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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

PROJECT PAPER

MOROCCO: Economic Policy Analysis
Support (608-0191)

August 31, 1985

UNCLASSIFIED

PROJECT DATA SHEET

SALES CODE
 A - Add
 S - Change
 D - Delete
 Original
 3

2. COUNTRY/ENTITY
 MOROCCO

4. BUREAU/OFFICE
 RABAT/MOROCCO

3. PROJECT NUMBER
 608-0191

5. PROJECT TITLE (maximum 80 characters)
 Economic Policy Analysis Support

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)
 MM DD YY
 09 30 90

7. ESTIMATED DATE OF OBLIGATION
 (Under "B" below, enter 1, 2, 3, or 4)

A. Initial FY 85 B. Quarter 4 C. Final FY 89

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY 85			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total SDA	1,070		1,070*	8,600		8,600
(Grant)	(1,070)	()	(1,070)	(8,600)	()	(8,600)
(Loan)	()	()	()	()	()	()
Other U.S. 1.						
2.						
Host Country		1,200	1,200		2,900	2,900
Other Donor(s)						
TOTALS	1,070*	1,200	2,270	8,600	2,900	11,500

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SDA	700	968		75		995		8,600	
(2)									
(3)									
(4)									
TOTALS				75*		995*		8,600	

10. SECONDARY TECHNICAL CODES (maximum 5 codes of 3 positions each)

11. SECONDARY PURPOSE CODE
 N/A

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

A. Code	RDEV	INTR
B. Amount	4,300	4,300

13. PROJECT PURPOSE (maximum 480 characters)

To contribute to the successful reorientation of the Moroccan economy toward greater reliance on market forces by supporting the development of institutional capabilities of Government of Morocco (GOM) agencies in economic analysis.
 USAID/MOROCCO Controller approves methods of implementation and financing.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
 03 87 04 90

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a page PP Amendment)

* The total planned obligation for this project in FY 1985 is \$1,070,000. Of this amount, \$75,000 has already been obligated for a Phase I activity under a separate Limited Scope Grant Agreement, dated July 22, 1985 (see Annex E), and the remaining \$995,000 to be approved by this action as the first tranche to undertake Phase II activities.

17. APPROVED BY
 Signature: Robert C. Chase
 Title: Robert C. Chase, Mission Director
 Date Signed: MM DD YY 08 31 85

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

AUG 31 1985

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

FROM: PROG, John Giusti and Ulrich Ernst ^{le}

SUBJECT: Economic Policy Analysis Support Project, 608-0191

PROBLEM: Your approval is required for (1) the Economic Policy Analysis Support Project, 608-0191, and (2) the attached Amendment No. 1 to the Project Authorization.

DISCUSSION: The Near East Advisory Committee (NEAC) approved the Project Identification Document (PID) for the subject project on March 27, 1985. Pursuant to Redelegation of Authority No. 113.3A, as amended April 4, 1985, you have the authority to authorize new projects up to \$20 million life-of-project total. This project falls within these limits.

The project will assist efforts of the GOM to develop its economic policy development, appraisal and implementation capabilities.

The NEAC guidance cable (State 103195) stated that the PP may be approved subject to the following decisions: (1) To clarify the project goal and purpose to focus on assisting the GOM in its move towards a more market-oriented economy. (2) Technical assistance directed toward public enterprises should focus on increasing the market orientation of such enterprises. (3) The Mission should consider a four-year LOP. (4) Provisions to assure coordination/compatibility between this project and related USAID project are needed. (5) Careful attention should be given to the evaluation strategy and funding. (6) More explicit criteria for the selection of subprojects are required.

The Project Paper responds to these NEAC decisions. The goal statement and the subproject selection criteria limit support to efforts directed at increased market orientation. The evaluation plan identifies specific data needed to describe the "before" situation for the project as a whole. In addition, a Logical Framework and an evaluation design are required for each subproject. The selection criteria have been tightened.

The Project Paper also responds to the NEAC recommendation to consider a longer LOP. After careful evaluation of the needs and opportunities, the most appropriate choice appeared to be that of a five-year LOP. The choice entailed a commensurate increase in the LOP budget for the AID contribution, from the \$4.8 million shown in the PID to \$8.6 million. Of that amount, \$75,000 has already been obligated under a Limited Scope Grant Agreement for the purchase of microcomputers for the Direction des Prix in the Ministry of Economic Affairs; the Limited Scope Grant Agreement was signed July 22, 1985, and work on this first phase is progressing.

A Congressional Notification was sent to Congress on April 11, 1985 and expired without objection April 26, 1985.

RECOMMENDATION: That you indicate your approval of the Economic Policy Analysis Support Project (608-0191) by signing the facesheet of the Project Paper and the attached Amendment No. 1 to the Project Authorization for a life-of-project total of \$8.6 million.

Clearance: A. Williams, RLA
M. Matthews, CONT
J. Smith, PROG/ECON
C. Johnson, D/DIR

[Handwritten signatures and initials]
JMS (form)
JS
CJ

AMENDMENT NUMBER ONE
TO
PROJECT AUTHORIZATION

Name of Country/Entity: Morocco

Name of Project: Economic
Policy Analysis
Support

Number of Project: 608-0191

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, Phase I of the Economic Policy Analysis Support Project for Morocco (Cooperating Country) was authorized on July 2, 1985. That authorization is hereby amended to include the entire project as follows:

a. Paragraph 1 is deleted in its entirety and the following paragraph is inserted in lieu thereof:

"Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Economic Policy Analysis Support Project for Morocco (the "Cooperating Country") involving planned obligations of not to exceed \$8,600,000 in grant funds over a five year period from date of authorization subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is five years and three months from the date of initial obligation."

b. To paragraph 2 is added the following:

"Phase two of the project consists of a number of separate subprojects which have as their goal to support the Cooperating Country's economic policy reform and structural adjustment efforts toward a more market-oriented economic system and as their purpose the strengthening of the capacity of the Cooperating Country to carry out economic policy development and appraisal. This will be accomplished through the provision of technical assistance, training and commodities."

c. The following Conditions Precedent are added in substance to subparagraph B.

(i) "Prior to disbursement for any subproject under the Grant, or to the issuance by A.I.D. of commitment documents pursuant to which disbursement will be made, the Grantee and A.I.D. shall have signed a Memorandum of Understanding which sets out all of the terms and conditions of that subproject and which reflects adequate planning for that subproject in accordance with A.I.D. requirements."

(ii) "Prior to disbursement under any subproject, or to the issuance by A.I. D. of commitment documents pursuant to which disbursement will be made, for computer hardware, the Grantee will present to A.I.D. in form and substance satisfactory to A.I.D. a maintenance plan for such equipment."

d. The following Covenants are added in substance to subparagraph C.

(i) "The Cooperating Country agrees that all subprojects must meet the criteria set out in Annex I to the Project Agreement in order to be funded under the Grant."

(ii) "The Cooperating Country agrees to provide within 90 days of signature of this Agreement a statement designating officers within the Ministry of Economic Affairs charged with the implementation of this Project and the coordination with other participating Ministries or agencies. The statement shall include a definition of the responsibilities and authorities of the designated officers."

(iii) "The Parties agree that this project is designed to assist the Grantee in its efforts to achieve a market-oriented economy through economic policy reform and that changes in this orientation may be cause for termination of this project by A.I.D."

2. The authorization cited above remains in force except as hereby amended.


Signed by *A. Chase*
Signature _____
MISSION DIRECTOR
RABAT, MOROCCO
Title *Director, USAID/Rabat*
Date *8/31/85*

AUG 31 1985

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(608-0191)

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- C: GOM Request for Assistance
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Direction des Prix
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LIST OF PROJECT AND MISSION REVIEW COMMITTEE MEMBERS

Project Committee:

U.F.W. Ernst, Economist
W.S. Rhodes, Program Officer
J.J. Giusti, Assistant Program Officer
J.T. Smith, Program Economics Officer

A.D. Redding, Consultant
R. Hess, Consultant

Mission Review Committee:

R. Chase, Mission Director
C. Johnson, Deputy Mission Director
A. Williams, Regional Legal Adviser
M. Matthews, Controller
S. Nevin, Regional Contracting Officer

I. SUMMARY AND RECOMMENDATIONS

A. The Problem

The Government of Morocco (GOM) is currently attempting to master a severe economic crisis and to lay the foundation for better economic performance in the future. The economic crisis is characterized by the familiar symptoms -- large chronic savings-investment and foreign-exchange gaps (both fueled by an ambitious public-sector investment program), mounting external debt, inability to service this debt, need to reschedule, and subsequent austerity. With the support of the IMF and other donors, the GOM had taken measures to stabilize the economy.

At the same time, the GOM has embarked upon a comprehensive program of economic policy reform to overcome structural weaknesses. This program aims at a fundamental reorientation of the economy away from import substitution activities toward export markets. It also seeks to reduce the role of government in favor of greater reliance on market forces.

The combination of stabilization and structural adjustment efforts poses a serious challenge to the GOM. Economic policy reforms and structural change imply transaction costs -- while the overall impact will be positive in the medium and long term, some groups will be adversely affected, especially in the short run. The GOM is dependent on the support of all segments of the political spectrum. It therefore often moves cautiously, largely because the consequences of certain policy alternatives are not well understood. Moreover, effective implementation of new policies is frequently hampered by inadequate administrative capabilities.

In this situation, the ability to develop specific policy alternatives, to appraise their consequences and to carry out new policies swiftly and effectively becomes critical. With respect to economic policy analysis, the GOM has developed good capabilities in some departments. However, overall it has often had to rely on external policy advice, since its in-house capabilities are insufficiently developed. Data on even basic economic variables are available only after considerable delays, and are not entirely reliable even then. Short-term forecasting for budget planning and fiscal and monetary policies is virtually non-existent. Public investments in infrastructure are often launched without an adequate assessment of costs and benefits because no project appraisal standards have been promulgated, nor could they be met by the various technical ministries who lack staff with an adequate background in financial and economic appraisal techniques.

The GOM recognizes that the dearth of relevant data, analysis skills and policy advice hampers its policy reforms. It has also expressed its commitment to improving its capabilities in economic policy implementation. Acting on this commitment, several departments have initiated efforts to develop their institutional capabilities in economic policy development, appraisal and implementation. These efforts form the context for the Project described here.

B. The Opportunity

1. The GOM Position

In its efforts to build up its economic policy development, appraisal and implementation capabilities, the GOM has begun to seek financial and technical assistance. While much of the attention has focused on office automation, data processing and computing equipment, the GOM agencies have recognized the need for technical assistance and further training of analysts and administrators in the agencies and departments responsible for economic analysis.

More importantly, key agencies have acknowledged the need to cooperate closely in developing such capabilities, rather than proceeding in an isolated manner, to take advantage of economies of scale and to improve prospects for compatibility and data exchange. As a result, linkages among different efforts not only exist, but are in fact actively cultivated by the officials responsible. This orientation offers considerable opportunities for pursuing a common strategic perspective across GOM departments.

2. The USAID Position

The new emphasis on the development of policy analysis capabilities corresponds to positions long held by USAID in the policy dialogue. In fact, USAID has sought to strengthen these capabilities through a number of projects by supporting, for example, the development of better economic and demographic data, providing assistance to the Ministry of Energy and Mines to build in-house capabilities in energy investment project appraisal and national energy planning, and supporting similar efforts in the Ministry of Agriculture in the area of agricultural policy and statistics.

Moreover, USAID strongly supports the basic thrust of the GOM's structural economic policy reforms now underway -- greater reliance on market mechanisms, less government control, and a growing role for the private sector. Contributing to a successful implementation of this reform therefore attains high priority.

The support of the creation and strengthening of institutional capabilities in economic policy development and appraisal represents an area of comparative advantage for USAID vis-a-vis other donors. First of all, USAID's continuing presence allows for effective project development as part of the policy dialogue. It enables USAID to respond more quickly to opportunities to intervene and assist in defining the scope and approach for economic analysis units. Second, USAID's consistent support for the principles of the policy reform lend its project activities greater credibility. Third, while the "microcomputer revolution" is worldwide, the US is still viewed as the pioneer in applying microcomputer technology to economic and management problems.

C. USAID Proposal

1. Brief Project Description

The proposed Project is designed to contribute to the successful reorientation of the Moroccan economy toward greater reliance on market forces by supporting the development of institutional capabilities of GOM agencies in economic policy analysis and management. In the short run, the Project aims at improving the information available to economic policy makers and managers. In the long run, it seeks to build better capabilities for economic policy advice and implementation.

The Project design assures maximum flexibility for USAID to respond to opportunities identified and developed by Mission staff in cooperation with GOM agencies to mold and support institutional efforts contributing directly to better economic policy analysis and management capabilities. Consequently, the Project will comprise several subprojects with separate "identities," but organized and administered within a common strategic framework. Candidate subprojects include technical assistance and related support to:

- the GOM agency playing a key role in smoothing the transition from an economy with extensive price regulation and control to a market economy relying much more on the price system, the Direction des Prix in the Ministry of Economic Affairs;
- the national training program in economic and financial analysis for GOM investment project analysts (PNAP);
- the agencies involved in planning and budgeting the investment portion of the GOM's annual budget and its multi-year plans;
- the national statistics office (Direction de la Statistique, Ministry of Plan) in developing and organizing its data bases to facilitate access and use by analysts in other GOM agencies.

Each of the potential subprojects must meet certain criteria which relate to their policy orientation, their prospects for creating lasting capabilities as evidenced by the institutional arrangements and availability of qualified counterpart staff, and their relationship to other subprojects or other USAID projects. The key requirement will be a demonstrable contribution to the specific objectives of the economic policy reform.

2. Expected Impacts

The expected Project impacts fall into four categories. First, the Project will contribute to the establishment of departments in GOM agencies capable of providing high-quality economic analysis and policy advice. Second, the Project should instill greater confidence in such analysis and policy advice on the part of GOM policy makers. Greater confidence in turn means greater reliance on this type of information in formulating and implementing policies. Third, the Project will contribute to the promulgation of economic analysis standards in policy formulation and implementation. Fourth, the Project will contribute to more timely and reliable information for economic policy implementation, thereby removing existing bottlenecks.

