

- A. Initial FY: 86
- B. Final FY: 86
- C. PACD: 89

7. ESTIMATED COSTS ($000 OR EQUIVALENT, $1 =)

FUNDING SOURCE	LIFE OF PROJECT
A. AID	$18,500,000
B. Other U.S. 1.	
B. Other U.S. 2.	
C. Host Country	$ 2,500,000
D. Other Donor(s)	
TOTAL	$21,000,000

8. PROPOSED BUDGET AID FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. PRIMARY TECH. CODE 2. Loan	D. 1ST FY 1. Grant	D. 1ST FY 2. Loan	E. LIFE OF PROJECT 1. Grant	E. LIFE OF PROJECT 2. Loan
(1) ESF	730	840	840	$2,500	$16,000	$2,500	$16,000
(2)							
(3)							
(4)							
TOTALS							

9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

10. SECONDARY PURPOSE CODE

11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

- A. Code: BU
- B. Amount:

12. PROJECT PURPOSE (maximum 480 characters)

TO IMPROVE THE PERFORMANCE OF THE MOROCCAN PRIVATE SECTOR IN PRODUCING AND MARKETING GOODS FOR EXPORT

13. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT

Staff:
- MISSION STAFF: ECONOMIST; TRADE SPECIALIST (PSC)
- AID/W: PROJECT DEVELOPMENT OFFICER (4 WEEKS); COMMODITY MANAGEMENT SPECIALIST (2 WEEKS)
- CONTRACT: INDUSTRIAL ENGINEER (3 WEEKS); INTERNATIONAL BANKING CONSULTANT (3 WEEKS) EXPORT INSURANCE SPECIALIST (5 WEEKS)

Funds

DH COSTS	$ 4,500
CONTRACTOR COSTS	$42,000
TOTAL	$46,500

14. ORIGINATING OFFICE CLEARANCE

Signature: Robert Chase

Title: Director, USAID/Morocco

Date Signed: MM 03 DD 26 YY 85

15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM ___ DD ___ YY ___

16. PROJECT DOCUMENT ACTION TAKEN

S = Suspended; A = Approved; D = Disapproved; CA = Conditionally Approved; DD = Decision Deferred

17. COMMENTS

18. ACTION APPROVED BY

Signature

Title

19. ACTION REFERENCE

20. ACTION DATE: MM ___ DD ___ YY ___

AID 1330-2 (8-79)

ORIGIN AID-00

ORIGIN OFFICE NEPD-04
INFO AANE-01 NETC-04 NENA-03 PDPR-01 GC-01 GCFL-01 GCNE-01
RELO-01 MAST-01 /013 A2 1015

INFO LOG-00 EB-08 H-01 NEA-07 L-03 /019 R

DRAFTED BY: AID/NE/PD:JNCARROLL:VMF 0894C
APPROVED BY: AID/AA/NE:W. A. FORD
AID/DAA/NE:B. LANGMAID AID/NE/PD:R. BELL
AID/NE/DP:P. BOUGHTON (DRAFT) AID/NE/PD:R. VENEZIA (DRAFT)
AID/PPC/PDPR:E. LIJEWSKI (DRAFT) AID/NE/TECH: B. TURNER (DRAFT)
AID/NE/NENA:J. ROBERTS (DRAFT) AID/GC/NE:S. NARKIN (DRAFT)
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FM SECSTATE WASHDC
TO AMEMBASSY RABAT

UNCLAS STATE 113893

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: NEAC REPORTING CABLE ON MOROCCO PRIVATE SECTOR EXPORT PROMOTION PID (608-0189)

1. THE NEAC MET ON MARCH 25, 1985, AND APPROVED SUBJECT PID. USAID/RABAT IS HEREBY AUTHORIZED TO PROCEED WITH PROJECT PAPER DESIGN, AND AUTHORIZE A DOLS 12.5 MILLION PROJECT UNDER ITS DELEGATION OF AUTHORITY. FURTHER, THE MISSION IS TO BE COMPLIMENTED ON THE QUALITY AND DEVELOPMENTAL FOCUS OF THE PID.

2. DECISIONS TAKEN AND/OR CRITICAL ISSUES/CONCERNS WHICH SHOULD BE TAKEN INTO CONSIDERATION DURING THE DEVELOPMENT OF THE PROJECT PAPER ARE INCLUDED BELOW.

3. EXPORT CREDIT INSURANCE ISSUES:

A) PRIVATIZATION:

THE NEAC RECOMMENDED THAT USAID EXPLORE THE VIABILITY OF A PRIVATE ECI, AND IF FOUND FEASIBLE AND DESIRABLE, NEGOTIATE A COVENANT RELATING TO THE EVENTUAL PRIVATIZATION OF THE ECI. IF APPROPRIATE, AID SHOULD ASSIST THE GOM IN ITS STRATEGY (PREPARING DRAFT

LEGISLATION AND SENSITIZING ELEMENTS OF THE GOM) FOR THE PROPOSED CHANGE.

B) CRITICAL ASSUMPTIONS:

THE PID ASSUMES THAT THE LACK OF FUNDING AND INEFFICIENT OPERATIONS OF THE ECI ARE KEY BOTTLENECKS TO EXPORT EXPANSION, AND THAT ASSISTANCE TO THE ECI WILL BE A MAJOR DETERMINANT TO ACHIEVEMENT OF THE PROJECT PURPOSE, WHICH IS TO IMPROVE THE PERFORMANCE OF THE MOROCCAN PRIVATE SECTOR IN PRODUCING AND MARKETING GOODS FOR EXPORT. THE NEAC RECOMMENDS THAT THE USAID ANALYZE CAREFULLY NOT ONLY ALL THE CONSTRAINTS OF THE EXISTING INSURANCE PROGRAM BUT ALSO THE OTHER PERCEIVED INSTITUTIONAL CONSTRAINTS IN PRODUCTION AND MARKETING OF THE EXPORT SECTOR TO ENSURE THAT THE NEW PROGRAM OVERCOMES THE FULL ARRAY OF DIFFICULTIES WITH THE PRESENT SYSTEM. THE PP SHOULD DESCRIBE NEW ECI CLAIM PAYMENT PROCEDURES THAT WILL ENSURE QUICK AND EFFICIENT OPERATIONS SO THAT EXPORTERS, WHO ARE NOW RELUCTANT TO RELY ON THE ECI, WILL UTILIZE IT FULLY.

C) ECI S FULLY-FUNDED RESERVES AGAINST LOSS VS. GUARANTEE NATURE OF THE PROGRAM AND LONGTERM FINANCIAL VIABILITY. THREE INTER RELATED ISSUES WERE DISCUSSED:

1. THE ECI IS PRESENTLY NOT A FULLY FUNDED PROGRAM, AND ANY PAYMENTS MADE HAVE TAKEN UP TO A YEAR TO DISBURSE. ACCORDINGLY, THE PID PROPOSES TO ESTABLISH A FULLY-FUNDED INSURANCE RESERVE WITH THE EXPECTATION THAT SIGNIFICANT DRAWDOWNS WILL OCCUR AS THE PROGRAM EXPANDS. IN THAT SENSE IT IS NOT A GUARANTEE PROGRAM PER SE. ACCORDINGLY, THE NEAC APPROVED A LUMP-SUM DISBURSEMENT TO THE GOM TO FUND ECI RESERVES BECAUSE THE MAJOR PURPOSE OF THE PROJECT WILL BE TO CAPITALIZE AND STRENGTHEN THE LONG-TERM FINANCIAL VIABILITY OF THE ECI AS AN INSTITUTION. THIS APPROACH WILL NEED TO BE SUPPORTED BY FINANCIAL AND INSTITUTIONAL ANALYSIS AND INCLUDED IN THE CONGRESSIONAL NOTIFICATION.

2. SOME ASSURANCE MUST ALSO BE OBTAINED FROM THE GOM THAT THE FUND WILL REMAIN FINANCIALLY SOUND OVER THE LONG-TERM, PARTICULARLY DURING THE PERIOD IN WHICH THE FUND MAY ENTER A PRIVATIZED PHASE. ACCORDINGLY, THE PP SHOULD ANALYZE THE FUNDING REQUIREMENTS BASED ON PROJECTED DEMAND FOR EXPORT CREDIT INSURANCE, APPROPRIATE RESERVE FUND LEVELS, PROSPECTS FOR AN EVENTUAL BUY-OUT OF ALL OR A PORTION OF THE ECI'S ASSETS BY THE PRIVATE SECTOR, LONG-TERM CASH NEEDS, ETC.

3. FINALLY, ENHANCED EFFICIENCY AND UTILIZATION OF THE ECI FUND IS A NECESSARY PRECURSOR TO THE PRIVATIZATION OF THE ECI PROGRAM. A PROGRAM OF CHANGES TO EFFECT SUCH EFFICIENCY, IS OUTLINED BY IBRD REPORT. THESE ISSUES, AS WELL AS QUESTIONS REGARDING THE APPROPRIATE SCALE OF FUNDING FOR THIS PROJECT COMPONENT, WILL BE REDEFINED BY THE ECI STUDY TO BE CARRIED OUT BY FIRST WASHINGTON ASSOCIATES BEGINNING O/A APRIL 15. A SEPTEL WILL PROVIDE INFORMATION ON FINAL ARRANGEMENTS FOR THE CONSULTANTS' WORK PLAN AND ETA IN MOROCCO.

4. PRODUCTION CREDIT ISSUES:

A) ELIGIBILITY CRITERIA:

DURING PROJECT DESIGN, USAID SHOULD DEFINE THE ELIGIBILITY CRITERIA FOR FIRMS ALLOWED TO PARTICIPATE IN OR HAVE ACCESS TO PROJECT BENEFITS. QUESTIONS TO BE ANSWERED INCLUDE TO WHAT EXTENT SHOULD PARTIALLY STATEOWNED FIRMS BE ELIGIBLE AND THE LIMITS ON THE SIZE AND NUMBER OF TRANSACTIONS BY INDIVIDUAL COMPANIES. AID/W WOULD APPRECIATE BEING INFORMED ON THE OUTCOME OF THIS ANALYSIS. THE PRESUMPTION IS THAT PARASTATALS WILL NOT BE ELIGIBLE UNLESS A CASE CAN BE MADE THAT THEIR PARTICIPATION IS CRITICAL TO THE SUCCESS OF THE PROJECT.