3. Resource Requirements and Costs

The project incorporates three elements -- technical assistance by highly qualified resident and TDY advisers, training and continuing education for GOM counterpart staff, and data processing and analysis equipment, especially microcomputers.

The exact resource requirements are a function of the specifications and needs of the individual subprojects developed under this Project. At present, total costs for all subprojects over the five-year life of the Project are estimated as \$11.5 million, with the GOM contributing the equivalent of \$2.9 million, and USAID \$8.6 million. These estimates are discussed in greater detail in Section IV.

D. Recommendations

The USAID project committee has determined that the proposed activities are technically, administratively, and financially feasible within the five-year life-of-project period. The Project Identification Document (PID) for this Project was reviewed and approved in AID/Washington on March 27, 1985. The NEAC approval identified a number of issues (see NEAC guidance cable in Appendix B) that have been addressed in this Project Paper. It is therefore recommended that this Project be approved and authorized.

II. BACKGROUND

A. Morocco's Economic Situation and Policy Response

Morocco is currently trying to cope with an economic crisis of staggering proportions. Its total foreign debt exceeds the level of its annual GDP -- a relative burden far heavier than that of some of the major debtor nations in the Third World. In the 1980's, growth in real per capita income has been negative, even measured in the domestic currency. As a result of the rapid decline of the dirham relative to the dollar, per capita income measured in dollars had fallen below \$750 by official World Bank estimates in 1983, making Morocco eligible for special concessional terms for development aid.

Encouraged and supported by the international donor community, the Government of Morocco (GOM) has embarked upon an ambitious program aiming at both stabilization and structural adjustment. This combination presents an extremely difficult policy challenge. Thus far, Morocco has shown considerable determination and discipline in "hewing to the line." Even so, the economy failed to reach many of the performance targets, largely a result of resource constraints and an adverse economic environment.

The present section briefly reviews the country's economic situation to identify some of the key problems. It proceeds to a brief sketch of the policy environment and some of the key elements of economic policy reform.

1. Overall Economic Growth

Until the 1980's, Morocco registered a respectable economic growth performance. Throughout the 1970's, the country's Gross Domestic Product (GDP) in constant prices increased at an average annual rate about twice the official population growth rate. Per capita income in constant dirhams increased at an annual rate of about 2.5 percent during this decade. For the period 1980-84, the average annual growth rate for the GDP (in constant prices) fell below the population growth rate, implying a decline in real per capita income.

Events beyond the GOM's control -- a long-lasting drought and a worldwide recession in the early 1980's, followed by the precipitous fall of Morocco's currency vis-a-vis the dollar -- account for much of the country's disappointing performance in the first part of this decade. Not all of the blame can be placed on outside events, however. Their impacts have been exacerbated by the country's vulnerable economic structure, itself largely a result of the economic policies pursued. These policies tended to follow all-too-familiar patterns; high levels of protection providing incentives for import substitution activities; a crazy quilt of subsidies and price controls that kept prices of some goods and services (including capital) below their economic value, while keeping prices of other goods too high through the expedient of a cost-plus price setting procedure; a rapidly growing role of the public sector, both public administration and public enterprises most of which require large subsidies from the Treasury to stay financially afloat; and inadequate coordination between planning, budgeting and budget management.

2. Investment

The public sector emerged as the engine of growth in the late 1970's. Until the mid-1970's, the GOM pursued a reasonably cautious economic policy. As illustrated in Figure II.1, in the late 1960's and early 1970's, gross investment hovered around 15 percent of GDP. In 1974, Morocco managed to quadruple its export earnings from its phosphate operations by raising prices in response to a sharp rise in world demand. The resulting gain was sufficient to absorb the effects of the first oil price shock and provide ample foreign exchange to finance an ambitious investment program. Public investment expanded rapidly. The scope of this policy shift is reflected in the ratio of total gross investment to GDP which reached a peak of 27.6 percent in 1977.

The phosphate boom proved shortlived. In response to the shortfalls in revenues, public investment tapered off somewhat. Even so, while total gross investment as a percentage of GDP dropped, the ratio did not return to the pre-1975 levels. Instead, it has remained in the range of 21 to 23 percent since 1978. Even the austerity budgets since 1983, which have slashed public investment expenditures from the planned levels, have proved unable to lower this share appreciably. That is in part a reflection of the high aspirations of the 1981-85 Five-Year Plan.

Domestic savings are insufficient to finance investment, since they amount to only approximately 11 to 12 percent of GDP, dropping as low as 8.4 percent in 1982. Even when domestic savings are augmented by net factor income from abroad, primarily remittances from Moroccan workers abroad (the second-most important source of foreign exchange after phosphates), total national savings barely exceed 15 percent of GDP, still far short of total investment.

The inability to finance investment out of national savings represents one facet of the problem. The other is the low productivity of investments that have been undertaken, illustrated by the increase in the incremental capital-output ratio (ICOR) from 3 in the mid-1970's to 8 by the early 1980's. In the private sector, generous investment incentives and an artificially low price of capital have favored capital-intensive projects. In the public sector, many investments have been undertaken without adequate financial and economic analysis. Moreover, public sector decision makers have often yielded to a penchant for large-scale projects.

3. Foreign Trade and Balance of Payments

The policies that shaped investment patterns and levels are also reflected in Morocco's foreign trade history. Until the mid-1970's, the trade deficit remained small and manageable, as illustrated in Figure II.2. In 1974, export earnings doubled as earnings from phosphates quadrupled. Seeking to take advantage of this gain, the GOM launched an ambitious investment program. This program meant a sharp increase in imports which continued even as the phosphates boom fizzled and export earnings actually declined. The continued high level of imports was due in part to the fact that imports reflected multi-year investment commitments, in part to rapid price increases for imports, especially with the second oil shock.

Gross Investment as Percent of GDP

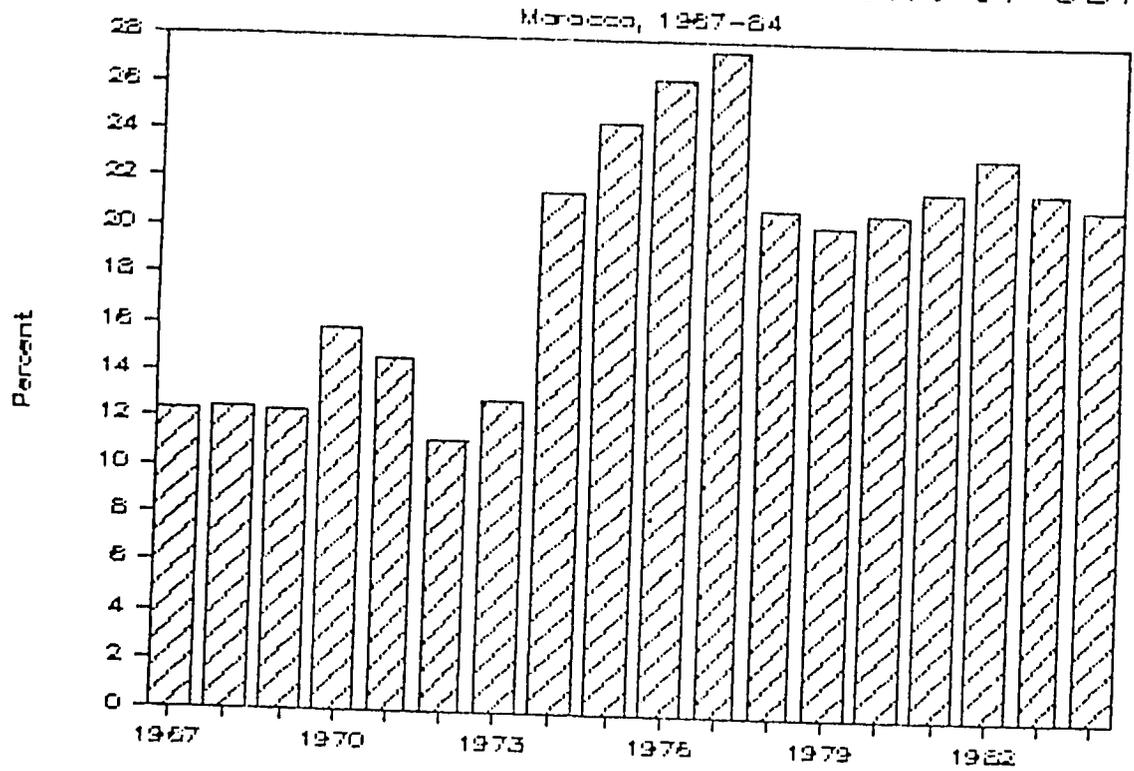


Figure II.1

Morocco's Trade Balance, 1960-84

(in billions of current dirhams)

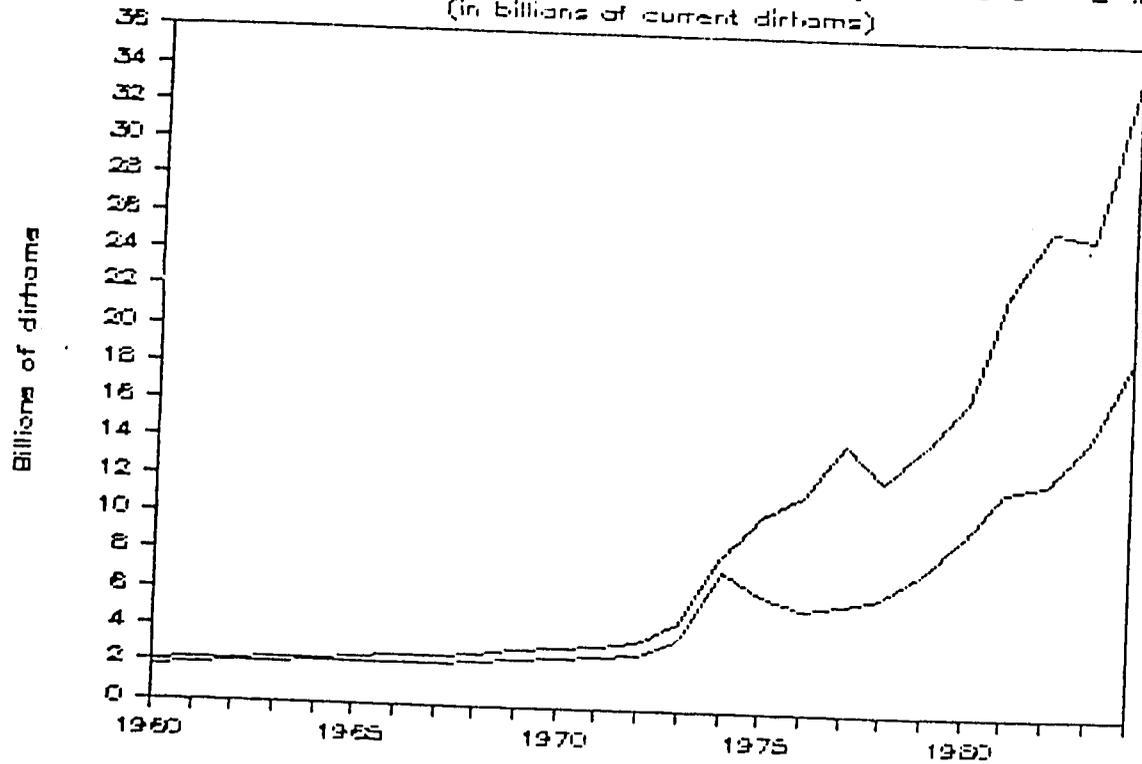


Figure II.2

Since the late 1970's, Morocco has registered a reasonably good export performance, with annual increases (in current dirhams) of 18 to 30 percent. But the growth in exports has been outpaced by imports. The two exceptions to this trend -- the two dips in the import curve -- are 1978, the first year of a three-year stabilization program adopted in response to the emerging crisis, and 1983, when the GOM clamped down on imports by requiring licenses for any imports and granting such licenses only after long delays and bureaucratic reviews. Under this regime, many imports were postponed to 1984, when total imports increased by some 34 percent. Much of that growth, however, was due to food and energy needed because of the drought. Increases in imports of consumer goods have been less than had been feared.

The overall balance of payments has benefited from the remittances of Moroccan workers abroad as well as tourism. Workers' remittances have been sensitive to the effective interest rates offered by Moroccan banks, in part a function of the exchange rate. A number of measures have been taken in the past to encourage these deposits, such as preferential exchange rates. As part of the economic policy reform now underway, banks can offer better interest rates. In 1984, workers' remittances amounted to some 7.6 billion dirhams (US-\$760 million), corresponding to roughly 85 percent of export earnings from phosphate operations.

To finance the foreign exchange gap, Morocco relied heavily on external borrowing. Increasingly, it turned to private lenders. This trend, together with generally worsening financial conditions worldwide, meant that average loan conditions have hardened considerably. In 1984, total disbursed debt surpassed total GDP, amounting to some 108 percent of GDP. Unable to sustain the debt service, Morocco sought and received a rescheduling of its external debt for the period 1983-84. The GOM has requested a further rescheduling of official and commercial debt due in 1985 and 1986.

In 1983, Morocco also negotiated an IMF Stand-By Arrangement providing SDR300 million for an 18-month period. Negotiations have been completed with the IMF for another Stand-By Arrangement covering the period April 1984 to February 1987, for an amount of SDR225 million. The structural adjustment efforts have been supported by two Industrial and Trade Policy Adjustment (ITPA) Loans from the World Bank, for \$150 million (approved in January 1984) and for \$200 million (approved in June 1985). These two ITPA Loans have been complemented by number of sectoral loans.

4. Economic Policy Reform

The GOM has outlined the scope and depth of its economic policy reform in agreements with the IMF and the World Bank. With respect to stabilization, the GOM adopted a number of steps to curtail the current account deficit, reduce the budget deficit, increase prices for several key items (notably energy products) as part of the overall pricing policy reform, control domestic credit expansion, maintain a flexible exchange rate policy, and limit external borrowing.

Some key targets agreed upon in the context of the 1983 Stand-By Arrangement best illustrate the magnitude of the GOM's task. In 1982, the budget deficit amounted to 12.5 percent of GDP; the target for 1984 was 6.6 percent (after debt relief) -- just slightly over half of the 1983 figure.

Similarly, the 1984 target for the savings-investment gap represented just about one-half of the actual number for 1982, 6.7 vs. 13.5 percent of GDP. Finally, the current account deficit was to be lowered from 11.9 percent of GDP in 1982 to 6.0 percent in 1984, after debt rescheduling and including grants.

The GOM has demonstrated its determination to follow through on the stabilization program by implementing many of the policy measures agreed to. For example, the 1984 budget deficit was held to 6.7 percent, albeit at the cost of significant cutbacks in the investment budget. Even so, Morocco failed to reach several key targets: largely because of remaining resource constraints and adverse environmental conditions. A continuing drought necessitated higher imports of food and energy than had been foreseen and depressed overall economic performance. Thus, the current account deficit for 1984 exceeded the target substantially, and the annual growth rate for GDP at 2.4 percent fell short of the 3-percent target for 1984.¹ Since imports grew much faster than targeted, the current account deficit amounted to 8.1 percent, considerably higher than the 6-percent target. In addition, the savings-investment gap has been estimated at 10.5 percent, almost 60 percent above the 6.7-percent target.

The GOM also negotiated a significant exception to the changes in pricing and subsidy policies: consumer subsidies for basic necessities (flour, sugar, and edible oils) will continue and will only be phased out over a five-year period with a first increase becoming effective September 1, 1985.

The main thrust of the structural adjustment efforts is twofold: to reduce the role of the state in favor of a more market-oriented economy, and to encourage exports as the engine of economic growth. These efforts entail a gamut of policy changes which can be grouped into six major categories:

- (1) Pricing policy reform, the gradual replacement of a cumbersome system of price regulation and control to a system with a minimum of regulatory oversight;
- (2) dismantling the existing system of tariffs, taxes and administrative procedures that made investments in import substitution activities much more attractive than export-oriented options, and the development of the necessary structures and support mechanisms to move to an outward-oriented economy;
- (3) measures to improve the performance of state-owned enterprises, including steps to increase involvement of the private sector;
- (4) financial sector reform to mobilize savings and bring the cost of capital closer to its economic value;
- (5) tax reform to reduce distortions inherent in the previous structure and to improve long-term revenue prospects for the government;

^{1/} The actual GDP growth rate for 1984 is shrouded in uncertainty. More recent estimates by the Bank of Morocco put it at 3.9 percent, which would imply an unexpected turn to the better.

- (6) improvements in the GOM's planning and budgeting system to improve the productivity of public investments and streamline budget planning management.

Some of these measures are reasonably simple to institute. For example, the GOM has made considerable progress in liberalizing prices for many goods and services, although it has retained elements of the price regulation structure to monitor developments. Moreover, prices for a small number of yet very important items, such as flour, remain controlled (and subsidized).

Progress in other areas has been slower, in part because of political requirements (e.g., in the case of tax reform), in part because of complexity of the measures to be implemented (e.g., in the case of export promotion or financial sector reform), and in part because the required information must be painstakingly developed (e.g., the determination of mutual arrearages between the state and public enterprises as a precondition for public enterprise reform).

Many elements of the economic policy reform are greeted with trepidation by various economic and social strata -- sometimes justifiably so because the adjustment process is not always painless. At the meeting of the Consultative Group in January 1985, participants noted the particular difficulties of achieving structural change at the current time of severe budget and borrowing constraints. Without debt rescheduling over the next few years and substantial concessional assistance the Moroccan economy cannot be expected to maintain the pace needed to prevent further decline in per capita income during the period of restructuring. Even so, the GOM appears firmly committed to the basic tenets of the economic policy reform, seeking to rely more and more on market forces to stimulate economic development. The success of this strategy hinges on the economy's ability to change and adapt, to take advantage of new opportunities, to prune inefficient activities, to grow in new areas, and to prosper in a more competitive environment.

B. USAID's Country Strategy

The current policy reform environment offers an unprecedented opportunity to enhance USAID's policy dialogue with the GOM. USAID can contribute to the success of the endeavor by providing support and technical assistance to strategic links in the institutional fabric charged with the responsibility for economic policy. Two factors combine to create this opportunity. First, austerity in the public sector has not only reinforced recognition of the private sector as a principal agent of economic growth. It has also meant greater policy leverage for any form of concessional assistance. Second, many elements of the policy reform reflect positions long held by USAID, which cannot help but lend greater weight to our arguments in the on-going policy dialogue.

The current Mission portfolio is characterized by an emphasis on key sectors, agriculture, health and population policy, and energy. Overall goals in these sectors have been summarized as follows:

- (1) to increase Morocco's agricultural production in the rainfed areas;
- (2) to reduce substantially the high rate of population growth; and

- (3) to accelerate the development of domestic resources of conventional and renewable energy and to rationalize energy policies and investments. (FY 1986 CDSS)

Across these three sectors, projects have incorporated common themes, such as an emphasis on market orientation, efficient management, and adequate pricing or cost recovery. These elements tie directly into the overall policy reform. Consequently, the Mission is exploring options to complement its existing portfolio through new initiatives to support the efforts to move to an outward-oriented market economy. As part of these initiatives, USAID had provided financial and technical assistance to the national training program in project appraisal and management that forms a key part of a broader effort to improve the planning and budgeting process.

A major new project focuses on economic recovery by contributing to export promotion. The project will support efforts to strengthen the critical but so far largely neglected area of export credit insurance, provide credit for imports needed by exporters, and finance technical and managerial assistance and training for exporters to help them penetrate successfully new markets abroad.

Focusing on economic policy reform, the present Project is designed to help the GOM to overcome one of the key obstacles to reducing its role in and improving its management of the Moroccan economy -- inadequate information for formulating and implementing economic policies. An adequate understanding of the consequences of major policy alternatives is a sine qua non for more effective policy choices. Similarly, more timely and more reliable information is critical for effective policy execution. The Project will provide assistance to various activities designed to develop the institutional capabilities of GOM agencies in policy appraisal, planning and budgeting, and management to smooth the transition to a market oriented and competitive economy. It represents a type of assistance combining policy dialogue and institution-building that offers considerable leverage in contributing to a strengthening of market forces in the Moroccan economy, thereby building a more efficient and equitable economic system. The project is specifically designed to give USAID the needed flexibility to respond effectively to relevant needs and opportunities in economic policy formulation, appraisal, and implementation.

III. PROJECT RATIONALE AND DESCRIPTION

A. Project Objectives

1. Goal: Successful Transition to a More Market-Oriented Economy

Morocco's current economic policy reform represents a bold effort to capitalize on the strengths of its economy, to rely more on market forces, to encourage the private sector, to reduce the role of the public sector, and to improve its overall performance. Along with the other international donors, especially the World Bank and the International Monetary Fund, USAID has lent its full support to this effort. A successful implementation of the reform and adherence to its principles will enable the Government of Morocco (GOM) to master the current crisis and to lay the foundations for continued prosperity in the future. The conviction that the GOM is pursuing the right course defines the global goal for this Project:

To support the Government of Morocco's economic policy reform and structural adjustment efforts towards a more market-oriented economic system.

The reforms extend into many areas of economic policy formulation and management -- foreign trade, pricing policy and regulation, financial sector organization, public enterprises, and fiscal policy and budget management. To succeed, these reforms must register appreciable progress. While some false starts and missed opportunities are inevitable, overall progress must be swift to improve the country's precarious economic position and to maintain political support for the reform program.

2. Purpose: Improve Economic Policy Analysis Capabilities

The purpose of the Project derives from the overall goal and an assessment of USAID's particular opportunities in supporting the economic policy reform in cooperation with other donors. A major task of the GOM in pursuing reform is to adapt general principles and prescriptions to the Moroccan context. That typically requires a solid understanding of the full range of available options and their strengths and weaknesses relative to the existing structure of the Moroccan economic and social fabric. The actual implementation of specific policy measures also requires an understanding of the consequences of alternatives in terms of approach, timing, or other complementary or possibly counterproductive actions.

Both economic policy formulation and execution place a premium on information -- information on what options or variants exist for a given policy measure and on their consequences under different assumptions about the changing economic, political and social context. To pursue economic policy reform with confidence, the Government of Morocco depends on adequate and timely information on the current situation as well as on the likely consequences of alternative courses of action. While many GOM agencies can draw on the services of well-trained and experienced officials, the

institutional capabilities in providing timely and reliable information are limited. A recent (February 1985) study focusing on project-oriented economic and financial appraisal capabilities within GOM agencies indicated serious shortcomings.

To pursue more effective economic policies, the GOM must develop its capabilities in the area of economic policy analysis and implementation. This need creates an opportunity for USAID to play a pivotal role in supporting economic policy reform and structural adjustment. USAID can assist effectively in such efforts because it constitutes a continuing presence critical in developing and implementing such efforts. Moreover, USAID can better assess the policy context for any such efforts through its on-going policy dialogue and its other project activities. This comparative advantage vis-a-vis other donors leads to the specification of the principal purpose of the Project:

To strengthen the capacity of the Government of Morocco to carry out economic policy development, appraisal and implementation.

This formulation of the principal purpose of the Project responds directly to recent efforts of the Government of Morocco to improve economic policy analysis and implementation capabilities in various agencies. Some of these initiatives have been conceived and pursued independently by some departments. More typically, though, they are the result of close cooperation among different agencies, seeking to take advantage of existing institutional linkages, skills, training opportunities, data processing and analysis capabilities, etc. These initiatives offer excellent opportunities for USAID to provide effective assistance to individual departments and units within a common strategic orientation. While traditional administrative responsibilities must be respected, the common framework will allow for greater overall efficiency by assuring consistency, compatibility, and cooperation among related activities.

Current initiatives to improve institutional capabilities in the collection, processing, analysis and reporting of economic policy information permeate all segments of government. Progress has been made in the GOM Ministries and agencies with broader responsibilities in planning, budgeting and economic policy formulation, such as the Ministries of Finance, Interior (in part as a guardian of other -- local and regional -- levels of government), Economic Affairs, and Plan. Similarly, many of the technical Ministries, each one of which is responsible for a particular sector or set of sectors, such as energy and mines, industry, or agriculture, have undertaken steps to improve their economic and financial analysis capabilities to cope with the demands of the economic policy reform and its key elements. These steps may include formation of units charged with the responsibility to prepare such analyses, efforts to introduce computer techniques, and training of analysts. As a major push to upgrade the capabilities of existing staff, the GOM has launched a government-wide program to train analysts in financial and economic appraisal techniques as a basis for better information in capital budget development. This program, the National Training Program in Project Appraisal and Management or PNAP, is discussed further below as a candidate activity for this Project.

USAID has interacted with a number of GOM departments in these efforts, e.g., by providing guidance and advice on specific issues as part of the continuing policy dialogue, or by funding a small study of computer needs in a division of the Ministry of Finance. This process has shown that the efforts of various GOM agencies to develop economic policy appraisal as well as implementation capabilities can best be treated within a common framework. The issues and tasks for one agency reflect decisions and approaches elsewhere. Consequently, technical assistance and support in building and improving economic policy development and appraisal capabilities must be viewed and provided within a broader context. The Project design meets this need by establishing a framework that will allow USAID to respond flexibly to particular needs and opportunities, taking advantage of existing linkages and interdependencies.

3. Examples of Activities To Be Supported Under the Project

The Project design, discussed further below, incorporates the central notion of supporting a number of related activities in different GOM departments, all related to the central Project purpose. Several candidate activities or subprojects have already been identified and examined in considerable detail, others have been discussed with the GOM in general terms, while yet others may evolve over the life of the Project. Some examples illustrate these options:

- (a) In the Ministry of Economic Affairs (MEA), the Direction des Prix is in the process of assuming broader responsibilities in the development and appraisal of economic policies linked to pricing issues, such as price deregulation, consumer price subsidy reform, improvement in the operation of state-owned enterprises, and regulation of monopolies. To meet these responsibilities, the unit -- until now concerned with the preparation and execution of the GOM's price setting and control policies -- needs better tools and expert guidance, for which the MEA has requested USAID assistance.¹
- (b) In response to its commitment to upgrade planning and implementation of the capital budget the GOM has launched a National Training Program in Project Appraisal and Management (PNAP). This multi-year program includes the training of practitioners as instructors for others, a series of intensive

^{1/} This subproject is described in detail in Appendix D. As discussed originally in the Project Identification Document for this Project, the microcomputer needs of the Direction des Prix (DP) were of considerable urgency. Combining these needs with the apparent capabilities of the DP staff to make initial use of the equipment warranted a pre-Project implementation component to procure the microcomputers, to be followed by technical assistance.

seminars for responsible officials, each focusing on a particular sector, the preparation of suitable teaching materials for these seminars and for long-term training programs, and the institutional support for economic analysis units in key GOM agencies. A major portion of the program is financed by the COM, the UNDP and the World Bank, as well as USAID. The GOM has requested additional USAID assistance for this program over the longer run.²

- (c) Directly related to efforts to improve the capabilities of the technical Ministries to develop and appraise investment project is an undertaking to streamline the planning and budgeting process for the GOM's capital budget. This process currently involves some cumbersome back and forth between the Ministries of Finance and Plan on one side, and the respective technical Ministry on the other. It is relatively slow, because of the volume of information exchanged and processed. Moreover, investment projects are often inadequately documented and analyzed, making a rational choice within and across sectors difficult if not impossible. USAID is currently funding a small study of the capital budgeting process to determine (micro)computer needs, primarily in the Ministry of Finance. As a result of this study, USAID would expect a request for support in deploying (micro)computers. However, streamlining and improving the planning and budgeting process will also require technical assistance and training for staff. Discussions are therefore underway with both the Ministries of Finance and Plan to define more clearly needed technical assistance and training in addition to any (micro)computer equipment to streamline the process and provide better decision support. Such a subproject would clearly complement support of the PNAP. At the same time, any such subproject requires close coordination with efforts sponsored by the World Bank in this area which has been identified as a priority for structural adjustment.
- (d) USAID is further exploring with the Direction de la Statistique (Ministry of Plan) options for supporting the development, processing and analysis of macroeconomic data series. Such data series, e.g., on price levels going beyond consumer price indices, will be of critical importance for other subprojects, e.g., the work of the Direction des Prix. Because of the professional competence, expertise and resources of the Direction de la Statistique, all subprojects will require close contact with them in any case to assure effective coordination, and to guide the development and preparation of data collections.
- (e) Under this Project, USAID is also interested in providing assistance to GOM agencies charged with the responsibility for the reform of state-owned enterprises such as the Comité de Vigilance in the Ministry of Equipment. The principal

2/ USAID is currently financing a portion of the program through the end of calendar year 1985, under project 608-0178.

focus of such assistance would be to help these GOM agencies to identify and exploit opportunities for increasing private-sector participation, e.g., through outright divestment, developing mechanisms for such steps, and creating conditions to encourage these enterprises to behave more in a market-oriented fashion. Again, any such subproject would be closely coordinated with the World Bank which is preparing a major initiative in this area, albeit with slightly more general objectives.