B) TYPES OF SUBLOANS:

THE PID INDICATES THAT AID WILL PROVIDE ASSISTANCE TO SPECIFIC MOROCCAN BANKS TO BE USED AS CREDIT FOR THE IMPORT OF U.S. GOODS. THE IBRD, HOWEVER, IDENTIFIED PREEXPORT CREDIT FACILITIES AS ONE OF THE MOST SERIOUS CONSTRAINTS TO EXPORT GROWTH. THE MISSION IS ENCOURAGED TO EXAMINE THE IBRD RECOMMENDATIONS AND DESIGN A MECHANISM WHEREBY AID FINANCING MAY BE MADE AVAILABLE FOR FINANCING OF PRE-EXPORT LOCAL DIRHAM COSTS (E.G., LABOR, TRANSPORTATION, STORAGE, REFRIGERATION, ASSEMBLY, ETC.). THIS FUNDING MECHANISM WOULD BE AVAILABLE TO FINANCE VERIFIABLE LOCAL WORKING CAPITAL COSTS OF EXPORTERS, SUBJECT TO A WORKABLE MANAGEMENT AND MONITORING SYSTEM TO BE DEVELOPED WITH THE BANKING COMMUNITY. THE ALTERNATIVE

Department of State

OUTGOING TELEGRAM

OF SEEKING APPROPRIATE WAIVERS FOR SHELF ITEMS OR IMPORTED COMMODITIES OF SOURCE AND ORIGIN OTHER THAN 000 CAN BE CONSIDERED BUT THIS IS NOT THE PREFERRED APPROACH. A REQUEST FOR WAIVERS WOULD HAVE TO BE ACCOMPANIED BY A COMPELLING JUSTIFICATION SUCH AS THE ABSENCE OF OTHER FX SOURCES TO FINANCE SUCH PURCHASES OR THAT DEMAND FOR DIRHAM CREDIT ALONE DOES NOT PROVIDE

SUFFICIENT ABSORPTIVE CAPACITY. ANY PROPOSAL TO INCLUDE DOLLAR FINANCING OF COMMODITIES WILL NEED TO BE ACCOMPANIED BY MISSION APPRAISAL OF THE STAFFING IMPLICATIONS INVOLVED IN MONITORING RELATED AID PROCUREMENT REQUIREMENTS. FINAL AMOUNTS OF AID ASSISTANCE TO BE USED FOR CREDIT SHOULD BE THE RESULT OF AN ANALYSIS OF THE DEMAND FOR THE TYPE OF CREDIT PROPOSED AND THE APPROPRIATE LEVELS FOR EACH PROJECT COMPONENT.

C) TERMS OF SUBLOANS

AGENCY POLICY GUIDANCE FOR SUBLOANS IS IN TWO SOURCES (A) THE DRAFT QUOTE GUIDELINES ON TERMS OF AID UNQUOTE, APPLICABLE TO DA AND ESF FUNDS (STATE 252939 DATED 9/82) AND (B) QUOTE POLICY REGARDING CREDIT PROGRAMS UNQUOTE. (THE LATTER IS BEING POUCHED TO THE MISSION). THIS GUIDANCE DERIVES FROM TWO KEY CONSIDERATIONS. THE FIRST IS THE STATUTORY REQUIREMENT (FY 83 CR) THAT INTEREST RATES ON LOANS TO ULTIMATE BORROWERS OF AID FUNDS MUST NOT BE LESS THAN THE COST OF MONEY TO THE US TREASURY AT THE TIME AID OBLIGATES THE FUNDS, TO THE MAXIMUM EXTENT PRACTICABLE. THE SECOND IS AID'S POLICY OBJECTIVE THAT INTEREST RATES FOR LOANS AND DEPOSITS IDEALLY SHOULD BE SET AT MARKET-CLEARING LEVELS. IN NO EVENT SHOULD SUBLOAN INTEREST RATES FOR PRIVATE BORROWERS BE LESS THAN THE PREVAILING LOCAL INTEREST RATES. THEY SHOULD BE POSITIVE WITH RESPECT TO THE RATE OF INFLATION OR AT A RATE WHICH APPROXIMATES THE OPPORTUNITY COST OF CAPITAL. ANY EXCEPTIONS TO THIS GENERAL POLICY MUST BE FULLY JUSTIFIED. INTEREST RATES FOR THE PASS-THROUGH LOANS FROM THE GOM TO PARTICIPATING COMMERCIAL BANKS SHOULD BE AT LEAST EQUIVALENT TO THE INTEREST RATES ON OTHER SOURCES OF COMMERCIAL BANK FUNDS. WE UNDERSTAND THAT THE IBRD SUPPORTS INCENTIVE RATES TO ULTIMATE BORROWERS FOR EXPORT CREDITS. IF THE MISSION'S ANALYSIS SUPPORTS THIS VIEW AND PRIOR TO AUTHORIZATION OF THIS PROJECT, THE MISSION SHOULD SUBMIT TO AID/W AN ANALYSIS AND CONCLUSIONS REACHED CONCERNING INCENTIVE INTEREST RATES ON EXPORT LOANS.

D) USE OF REFLOWS: THE PID IS UNCLEAR AS TO THE DISPOSITION OF REFLOWS. WE ASSUME THE ECI DRAW DOWNS WILL BE OFFSET BY PREMIUMS OR OTHER TRANSFERS, ESPECIALLY FROM SHORT-TERM PRE-EXPORT FINANCING LOANS, WHICH WILL GENERATE SIGNIFICANT REFLOWS. THE PRESUMPTION IS THAT THOSE REFLOWS WILL CONTINUE TO REMAIN AVAILABLE FOR EXPORT RELATED ACTIVITIES FOR SOME PERIOD. THE PP SHOULD DELINEATE THE USES OF THESE REFLOWS.

5. TECHNICAL ASSISTANCE ISSUE:

THE NEAC RECOMMENDS THAT THE USAID CONSIDER THE FULL ARRAY OF PRODUCTION AND MARKETING FACTORS
N DESIGNING
THE TA COMPONENT IN ADDITION TO THE TECHNICAL ASSISTANCE IN PRIVATIZING THE ECI AND ASSISTANCE TO CMPE AND CGEM. PP SHOULD ANALYZE PRIORITY OF TA REQUIREMENTS AND IN THAT CONTEXT SUPPORT SPECIFIC TA COMPONENTS SELECTED FOR THIS PROJECT.

6. MULTI-YEAR DESIGN OF PROJECT:

THE PID CALLS FOR AID S CONTRIBUTION TO BE DOLS. 10.5 MILLION, ALL OF WHICH WOULD BE OBLIGATED IN FY 86 SHOULD THE PROJECT PAPER ANALYSIS REVEAL THAT AN EXPANDED MULTI-YEAR EFFORT IS MORE APPROPRIATE, THE USAID MAY WISH TO CONSIDER THIS OPTION

A) LOAN TERMS TO GOM:

ESF FUNDING OF THE LOAN PORTION OF THIS PROJECT SHOULD BE PROVIDED TO MOROCCO AT CONCESSIONARY LENDING RATES I.E. 40-YEAR MATURITY, 10YEAR GRACE PERIOD AT 2PERCENT INTEREST, AND 3 PERCENT INTEREST ON THE REMAINING 30 YEARS.

B) GOM CONTRIBUTION:

THE NEAC RECOMMENDS THAT THE USAID SEEK A GREATER CONTRIBUTION FROM THE GOM THAN THE DOLS. 2.5 MILLION INDICATED IN THE PID.

(C) EVALUATION: THE NATURE OF THE PROJECT, THE LIMITED EXPERIENCE WE HAVE IN PRIVATE SECTOR EXPORT PROMOTION IN MOROCCO AND THE POTENTIAL FOR ADDITIONAL SUPPORT IN THE FUTURE ARGUE FOR A FIRM EVALUATION PLAN THAT SETS FORTH THE OBJECTIVES, THE DATA BASE NECESSARY TO MEASURE THOSE OBJECTIVES AND THE SYSTEM FOR DATA COLLECTION FROM THE BEGINNING OF THE PROJECT. THE MISSION SHOULD ASSUME SUCH AN EVALUATION IS AN INTEGRAL PART OF THE PROJECT AND SUFFICIENT PROJECT FUNDS SHOULD BE ALLOCATED TO COVER THE COSTS. SHULTZ

USAID/RABAT

PRIVATE SECTOR EXPORT PROMOTION PROJECT

(608-0189)

PROJECT IDENTIFICATION DOCUMENT

February, 1985

PID Development Committee

James T. Smith	Program Economist
George Callen	PSC Trade Specialist
David Rothstein	Banking Consultant
Sydney Lewis	Project Development Officer
Joseph M. Carroll	Project Development Officer
William Stacy Rhodes	Program Officer

Mission Review Committee

Robert C. Chase	Director
Harry Petrequin	Deputy Director
Mark Matthews	Controller
Anne Williams	Regional Legal Advisor
Malcolm Purvis	Agriculture Development Officer
John Giusti	Assistant Program Officer
Ulrich Ernst	PSC Economist

GLOSSARY

ASMEX	Association Marocaine des Exportateurs (Moroccan Association of Exporters)
BMCE	Banque Marocaine du Commerce Exterieur (Moroccan Foreign Trade Bank)
BNDE	Banque Nationale pour le Developpement Economique (National Bank for Economic Development)
BOM	Bank of Morocco (Banque du Maroc), the Central Bank
CGEM	Confederation Generale des Entreprises Marocaines (General Economic Confederation of Morocco)
CMPE	Centre Marocain de Promotion des Exportations (Moroccan Center for Export Promotion)
Dh	Moroccan Dirham; approximately 10 Dh = U.S. $1
ECI	Export Credit Insurance
FCIA	Foreign Credit Insurance Association
GOM	Government of Morocco
IBRD	International Bank for Reconstruction and Development
IDLI	International Development Law Institute
IESC	International Executive Service Corps
IMF	International Monetary Fund
OCE	Office de Commercialisation et d'Exportation (Office for Exports and Marketing)
PID	Project Identification Document

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ANNEXES

EXECUTIVE SUMMARY

A. PROJECT RATIONALE

Two critical indicators of Morocco's macroeconomic situation are the large current account deficit and the large public budgetary deficit. The country's external and internal financial imbalances are due in large part to economic policies pursued in the 1970's. Encouraged by dramatic increases in phosphate prices, Morocco adopted an ambitious growth strategy based on import-substitution policies and public investment in capital-intensive economic and social infrastructure. Problems quickly emerged. Increased public spending, unfavorable commodity price movements, and world recession created balance of payments pressures. Morocco financed its growing deficits through heavy international borrowing; however, the country's rising debt burden soon proved to be unsustainable.

Confronted with large debts and diminishing foreign exchange reserves, Morocco is currently undertaking a series of economic reforms under guidelines negotiated with the IMF and the IBRD. Some of these reforms include trade liberalization, devaluation of the dirham, restraint on credit, and reductions in subsidies. In return for these reforms, the country will receive considerable economic assistance and refinancing of its foreign debt. However, it is clear that Morocco must produce a steady and substantial growth in exports in order to carry out the adjustment program successfully and create an economy capable of producing foreign exchange income sufficient to meet long-term needs.

B. GOAL AND PURPOSE

The goal of the project is to increase Morocco's export earnings in order to reduce its trade deficit and strengthen its debt-servicing capabilities. The purpose of the project is to improve the performance of the Moroccan private sector in producing and marketing goods for export.

C. PROJECT COMPONENTS

1. Export Insurance Fund

The first project component aims to strengthen and reform the Export Credit Insurance (ECI) program. There is universal agreement among exporters, bankers, and government officials that the current program does not function well and must be improved substantially. The program's main problem is that it has no real reserves against losses; hence, exporters and lenders have little confidence in the program's solvency, and export insurance policies tend to be overly conservative. Under this project component, A.I.D. will provide an $8 million long-term loan to the GOM for creating funded reserves in the export insurance system. A.I.D. will also provide technical assistance to improve program management and to support private participation in the insurance facility. With real financial backing and improved management, the ECI will reduce exporters' risks, increase bankers' confidence, and stimulate the expansion of export credit.

2. Production Credit

The second major component is production credit targeted specifically to meet the needs of private export-oriented industries which utilize U.S. source inputs. Production credit will facilitate imports of specific inputs from the U.S. which continue to be traded in spite of the high value of the dollar. It is recommended that A.I.D. lend $8 million for this component of the project. The production credit component will make additional foreign exchange available to the GOM during a very critical economic period, while also providing badly-needed credit to the private sector.

3. Technical Assistance

The third key component of the project is the provision of technical, managerial and training assistance through an A.I.D. grant of $2.5 million. The GOM's Center for the Promotion of Moroccan Exports (CMPE) and the private sector General Economic Confederation of Morocco (CGEM) are tentatively targeted to receive assistance to strengthen their capacity to provide production, promotion and marketing services to export-oriented firms. This component will also include technical assistance for improving the export credit insurance program.