In addition to these specific options, opportunities for effective support will arise in other -- technical as well as "policy" -- ministries and departments. Improvements in planning and budgeting form a part of the stabilization program assisted by the IMF and of the structural adjustment program assisted by the World Bank. One necessary condition is the imposition of more rigorous standards of policy and investment analysis across the board, to assure a more efficient use of public resources. Without such standards, any improvement of the planning/budgeting cycle referred to in item (c) would remain limited. To comply with them, all GOM technical Ministries, agencies and public enterprises will have to upgrade their policy analysis, planning-budgeting and management capabilities. The PNAP represents part of this overall effort. In addition, though, individual units charged with the responsibility for economic analysis in a given agency will require additional training, technical assistance as well as computing equipment. USAID has already begun to provide this kind of support in the Ministries of Agriculture (608-0182, 608-0185), Energy (608-0180), Health (608-0151), and to some extent Plan (608-0151, 608-0171, 608-0162). The process to develop and improve economic policy analysis, planning and management capabilities will intensify over the next few years, creating needs and opportunities for further assistance. The present Project would provide USAID with the capability to respond swiftly and effectively to these needs as they arise to reinforce and assist efforts now underway in other GOM agencies supported by both USAID and multilateral organizations. The Project approach of pursuing several subprojects within a common framework will assure comparable analysis standards, data compatibility and data sharing, and will encourage direct cooperation among the various analysis groups.

Other complementary activities that could be financed under this Project include contributions to the economic policy debate which is becoming intense at times. USAID has already explored one option with GOM officials, sponsoring an economic policy seminar series at the Institut National de la Statistique et de l'Economie Appliquee (INSEA) involving renowned U.S. experts as speakers. A similar option could be pursued with the Association of Moroccan Economists, or the International Development Law Institute (IDLI) in Rome, which has proposed a national policy seminar on the privatization of state enterprises. Similarly, point or continuing support might be provided to the Ministry of Plan's efforts to build on its medium-term forecasting work to improve its short as well as long-term forecasting capabilities.

4. Project Outputs

The Project outputs will span a wide spectrum. Directly, the Project will contribute to raising the professional competence of middle to upper-level GOM officials charged with the responsibility of developing and appraising economic policy alternatives and implementing new policies. It will also provide the requisite data processing and analysis equipment, presumably mostly in the form of microcomputers, which will serve the GOM agencies beyond the PACD. Since subprojects are being selected on the basis of their potential for lasting impacts (see Section III.D for subproject selection criteria), the Project is expected to contribute effectively to a robust institutional infrastructure in support of a more analytical approach to economic policy development and appraisal. As the discussion of selected subprojects above and in subsequent sections shows, the Project will exploit and reinforce existing institutional linkages and support efforts to build new ones. By complementing the continuing policy dialogue with the GOM, the Project will help facilitate greater reliance on policy analysis and advice on the part of key decision makers.

Other important outputs of the Project concern the improvement of the information base for economic policy decisions. These outputs will include statistical data series maintained centrally or by individual analysis groups, and reports and publications summarizing the results of economic policy analysis studies. These reports and publications will not only contribute to a better understanding of economic policy issues and alternatives, but will also provide the kind of information on economic trends and policies needed to reduce risks for private investors.

The principal expected outputs are summarized in the Logical Framework presented in Annex A.

5. Relationship to USAID Country Strategy

As discussed above, the Project represents an outgrowth of USAID's Country Strategy as enunciated in the CDSS for FY 1986, the Annual Action Plan for FY's 1986-87, and in related documents. The FY 1986 CDSS states this strategy as follows:

In sum, the program addresses three key sectors in which the constraints to development have been relatively well-defined and which appear susceptible to being reduced significantly in the medium to long term through a combination of U.S. technical assistance, training, commodities and food aid. These sectors are Agriculture, Population/Health, and Energy. Overall goals in these sectors are respectively: (1) to increase Morocco's agricultural production in the rainfed areas; (2) to reduce substantially the high rate of population growth; and (3) to accelerate the development of domestic resources of conventional and renewable energy and to rationalize energy policies and investments.

The Project constitutes a logical complement to the initiatives within the key sector strategy by supporting overall policy reforms that are critical for the success of any sectoral reforms.

B. Project Approach

1. Overview

The overall design of the Project emphasizes consistency and flexibility in supporting the development of economic policy analysis capabilities of the GOM. The basic Project approach has evolved in the process of defining initial subprojects, in particular the subproject with the Direction des Prix which is described in Annex D. This approach can be described in terms of the following steps:

- The counterpart Ministry for the overall Project is the Ministry of Economic Affairs (Minister Délégué Au près du Premier Ministre Chargé des Affaires Economiques) which plays a permanent liaison function, possibly with some technical assistance. The Ministry of Economic Affairs will designate members of its staff as counterpart to the USAID Project Committee. While the exact role and responsibilities of these officers -- possibly with some technical assistance provided by USAID -- are expected to act as day-to-day contacts and as a secretariat to a Comité de Suivi composed of high-level officials in participating Ministries, including Economic Affairs, Finance, and Plan, and of USAID representatives
- Through its policy dialogue with the GOM and specific project (or subproject) activities, USAID will identify and develop with its GOM counterparts opportunities for improving, strengthening or creating institutional economic analysis and implementation capabilities. These opportunities are then described in broad terms in a request submitted by the respective GOM agency to USAID.
- USAID evaluates the request with respect to its overall Country Strategy and the specific selection criteria for this Project listed below, such as the overall suitability of the proposed activity with respect to program and Project goals, its relationship to other subprojects under consideration, and its potential linkages to other projects already underway. The appraisal may also include additional information gathering to place the activity into perspective.
- Based on the results of this preliminary appraisal, USAID prepares a preliminary project description which is then discussed in considerable detail with the GOM officials in charge of the particular agency or unit. The discussions may also include officials from other GOM agencies whose activities are linked to those of the requesting agency. For example, the subproject for the Pricing Directorate may be discussed with officials from the Statistics Directorate which is responsible for collecting price statistics. (See also Section V.A.3 for further detail on subproject documentation).

- The discussions with GOM officials lead to the final subproject design, which is subsequently incorporated into a Memorandum of Understanding signed by the requesting agency, the Ministry of Economic Affairs as the lead agency, the Ministry of Finance (if appropriate), and USAID. This Memorandum of Understanding will function in the same manner as a (Limited Scope) Grant Agreement.
- Copies of the Memorandum of Understanding or a suitable summary will be circulated to GOM officials and counterpart personnel on other subprojects.

Depending on the exact nature of the subproject under consideration, the actual implementation of these steps may vary.

2. Project Elements: Types of Support

The Project goal and purposes, together with the selection criteria discussed below, provide considerable latitude with respect to the type of support to be provided. Based on the general discussion of candidate subprojects above, though, the basic support elements can be identified. In virtually every conceivable subproject, project assistance will combine some or all of the following components:

- (1) technical assistance in economic policy analysis, planning and budgeting methods, data collection and analysis, etc.; typically, such technical assistance is likely to involve both long-term (resident) advisers and short-term experts;
- (2) training for GOM counterpart staff, both in Morocco and in the US; the emphasis here is likely to be short-term training programs and internships in appropriate US institutions to build on and develop existing capabilities; long-term (degree) education support may be appropriate in certain circumstances;
- (3) data processing and office automation equipment, including the requisite software, to enable the GOM economic policy analysis units to organize and analyze pertinent data, and to prepare effective and timely reports on a routine basis or on specific issues; the emphasis in this category will be on microcomputer equipment;
- (4) support for actual data collection activities may be appropriate under specific circumstances, for example, if the appraisal of a particular policy option requires data that can only be obtained through a relatively small special-purpose survey; and
- (5) systems analysis studies to identify particular problem areas in some domain of GOM economic policy implementation, and to recommend steps to improve information flows and operations.

In general, subproject designs will rely on the first three support components. General -- illustrative rather than definitive -- assumption about levels of inputs are shown in the Logical Framework in Annex A and in the discussion of cost-estimation in Section IV.A.

C. Coordination with Other USAID Projects

The design of the Project already places a premium on coordination to assure consistency and compatibility and to exploit the very real opportunities for synergism and cross-fertilization. The same principle holds for coordination with other USAID projects, especially those concerned with the development of economic policy development and appraisal capabilities in the "technical" Ministries.

For example, project 608-0180 focuses on the development of project appraisal and strategic planning capabilities in the Ministry of Energy and Mines. Two major concerns in that project overlap with candidate activities under this Project. First, a key issue in energy policy making and planning is pricing of energy products. The technical Ministry cannot resolve this issue by itself, since it does not have the authority to set prices. At the same time, the Direction des Prix depends on reliable information and data from the technical Ministry to develop effective pricing recommendations consistent with greater market orientation. Adequate coordination between the two projects is therefore essential to enhance the effectiveness and lasting impact of each.

A similar observation holds for the agricultural pricing and analysis project (608-0182), since many of the central pricing issues relate to food pricing policies. USAID has also very strongly encouraged the GOM through various means, including self-help measures signed in connection with the Title I Agreement, to improve its policy analysis capabilities in the agricultural area.

Other projects that are linked closely to the Project discussed here pertain to population and health policies. For example, the candidate subproject with the Statistics Directorate would build directly on past projects providing technical assistance, training and computing equipment to this unit to help in improving population statistics.

D. Subproject Selection Criteria

As sketched briefly above, and described in further detail in the Implementation and Monitoring Plan in Section V, candidate subprojects will be reviewed by USAID. In this review, several criteria will be applied to determine whether the subproject is eligible for support. Overall, subprojects will be eligible for USAID assistance if they enhance the institutional capabilities of Morocco in the economic policy area to enable the GOM to improve its fiscal, monetary and regulatory policies, and its management of key functions related to economic policy.

In general all subprojects are expected to further the project goal by contributing to an increased market orientation of the economy including better conditions for private sector ownership and management of productive assets and a better overall economic climate in Morocco for investment and production. Greater reliance on the marketplace instead of direct government

interventions to stimulate and balance the economy would lead to expanded production and employment in Morocco as well as to a more efficient allocation of resources.

In particular, each subproject must meet one of the criteria in Category A and all of the criteria in Category B.

Category A:

1. Support for improved capabilities to develop sound economic policies: Subprojects should enhance the institutional capabilities of Morocco in economic policy development and appraisal: to (a) collect and organize policy relevant data, (b) analyze the data for the purpose of reshaping or developing improved economic policies, and (c) formulate clearly and persuasively the conclusions and the net benefits of recommended alternatives for consideration by Moroccan decision makers. Subprojects must stress support to develop the informational and analytical base needed and usable by national level policy analysts to design and appraise economic policy alternatives and to recommend specific policy options for decision makers to approve or modify. The development of information and analytical capabilities useful merely for understanding historical trends or for improving economic projections without relationships to specific policy measures would not be supported.
2. Support for improved efficiency in carrying out and managing economic functions: The inability of government departments to develop economically efficient budgets and their extremely slow pace in dealing with private sector partners and entrepreneurs had acted as a drag on the Moroccan economy. The often poor performance of the GOM in managing its economic functions jeopardizes the success of economic policy reforms. Thus, the World Bank and other donors have emphasized the need for better planning and budgeting, for example. Subprojects are eligible for funding if they are designed to improve GOM institutional capabilities in performing functions directly linked to carrying out economic policy reform.

Category B:

1. Market Orientation: Subprojects should contribute to the fullest extent feasible to increased market orientation and better conditions for private sector ownership and management of productive assets. Subprojects should be restricted to those key areas where Moroccan authorities have indicated a willingness to make significant economic policy changes leading towards greater reliance on the marketplace and where improved economic policies would be likely to lead to significantly increased overall production and employment, more efficient use of resources, and a more equitable distribution of goods and services.

2. Lasting impact and linkages: Subprojects should show clear indications of lasting impacts on institutional capabilities in economic policy. This criterion requires that the counterpart institution has the relevant authority, that it is adequately positioned within the bureaucracy and linked to other institutions with related responsibilities, and that the proposed counterpart staff has sufficient qualifications for performing the proposed functions, and for taking advantage of any training. Moreover, preference will be given to subprojects which build on or reinforce other USAID-financed activities. In addition the proposal should demonstrate linkages with other relevant GOM agencies and policy makers and plans for dissemination and use of information and analyses generated.

3. Other criteria: All subprojects must:

- a) be ineligible or inappropriate for financing through another existing AID project.
- b) demonstrated a 25% GOM contribution
- c) be completed by September 30, 1990.
- d) meet A.I.D. internal criteria for project approvals.

IV. COST ESTIMATES AND FINANCIAL PLAN

A. Estimate of Expenditures

Under this Project, USAID will finance technical assistance, long-term training in the U.S. for counterpart staff, short-term training both in the U.S. and in Morocco, and equipment. The USAID portion of the Project budget also includes funding for Project and subproject evaluations. The GOM will contribute primarily the salaries of counterpart staff, office space and equipment, as well as other in-kind services (e.g., use of GOM-owned vehicles). Consistent with established practices, the GOM will also pay the international air fare for staff traveling to the US for training.