II. THE PROJECT CONTEXT AND RATIONALE

A. Macroeconomic Context

The current economic situation of Morocco is characterized, inter alia, by no real growth in per capita income. After a period of rapid growth in the mid-1970's, real per capita income in Morocco grew only slightly in the late 1970's and not at all from 1980-83. According to the World Bank, the per capita income in Morocco was $750 in 1983. The projection for the rest of the decade is for average GNP growth rates of about 2.6%, which will approach the rate of population growth. This is a result of reduced public investment levels and stagnation of investment in the domestic market which is only partly compensated for by increasing investment in export industries.

The future is likely to hold more of the same: low levels of public investment and low levels of investment in production for the local market. This is an inescapable result of the program to reduce the central government budget deficit and to open the economy to competition by reducing protective tariff barriers and eliminating incentives for investing in inefficient import-substitution industries. New incentives to produce for export markets, particularly a devalued Moroccan dirham (Dh), will result in increased investment in export-oriented activities. However, this does not appear likely to fully compensate for the major reductions in the other investment categories. Thus, the scenario for medium-term prospects shows a gradual decline of investment as a percentage of GDP through 1990 (See Table 3, Annex E).

Adjustment measures which result in lower levels of investment are required because of the inability of the Moroccan economy to meet its existing debt repayment obligations and the inadvisability of increasing external indebtedness any further. The severity of the debt servicing difficulties is such that debt rescheduling is recommended over the next three years (1985-87) in order to maintain investment at a level sufficient to achieve 2.8% per annum growth in GDP. This modest performance would keep Moroccan per capita income from declining during the structural adjustment period. Without debt rescheduling, the compression of investment would result in lower, perhaps even negative growth rates. Thus, although the adjustment program and debt rescheduling may not bring about real per capita income growth in the medium-term, they may allow Morocco to maintain current living standards while restructuring the economy to make it internationally competitive and positioned for more rapid growth in the next decade.

Structural adjustment programs, such as that now in progress in Morocco, emphasize changing the variables of the economic system (relative prices, exchange rates, interest rates, etc.) because economic mismanagement so frequently involves attempts to distort price signals and inhibit markets from functioning efficiently. However, "getting the prices right" is only part of the equation in restructuring the Moroccan economy. There is also the need to improve the performance of productive enterprises and of those institutions which help enterprises function efficiently in the market. Under the current adjustment program, this means going beyond the framework of devaluations, revision of tax and duty structures and simplification of administrative procedures for exporters. Practical measures are needed to assist Moroccan enterprises to take advantage of the new market opportunities created through structural adjustment. This means finding practical means for solving the types of problems exporters face: product adaptation, international standards of quality control, volume and scheduling requirements of overseas buyers, and the difficulties in saturating current markets or penetrating new markets.

The focus of GOM measures is now on export investment because of the critical importance of export growth to the success of the adjustment program and to the reduction of Morocco's trade and balance of payments deficits. Eliminating the trade deficit by 1990 requires growth of exports at 8% per annum in real terms throughout the period from 1985 to 1990. This projected real growth depends upon modest economic recovery in Europe (apparently now underway), expected improvements in the terms of trade, and a decline in interest rates. These assumptions do not appear unreasonable. The overall growth rate of exports is made up of phosphate exports, which are projected to grow at 8.9% per year in real terms, and manufactures, which are expected to grow at rates approaching 15% per annum by 1990 as a result of export promotion and diversification efforts. The projected rates of growth for all export categories are shown in Table 4 in Annex E. The implied investments in export-promotion are significant and, given the importance of manufactured exports to the adjustment process, become a sine qua non of the entire program.

An additional description and analysis of the macroeconomic context and rationale for the project can be found in Appendix A of Supplementary Background Materials (Chapter II of the Coopers & Lybrand study); these materials are available in USAID/Rabat or NE/PD.

B. The Export Sector

1. Evolution of Morocco's Balance of Payments Crisis

Morocco's enormous external debt was contracted in large measure to finance imports for the whole range of social infrastructure and public industrial projects during the 1970's. The low return on investment in social infrastructure and inefficient import-substitution industries plus the relative neglect of the export sector resulted in large current account deficits and reduced the ability of the economy to generate sufficient foreign exchange to service its external debt in the future. The GOM also allowed the dirham to become overvalued, further contributing to the erosion of investment in the export sector.

Thus, the Moroccan private sector has functioned for over a decade in a highly protected environment. Until recently, the Moroccan exporter has been confronted with dirham over-valuation, administrative obstacles in obtaining foreign exchange and import licenses, and the high cost of protected goods, all of which made production for the local market financially more attractive and much less risky.

Moroccan enterprises need assistance in making the transition from protected domestic markets to competitive export markets. The importance of developing an effective export promotion program can be seen in the recent growth trends in the export of finished products. After four years of rapid growth, the momentum of this category of exports will be more difficult to maintain because it will require the development of new markets and new products, not just the expansion of old lines in traditional markets. Morocco continues to rely heavily on exports to traditional markets in Europe, which continues to receive over half of all Moroccan exports. France is the principal importer of Moroccan goods, receiving 23% of all Moroccan exports in 1983 (Table 6, Annex E). Morocco has yet to exploit all the trade opportunities in non-traditional markets in Europe and North America, as well as in the Middle East and Africa.

2. GOM Measures to Stimulate Exports

The GOM and the IMF agreed on a Stand-By Arrangement in July 1983. Pursuant to this agreement, the GOM implemented major reforms including reductions in price subsidies, restriction of public spending and new efforts to increase public revenues. The most significant aspect of the Stand-By Arrangement for exporters is the 10% dirham devaluation in August, 1983 and the nearly 7% nominal devaluation carried out gradually throughout 1984. The effective depreciation in real terms was 6% from August, 1983 to the end of October, 1984. This has increased the cost of imports and substantially improved Morocco's competitive position as an exporter.

In early 1984, the GOM and the IBRD agreed on a $150.4 million Industrial and Trade Policy Adjustment loan. The loan funds were used to finance imported goods for Morocco. Within a year, all funds had been disbursed. The loan agreement also provided for a series of measures to liberalize the trade regime, namely:

1) reducing the maximum customs duty on imported goods to 60% of the c.i.f. price;

2) eliminating state export controls and charges on processed food exports (with the exception of quality control);

3) eliminating export licensing requirements for most goods (except mineral products and some basic food products); and,

4) reducing the number of goods subject to import licensing; at least 42% of all imported goods are exempt from import licensing.

The GOM carried out these reforms to the IBRD's satisfaction and is now negotiating further measures to be taken in conjunction with IBRD lending this year; the next set of reforms will focus on the financial sector. In January 1985, the GOM published a new set of rules governing the trade regime which will further simplify the procedures for trading for Moroccan importers and exporters.

The GOM has placed export financing outside its system of credit ceilings and subsidized export pre-financing credits. Such credits are offered at 7% interest to exporters and may be rediscounted at the Bank of Morocco at 5%.

The GOM has also taken steps to reform the "temporary admission" program in which exporters may obtain imported inputs duty-free if they are transformed for export. However, as with other credit incentives for exporters, conservative lending policies by the banks have limited the effect of this system in practice. Exporters' credit is reduced by the amount of the guarantee required by the customs administration. To date, guarantee amounts remain very high and lower exporters' available credit lines.

Lastly, the GOM's Foreign Exchange Office has now authorized exporters to use international credit cards and to draw up to 3% of their prior year's export revenues in foreign exchange to finance market prospection costs.

All of these measures are intended to stimulate new export investment by compensating to some extent for the higher risks associated with exporting and the high cost of domestic inputs for export production.

An analysis of the structure of the private export-oriented manufacturing industry in Morocco, and a fuller description of the program of GOM incentives to stimulate exports are found in Appendix B of the Supplementary Background Materials (Chapter III of the Coopers & Lybrand study). An analysis of the major opportunities for Moroccan exporters and the constraints they face is found in Appendix C (Chapter IV of the Coopers & Lybrand study). Copies are available in USAID/Rabat or NE/PD.

C. The Relationship of the Project to GOM's Strategies for Economic Adjustment and to the USAID's Country Strategy

1. Role of the Private Sector in National Development

As described above, the private sector has become the principal agent of the GOM's stablization and structural adjustment strategy. Austerity measures required for reduction of the budget deficit will severely restrict public investment levels for the medium term. The private sector must pick up the slack in overall investment levels. The GOM has made a series of changes in the trade regime and tax structures to favor private sector investment, especially in export activities. The GOM is planning to dismantle the protective structures even further, reducing maximum customs duties to 25% by 1988. This puts protected domestic industries under additional pressure to increase their efficiency, scale down, or close altogether. It will also reduce the costs to exporters of currently protected inputs and thus make production for export more attractive than production for the domestic market The GOM is relying on the private sector to respond to the changing economic environment and to invest heavily in exporting.

2. Relationship to USAID Country Strategy

As described in the FY 1986 CDSS, USAID/Rabat proposed to assist the Government of Morocco to address its critical problems of near-term economic adjustment while continuing to address longer-term development needs through project assistance. This Private Sector Export Promotion Project is an effort to assist on both levels. It involves the use of project mechanisms which have a positive near-term balance of payments effect as well as complementary technical, managerial and training assistance. The project will simultaneously assist key public and private Moroccan institutions to reinforce the impact of program measures through a strengthening of their institutional capabilities.

Furthermore, as noted in the FY 1986 ABS, USAID/Rabat has established a new strategic objective to rapidly strengthen its efforts to implement the private sector development goals of the Agency. As is apparent from the Mission's analysis of its portfolio in the CDSS, private sector development has been the weakest of the Morocco program's "four pillars" in the past, and this project is an effort to remedy this situation. The USAID strategy in this respect is fully supportive of the GOM's national medium-term strategy for economic adjustment and future self-sustaining growth. However, it is intended to go beyond the strengthening of the public role in creating an environment for increased investment in exports to assure that exporters, and the institutions providing direct assistance to them, are directly assisted in carrying out their role in the national development strategy.

III. PROJECT DESCRIPTION

A. Goal and Purpose

The goal of the project is to increase Morocco's export earnings in order to reduce its trade deficit and to strengthen its debt-servicing capabalities. The purpose is to improve the performance of the Moroccan private sector in producing and marketing goods for export.

B. Project Components

1. The Export Credit Insurance Program

a) Morocco's current export insurance program

No country has been able to mount a successful export drive without providing exporters with a reasonably inexpensive and flexible form of export credit insurance (ECI). The lack of such insurance obliges the prudent exporter to limit himself to markets of which he has personal knowledge as well as to spend considerable time assuring himself and his bank of the reliability of his customer. This is a severe constraint to any export development plan.

Morocco does have an ECI program, but the GOM agrees with the IBRD and with its own exporters that the program does not function well and that it must be improved substantially. At present, the ECI program is managed as a department of the Banque Marocaine du Commerce Exterieur (BMCE), a largely state-owned commercial bank dealing primarily with foreign trade. ECI risks are covered by a "technical reserve" of Dh 80 million (approximately $8 million) which appears as a line item in the GOM budget. The GOM Treasury covers political risk while the BMCE insures commercial risk. Only a small portion of insurable export risks are being covered (est. 15%) due to the following deficiencies in the system:

- The ECI has no real reserves, a fact of which the business community is well aware. The GOM's record in paying its ECI obligations in a timely fashion is weak. Hence, there is limited confidence in the ECI's capacity to reimburse losses.

- The ECI imposes a six-month delay on reimbursement of exporter losses, obliging the exporter to bear a high additional cost during the waiting period.

- The BMCE is reluctant to insure larger amounts and avoids many potential foreign markets entirely. This is partially due to the lack of real reserves. The percentage guaranteed by BMCE varies between 70 and 90% of commercial credit risk while the Treasury covers 80 to 90% of political risk. This is low by world standards.

- Medium-term export credits, necessary to compete in the export of certain types of equipment, are not covered.

- The BMCE is a competitor bank in the banking system. Other banks are reluctant to present clients for insurance coverage since competitive client information is then automatically available to the BMCE.

- There is no policy of regularly reinsuring risks assumed, obliging the ECI to assume 100% of any risk which it covers. This automatically limits the ECI's coverage capabilities.

- Premiums for ECI are high by world market standards, averaging 2% per annum).

b) Establishment of a reserve fund

Under this component A.I.D. will provide an $8 million long-term loan to the GOM for purposes of establishing real reserves in the ECI. This would equal the budget line item currently earmarked for this purpose. The GOM would be asked to supplement this loan by a deposit of an additional $2 million in dirham in the ECI reserve fund. The immediate effect of a new, expanded and real reserve fund would be to create confidence in the solvency of the ECI within the export sector, encouraging expanded utilization. The funds would be segregated at the BOM and invested in GOM or other convertible obligations so as to earn income for the ECI. The following favorable consequences will develop from the granting of this loan and the establishment of a reserve fund:

- The greatly increased real financial capabilities of the ECI would permit a higher volume of guarantees to be issued, an increase in the upper amount and limit acceptable, an increase in the percentage of credit and political risk insured, a lowering of premium costs, and a shortening of the 6-month reimbursement delay. These are all goals which are highly desired by the GOM and Moroccan exporters.

- As a higher percentage of Morocco's exports are insured, credit to the exporting sector will become more readily available. In calculating usage of a client's credit limit, commercial banks will remove any ECI guaranteed transaction, much as banks do for Foreign Credit Insurance Association (FCIA) guaranteed transactions in the U.S. The exporter will therefore benefit from more availability for financing his needs for pre-exports, working capital, etc. There will be a direct correlation between the percent of private sector exports insured and the availability of credit to the export sector.

c) Reforms in the export insurance program

In addition, the following reforms in the current ECI program will be negotiated with the GOM in order to maximize the favorable effects of the A.I.D. long-term loan. The Ministry of Finance's initial reaction to these reforms has been favorable.

- Within a reasonable time, the ECI should be established as a separate entity with ownership shared by the GOM and private banks and/or insurance companies. Potential participation by foreign insurance companies should be examined. At some point GOM participation could be phased out entirely.

- Commercial banks should be permitted to operate as agents of the ECI program for writing policies and be allocated limits within which they may approve transactions without consultation on a case-by-case basis with ECI.

- Delays in decision-making on reimbursement of exporters' claims must be shortened to financially acceptable periods.

- Insofar as possible, the ECI program should immediately begin to reinsure its risks with both Moroccan and foreign insurers so as to maintain its ability to expand its operations on a sound basis.

- ECI coverage should be extended to cover, in certain cases, the risks involved in the pre-export phase of financing so as to increase availability of this type of credit for exporters.

- In general, importing countries on the ECI program's "approved list" should be the same as those approved by ECI programs in the developed world to make Moroccan exporters more competitive.

With proper planning, the increased use of ECI "guarantee drafts" would result in a financial instrument capable of mobilizing savings funds while providing a high degree of liquidity. At present, these drafts are automatically discountable at the BOM. They can provide, however, the basis for capital market development if made available for purchase by investors, or if permitted as investments by banks in lieu of government obligations. Since the IBRD is examining the possible creation of a Moroccan investment bank, this subject should be discussed with them.

d) <u>Technical assistance to institutionalize reforms and encourage private investment</u>

Technical assistance will be provided as an essential part of the ECI program. The GOM will require considerable help in reforming the ECI, principally in the following areas:

- In-depth assistance from other ECI programs (such as the Foreign Credit Insurance Association in the United States) for analyzing, establishing and revising risks in conformity with the international ECI community as well as calculating premium pricing.

- Assistance from risk insurance experts in the proper means to maintain and invest reserves.

- Advice on delegating authority to agent banks for insurance policy writing.

- Expert assistance to develop reinsurance capabilities including possible placement of "guarantee drafts" in importing countries.

- Commissioning of a feasibility study on the creation of an investor market for ECI guaranteed paper.

- Assistance in organizing the ECI as a separate functioning entity and providing staff development services.

2. Production Credit

a) Existing credit markets

At the present time, the availability of domestic credit in dirhams does not appear to be a significant constraint to improving export production. However, certain aspects of the credit markets would benefit greatly from more flexible attitudes by both the Bank of Morocco (BOM) and the commercial banking system. Reforms undertaken in recent years have produced added export credit availability.

Export credit is generally not subject to the constraints imposed on the domestic credit market, with some significant exceptions. The most significant unmet demand in financing Morocco's international trade is credit for import financing during the pre-export phase. Although a preference is theoretically given for credit to cover imports necessary as export production inputs, the chronic shortage of foreign exchange at the BOM is often the governing factor.

Despite the generally positive view of domestic credit availability, certain aspects of the regulatory and banking systems militate to restrict the free flow of credit for export financing. The pre-export cycle (preparing export goods for shipment upon receipt of firm export orders) is not totally free of credit ceilings: banks may exceed credit limitations imposed by the BOM only after presenting their requests on a case-by-case basis. Since interest rates for this type of credit are moderately subsidized (0.5% benefit in the price of a given export), GOM authorities are concerned that borrowers will utilize subsidized funds for production of goods destined for the local market. Although approval for exceeding the ceiling seems to be granted in many cases, exporter problems arise from excessive administrative delays in the approval process. Certain factors, such as the high amount of early financing needed by exporters with a long production cycle and the current lack of pre-export financing for producers of intermediate goods, present additional problems. These problems are under study for reform at the BOM. On the favorable side, pre-export financing is rediscountable to 100% of its value at the BOM, and at rates which leave the commercial banks with margins of between 1 to 3% without utilization of their lendable funds.

The principal constraint to the supply of pre-export financing resides in the conservative lending policies applied by the banking system. Moroccan commercial banks are particularly risk-averse and borrowers complain of their inability to obtain sufficient credit without providing substantial collateral or outside guarantees. Thus, increased exports result in higher utilization of credit lines, with the effect of lowering the borrower's access to credit for non-export related activities. This situation is the result of current market conditions, with few banks dominating the scene. The GOM can do little to resolve this except encourage competition and await competitive market developments.

Short-term export financing benefits from the same rediscount facilities and absence of BOM-imposed credit ceilings as pre-export financing, with the added advantage that no approval is needed from the BOM to raise the ceiling. This part of the export financing cycle seems to have the fewest constraints and availability is good.

Medium- to long-term credit for investment in plant and equipment is of limited availability. This is true despite: (i) a requirement that 6% of bank deposits be invested medium-term, (ii) the lack of any BOM ceiling for such loans, and (iii) 100% discountability at the BOM for all loans granted above the 6% minimum. Commercial banks prefer to comply with the minimum portfolio levels by purchasing medium-term bonds of government entities such as the National Development Bank (BNDE) to avoid the increased risks associated with longer term loans. Thus, the BNDE is almost the only source of this type of credit in Morocco. However, the BNDE is characterized by an administrative apparatus which is slow to analyze and decide on project proposals. Although a study for establishing an investment bank owned by Arab and Moroccan capital is underway, the majority of export-oriented projects requiring large injections of medium- and longer-term credit will continue to require foreign lenders. With an already heavy debt-service burden, Morocco will have to obtain these loans on concessional terms to comply with foreign borrowing restrictions imposed by the IMF. As a further indication of GOM support to the export sector, it should be noted that recent medium-term loans granted by the BNDE are destined to export-oriented projects.

If Morocco's export production continues to expand, there is no doubt that additional credit will be needed to finance this sector, most notably in the import cycle. As noted, it appears that the banking system has sufficient liquidity to provide the needed local currency increases associated with export pre-financing.

b) Morocco's import needs for the productive sector

Morocco's critical short-fall of foreign exchange for financing an array of developmental needs has been described above. Among the specific needs which A.I.D. can meet are private sector imports of goods and services having U.S. source and origin.

It is difficult to calculate the exact value of U.S. goods used in the production of exports or in export-related industries. The statistical data which are currently available do not provide the necessary breakdowns to determine exactly what portion of U.S. goods are directed toward Morocco's private export industries. For instance, the value of office machinery exported from the U.S. to Morocco has been increasing. While some of this equipment has been purchased by firms in export industries, it is difficult to make precise calculations of the amount.

Nevertheless, there has been and continues to be a significant volume of U.S. goods which are consumed directly or indirectly by Morocco's private export-oriented industries. This volume, while declining overall, exceeded $30 million in 1983. (A fuller analysis of this trade is presented in Annex D). A commodity-related component to assist Moroccan firms in purchasing U.S. goods would be beneficial for Moroccan exporters and the GOM in relieving the foreign exchange burden for goods supplied by the U.S.

Potential project-funded commodities from the U.S. include such items as raw cotton, animal hides, leather, fertilizers, and synthetic fibers; these items represent inputs for private sector clothing, leather, and agribusiness industries. SER/COM/NEA and NE/GC administratively waived eligibility restrictions for these PL 480 related inputs in STATE 33794. If A.I.D. does not finance a portion of these commodities under this project, their importation will still have to be financed by the GOM's limited foreign exchange reserves. This project component is intended to be instrumental in assisting the GOM to meet its foreign exchange needs while expanding credit availabile to private exporters.

At the Project Paper stage, the U.S. commodity assistance to be provided through the production credit program will be further refined to concentrate on inputs which are imported through relatively large transactions and which take advantage of the export sector's comparative advantage.

c) Production credit for importing U.S. goods

A.I.D. has many years of experience in commodity financing through host-country banking systems. Most recently, USAID/Cairo successfully completed funding a Production Credit project which financed $67 million of production sector inputs. Based on that experience, USAID/Rabat will draw on the results of management and evaluation findings to design and implement an effective production credit program. The primary achievements of such a program will be to provide much needed credit to the private sector and to alleviate strains on the GOM's foreign exchange reserves.

The proposed credit mechanism consists in making lines of credit available to a pool of Moroccan banks for imports with lending governed by sectoral criteria. Those banks would market this credit facility - foreign exchange availability and short- to medium-term loans for local currency financing of "landed" commodities - on a demand-driven basis. The number of banks to participate in the project is as yet undetermined, but due to the relatively small amount of A.I.D. funding (as compared to overall GOM dollar needs), it is doubtful that the Mission would wish to provide letter of commitment facilities to more than three or four banks.

At least three banks have already been identified as potential intermediaries for this activity: the WAFA Bank, Citibank-Maghreb and the Banque Marocaine pour le Commerce Exterieur (BMCE). Preliminary discussions of the project's components have been held with their principals. These institutions are discussed in the Institutional Analysis Section of this paper.

To purchase the foreign exchange required to import U.S. inputs, Moroccan firms will make dirham payments to the GOM Treasury through the banking system. Those payments will result in the generation of approximately Dh 80 million (at an estimated average rate of Dh 10 = U.S. $1). In order to obtain ongoing developmental impact, it is important that the USAID secure an agreement with the GOM on the allocation of these funds in the national budget. Possible uses of these funds include:

- increased capitalization of the ECI program.