The estimates of expenditures must remain illustrative at this point, since the exact mix of the assistance elements depends on the subproject portfolio to be developed under the Project. To obtain overall expenditure estimates and their distribution over the life of the Project, several scenarios were examined, using the subproject options discussed in Section III.B.2. These scenarios suggested the following overall assumptions for estimating expenditures:

- a total of approximately 260 person-months of long-term (resident) technical assistance, or roughly 22 person-years;
- approximately 120 person-months of short-term technical assistance, or 10 person-years;
- approximately 24 person-months for overall Project and subproject evaluations;
- approximately 160 person-months of long-term (degree) training in the U.S., corresponding to the pursuit of graduate degrees for about 6 GOM staff;
- approximately 100 person-months of short-term training and internships for GOM analysts and managers in the U.S.;
- up to 200 person-months of short-term training in Morocco;
- some 15 microcomputers with peripherals, software and introductory training, as well as other equipment purchases and leases (e.g., leasing of dedicated telephone lines for remote access).

Under these assumptions, illustrative estimates of total costs for the Project are obtained as shown in Table IV.1, for both the USAID and the GOM portions.

Table IV.2 presents a illustrative breakdown of the USAID portion by expenditure category and fiscal year. All estimates include adequate allowance for inflation on the basis of the most recent NEAC guidance cable (State 120924) plus a 10-percent contingency allowance. Table IV.3 shows an illustrative distribution of the GOM contribution.

Table IV.1
Total Estimated Cost Over Life of Project
(in \$1,000 at current prices)

Expenditure Category	Total USAID Contribution	Total COM Contribution	Total
- Technical Assistance			
- Long-term	4,830	0	4,830
- Short-term	1,381	0	1,381
- Salaries/counterparts	0	1,626	1,626
- Training			
- Long-term (US)	499	40	539
- Short-term (US)	344	100	444
- Short-term (Morocco)	343	200	543
- Direct costs			
- Microcomputers	210	0	210
-Software	45	0	45
- Software Training	112	0	112
- Maintenance	0	15	15
- Other Equipment	72	500	572
- Data collection	410	395	815
-Evaluation	330	0	330
Total estimated cost	8,600	2,900	11,500

Table IV.2

Project 608-0191
Distribution of USAID Expenditures, Illustrative Budget
(in \$1,000, current prices)

Expenditure Category	FY 85	FY 86	FY 87	FY 88	FY 89	FY90	Total	Total w/ 10% Contingency
Technical Assistance	0	871	1,327	1,485	1,379	684	5,746	6,321
Training	0	104	181	334	215	145	979	1,076
Direct Costs	58	166	295	208	38	29	794	873
Evaluation	0	50	75	75	50	50	300	330
Total USAID	58	1,191	1,878	2,102	1,682	908	7,819	8,600

Table IV.3

Project 608-0191
Distribution of GOM Expenditures, Illustrative Budget
(in \$1,000, current prices)

Expenditure Category	1985	1986	1987	1988	1989	1990	TOTAL
Salaries	19	245	365	394	394	210	1,627
Training	0	36	63	116	75	50	340
Direct Costs	0	229	347	244	79	34	933
TOTAL GOM	19	510	775	754	548	294	2,900

B. Justification for Grant Financing

The AID contribution to this project is proposed to be financed through a grant to the Government of Morocco. This decision reflects guidance from AID/W related to the question of grant financing vs. loans in State 178281. Two criteria in particular apply to this Project.

First, the benefits, both economic and social, of the Project will be broadly diffused throughout the Moroccan economy. The very nature of economic policy formulation and implementation precludes any narrowly definable target beneficiaries for whom any cost recovery schemes could be designed. Any long-term benefits accruing back to the GOM will be in the form of higher tax revenues from increased economic activity and lower subsidy burdens, which in turn are likely to be redistributed through the fiscal reforms that have already been initiated.

Second, the United States has a strong interest in supporting the "market experiment" in an economy characterized until now by excessive state intervention. The technical assistance component, together with the emphasis on the substantive involvement of USAID, is designed to give USAID substantial leverage on the implementation of the elements of the economic policy reform that will be supported through the individual subprojects.

V. IMPLEMENTATION, CONTRACTING AND MONITORING PLANS

A. Implementation Plan

The general implementation approach for this Project is dictated by its nature. As discussed above, an important activity of the Project itself is the further development and refinement of individual subprojects. Consequently, the implementation plan can be outlined at this point only in fairly broad terms, rather than as a detailed roadmap for the future.

The overall timeframe for the Project is given by the Project Assistance Completion Date (PACD) of September 30, 1990, based on a start-up in the first quarter of FY 1986. An interim evaluation of the Project is scheduled for the second quarter of FY 1987, followed by a final evaluation in the third quarter of FY 1990.

1. Implementation Approach

While the activities considered for support within the framework of this project are substantively linked, they span a wide spectrum of functions. The subprojects under consideration can be described in terms of four major dimensions:

- (1) the training and educational development of the staff in existing or to-be-created units charged with the responsibility for any of the relevant functions -- data base development and management, economic and statistical analysis, management information systems for key government functions in the areas of fiscal or monetary policies or public sector management, and economic and statistical analysis;
- (2) The development of economic and statistical analysis capabilities, including the adaptation of existing models and analysis packages as well as the development of special-purpose procedures;
- (3) the collection and processing of data needed for economic policy monitoring and analysis to establish and develop the relevant data bases;
- (4) the automation and computerization of existing government functions in the area of economic policies, such as regulatory oversight, public sector management, planning and budgeting, etc.

Each of the possible subprojects briefly sketched in Section III includes these elements to some degree or another. However, the relative emphasis is sufficiently different to demand that these subprojects be treated independently of one another. As a rule, the implementation approach will therefore adhere to the principle of subproject independence: within a common strategic orientation, each of the major subprojects will be designed and managed on its own merits.

This approach will enable USAID to tailor each support package to the specific needs of the respective GOM agency, as determined by the substance of the institutional development effort and the starting conditions. In addition, management and monitoring structures can be modified to respond to and take advantage of the different subprojects.

Adhering to this principle does not preclude the option of developing "spinoffs" within a given subproject. For example, if a technical ministry were to request a focused training effort for its analysts which fits in with the ongoing national program, and requiring many of the same resources, the activity could be organized as an extension of the existing project activity. Also, two separate subprojects in different GOM departments may be substantially sufficiently close to call for a single technical assistance contract.

The basic implementation will assure adequate management control for USAID project management, without losing the flexibility needed to respond effectively to (possibly changing) needs and opportunities. The management approach must evolve as the specific subprojects are identified and launched.

2. Management Structure

The Project will be managed by USAID staff in the field, in cooperation with the GOM authorities. The overall management structure integrates three main elements:

- (1) A Project Review Committee will comprise the Mission Director, the Deputy Director, the Program Officer, the Program Economist, the Controller, the Regional Legal Adviser, the Regional Contracting Officer, and the Division Chiefs or their designees. The main task of this Committee will be the review of subproject documentation prior to the formal agreement (Memorandum of Understanding) with the respective GOM agency. The composition of the Committee is designed to assure full exploitation of all possible linkages with other projects and agencies.
- (2) A Project Monitoring Committee (Comité de Suivi) will include a representative of the Ministry of Economic Affairs as the cognizant agency, representatives of the Ministries of Finance and plan, representatives of the GOM agencies for each of the subprojects, and representatives of USAID. The main function of this Committee is the general oversight of the program as a whole through periodic meetings and review of progress and problems. The Minister of Economic Affairs will designate counterpart officers who will -- possibly with some technical assistance -- act as a secretariat to the Comité de Suivi.
- (3) As a rule, USAID Project Officers and their GOM counterparts will be responsible for day-to-day management, preparation of project documentation, progress reports, etc. However, specific tasks may be handled by (technical assistance) contractors. Each of the subprojects will be assigned a USAID Project Officer. These assignments will reflect the specific needs of the subproject and other criteria. The same individual may, however, be responsible for more than one subproject.

For each of the subprojects, management will emphasize close and continuous communication between USAID Project Officers and their GOM counterparts, and with the technical assistance contractors. This emphasis is particularly important in view of the need for substantive involvement by USAID staff. The Project and its components represent key elements of the continuing policy dialogue with the GOM. USAID staff therefore need to participate actively in discussions and strategic decisions. Moreover, as a result of its experience in the country, USAID staff also represent an important stock of knowledge and understanding which can help technical assistance contractors in critical areas.

Any short-term or long-term training abroad will be coordinated by USAID's Training Office. This Office may also participate in setting up and monitoring in-country training programs operated as part of the Project or its components.

3. Implementation Procedures

Development of Subprojects: The discussion in Section III highlights the need for further subproject development activities. While some of the subprojects are by now well-defined, reflecting the joint design work of USAID and GOM counterpart agencies, others have been identified only in more general terms. For most of the candidate activities, additional design work is therefore required. This work involves three steps: analysis of current capabilities vis-a-vis the needs for rational policy making and effective implementation, the development of and agreement on the subproject design, and the preparation of subproject documentation and its approval. This step also involves close cooperation with other donors, especially the World Bank, to avoid any useless duplication and identify opportunities for mutual support and reinforcement.

USAID has been pursuing a pro-active role in the policy dialogue related to the economic policy reform now underway. This policy dialogue and corresponding contacts at a more technical level have already identified a host of opportunities for strengthening policy development and appraisal capabilities in key GOM agencies. These opportunities exist where GOM needs and intentions coincide with USAID interest and a comparative edge in providing support. In developing concrete subprojects from these opportunities, detailed analysis may be required to determine the appropriate scope of such an activity, its foundations in the current work of the unit, its linkage to related activities elsewhere (especially those already supported by USAID), any institutional actions required to implement this activity to meet the subproject selection guidelines spelled out in Section III.D, and the proper bundling of project assistance and contributions from the GOM or other donor agencies, as applicable.

If this assessment results in the identification of a separate subproject meeting the selection criteria, additional work may be required to negotiate the exact scope and specifications with the GOM counterpart agency. While the

analysis process in itself depends on close cooperation with counterpart staff, specific issues and conditions may well be left to the negotiation of the principal implementing document, the Memorandum of Understanding.

Documentation and Approval Process for Subprojects: At this point, the implementation approach assumes that two documents are required for any subproject to be considered for approval, the request for assistance and the subproject analysis:

- (1) The request for assistance signed by the appropriate government official will outline briefly the subproject, describe the nature of the assistance sought, and provide information on the counterpart institution, the availability and qualifications of counterpart personnel, and the resource contribution of the GOM;
- (2) The subproject analysis prepared by the USAID Program Office will cover the following points:
 - a justification of the assistance to be provided, including a description of baseline conditions;
 - a statement of institutional capabilities and counterpart availability;
 - a statement of how the subproject relates to other subprojects and other USAID projects;
 - a Logical Framework;
 - proposed qualifications for a technical assistance contractor;
 - short and long-term training requirements;
 - a contracting and equipment procurement plan; and
 - a detailed costing and time schedule for the proposed subproject.

These two documents will be submitted to the USAID Project Committee for consideration. The Committee reviews the proposed subproject, and recommends approval (possibly subject to certain modifications in the subproject design) or rejects the proposed subproject. Based on the recommendations of the Project Committee, the Program Office will draft an Action Memorandum to accompany the two documents, and circulate it for appropriate clearances before it goes to the Mission Director for approval/disapproval. Upon approval/disapproval, the designated Project Officer will notify the GOM counterpart agency. In the case of an approval, the Project Officer will then draft the Memorandum of Understanding based on the GOM assistance request and USAID decisions. Following the signing of the Memorandum of Understanding by GOM and USAID, procurement action can be initiated, as described further in Section V.B.

To reduce the management load to the greatest extent possible, a standard format will be developed for both of the subproject documents. In addition, if small subprojects are to be funded under this Project, it may be appropriate to establish a threshold below which subproject analysis can be simplified.

4. Implementation Schedule

The detailed implementation schedule depends on the design and timing of subprojects. Overall, a few key dates can be identified:

August 1985	Project Paper approved
August 1985	Project Agreement signed by Ministry of Economic Affairs, Ministry of Finance, and USAID
September 1985	First Memorandum of Understanding signed: Pricing Policy Subproject, Direction des Prix
November - December 1985	Procurement of technical assistance for Pricing Policy Subproject
March 1986	Arrival of first resident adviser for DP subproject
March 1987	Interim Project evaluation
April 1990	Final Project evaluation

In addition to the two overall Project evaluations, separate evaluations will be conducted for each of the subprojects, as discussed further in Section VI.

B. Contracting Plan

1. Technical Assistance

As a rule, the separate administration of individual subprojects imply would separate procurement of technical assistance. However, as noted above, technical assistance may be provided jointly to one or more subprojects. Exact delineations will have to evolve as the portfolio of subprojects becomes clearer. Similarly, the contracting mode may vary across subprojects, ranging from direct AID contracts to host country contracts.

The subproject documentation (subproject analysis) outlines the specific qualifications of the technical assistance contractor, along with the overall specifications for the technical assistance contract (scope, duration, timing, resident advisers vs. TDY experts, etc.). This information serves as the basis for the scope of work to be inserted into a "standard" Request for Proposals. Typically, competent and experienced institutional backstopping is essential to the successful provision of technical assistance and training for any of the subprojects considered: (a) to help insure that resident advisers and consultants do not overlook important prior and current research and experience worldwide; (b) to facilitate access to the numerous experts at American universities and institutions as well as in U.S. local and national-level governments who have had substantial experience in economic policy analysis and implementation under a free market system; (c) to obtain short-term consultant services from among these and other experts; and (d) to locate the most appropriate institutions in the U.S. (or conceivably third countries) for short-term training.

Given the complexities of the task for some of the subprojects, such as with the Direction des Prix, it is conceivable that no single U.S. institution would have either the expertise or backstopping abilities required. Universities typically have a comparative advantage in (a) providing long-term resident advisers who have the technical competence, developing-country experience, and personal qualities required, (b) facilitating access to prior and current research and other materials, and (c) locating appropriate training institutions.

Consulting firms are often a better source for competent short-term consultants with the requisite personal qualities and hands-on experience in developing countries; and these firms and their employees/consultants have usually had substantial experience with AID procedures and policies in such area as training and report-writing and also with tailoring the technical assistance to the specific needs of the project.

A consortium of one or more universities and consulting firms might therefore offer the best combination for the tasks at hand for some part of the portfolio of subprojects.

Particular efforts will be made to identify, create and develop opportunities for minority businesses either as prime or as subcontractors for technical assistance and related work.

The evaluation of the proposals for technical assistance on one or more subprojects will be the task of a joint USAID-GOM committee, organized by the assigned USAID Project Officer. The panel will submit its recommendations to the Regional Contracting Officer who is then responsible for negotiating the final contract.

In specific instances, it may be necessary for the prime technical assistance contractor to enter into subcontracts not foreseen in the original contract. Generally, USAID must approve in writing all subcontracts. This requirement may be waived in the original contract, however, if USAID approves the contractor's subcontracting procedures.

2. Microcomputer and Other Equipment

The overall design of the Project places considerable emphasis on the improvement of GOM data collection, processing, and analysis capabilities through the provision of suitable computing and other equipment, primarily microcomputers. The specific requirements, especially with respect to software and thereby with respect to memory size and peripherals, will differ across subprojects. However, a number of general criteria for equipment procurement can be delineated.

- (1) The source and origin of any commodities procured under this Project will be the US or Morocco. Modifications of American-made equipment may be required to adapt it to use in Morocco, e.g., French-Language keyboards and documentation, 50-hz power supplies.
- (2) Software and hardware will be chosen so as to facilitate data exchange and cooperation among subprojects and other related activities, as well as the use of central data depositories. Equipment proposals must therefore describe how this requirement will be met in the context of the respective subproject.
- (3) Any procurement of hardware will hinge on adequate provisions for maintenance and technical support during the life of the project, and on adequate evidence that the respective GOM agency will provide for maintenance beyond PACD, as stated on the respective covenant of the Project Grant Agreement.
- (4) No microcomputer equipment will be provided under this Project without adequate provisions for some introductory training for the intended users.
- (5) As a rule, all documentation for hardware and software will be in French, as will be prompts and tutorials in the software itself. Exceptions to this rule are possible in the case of special-purpose software which is available only in English. In such cases, criterion (4) applies fully.

The five-year time horizon of the Project implies significant technical changes with respect to computing equipment, peripherals, and communications. Improving communications among GOM agencies in the economic policy arena at the level of computing equipment cannot but contribute to the improvement of substantive communications. Thus, any procurement of computing equipment should be guided by an emphasis on compatibility and expandability. In certain instances, that may imply a phased approach, with the purchase of some basic equipment followed by the installation of a more elaborate system.

How best to meet the requirement of assuring adequate technical support and maintenance is currently under investigation. Basically, two models can be contemplated. First, the technical support and maintenance is provided as part of the hardware/software sale by the vendor. The second option involves

separating the technical support and maintenance functions from the actual purchase of the hardware/software. In this case, equipment could be procured from a number of sources, including directly from the US. The technical support and maintenance agreement could then take advantage of economies of scale. It could also provide more flexibility in the type of equipment that can be purchased.

C. Monitoring Plan

In addition to the scheduled evaluations for the Project as a whole and for its subprojects, a number of procedures will be used to monitor individual activities and overall progress. First, as already indicated in the discussion of the implementation approach, project management on the part of USAID is expected to emphasize substantive involvement. Thus, project monitoring can rely on extensive continuing informal contacts between the Project Officer, the GOM counterparts, and the technical assistance contractor(s). These contacts represent probably the most important means for effective project management, since they will enable the Project Officer to remain fully informed of current and prospective subproject activities, and to spot opportunities and problems in time to do something about them.

In addition, for each subproject, a monthly management review will be held to examine the accomplishment of technical milestones, and review briefly resource use. These reviews are designed to provide adequate guidance to the technical assistance contractor, and to help the respective GOM unit to establish monitoring and control procedures needed for continued institutional development.

These brief monthly milestone reviews will be complemented by more in-depth semi-annual project reviews to assess accomplishments, examine major or recurrent problems and issues, and review and approve more detailed workplans for the next review period. These reviews will also address the question of the utilization of any computing equipment provided under the Project and plans for additions, modifications or expansion for the remainder of the subproject

Project management will also stay abreast of developments on each of the subprojects through debriefings of TDY experts and periodic or occasional reports prepared by the analysis units according to the respective work plans.

Monitoring progress on the Project as a whole will form part of the USAID Mission's regular portfolio review process.

VI. EVALUATION PLAN

The evaluation strategy for the Project is dictated by its structure: each one of the subprojects will be evaluated separately, within its own Logical Framework. Different evaluation criteria apply to the work of an individual policy analysis unit, a training program, or data collection and organization. Consequently, the Memorandum of Understanding for each subproject will include a description of the evaluation plan and the Logical Framework for the activity.

As a rule, all subprojects will be evaluated at least at two points in time. The first evaluation would typically be scheduled to take place fairly shortly after the start-up for the subproject to examine the institutional arrangements and procedures and to determine their adequacy. This formative evaluation would thus focus on processes, rather than outputs or impacts. The second evaluation would have a more summative character, seeking to assess in particular the accomplishments of the subproject in terms of its original objectives. Other evaluations may be scheduled as needed according to the design of the subproject. The subproject budgets will include adequate provision for external evaluations, for which USAID will contract with independent organizations. The budget estimates in Section IV reflect this policy. (See Annex D describing the subproject with the Direction des Prix for an example of subproject-specific Logical Framework.)

In addition to the subproject evaluations, two overall Project evaluations have been scheduled, the first one for the second quarter of FY 1987 (March 1987), and the second one for the third quarter of FY 1990 (April 1990). The basic purpose of the first evaluation is to develop recommendations on improving the management of the Project as a whole. This evaluation will examine the adequacy of procedures used in developing subprojects with the GOM counterpart agencies, the degree to which the agreements reached in the Memoranda of Understanding correspond to the goals and objectives of the Project, as expressed in the subproject selection criteria, and the administration of the Project as a whole. The evaluators will also assess the overall coherence of the parts of the Project, i.e., the extent of active cooperation among elements (data and software sharing, policy discussions, etc.). A final mandate for the first evaluation is the collection of additional baseline information to be used in the second major evaluation toward the end of the Project.

The type of information to be gathered to describe the beginning-of-project status (BOPS) is outlined by the "Measures of Goal Achievement" in the Logical Framework in Annex A. The measures would include, but would not necessarily be limited to:

- extent of price regulation, both with respect to the number and type of goods and services still openly regulated, and the goods and services for which cost-plus rules continue to apply, although prices have ostensibly been liberalized;
- value added for state-owned and state-controlled enterprises, and other performance characteristics for this sector;

- estimates of subsidy costs for (a) basic consumer goods, (b) state-owned enterprises, and (c) factors of production (such as fertilizer);
- budget deficits;
- analysis of expected and actual rates of return for public investments, to the extent available; assessment of uncertainty (ignorance) about project performance in current budget portfolio;
- economic and administrative characteristics of foreign trade; and
- assessments of capabilities in economic policy analysis and implementation in GOM agencies, taken to a large part from problem statements of proposed subprojects.

As the contours of subproject portfolio emerge more clearly, the evaluation design can be developed and refined. This design is likely to add more variables to the description of the BOPS. These baseline data in turn will be used in the second evaluation to assess the end-of-project status (EOPS).

The second evaluation will study in particular the effectiveness of the Project in improving the economic policy development and appraisal capabilities of GOM agencies. Thus, this evaluation will focus much more on the use of the information generated through the subprojects supported by decision makers. This evaluation should lead to recommendations regarding the desirability of continuing this type of activity as a component of the portfolio of the USAID Mission.

The exact design of the overall Project evaluation should reflect the composition of subprojects. Under the assumption that the Project portfolio is set by the first quarter of FY 1987, the evaluation design would be prepared by USAID in time for the interim evaluation.

VII. ANALYSIS SUMMARIES

A. Economic Analysis

The Project is designed to improve the GOM's institutional capabilities in the areas of economic policy development and appraisal. It will support the development of these capabilities through the provision of training for GOM analysts, data collection, processing and analysis equipment, and -- most importantly -- technical assistance in policy formulation, analysis, and implementation. The rationale for this approach rests on the notion that better information will make for better and more timely policy decisions and action, which in turn will improve conditions for the growth of private-sector initiative and increase the efficiency of government operations.

An adequate economic analysis for the Project as a whole would first have to assess the benefits from better and more timely policy decisions and actions. It would then estimate the likelihood of such policy improvements resulting from improved information generated by activities supported by the Project. That would provide a measure of expected benefits from Project activities, which could then be related to Project costs to obtain a measure of the economic value of the Project as a whole.

Two factors militate against this approach at this point. First, the assessment of the benefits of better and more timely policy decisions in itself is a major task of individual subprojects. For example, in the area of pricing policies, some of the economic costs of current policies are known, in part through the USAID-sponsored study of agricultural pricing and incentive policies. Others can only be suspected; for example, the practice of cost-plus price regulation is likely to have resulted in many instances in higher consumer prices than necessary. As price decontrol and lower tariff walls encourage domestic industries to compete with imports, some estimation of the economic cost of past policy practices may become possible. But these are exactly the kinds of studies that should be conducted by the Direction des Prix under the initial technical leadership of the technical assistance contractor.

The example of the agricultural pricing and incentives study (608-0182) also illustrates the difficulties of linking better policy information to better policy decisions. In the particular instance of food prices, better information on the full cost of continued subsidization of basic necessities may count for little in the face of massive political constraints.

Even so, the discussion of policy problems in Section II provides some examples for the potential benefits of subproject activities. Among others, the Project will address directly the following types of issues:

- inadequate project appraisal capabilities in the public sectors have encouraged budget planners to rely primarily on political criteria in choosing investment projects; as a result, the overall productivity of investments has dropped precipitously; worse, the domestic and foreign credit needs of the public sector have crowded out private investors, hampering private sector development;

- poor budget planning and management has resulted in poor controls on investment projects; these problems also have led to often serious delays in processing requests for payments from private contractors doing business with the government; since many of these businesses are in construction, an entry-level sector for small businessmen and semi-skilled labor, government incompetence has often hastened the demise of private-sector initiatives;
- continuing price controls on the tourism industry are jeopardizing the first tentative steps towards privatization in this sector through management contracts and leasing arrangements; rates for rooms are often kept below the level needed to finance services and upkeep, as well as provide an adequate return to the management contractor;
- greater market orientation of the economy requires also greater market transparency; in all developed economies, the government assists the private sector through the provision of information and studies on the development of economic indicators and key measures; so far, the GOM had proved unable to provide such information in a timely and reliable manner; for example, national income statistics needed for budget planning are generally thought to be biased and unreliable;
- in implementing many of the economic reform measures, the government has weathered criticism and political opposition, often without being able to provide concrete indications of the expected benefits as well as costs of these measures, such as the gradual lowering of the maximum import tariff; systematic explorations of these costs and benefits might not only make it easier to rally political support, but also allow the GOM to start thinking about flanking measures to mitigate some of the expected adverse impacts.

These qualitative examples, though, fail to provide an idea of the quantitative relationship between Project costs and potential impacts. The pricing policy-subproject with the Direction des Prix offers one example: current net transfers to state-owned enterprises (excluding the profitable phosphates operations) from the Treasury amount to some 2 billion dirhams annually (average over the last few years). For a 10-year time horizon and a 15-percent discount rate, the estimated \$2-million investment in the policy analysis capabilities of the Direction des Prix would have to result in only a 0.2 percent reduction of the annual net subsidy needs to yield a positive net present value for the subproject. Similarly, an estimated \$2-million investment in better (capital) budget planning and management capabilities would only have to yield a 0.04 percentage point improvement in the productivity of public investment projects to show a positive net present value.

These examples are clearly meant to be illustrative. Even so, they -- together with the more qualitative list of issues and problems -- furnish convincing evidence that the Project is viable on economic grounds.

B. Social Soundness Analysis

1. General Overview: Socio-Cultural Factors

Much of Morocco's economic policy reform is being regarded by many segments of the political spectrum as "imported", or even imposed by donor agencies, especially the IMF and the World Bank. While many GOM officials have either led or at least fully subscribed to the reform, sensitivities remain regarding policy advice by outsiders. Morocco's society and economy still show many of the scars of colonialism, although the country had gained its independence some 30 years ago. Even so, Morocco's elite remains oriented toward France and French approaches to the economic role of government. The orientation in turn makes it often more difficult to adopt some of the pragmatic policy advice or policy recommendations offered by representatives of international donor agencies.

Thus, a basic feasibility issue is whether decision makers will support and make use of policy analysis capabilities shaped more along the pragmatic American model. This issue touches on a host of socio-cultural factors that cannot be fully enumerated in the context of this Project Paper. However, USAID has perceived many indications pointing toward an affirmative answer to the basic question:

- (1) Many Moroccan officials have shown their commitment to change "traditional ways of doing business". Among the relevant factors is a growing desire to develop more Moroccan approaches to economic policy and economic activity, borrowing eclectically from different patterns rather than relying primarily on the French model.
- (2) Many of the policy prescriptions the Moroccan authorities have developed in cooperation with the World Bank reflect market-oriented policy principles traditionally associated with the U.S. and long held by USAID in its continuing policy dialogue. Policy makers therefore appear to be increasingly receptive to policy advice drawing on this experience.
- (3) The microcomputer "revolution" has put the tools of modern management methods, for which the U.S. is still considered the leader, at the fingertips of analysts who previously did not have access to them. The interest among Moroccan authorities to deploy microcomputer technology in their policy analysis and management units also reflects the desire to take advantage of modern management methods.

In short, the Project is conceived and designed to comply with and offer support to socio-cultural development trends that are leading Moroccan authorities to reassess and reformulate traditional approaches. Even so, in implementing the Project, USAID and technical assistance contractors must remain aware of the possibility of conflicts between Project (USAID) goals and those of the GOM agency. GOM officials may view a particular subproject as a means of simply improving their capabilities to carry out a particular function -- which may not be consonant with an increased market orientation -- better and faster. For example, the subproject with the Direction des Prix

has the potential of little progress in moving to a new role as a policy analysis unit for issues of market orientation, instead enabling the current staff to carry out their remaining regulatory functions with greater verve, thus increasing the extent of government control in key sectors. While the design of this subproject, as developed with GOM officials in the Direction des Prix, provides adequate safeguards against such possibilities, both project management and technical assistance contractor will have to monitor developments closely and retain the initiative in pursuing new directions for the unit.