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- increasing the budget of the CMPE (the government export promotion agency) to permit hiring of capable marketing professionals with expertise in the principal growth and high value-added export products and to underwrite the local cost of additional trade fairs and other promotional efforts.

3. Technical Assistance for Export Promotion and Marketing

The export credit insurance component of this project provides a benefit to Moroccan exporters by making reliable risk coverage available at a reasonable cost and effectively expanding the availability of export credit. The production credit component provides a benefit to Moroccan exporters by making foreign exchange available for essential imports from the U.S. and creating more dirham resources for promotional efforts. In addition, well-defined technical, managerial and marketing assistance will be provided to Moroccan institutions and private manufacturers capable of producing export products. The overall cost of this technical assistance component is estimated at $2.5 million.

USAID/Rabat believes that the impact of the technical assistance component will be maximized through assisting Moroccan exporters to diversify their markets and to improve their production technology and management methods to meet the requirements of new markets. Knowledgeable observers in the GOM and in the donor community, as well as (most importantly) Moroccan exporters and their bankers, believe that considerable opportunity and potential exists for the entry of Moroccan exports into the North American market, among others. The basic strategy of this component will be to work intensively with a limited number of more sophisticated enterprises at first in order to move them toward a higher export level as rapidly as possible. If achieved, their "success" is likely to produce its own forward momentum, with other companies following the "demonstration model". A greater risk of failure lies in broadening the effort at the outset through an unfocused effort in which expertise is directed to bring a large number of smaller traditional companies to a level of capacity which others have already achieved, thereby improving existing plant technology without creating significant new export activity. In a period of transition from an inward-oriented to an outward-oriented, competitive economy, it is important to show the positive results of entrepreneurial risk-taking early on. Special efforts to reach the smaller, more traditional firms through mechanisms designed for that purpose can follow the initial efots to expand exports more generally. Under this component, studies to determine the most effective means of providing such assistance to smaller firms will be carried out.

The primary technical assistance component of the project will be constituted of related efforts to assist private export industries through one or both of two institutions: (1) the Centre Marocain pour la Promotion des Exportations (CMPE), a semi-autonomous public entity under the Ministry of Commerce and Industry; and (2) the Confederation Generale Economique Marocaine (CGEM), the leading Moroccan association of private sector enterprises. The USAID Mission has already established a dialogue and working relationship with both organizations. CMPE is characterized by young and dynamic leadership, and while limited in the scope of its activities by its public nature, it has been very active in promoting Moroccan exports in a wide variety of foreign markets. CMPE has already requested assistance from USAID and some short-term training is currently being provided through the Mission's training support project (608-0178).

The CGEM is generally recognized as the "voice of the private sector" in Morocco. It is a large employers' confederation, representing four different private business federations (industry; public works/construction; trade and services; mining) and constituting an "umbrella" for a large number of special associations of private firms. It has also created two "technical commissions" to examine economic and social issues affecting its membership. CGEM publishes a widely distributed weekly bulletin (CEDIES Information) which includes analyses of general economic trends, commercial and financial information, information on trade fairs and missions, etc. One of the principal associations in the CGEM is the Association Marocaine des Exportateurs, or ASMEX, which represents about 125 of the larger manufacturing exporters in Morocco.

Administrator McPherson met with leadership of CGEM during his visit to Morocco in early July 1984 and explained A.I.D.'s private sector development initiatives. Since that time meetings have been held with the leadership of both CGEM and ASMEX to discuss ways in which the present project could effectively carry out this initiative in Morocco. It should be pointed out that the working relationship between the CGEM and the CMPE is quite close (the Director of CMPE sits on the Board of CGEM) and the two organizations have co-sponsored a number of seminar activities relating to the needs of private exporters. The most recent of these was a one-day conference examining the constraints to increased exports entailed by the high cost of air and sea transport from Morocco.

The principal technical assistance component of the project will be implemented at the outset through one or both of these organizations in ways that will be more specifically defined during development of the Project Paper. Several ideas have emerged during the discussions that have been held to date. In accordance with the differing "public roles" of each organization, the types of assistance provided would differ. Assistance to the CMPE would be directed principally at institution-building efforts to improve its effectiveness as a promotional organization at the sector or product level. Assistance might also be provided to assist CMPE to go further than at present in actually brokering commercial transactions through overseas representational efforts. One interesting idea that has emerged is for an intensive effort through CMPE to obtain the further assistance of the Irish Export Board in order to update its 1982 study on the potential for Moroccan exports in the North American markets and to follow through this renewal with additional market-penetration assistance to the firms identified as having the greatest potential. The EEC, which financed the initial study, has informally expressed interest in collaborating with USAID in such an effort.

Technical assistance efforts with the CGEM/ASMEX would be oriented to creating and strengthening its capacity to provide enterprise-specific assistance and through the provision of direct export services to major firms in two primary areas: (a) in-plant assistance to improve production organization and technology to meet the more stringent quality, quantity and scheduling requirements of new markets in Europe or North America; and (b) direct marketing assistance to such firms in establishing new markets through actual "buyer-finding" and presentational assistance. This effort would start out through the establishment of an advisory unit within CGEM/ASMEX, staffed by a production technology/management specialist and a marketing professional capable of finding and providing specific information on new markets, organizing small seminars for exporters, arranging visits by and presentations to prospective buyers, etc. The unit would also have the capacity to contract for the short-term specialized services of industry experts for particular products. A fee for these services would be required from beneficiary firms, though initially at subsidized rates. Ultimately, the objective of this unit would be to develop itself into a private Moroccan "export productivity center" or "export services company" that would become self-financing on a fee-for-services basis after two or three years of successful operation as an arm of CGEM. Extensive discussion of this concept and a closer determination of its feasibility will be carried out during the development of the Project Paper.

In addition to these efforts, it is certain that technical assistance will be required to achieve the successful reform of the ECI program, as described above. This assistance is likely to be substantial in nature at the outset and could conceivably require a long-term adviser for the first year. This adviser would probably be assigned to assist the BMCE in establishing the reserve fund, revising and simplifying procedures, reaching agreement with other banks which will operate as agents for their exporter clients, and establishing a reinsurance mechanism involving private Moroccan insurance companies. A more specific assessment of the TA requirements of the ECI program will be made during PP development. Similarly, an assessment of possible TA needs in implementing the new production credit mechanism will also be carried out during PP development.

Finally, the technical assistance component of the project will be utilized to support existing U.S. programs to assist Moroccan exporters through further grants to the International Executive Service Corps (IESC). The IESC has already signed agreements to provide limited in-plant assistance to a dozen Moroccan firms (mostly exporters) and is expected to continue to play a critical role in this respect until a Moroccan institution is capable of doing so. Two S&T Bureau projects may also be utilized in this respect. The Enterpreneur and Small Enterprise Development Project (936-5314) provides a vehicle for research and training in entrepreneurship in Morocco. Project Sustain provides a means of obtaining U.S. in-plant assistance for agribusiness exporters. Project Sustain has not yet been utilized in Morocco but offers substantial potential to provide appropriate firm-level assistance from U.S. companies to the growing export-oriented food-processing subsector in Morocco.

C. Expected Project Achievements

The project's three components aim to improve the performance of the Moroccan private sector in producing and marketing goods for export. The funding of export insurance reserves will build exporters' and lenders' confidence in the program's solvency. This in turn will permit a higher volume of guarantees to be issued. It will also allow for an increase in the acceptable limits of individual insurance policies. Other expected benefits include an increase in the percentage of commercial and political risk insured, a lowering of premium costs, and shortening of the 6-month reimbursement delay. Most importantly, the increased use of insurance will also allow for increased credit to the export sector.

The primary benefit of the production credit component is that it provides the necessary foreign exchange to purchase import goods. The chronic shortage of foreign exchange is the major constraint to providing credit for import financing. Production credit will help alleviate the current strain on the GOM's reserves and provide much-needed credit to private exporters.

Through the technical assistance component, exporters will be provided the necessary expertise and knowledge to improve their export production and marketing. This component will help build existing institutions and strengthen their capacity to provide export-related services.

D. Other Options for A.I.D. Assistance

These three interventions described in detail above -- export credit insurance, production credit and technical assistance for export promotion -- have been selected by the Mission from a larger number of possibilities. The Mission has examined various proposals and discussed them at length. The original proposal for the establishment of an Export Trading Company (ETC) as part of this project has not been included because of the need for a more in-depth examination of its feasibility and desireability in the Moroccan context, and the belief that other types of assistance could have a more substantial effect on export investment and expansion in the near term. The technical assistance component of the present project would allow for further feasibility studies of this concept, and the opportunity to determine the scope and depth of enthusiasm for such an entity amongst potential Moroccan investors.

The recommendations for the establishment of an Export Productivity Center or an Export Services Company have been retained as a possible long-term outcome of the present project as more experience in working with the private sector and its trade associations is gained. Although the establishment of such an entity is not now viewed as a specific project output, the technical assistance component will provide for a specific determination of the feasibility of these concepts and the opportunity to undertake the initial organizational efforts, if and when appropriate.

The proposal for a major facility to expand pre-export financing available for exporters has been closely examined as a method to unblock a what is broadly considered a key constraint on export expansion. Several problems with the proposal have been raised both by the Bank of Morocco (BOM) and A.I.D. The BOM is concerned about the rapid expansion of credit generally and about the diversion of new pre-export credit to domestic uses. It also believes that the main constraint is not a lack of pre-export credit *per se*, but rather the commercial banks' lack of confidence in exporters' transactions, leading to their use of extraordinary guarantees or informal credit ceilings, (even where the BOM formally imposes none). It is apparent that the negotiation of a major A.I.D. loan for pre-export credit with the BOM would be difficult. In addition, A.I.D.'s regulations concerning source and origin on sub-loans of intermediary credit institutions would make it difficult or impossible for a pre-export financing facility to operate effectively.

The Moroccan Ministry of Finance has discussed with the USAID the possible use of FY 86 ESF to co-finance (with Moroccan banks) an adjustment assistance fund, providing credit and technical assistance to private firms which will

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suffer as a result of the current liberalization program. The assistance would ostensibly be directed to more efficient firms with clear potential to succeed once the adjustment is made to reduced import barriers. While discussions on this concept may continue, it appears that the Mission could be put in the position of (1) attempting to make labor-intensive, economically complex and politically difficult decisions on credit allocation, or (2) providing funds to the National Development Bank (BNDE) which would allocate it under its standards, or by criteria agreed to in the loan agreement. Again, A.I.D.'s source and origin regulations would come into play, greatly complicating allocation criteria and requiring elaborate monitoring mechanisms for sub-loan usage.

Finally, there has been some discussion of the concept of a "privatization fund", which derives from an IBRD suggestion that the GOM mobilize revenue and increase economic efficiency by partially or fully divesting the more viable state enterprises (through selling of shares to private banks, corporations or individuals). The Mission views this as a very interesting concept which merits further study and discussion with the IBRD and GOM, as well as an examination of the possibilities for an appropriate A.I.D. role. However, it is not adequately developed at this stage to be included as an element of the proposed project.

IV. FACTORS AFFECTING PROJECT DEVELOPMENT

A. Preliminary Analyses

1. Institutional Analyses

Three types of institutions will be involved in the implementation of the project: (a) financial institutions; (b) Moroccan public and/or private organizations supporting export promotion; and (c) U.S. technical assistance organizations.

a. Financial Institutions:

Morocco's banking community is characterized by a relatively high degree of sophistication and technical competence. Banking officials are well-educated professionals, with considerable experience and knowledge of financial instruments.