Similarly, in other areas, subproject design and management should accept the possibility of different priorities between the partners. Ultimately, the main vehicle for assuring that the Project elements remain on course is the continued policy dialogue with the decision makers who represent the target for policy advice.

2. Social Consequences and Benefits

The social impacts of the new economic policies and continued reform, at least in part inspired or promoted by improved capabilities in economic development, appraisal and implementation, are likely to offer a mixed picture. On the benefits side, the general population will gain from the greater efficiency of the economy as a whole. For example, the encouragement of competition in domestic markets through a determined lowering of protective barriers is likely to lead to increased productivity and presumably lower prices for many products and services. Similarly, by improving the market orientation of state-owned enterprises or the increased involvement of the private sector in these enterprises, their performance will improve and the drain on the Treasury will be reduced. Consequently, budget pressures might abate, and the GOM could find itself better able to address social policy tasks.

On the social cost side, the economic policy reform implies structural adjustments that can hurt certain population groups in the short run. For example, there appears to be general consensus that the GOM cannot sustain the high costs of subsidies for basic necessities (flour, sugar, and edible oils) forever. In the long run, a phasing-out of these subsidies could contribute to a healthier and better-performing economy whose benefits are widely shared. In the short run, though, any increases in the prices of these necessities without adequate measures to protect the poor are almost certain to cause extreme hardships for lower socio-economic strata.

Part of the mandate of any improvement in policy development and appraisal capabilities is of course the assessment of the social impacts of specific alternatives, and the recommendation of measures designed to soften the negative impacts without jeopardizing the long-term benefits. For the most part, such analyses will require more detailed data than are available now.

C. Administrative Analysis

The selection criteria outlined in Section III clearly identify administrative feasibility as one of the key criteria for the selection of subprojects. The main emphasis of the Project is on the creation of institutional capabilities. Therefore, the existence or creation of a suitable institution to administer the subproject and continue the work initially supported must be assured. As outlined in the Implementation Plan, the USAID response to the GOM request for assistance (the subproject analysis) must examine the capabilities of the specific department or institution proposed for the project, the availability of counterpart staff, and the prospects for a lasting institutional impact.

Depending on the arrangements for commodity procurement and technical assistance contracting, grantee administrative capabilities with respect to contracting and monitoring may have to be assessed separately. Even so, counterpart agencies are expected to participate in the preparation of Requests for Proposals, the evaluation of proposals and the selection of contractors, and in the monitoring and administration of subproject activities.

D. Technical Analysis

1. Scope

The Project is designed to encourage and support market-oriented economic policies by the Government of Morocco by providing assistance in more technical tasks. The implementation of each of the subprojects must account for these two dimensions: on one level, improvements in the technical functions in themselves can have direct and measurable impact on the performance of government and on economic development; on another level, good performance of technical assistance and related support measures represents a vehicle for intensifying the policy dialogue with the GOM and encouraging continued policy reform.

The scope of the activities to be supported under the Project is broad, ranging from the use of pricing and related regulatory policies for creating a more market-oriented environment for economic activity to the introduction of planning and budgeting standards by means of a national training program. Common to the activities now contemplated as subprojects is the linkage between the more technical issues and the policy principles.

Policy rather than technical issues will always have priority in implementing the individual subprojects. However, responding to these priorities may sometimes require tact and patience. Since the Project seeks to institutionalize the process of looking to analytical methods and approaches in weighing policy alternatives, subprojects are designed to work through GOM institutions, typically at a technical level. In some instances, this arrangement may make it preferable to respond to the immediate technical needs first to build a base for the more adequate consideration of major policy issues.

2. Technical Factors Influencing Project Outcomes

Quality of Technical Advisers: The most important technical element in achieving the objectives of the Project will be the quality of the technical assistance contractors and especially their resident advisers. While USAID is scheduled to play an active role in the design and monitoring of each of the subprojects, and in particular in the continuing policy dialogue, the technical assistance contractors will bear much of the responsibility for a successful outcome of the Project.

First, they are responsible for excellent technical assistance work. Since the policy studies and advice to be generated through the support of the project are intended for the highest levels in the GOM, the technical advisers must bring to their tasks outstanding experience and reputation. They will often deal with very sophisticated and experienced counterparts with well-defined assistance needs, such as access to experiences with similar undertakings elsewhere. The advisers must be able to respond to such specific requests without relying entirely on home office support. They must also provide the leadership in establishing standards for the work of the individual analysis units or other institutions involved in the Project. This responsibility also entails being able to identify candidates for TDY assignments based on their knowledge of the needs and capabilities of the counterpart institution.

Second, they will carry much of the load of the policy dialogue. Since they will have day-to-day contact with their Moroccan counterparts, they will be able to respond to particular major policy issues as they arise. Moreover, they should also be able to alert USAID to specific opportunities for intensifying the policy dialogue on a given issue.

Third, the resident advisers will also play a key role in developing administrative and management procedures, especially with respect to information exchange and use among different GOM departments.

The importance of the resident advisers of the technical assistance contractor should not detract from the role of USAID: In order to have the Project succeed, USAID must take an active role. Nor should it belittle the role of TDY advisers and experts who will carry a significant load.

Data Processing and Analysis Equipment: The Project also places considerable emphasis on the potential of data processing and analysis equipment (primarily microcomputers) to build policy development, appraisal, and implementation capabilities. The advantage of the microcomputer is twofold. First, it provides the means to develop data organization and analysis guidelines through software specifications (e.g., elaboration of templates). Second, it enables analysts to develop their analyses at their own speed with a minimum of administrative structuring. In other words, since microcomputers provide a personal interface -- rather than requiring the user to have to go through a data processing department -- analysts can experiment without fear of embarrassment in the case of failure. These two aspects combine to make the microcomputer a potentially powerful tool in developing analytical capabilities.

At the same time, the use of that potential must be closely monitored. The powerful software available for these machines makes it quite possible to substitute analytical activity for analytical progress. Unguided, analysts tend to be overwhelmed by all the questions they can now answer that they fail to ask (and answer) the key ones and use the results in specific policy recommendations.

The data processing and analysis equipment will also play a key role in encouraging coordination among subprojects and with other USAID projects or GOM departments engaged in related work. As described above, the options include joint training seminars, exchange of data or programs on floppy disks, local area networks, or micro-to-mainframe linkups. Any kind of networking may raise some technical issues. Some GOM departments (notably the Statistics Directorate) are in the process of installing networks combining microcomputers and mainframes. Other departments could access this information through modems, using dedicated telephone lines. These options clearly raise further technical problems that will have to be examined as they arise. Moreover, technical progress over the lifetime of the Project may produce additional opportunities or solutions that could be incorporated into the implementation of the Project.

Follow-Up Dialogue: Getting policy recommendations acted upon presents one of the most difficult challenges to any policy analyst's work. In each of the subprojects (to the extent appropriate), particular attention will therefore be given to follow-up activities. GOM counterpart staff should be encouraged and expected to seek and obtain access to the users of their work to discuss specific issues and to review the utility and use of their work for policy makers. This feedback is critical both to provide a sense of realism and priorities to the analysts, and to assure that policy makers are not only aware of the potential offered by better policy analysis capabilities, but begin to rely more and more on such policy analysis and information.

LOGICAL FRAMEWORK

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>Program goal</u></p> <p>Contribute to a successful transition to a more market-oriented economy by the end of this decade.</p>	<p><u>Measures of goal achievement</u></p> <p>(1) Less pervasive price regulation for all sectors, including the financial sector.</p> <p>(2) Reduction in the share of value added by state-owned enterprises.</p> <p>(3) Reduced subsidy burdens for (a) basic consumer goods, (b) state-owned enterprises, and (c) factors of production.</p> <p>(4) Significant reduction of budget deficits</p> <p>(5) Increased productivity of public investments.</p> <p>(6) Liberalized trade regime.</p>	<p><u>Program Goal</u></p> <p>(1) Comparison of extent of price regulation, including interest rate regulation and policy</p> <p>(2) Analysis of state-owned enterprise activities.</p> <p>(3) Budget analysis.</p> <p>(4) Studies of (selected) investment project includes in the plan or budget.</p> <p>(5) Review of foreign trade relationships and patterns.</p>	<p>Assumptions for Achieving Goal Targets</p> <p>(1) Political stability.</p> <p>(2) Continuing worldwide economic recovery.</p> <p>(3) At least average environmental conditions (continuing abatement of drought conditions).</p>
<p><u>Project Purpose</u></p> <p>Improve the institutional capabilities of GOM agencies in economic policy development, appraisal and management</p>	<p>Conditions That Will Indicate Purpose Has Been Achieved</p> <p>(1) Official and permanent establishment of supported units as centers of economic policy analysis for their respective Ministries or departments.</p> <p>(2) Selective dissemination or publication of economic policy studies.</p> <p>(3) Significant improvement in selected performance indicators for economic policy management units, such as higher return or lower risk for GOM investment portfolio identified in multi-year plans and annual budget, or reduced time for performing certain functions.</p>	<p><u>Project Purpose</u></p> <p>(1) Institutional and organizational analysis of position and linkages of supported units.</p> <p>(2) Review of reports and publications; assessment of distribution and readership.</p> <p>(3) Pre-post comparisons of performance characteristics in supported activities.</p> <p>(4) Interviews with senior GOM officials, staff of GOM analysis units, technical assistance contractors and representatives or experts from other donor agencies.</p>	<p>Assumptions for Achieving Purpose</p> <p>(1) Continued commitment of GOM to economic policy reform toward a more open market-oriented economy.</p> <p>(2) Promulgation of policies emphasizing analytical approaches to economic policy development, appraisal and implementation.</p>

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	<p>(4) Senior GOM officials making use of supported policy analysis capabilities by requesting specific information and studies and using them in economic policy decisions.</p> <p>(5) More up-to-date and more reliable economic data, such as national income account statistics.</p>	<p>(5) Pre-post comparisons of availability, timeliness and (objective or subjective) reliability of economic data.</p>	
<p>Project Outputs</p> <p>(1) Economic policy analysis Units in "policy" Ministries * supported by project will have permanent institutional status</p> <p>(2) Reorganization of processes involved in the implementation of economic policies, such as planning and budgeting.</p> <p>(3) Analysis and management staff trained in methods of economic analysis, financial appraisal and management, use of microcomputers, and preparation of analytical reports and briefings for key decision makers.</p> <p>(4) Improved access for staff in key functions to up-to-date economic data and analytical tools to perform their functions.</p>	<p>Magnitude of Outputs</p> <p>(1) Number, background and qualifications (pre-post) of the GOM staff trained.</p> <p>(2) Institutional status of policy analysis units supported.</p> <p>(3) Number, quality and timeliness of economic policy studies prepared by supported units.</p> <p>(4) Change in the percentage of all investment projects included in the plan or budget that provide information on financial and economic performance measures.</p> <p>(5) Change in the average (expected) performance characteristics for investment projects included in the plan or budget.</p> <p>(6) Magnitude of improvements in the performance economic policy implementation:</p> <ul style="list-style-type: none"> - speed - timeliness - quality - cost/return 	<p>Outputs</p> <p>(1) Interviews with GOM staff members and their immediate supervisors.</p> <p>(2) Records of legislative or administrative actions relating to status of supported units.</p> <p>(3) Evaluation of reports and publications.</p> <p>(4) Examination of the plan or annual budget documents and use of secondary data sources, such as impressions of budget staff as well as staff of technical Ministries.</p> <p>(5) Analysis of sample investment projects; use of summary statistics.</p> <p>(6) Systems analysis studies.</p> <p>(7) Interviews with GOM officials and policy makers.</p>	<p>Assumptions for Achieving Outputs</p> <p>(1) Continued AID cooperation with IBRD, IMF and other donor agencies involved in policy reform.</p> <p>(2) Continued effective cooperation among affected GOM departments, in particular among policy Ministries.</p>

* The outputs listed here are intended to be illustrative; ultimately, the outputs for the Project will be the aggregates of outputs for the individual subprojects, as shown in their respective Logical Frameworks.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	(7) Appraisal of degree to which high-level officials are making use of economic policy analysis capabilities.		
<p>Project Inputs</p> <p>(1) Long-term (resident) technical assistance.</p> <p>(2) Short-term technical assistance.</p> <p>(3) Long-term (graduate degree) training for GOM analysts in the US in economic data collection, processing and policy analysis.</p> <p>(4) Short-term training, visits and internships for GOM analysts and officials in the US.</p> <p>(5) Short-term training in Morocco through specialized seminars and workshops.</p> <p>(6) Microcomputers and commercially available software, plus maintenance and training.</p> <p>(7) Other equipment.</p> <p>(8) Data acquisition.</p>	<p>Implementation Targets</p> <p>(1) Approximately 260 person-months of long-term (resident) technical assistance.</p> <p>(2) Approximately 120 person-months of short-term technical assistance.</p> <p>(3) Approximately 160 person-months of long-term (degree) training for GOM analysts in the US.</p> <p>(4) Approximately 100 person-months of short-term training in the US.</p> <p>(5) Approximately 200 person-months of short-term training in Morocco.</p> <p>(6) Some 15 microcomputers with peripherals.</p>	<p>Inputs</p> <p>(1) Project records and observations.</p> <p>(2) Interim evaluation and end-of-project evaluation.</p>	<p>Assumptions for Providing Inputs</p> <p>(1) Project authorized in FY 1985.</p>

ACTION AIDS INFO: AMB ECON/7

NEAC GUIDANCE CABLE

608-0191

OFFICIAL FILE

V7C2CRA0975FEV392
 FF RUFPPA
 TE RUFRC #3195 0950540
 7NR UUUU 22E
 P 052539Z APR 85
 FM SFCSTATE WASHDC
 TO AMEMBASSY RABAT PRIORITY 7254
 PT
 UNCLAS STATE 103195

LOC: 102 505
 75 APR 85 0755
 CN: 00331
 CREG: AID
 DIST: AID

ACTION : PROG/ECON DUE : 04/09
 INFO : DIR, D/DIR, PROG, CHRC
 RF

AIDAC

F.O. 1235E: N/A

TAGS:

SUBJECT: MOROCCO ECONOMIC POLICY ANALYSIS SUPPORT PID
 (608-0191)

1. THE NEAC APPROVED THE MOROCCO ECONOMIC POLICY ANALYSIS SUPPORT PID (608-0191) ON MARCH 27, 1985. THE PP MAY BE APPROVED IN THE MISSION SUBJECT TO THE FOLLOWING NEAC DECISIONS:

A. CLARER STATEMENTS OF THE PROJECT GOAL AND PROJECT PURPOSE ARE NEEDED. THE FOCUS OF THE PROJECT SHOULD BE ON ASSISTING THE GOM IN ITS MOVE TOWARDS A MORE MARKET-ORIENTED ECONOMY, AND NOT REPEAT NOT ON MAKING THE PUBLIC ENTERPRISES MORE COMPETENT AND EFFICIENT. THE PURPOSE AND END-OF-PROJECT STATUS NEED TO BE MODIFIED TO REFLECT THE FACT THAT THE PROJECT WILL STRENGTHEN THE DP'S ROLE AS A KEY ECONOMIC POLICY UNIT WHICH WILL HELP MOVE GOM POLICIES TOWARDS GREATER RELIANCE ON MARKETS.