The Moroccan banking system is also characterized by a dearth of competition. Lack of competition prevails in lending practices and in attracting deposits. While conservative lending policies and a lack of competition explain banks' high profits, there have also been several negative consequences. Banks tend to be too demanding and restrictive with respect to the collateral required for their loans. This limits the amount of financing extended to new entrepreneurs, particularly for small and medium-size firms. The lack of competition in the financial sector also creates little incentive for increasing productivity or reducing costs.

The Private Sector Export Promotion Project is designed to encourage financially sound, yet more flexible, lending practices toward export-oriented industries. The following banks have been identified as potential vehicles for project implementation:

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i) The Banque Marocaine du Commerce Exterieur (BMCE): This institution is a commercial bank which is 56% owned by the GOM, with the remainder held by Moroccan investors and international banks. Its primary function is to provide finance for foreign trade activities. The BMCE also manages the country's export credit insurance facility. Given that a major component of the project involves reforms in the provision of export insurance, the BMCE is likely to be one of the project's key institutions. Its operations, as they relate to export insurance policies and operations, will be examined more closely at the Project Paper stage.

ii) The WAFA Bank: This bank is a private commercial institution. It is important to note that PRE has already established relations with the WAFA Bank through a recent loan of a $2.5 million loan for small- and medium-scale export enterprises. As a result of Mission involvement in the negotiation of the PRE loan, working relations between WAFA Bank and the USAID are very good. This Bank may be an appropriate financial intermediary for the production credit component of the project and has also expressed interest in participating in a privatized export insurance joint-venture.

iii) Citibank-Maghreb: This institution is the only U.S. Bank in Morocco, operating as a joint-venture bank. The Mission has a good working relationship with this bank. It should also be considered as a candidate for implementing the export credit insurance component.

Final selection of appropriate financial institutions for the production credit component will occur at the Project Paper stage.

b. Moroccan Public and Private Organizations Supporting Export Promotion:

Potential vehicles for provision of technical assistance include the Centre Marocain de Promotion des Exportations (CMPE), the Confederation Generale des Enterprises Marocaines (CGEM), and the Association Marocaine des Exportateurs (ASMEX).

i) CMPE: The CMPE is a semi-autonomous public sector agency which aims to promote Moroccan industrial products in overseas markets. The organization conducts broad sectoral studies, as well as studies of specific products and market outlets. It also sponsors promotional activities, such as participation in trade fairs and industry shows. CMPE is a source of information for Moroccan exporters regarding data on trade flows and commercial practices and customs requirements of foreign markets. CMPE's current activities are principally limited to studies and information exchange. CMPE appears to have the capacity to undertake additional activities to assist Moroccan exporters, if provided with the necessary financial and technical resources.

ii) CGEM: CGEM is the Moroccan equivalent of the National Association of Manufacturers. It represents four major industry federations and encompasses many private business associations, including ASMEX. The organization publishes a weekly bulletin that is widely distributed in Morocco. CGEM is considered to be the representative of the Moroccan private sector.

iii) ASMEX: ASMEX is the leading association of export-oriented businesses; it shares a office space and a secretariat with CGEM, but has an independent structure, treasury and set of officers. Further discussion of possible means of collaboration are required prior to a determination that ASMEX is an adequate and appropriate implementing agency.

c. U.S. Technical Assistance Organizations:

i) International Executive Service Corps (IESC):

With financial support from the USAID, IESC recently re-established its program in Morocco. A large number of exporters have expressed strong interest in the types of services provided by IESC, and agreements for assistance have already been reached with some firms. It now appears IESC will become an effective mechanism for providing direct in-plant assistance to Moroccan exporters.

ii) Project Sustain:

Project Sustain is an S & T Bureau project through which Moroccan food processing companies may obtain specialized expertise from U.S. food companies to help upgrade their food processing facilities. This could become an important source of TA to export-oriented agribusiness in Morocco.

2. Social Considerations

The primary beneficiaries of the project will be entrepreneurs in the export-oriented private sector and the industrial labor force. Increased access to credit, export insurance, and technical expertise will enhance exporters' capacity to produce and sell goods in international markets. To the extent that production increases as a result of this project, employment in export-oriented industries will also increase.

Private-sector entrepreneurs. The direct beneficiaries of the project are entrepreneurs in Morocco's export-oriented sector. The majority of Morocco's production for export is undertaken by large-scale firms, each enterprise employing a minimum of fifty people. These firms are the most appropriate target for an export promotion strategy in Morocco for several reasons. First and foremost is the fact that small and medium size enterprises are currently unable to compete in international markets; the volume and quality requirements of overseas buyers impose significant barriers for small producers. The potential for increasing export production in the near future is much greater amongst larger enterprises. Secondly, large firms offer more opportunities for employment generation.

<u>The industrial labor force.</u> Morocco's labor force, in particular unskilled and semi-skilled workers, may also benefit from the export promotion project. Benefits may accrue to the industrial labor force in terms of increased employment and hence increased income. Preliminary study indicates further that export-oriented industries in Morocco tend to be relatively labor-intensive. The low wage structure in Morocco gives such industries a comparative advantage in international markets.

Morocco's growing level of unemployment warrants serious attention. Unemployment is currently estimated to exceed 20% and underemployment is a widespread phenomenon in Morocco. The country's employment problem is becoming increasingly acute as 200,000 new workers enter the labor force each year. The proposed project responds to Morocco's unemployment problem by providing the necessary resources to increase industrial production, and hence, increase employment.

Increased production for the export market will most likely create increased demand for unskilled and semi-skilled workers. Wage rates in export-oriented industries (e.g., textiles, leather, and clothing) are generally lower than the average wage in the manufacturing sector. Given these lower wages, unskilled and semi-skilled workers will be drawn into the industrial sector to meet increased demand for labor.

Women will also benefit from increased export production due to the employment effect. Some of the industries with the greatest export potential (e.g., apparel) employ primarily women; increased production may therefore disproportionately increase employment opportunities for urban female workers.

The magnitude of the employment effect should be analyzed in greater detail at the Project Paper stage.

3. <u>Economic Analysis Plan</u>

At the PP stage the economist will estimate or project the effect of capitalizing the export insurance reserve fund on exporters' willingness and desire to use this facility and on the additional business this will make possible for exporters. He will then estimate the benefits attributable to this activity through the increases in foreign exchange earnings, income and employment.

For the production credit component, the economist will describe the effect of such a program on the reserve position of the Bank of Morocco and the possibility of shortening the waiting period for foreign exchange for private sector exporters requiring inputs from the U.S.

For the project as a whole, including technical assistance activities, the economist will analyze the magnitude of the unexploited potential for Moroccan exports in new markets, and discuss those constraints which appear to have inhibited Moroccan businessmen in exploiting this potential, e.g. knowledge of the marketing requirements and techniques, adaptability of product, scale of production, and so on. The discussion will provide quantitative and qualitative illustrations of the types of benefits which may accrue to the users of this technical assistance.

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4. Financial Analysis Plan

Acting as a financial analyst, the economist will complete a cash flow analysis for the insurance fund based on projected increases in the fund's activity. He/she will also estimate the appropriate size of the reserve fund in consultation with the insurance expert, taking into account the risks of new market development in North America, the Middle East and Asia and the likely composition of the insurance fund's business over the life of the project.

The financial analyst will write the financial plan for the overall project in consultation with the project development officer.

B. Project Preparation Requirements and Schedule

Subject to PID approval, a Project Paper is scheduled to be developed for submission to AID/W by the end of July 1985. Mission staff required for the development of the project paper include the Program Economist and a PSC trade specialist. Other members of the Project Paper team will include the following:

a) A Project Development Officer from AID/W for 4 weeks
b) A Commodity Management Specialist from SER/COM for 2 weeks
c) An Industrial Engineer on contract for 3 weeks
d) An International Banking Consultant on contract for 3 weeks
e) An Export Insurance Specialist on contract for 5 weeks.

Due to the discrete nature of the scope of work for the Export Insurance Specialist, he/she can prepare input to the PP as early as April 1985, subject to recruitment from IESC.

The Mission feels that the aforementioned design scenario is feasible and it is essential that assistance in Project Paper development be provided through a coherent team effort. The Project Paper should be scheduled for AID/W review in August 1985.

Furthermore, the GOM has expressed interest in receiving immediate technical assistance to determine the appropriate strategy to privatize the current ECI system. The request for this pre-project assistance is based on the reasonable assumption that privatization will require preparing draft legislation and sensitizing elements of the GOM to change. In this regard, the NE Bureau should consider contracting with International Development Law Institute (IDLI) for legal services, funded through the Regional Private Enterprise Development Project.

C. Project Management and Staffing

The Private Sector Export Promotion Project will be managed by the USAID Mission Private Sector Office. Given the current constraints on Mission staffing and the variety of activities involved in the project, it is crucial that additional project officers be placed in the Mission to manage this private sector portfolio. The Mission is attempting to "bring on board" a minimum of two additional U.S. Direct Hire to work part or full time in its private sector development efforts: a Project Development Officer with a strong background in the private sector and an International Development Intern with project development skills. Finally, it is recommended that a Moroccan with a banking or insurance background be contracted to assist USAID's Private Sector Officer in managing these various programs. This assistance will be particularly important to the rapid disbursement and success of the production credit project component, given the newness of the mechanism to the USAID, the unfamiliarity of Moroccan importers with A.I.D. procurement requirements and the absence of Mission U.S. Direct Hire to manage the program.

Both project components may also require short-term contractor assistance from specialized disciplines; e.g. export insurance, human resources development in the private sector, industrial engineering and international trade. The proper mix of those disciplines and the contracting mode will be determined at the Project Paper stage.

D. Evaluation Strategy

The project will be evaluated only once, approximately 9 months before the PACD. The evaluation should determine whether Moroccan firms' capacity to export has, in fact, increased as a result of project interventions. An assessment of the production credit component will be carried out after half of the funding has been disbursed. This assessment should ascertain future needs and opportunities for providing additional production credit.

E. Major Policy Issues

1. Export Subsidies:

The Moroccan government subsidizes the interest rate on export pre-financing credits. While the A.I.D. project does not contribute directly to such financing, support of the export promotion program through long-term low interest loans assists the GOM to maintain preferential treatment for exporters. Should A.I.D., as a condition for support to the export promotion program, insist upon the removal of subsidized interest rates for exporters?

2. Eligibility for Use of Program Funds:

Three major components of the project are funding for reserves for the export insurance program, production credit, and technical assistance. Before the project begins, the Mission will have to define eligibility criteria for firms allowed to participate in or have access to benefits of these components. Questions to be answered will include:

- Should any or all wholly or partially state owned firms be eligible for all or any of the components?

- If the answer is "no" to wholly owned, but "yes" to partially owned, what level of public ownership should be used to define eligibility? Some firms in key export sectors are partially or wholly owned by the GOM.

- Should firms with foreign equity be included? (They are allowed in the existing Production Credit Project in Egypt.)

- Will ECI coverage be available for transactions with East Bloc countries?

- Should pre-export financing be eligible for ECI coverage? What risks are involved? How do these risks differ from thos normally covered under the ECI? Are they not now covered under the existing program?

  Should a waiver be sought to open up production credit inputs to 941 countries?

3. Privatization/Longevity of ECI:

The establishment of a reinsurance mechanism to reinforce the export credit insurance scheme is critical for long-term privatization of the ECI program. The PID outlines an approach to involve both foreign and Moroccan insurance companies in the reinsurance arrangement. In this regard, (a) can Moroccan insurance companies be legally engaged in reinsurance arrangements, and (b) are foreign insurance companies allowed to handle this function?

4. Bank of Morocco:

(a) BOM's Acceptance:

The Bank of Morocco has expressed some uneasiness regarding the expansion of export-related credits. The proposed export credit insurance program is clearly designed to increase export credits by sharing (or taking over) the risk. The focus of the proposed production credit program on foreign-exchange needs for imports from the U.S. would add to the total volume of outstanding export credit. Will these components be acceptable to the BOM, with this "expansionary" effect?

(b) BOM's Credit Rationing:

Is there a risk that the Bank of Morocco, realizing the credit-expanding effects of the insurance program and the production credit program, might compensate by reducing its allocation of export pre-financing credits when it conducts its annual review of credit utilization? Such a reaction would reduce the effect of an expansion of export insurance. How can the USAID guard against restrictions on other types of credit for exporters?

ANNEX A

PROJECT DESIGN SUMMARY

LOGICAL FRAMEWORK

Life of Project:
From FY 86 to FY 86
Total U.S. Funding $18,500,000.
Date Prepared: 1/31/85

Project Title & Number: Private Sector Export Promotion (608-0189)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes:	Measures of Goal Achievement:		Assumptions for achieving goal targets:
To increase export earnings in order to: (i) reduce Morocco's trade deficit (ii) strengthen Morocco's debt-servicing capabilities.	o export earnings increased by ___% within ______ years. o trade deficit decreased by ____% within _____ years	o official trade statistics [Ministry of Finance; GOM] o IMF/IBRD data	o international prices for Moroccan exports are favorable o GOM commitment to reforms continues
Project Purpose:	Conditions that will indicate purpose has been achieved: End of project status.		Assumptions for achieving purpose:
To improve the performance of the Moroccan private sector in producing and marketing goods for export.	o output of enterprises producing for export increases by _____% o increased penetration of traditional markets o entry into non-traditional markets o displacement of 'triangular' trade	o trade statistics o analyses of trade patterns (IBRD; EIU; EEC and USDOC data)	o international markets remain open to Moroccan goods (no increased protectionism) o Moroccan exporters adapt to competitive export behavior o GOM does not impede private sector export growth

Project Title & Number: Private Sector Export Promotion (608-0189)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs:	Magnitude of Outputs:		Assumptions for achieving outputs:
o Production credit allocated to export-oriented private firms	o Credit lines for purchase of US goods by private export firms increased by $8 million	o Banks' records o Insurance fund records o BOM statistics o IESC contracts with Moroccan enterprises o Travel seminars conducted to cover industries with greatest export potential	o Moroccan firms will import U.S. goods despite current strength of dollar
o Export insurance facility strengthened to: - expand number of guarantees issued - expand limits of guarantees - diversify markets for which guarantees are authorized - increase exporters' knowledge of export insurance facility - facilitate private sector participation in pooling risks	o Guarantees cover non-traditional markets (i.e.) Middle East & Africa o Export guarantees increase by ____ %		o Closer contact between U.S. selle and Moroccan buyers o Funding of reserves will allow foi for more flexible and less conservative insurance policies - guarantees will be extended to non-traditional markets - guarantees will be extended to new customers
o Production technology and marketing expertise provided to exporters - firm-specific assistance to address quality-control issues, management needs, and transfer of production technology - industry-specific marketing seminars	o ____ firms receive in-plant assistance		o Moroccan firms are willing to purchase services of industrial specialists
o Institutions supporting export promotion strengthened (CMPE)			o CMPE can facilitate in bridging ga between Moroccan exporters & inter national buyers
Inputs:	Implementation Target (Type and Quantity)		Assumptions for providing inputs:
o Loan to fund reserves of export insurance facility (BMCE)	$8 million		o Approval of project by GOM and AID
o Loan to finance production credit for export-oriented industries	$8 million		o French-speaking industry specialists are available to provide needed technical assistance
o Technical assistance - export credit and insurance expertise (i.e. FCIA) - production and marketing expertise (i.e. IESC)	 $1 million $ 1.5 million		o Moroccan govt 'approves' IESC operations in-country
TOTAL:	$18.5 million		

ANNEX B

Preliminary Implementation Plan

Date	Activity
02/85 - 3/85	PID Review
04/85	Insurance Consultant (IESC) in-country to provide technical inputs for PP design (working with BMCE, WAFA Bank, etc.)
05/85	Legal specialist provides assistance to the GOM Ministry of Finance to develop strategy for privatization of ECI. May be recruited through IDLI and funded by NE Regional Private Enterprise Project. Success of this pre-project activity will determine GOM commitment to policy dialogue-oriented project CP's and/or covenants. Implementation of privatization measures will continue over LOP and perhaps beyond.
04/85 - 7/85	Project Paper completed
08/85	Project Paper review and approval
09/85	Preliminary Negotiations with GOM on loan components
10/85	Mission staff expanded to manage private sector project
11/85	PROAG signed
11/85	Training provided with USAID/Cairo staff for implementation of production credit component, either through funding travel of USAID/Rabat officer to USAID/Cairo or vice-versa
11/85	Reserves of export credit insurance Facility Funded ($8 million)
11/85	Disbursement of production credit initiated ($8 million)
11/85	Scopes of work completed for technical assistance
03/85 - 5/85	Contractors for technical assistance component arrive in-country
01/89	Project evaluation
02/89 - 6/89	Follow-on design
09/89	PACD

ANNEX C

Initial Environmental Examination

Project Location: Morocco

Project Title : Private Sector Export Promotion

Funding: ESF $18.5 million

Life of Project: 3 years

IEE Prepared By: Doral Watts, Mission Environmental Officer, USAID/Rabat

Date: February 5, 1985

Action Recommended:

The Mission recommends a negative determination on the grounds that this project will not have a significant effect on the environment.

Discussion:

This Project will fund the reserves of the export insurance facility and will provide production credit to exporters via intermediate financial institutions. The project contemplates that these institutions will issue insurance guarantees and disburse credit to exporters. AID review and approval of these individual transactions will not be required. Under Section 216.2(c)(2)(x) of AID Regulation 16, an environmental analysis need not be performed in conjunction with such a project.

Concurrence:

Mission Director

Date 3/21/86

ANNEX D

Morocco's International Trading Patterns

Morocco's foreign trade can be grouped into seven general categories, shown in the following table, along with the value, in billions of dirhams, for those categories in 1983:

		Value	
		Imports	Exports
I.	Foodstuffs, beverages, and tobacco	3.8	3.7
II.	Energy and Lubricants	7.0	0.6
III.	Crude Products of Amimal and Vegetable Origin	1.8	0.4
IV.	Raw Products of Mineral Origin	1.4	4.0
V.	Intermediary Products	4.9	3.8
VI.	Machinery	4.9	0.1
VII.	Consumer Goods	1.8	2.2
	Total	25.6	14.8

Imports

Although Morocco imports a variety of items and has a number of trading partners, certain items and trading partners are significant. The total value of Morocco's imports in 1983, 25.6 billion dirhams, was slightly less than in 1982 when imports were 26.0 billion dirhams, The largest import is crude petroleum, supplied mainly by Saudia Arabia. Of the total value of Moroccan imports in 1983, crude petroleum accounted for 25 percent. The next highest single item, wheat, mainly from the United States, accounted for 7 percent. Another significant item is sulphur, the third highest single item in 1983, accounting for 4 percent of the total. Aside from these three items, significant categories of goods are: chemical products; steel mill goods; machinery of all types; transportation products; textile goods; plastic materials; crude products of animal and vegetable origin; and foodstuffs, beverages, and tobacco.

In terms of suppliers, France is Morocco's first supplier, accounting for 20 percent of trade in 1983 and 25 percent in 1982. Almost entirely due to its sales of crude petroleum, Saudia Arabia has been Morocco's second largest supplier for several years. The United States and Spain have been the next two principal sources of Moroccan imports over the 1980-1983 period. Other major suppliers are West Germany, Italy, Great Britain, and the U.S.S.R. As a group, the EEC accounted for 40 percent of Moroccan imports in 1983, down slightly from 42 percent in 1982.

Exports

Morocco's exports are concentrated in four categories: foodstuffs, beverages, and tobacco; raw products of mineral origin; intermediary products; and consumer goods. Phosphates account for more than 80 percent of the trade in the raw products of mineral origin category, and phosphoric acid and fertilizers account for more than 80 percent of the items included in intermediary products. Production and trade in those three products are controlled by state owned enterprises.

Thus, aside from state controlled industries, private sector export sales are concentrated in consumer goods, and foodstuffs and beverages. Of the top 60 export items in 1983, 18 would be included in foodstuffs and beverages, and 8 in consumer goods. Among foodstuffs, notable exports include fresh citrus fruit, fresh vegetables (especially tomatoes), fresh and preserved fish and seafood, and dried fruit and vegetables. Capers and coriander are two relatively small but consistent earners in this category. Exports of major foodstuffs amounted to approximately 3.5 billion dirhams ($491 million) in 1983. This was an increase of 25 percent over 1982. Beverages (i.e., fruit and vegetable juices, and wine) totalled 97 million dirhams in 1983, a decline of 22 percent from 1982.

The 8 major consumer goods accounted for 1.7 billion dirhams ($231 million) in 1983, an increase of 21 percent over the 1.4 billion dirhams in 1982. Apparel and accessories (excluding leather articles) represented about 55 percent of the 1.7 billion dirhams in 1983, followed by carpets (22 percent), footwear (12 percent), household linen (4 percent), leather articles (3 percent), blankets (2 percent), and household hardware (2 percent). With the exceptions of household linen and leather articles, all of these consumer goods experienced increases in 1983 over 1982.

Inputs

Production of foodstuffs, beverages, and consumer goods requires a considerable variety of raw materials, semi-finished goods, machinery, and equipment. Producers of fresh and processed fruits, vegetables, and seafood, for example, purchase significant amounts of specialized machinery and equipment for use in planting, harvesting, transporting, processing, packaging, and distributing goods. They also require items such as fertilizers, insecticides, pesticides, and other chemical products.

The apparel industry requires large quantities of fabric, yarn, dyes and other chemicals, in addition to sewing machines and other machines used in cutting, printing, and fastening materials. Textile firms require large quantities of cotton, wool, silk, and machines used in transforming these raw materials into finished or semi-finished goods. The footwear, carpet, and other key Moroccan export industries in the consumer goods sector also require special machines and equipment, and raw materials.

Despite an over-valued dollar, firms in the United States still are major producers of many of the inputs used in the Moroccan private sector export industries. Although Morocco's principal sources for most of these items have been in Europe, the United States has, in many cases, also been a consistent and significant supplier.

In the case of cotton, the United States was the major supplier for the period 1980-1983, and the first 10 months of 1984. A review of Moroccan import statistics for the period 1981-1983 listed the United States among suppliers of at least 15 items that would be used significantly in a Moroccan private sector export industry. Inputs used primarily in state controlled export industries were not included for review. Total U.S. supplies of these 15 items came to $76.3 million in 1981, $42.5 million in 1982, and $30.6 million in 1984. Part of the decline is attributable to the depreciation of the dirham. The 15 categories reviewed included: hides, skins, and leather (2); raw material for making fiber or yarn (3); fabric and yarn (6); machinery and parts for agriculture, textiles and leather, and special industries (4).

ANNEX E

MACROECONOMIC DATA

Table 1: MOROCCO - EXPORT PERFORMANCE, 1972-83

(Annual % growth rate in 1969 prices)

	1972-77	1977-80	1980-83
Manufactured products 1/	10.4	5.3	12.4
Foodstuffs	-0.8	1.6 3/	-2.2 3/
Agricultural products	-7.2	-7.6	-12.6
Minerals 2/	1.0	1.2	-5.8
Phosphates and fertilizers	5.0	1.7	6.2
Merchandise exports	0.8	4.1	-0.7
Nonfactor services	0.6	-1.1	6.6
TOTAL	0.6	2.6	2.5

1/ Excluding food and phosphate products.
2/ Excluding phosphate rock.
3/ Calculated over the periods 1977-79 and 1979-82 since 1980 was an exceptionally good agricultural year.

Source: Government of Morocco and World Bank estimates.

12/11/84 (2635B, p.7)

IBRD: Morocco - Industrial Incentives and Export Promotion. Report No. 4893-MOR, January, 1984, P. 14.

Table 3: MOROCCO - MEDIUM-TERM PROJECTIONS
MACROECONOMIC AGGREGATES

	Annual Growth Rate (%) (at constant 1980 prices)			Share of GDP (%) (at constant 1980 prices)			
	1980-82	1982-85	1985-90	1980	1982	1985	1990
Value Added by Sector							
Agriculture	-3.9	-1.2	2.3	18.1	15.9	14.4	14.0
Industry	1.1	1.9	3.0	32.3	31.3	40.0	31.3
Services	6.0	3.1	2.8	49.6	52.8	45.6	54.7
GDP	2.7	2.2	2.8	100.0	100.0	100.0	100.0
National Accounts							
Consumption	3.9	1.2	1.9	88.5	90.6	88.1	84.2
Public	8.8	-0.6	0.2	20.4	22.8	21.0	18.5
Private	2.5	1.8	2.4	68.1	67.8	67.1	65.7
Gross Investment	-1.7	-3.6	-0.7	22.6	20.7	17.4	14.7
Fixed	2.1	-4.6	-0.6	21.1	20.9	17.0	14.5
Changes in stocks	...	...	...	1.5	-0.2	0.4	0.2
Exports of GNFS	3.8	5.5	7.9	18.4	18.8	20.7	[illegible]
Imports of GNFS	3.9	-2.5	2.1	-29.4	-30.1	-26.2	-25.4
Resource Gap	4.1	-19.5	...	-11.0	-11.3	-5.5	+1.1
Gross Domestic Savings	-15.9	11.0	13.4	11.5	7.7	9.9	14.7
GNP	1.9	2.5	2.6	...	...	...	...
Other Indicators							
Marginal Savings Rate (GNS/GNP)	1.95	0.43	0.41				

Source: World Bank.

(12/11/84) (2635B, p.15)

IBRD: Morocco - Industrial Incentives and Export Promotion. Report No. 4893-MOR, January, 1984, P. 32.

Table 4: MOROCCO - MEDIUM-TERM PROJECTIONS
EXTERNAL TRADE

	Amounts (millions of US$ at current prices) 1980	Volume of Trade Annual Growth Rates (%) (at constant 1980 prices) 1980-82	1982-85	1985-90	Unit Values Annual Growth Rates (% (in US$) 1980-82	1982-85	1985
Exports of Goods & Nonfactor Services	3272	3.8	5.5	7.9	8.2	-0.3	10
Agricultural products	761	-6.0	6.2	4.0	-9.9	-2.7	12
Phosphate rock	765	-8.1	4.9	2.6	-6.0	-5.3	11
Phosphoric acid & fertilizers	240	33.3	17.8	14.4	-9.0	-0.6	11
Other manufactures	248	10.3	12.1	15.0	-3.0	1.0	8.
Other goods	400	10.8	-1.7	2.8	-22.0	2.8	9
Total goods (fob)	2414	2.6	7.4	7.9	-10.3	-1.2	11
Tourism	453	-1.8	8.4	8.0	-3.0	2.8	8.
Other nonfactor services	405	16.2	-7.0	7.9	-3.0	2.8	8
Total nonfactor services	858	7.1	0.4	8.0	-3.0	2.8	8.
Memo: Total phosphate rock & products	1005	3.3	10.4	8.9	-7.8	-3.4	11.
Imports of Goods & Nonfactor Services	5246	3.9	-2.5	2.1	-4.2	-0.7	9.
Cereals	319	9.2	3.1	0.4	-13.1	2.4	7.
Sugar	159	-9.3	0.7	-8.0	-18.9	-7.1	29.
Vegetable oil	97	13.2	-3.5	3.0	-13.1	10.9	6.
Other food	242	-7.3	-1.4	3.0	--	2.4	11.
Energy	1006	4.2	3.4	1.6	3.6	-5.4	11.
Sulfur	88	21.0	14.5	16.4	3.2	-2.2	11.
Other intermediates	1214	4.5	2.0	2.7	-9.9	-1.6	8.
Capital goods	805	12.1	-8.3	-1.3	3.0	2.8	8.
Consumer goods	352	-1.5	-10.1	2.4	-3.0	2.8	8.
Total goods (cif)	4283	5.2	0.3	2.1	4.4	-1.0	9.
Government transactions	716	3.7	-19.8	1.2	3.0	2.8	8.
Other nonfactor services	247	1.3	-5.4	2.8	-3.0	2.8	8.
Total nonfactor services	963	-2.4	-15.3	1.8	3.0	2.8	8.

Terms of Trade (1980 = 100)	1980	1982	1985	1986	1987	1988	1989	1990
Export price index	100.0	80.4	77.6	87.1	97.0	107.9	119.7	132.3
Import price index	100.0	91.4	88.6	97.9	107.6	118.4	129.4	140.5
Terms of trade index	100.0	88.0	87.6	89.0	90.1	91.2	92.6	94.2

Source: World Bank.

2635B, p. 17 (12/11/84)

IBRD: Morocco - Industrial Incentives and Export Promotion. Report No. 4893-MOR, January, 1984, P. 35.

Table 5: MOROCCO - MEDIUM-TERM PROJECTIONS
BALANCE OF PAYMENTS AND EXTERNAL DEBT
(US$ million)

	1980	1982	1985	1986	1987	1988	1989	19
Balance of Payments A/								
Exports of GNFS	3272	2968	3455	4180	5052	6030	7092	82
Imports of GNFS	5247	5198	4731	5211	5837	6586	7362	82
Resource Balance	-1975	-2230	-1276	-1031	-785	-556	-270	[illegible]
Workers' Remittances	1054	849	1056	1119	1186	1257	1334	14
Other Nonfactor Service Income	-628	687	670	-762	-844	-1053	1078	10
Total Net Factor Service Income	426	162	386	357	342	204	256	3
Net Current Transfers	128	170	70	74	77	81	85	[illegible]
Current Account Balance	-1420	-1899	-819	-600	-367	-271	72	49
Medium & Long-term Capital (net) B/	1132	1557	1087	997	909	-205	-406	-4
Other capital (net)	155	441	-153	-306	-244	-130	-78	-1
Change in reserves (inc. -)	132	-101	-116	-90	-298	36	-66	-5
Financing gap	-	-	-	-	-	570	478	
Memo items:								
Debt Relief			1026	1628	1223			
Interest			163	165	155			
Principal			863	1463	1068			
Current Account as % of GDP	-8.0	-12.7	-6.1	-4.0	-2.2	-1.4	0.3	2.
(Before debt relief)			(-7.3)	(-5.1)	(-3.1)			
Reserves as Months Imports C/	1.7	1.1	1.2	1.3	1.7	1.4	1.4	1.
External Public Debt								
Commitments	1452	1643	1351	1446	1549	1657	1776	190
Official	788	578	931	998	1072	1148	1233	132
Private	664	1065	420	448	477	509	543	57
Disbursements	1615	2106	1595	1592	1610	1600	1637	174
Official	850	864	977	1076	1099	1079	1107	119
Private	765	1242	618	516	511	521	530	55
Debt Outstanding & Disbursed								
in US$ million	7109	954	11599	12596	13505	13870	13942	1351
in % of Exports of Goods & Services	163	236	256	237	216	189	165	13
Debt Service D/	1193	1334	1080	1266	1459	2790	3047	318
Interest	614	582	571	670	758	986	1004	100
Amortization	579	752	509	596	701	1804	2043	217
Debt Service in % of Exports of Goods & Services	27.3	34.7	23.9	23.8	23.3	38.0	36.0	32.
Memo items:								
Debt service before debt relief								
in U$ million			2106	2894	2682			
in % of Exports of Goods & Services			46.6	54.4	42.8			

A/ Assuming debt relief in 1985-87 as shown.
B/ Including grants in 1980 and 1982. No grants have been projected in capital account for 1985-90.
C/ Including gold valued at market price.
D/ Including service on debt relief.

Source: World Bank.

2635B, p. 18 (12/11/84)

IBRD: Morocco - Industrial Incentives and Export Promotion. Report No. 4893-MOR, January, 1984, P. 38.

TABLE 6

Source or Destination of Traded Goods - 1978 and 1983
(percentage)

	Imports		Exports	
	1978	1983	1978	1983
EEC.	49.2	38.0	57.0	52.2
(of which: France)	(26.1)	(20.1)	(26.5)	(23.0)
Other European	16.3	12.0	12.3	16.9
Eastern Europe	6.0	7.9	11.4	5.9
Africa	2.5	2.0	4.4	3.8
America	13.0	14.3	6.6	3.7
(of which: U.S.)	(8.4)	(9.7)	(2.8)	(1.3)
Asia and Middle East	12.9	25.8	7.0	17.5
	99.9	100.0	98.7	100.0

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ANNEX F

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ANNEX G

List of Persons Interviewed

NAME AND TITLE	ORGANIZATION
I. Government of Morocco Officials	
M. Jouahari Minister	Ministry of Finance, GOM
M. Taieb Ben Cheikh Minister	Ministry of Economic Affairs, GOM
M. M'Zalek Tazi Director of the Treasury	Ministry of Finance
M. Mohamed Guedira Directeur General	Centre Marocain de Promotion des Exportations
M. Abdelhamid Boumediene Chief Department of External Relations	Centre Marocain de Promotion des Exportations
M. Tayeb Raouf Economic Attache	Embassy of Morocco Washington, D.C.
M. Abderrahim Benmoussa Economic Counselor	Moroccan Permanent Mission New York
II. Enterprise Representatives	
M. Abdelilah Kabbaj Directeur	Societe Africaine de Filature et Tissage (SAFT)
M. Ahmed Ghallab President Directeur General	MAPROC (Shoes and leather goods production for export to the U.S.)
M. Mounir Bensaid President	EXIM (trading company)
III. Banking Representatives	
M. Christian J. Bartholin Directeur General	Citibank-Maghreb
M. Abdelkebir Bennani Vice-President	Banque Marocaine du Commerce Exterieur
M. Abderrazak Khallouk Directeur-Adjoint Direction des Relations Exterieures	Banque Marocaine de Commerce Exterieur
M. Driouche Export Insurance Division	Banque Marocaine du Commerce Exterieur

M. Abdelhak Bennani Vice-President & Directeur General	WAFA Bank
M. Mustapha Faris President Directeur General	Banque Nationale Pour le Developpement Economique
M. Farid Dellero Directeur General	Banque Nationale Pour le Developpement Economique

IV. <u>Industry Associations</u>

M. Mohamed Tazi Directeur	Association Marocaine des Exportateurs

V. <u>Other Donor Organizations</u>

M. Joel Fessaguet Representative	European Economic Community (Morocco)
M. Nicolas Mathieu Economist	World Bank (Washington, D.C.)