F. TECHNICAL ASSISTANCE DIRECTED TOWARD PUBLIC ENTERPRISES SHOULD FOCUS ON INCREASING THE MARKET ORIENTATION OF SUCH ENTERPRISES. IN SOME CASES, THIS MEANS THAT TA SHOULD EMPHASIZE PRIVATIZATION, WHILE IN OTHERS IT SHOULD EMPHASIZE PRICING REFORM WHICH MOVES PUBLIC ENTERPRISES IN THE DIRECTION OF SELF-FINANCING. THIS EMPHASIS ON INCREASING THE MARKET ORIENTATION OF THE ECONOMY SHOULD BE PARAMOUNT WHEN SELECTING A TA CONTRACTOR.

C. THE MISSION SHOULD CONSIDER A FOUR-YEAR LOP TO ALLOW ADEQUATE TIME FOR ADDITIONAL SUBPROJECTS.

2. THE FOLLOWING RECOMMENDATIONS CONCERNING DESIGN ISSUES WERE ALSO MADE:

A. EFFORTS SHOULD BE MADE TO ENSURE COORDINATION/COMPATIBILITY BETWEEN THIS PROJECT AND RELATED USAID PROJECTS IN OTHER AREAS SUCH AS ENERGY, AGRICULTURE, AND STATISTICS.

F. CAREFUL ATTENTION NEEDS TO BE GIVEN TO THE EVALUATION

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ANNEX B

Page 2 of

2 Pages

STRATEGY AND ITS FUNDING, MAKING CLEAR THE CRITERIA AND
BASIS BY WHICH THE END-OF-PROJECT STATUS WILL BE
ASSESSED. EXPERIENCE WITH THIS TYPE OF PROJECT IN OTHER
COUNTRIES HAS SHOWN THAT A CLEAR PICTURE OF THE CURRENT
EFFORT UNQUOTE CONDITIONS MUST BE IDENTIFIED DURING
PROJECT (AND SUBPROJECT) DEVELOPMENT TO ENABLE
DEMONSTRATION OF ACHIEVEMENT OF PROJECT OBJECTIVES AT THE
END OF THE PROJECT.

C. MORE EXPLICIT CRITERIA FOR THE SELECTION OF
ADDITIONAL SUBPROJECTS ARE NEEDED. THESE SELECTION
CRITERIA SHOULD BE RELATED TO AND CONSISTENT WITH THE
EVALUATION STRATEGY.

D. NO OBJECTIONS WERE RAISED CONCERNING THE PROPOSED
TWO-STAGE IMPLEMENTATION PLAN. SBULTZ

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Rabat, le 30 AOÛT 1985

Annex C Page 1 of 2 pages

4-1194

MONSIEUR ROBERT CHASE
DIRECTEUR DE L'USAID
137, AVENUE ALLAL BENABDELLAH
B.P. 120.

RABAT

OBJET / Requête d'assistance pour le projet de soutien
à l'analyse de la politique économique.-

Monsieur le Directeur,

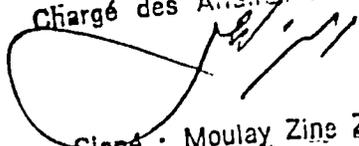
Faisant suite aux diverses réunions qui ont été
tenues entre les représentants de votre Institution, et
les différents responsables de l'Administration marocaine
et notamment celle qui a eu lieu au siège de mon départe-
ment le 13 Août 1985, vous avez bien voulu me faire
savoir que l'USAID serait disposée, si une requête offi-
cielle lui était présentée, à accorder au Royaume du
Maroc 8,6 millions de dollars destinés à réaliser un projet
visant à soutenir la réforme de la politique économique
énoncée par le Gouvernement et en particulier de renforcer
les moyens de l'Administration marocaine dans le domaine
de l'élaboration et de l'évaluation des politiques économi-
ques.

En vous remerciant vivement de votre précieux
concours et votre entière disposition à aider le Maroc pour
réaliser ce projet dont la date de clôture est prévue pour
le 30 Septembre 1990 ; j'ai l'honneur d'introduire, par la
présente, une requête au nom du Royaume du Maroc pour obtenir
le montant de 8.6 millions de dollars à titre de don qui
sera affecté aux opérations discutées par nos services
respectifs.

Je vous demande toutefois de bien vouloir revoir avec mes services la répartition du montant global entre les différentes composantes du projet.

Dans l'espoir de renforcer davantage nos liens, veuillez agréer, Monsieur le Directeur, l'expression de ma parfaite considération.-

Le Ministre Délégué
auprès du Premier Ministre
Chargé des Affaires Economiques


Signé : Moulay Zine ZAHIDI

ANNEX D

ECONOMIC POLICY ANALYSIS SUPPORT PROJECT

(608-0191)

Subproject Analysis:

Pricing Policy Subproject, Direction des Prix

September 1985

Note: Annexes B and C of this subproject analysis referred to in the text are not included. Annex D of the subproject analysis is included as Annex of this package.

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1.0 BACKGROUND ¹

1.1 Overview

The assistance project described in this document is a subproject of the Economic Policy Analysis Support project (608-0191). It is designed to help the Direction des Prix (DP) in the Ministry of Economic Affairs, which forms part of the Prime Minister's Office, to adapt to a new role as an economic policy analysis unit with emphasis on pricing policy issues.

1.2 Price Regulation

Prior to the economic policy reforms initiated in 1983, the GOM set prices for virtually all goods and services of any importance (some 200 items), using prices to subsidize the consumption of goods and services deemed to be basic necessities, tax the purchase of luxuries, and curtail "excessive" profits in all sectors. The Direction des Prix played a key role in this comprehensive approach to price regulation, serving as staff to the Interministerial Pricing Commission which advises the Prime Minister on issues of pricing policy. With its total staff of nine professionals, the DP has been responsible for examining each request for price changes, typically involving detailed production cost data and budgets submitted by individual firms for each good or service.

Whether or to what extent the stated objectives of the GOM's policy of price regulation and control were achieved remains unclear. The costs of achieving these objectives, however, have become evident in the performance of the Moroccan economy over the last few years. Controlled prices provided misleading signals to consumers and producers, rewarding an inefficient allocation of scarce resources, thereby stifling economic growth. Consequently, the reform of pricing policies represents one of the cornerstones of Morocco's structural adjustment efforts undertaken in collaboration with the international donor community, especially the World Bank.

1.3 Pricing Policy Reform

Pricing policy reform has taken the form of widespread deregulation (or liberalization) of prices of goods and services, and a reexamination of the determinants of prices that remain regulated, such as utility rates. These changes imply a changing role for the Direction des Prix. First, deregulation

¹ See Annex B for a more detailed discussion of the current (or past) functions of the Direction des Prix, and an examination of possible new tasks and responsibilities for the DP.

eliminates much of its regular workload of reviewing detail the elements of price calculations for a host of products and firms in. Instead, its staff will now be much more concerned with the monitoring and interpretation of price changes and the analysis of consequences of particular options. Second, regulation for natural or effective monopolies will emphasize efficiency criteria in price determination, i.e., marginal-cost or second-best pricing rules.

1.4 New Demands on the Direction des Prix

Focusing more on the macroeconomic consequences of pricing policies and price trends moves the Direction des Prix squarely into the arena of economic policy debate. In fact, the Minister of Economic Affairs -- to whom the Prime Minister has delegated much of the authority for decisions related to national pricing policies as well as their coordination with overall economic policies -- has come to rely heavily on the DP not only for staff work in the area of price regulation but also for preparing more general economic policy recommendations. In fact, he has increasingly called upon the DP staff for analyses of subjects such as the impact of variations in international commodity prices on subsidy costs, the effects of GOM pricing policies on the cost of living and on enterprise production costs, and opportunities for improvement. Thus, the DP is strategically placed to play an increasingly important role in overall policy reform related to pricing issues.

2.0 PROJECT DESCRIPTION

2.1 Summary: Subproject Goal and Purpose

The proposed subproject combines technical assistance, short-term training and the provision of microcomputer equipment and relevant software to assist the DP to take advantage of new opportunities and address its emerging analytical and regulatory tasks effectively. The overall goal for this subproject is given by the program goal for the overall Economic Policy Analysis Support Project (608-0191).

Contribute to a successful transition to a more market-oriented economy by the end of this decade.

In this context, a more market-oriented economy is understood to rely less on price controls and subsidies, so as to stimulate production and employment.

In pursuing this program goal, the subproject is designed to accomplish the following purpose:

To strengthen the capabilities of the Direction des Prix in collecting, organizing and analyzing economic data, to enable it to prepare (inter alia) studies assessing the net advantages of allowing market determination of most prices as well as realistic adjustments to international markets.

The subproject has already started with a Limited Scope Grant Agreement (signed July 22, 1985) which covers the procurement of five microcomputers and software. In addition, some assistance has been provided through other projects for English-language training for DP staff and for one staff member's attendance of a seminar of the Harvard Institute for International Development on public enterprise management and reform.

The subproject design includes a provision for two senior resident economic advisers in Morocco for a period of three years (1986-1989), approximately 19 person-months of short-term advisers, and about 30 person-months of in-country or U.S. training for DP staff members (an average of about fourteen weeks per staff member).

The Project Assistance Completion Date (PACD) for this subproject is September 30, 1989, with the resident economic advisers scheduled to depart at the end of the second quarter of FY 89. (The PACD for the overall project 698-0191 is September 30, 1990).

2.2 Technical Assistance

The technical assistance provided under this subproject comprises the services of two senior resident advisers for a period of three years, and visits from experts in particular subject areas or policy issues. The substantive requirements for this technical assistance are determined by the emerging statistical and analytical tasks for the Direction des Prix (discussed in greater detail in Annex B). These tasks are complex and difficult. While the DP staff is reasonably well grounded in economic theory and broadly experienced in price and budget analysis, they will require guidance in collecting and organizing the data and performing the analysis required. This guidance requires hands-on involvement by the resident and short-term advisers much more than merely theoretical instruction.

Resident technical advisers: This component of the subproject is probably the most important one; hence, the two senior advisers must be persons of outstanding experience and personal qualities. They must advise the Minister of Economic Affairs and the Directeur des Prix as to which specific problems it would be feasible and important for the DP to focus on initially. Once the parties have agreed on the focus of the work, the advisers must chart out the approach and provide hands-on guidance to the staff immediately involved, as well as some training for other staff members. They must then supervise the collection and organization of data relevant to Morocco's policy issues, both from national and international sources, provide the liaison for obtaining the information, and also arrange for short-term consultants as appropriate.

Finally, the resident advisers must supervise the analytic process and assist with formulating the policy conclusions and recommendations. To some extent, moreover, the personality skills as well as the professional expertise of the advisers will influence even the acceptability of the DP's analysis and conclusions. The Contracting Plan for technical assistance outlined in Section 7.2 translates these substantive requirements into specific criteria for the personnel to be proposed by bidders on the technical assistance contract.

Short-Term Consultants: The resident economic advisers, in close consultation with the DP, the USAID Mission, and other technical experts in the country, will play a central role in deciding which tasks short-term consultants can most effectively perform. Such TDY consultants would be needed for periods of less than two weeks to up to two or more months, in a variety of fields, to augment and go beyond the work of the resident advisers. For example, statisticians may be needed to assist in collecting, organizing and standardizing data, working closely with the Statistics Directorate in the Ministry of Plan. Econometricians and model builders, who are skilled in the usage of microcomputers for such purposes, may be called on to provide both guidance and practical training to the staff when the econometric tasks become complex. Psychologists or sociologists could guide the DP staff in their assessment of the socio-political consequences of changing economic policies, using either readily available data or the results of surveys designed and organized by these experts. The need to organize the existing and new information acquired by the DP may call for library science or information specialists. Former or current staff members of U.S. regulatory commissions, the Federal Trade Commission or the Department of Justice, could provide helpful advice on the latest (efficiency) pricing techniques and measures to overcome restraint-of-trade practices. Finally, experts in areas such as institutional/political analysis or export development and promotion may also be needed for short periods.

2.3 Training

The educational background and professional experience of the current staff members of the DP suggest that the training component of the pricing policy subproject should stress short-term training and internships in the U.S. and in Morocco. Given the context, any long-term training aiming at graduate degrees does not appear suitable for this subproject.

The resident economic advisers, working closely with their parent institution(s) as well as with the DP Project Officer and the USAID Mission will recommend and arrange for whatever short-term training is most appropriate to both the permanent mission of the DP and the analytical and statistical work immediately at hand. The training in the U.S. might consist of summer programs at universities, specialized training at the World Bank or other institutions, or internships of two to three months at U.S. Government or private institutions (e.g., the Council of Economic Advisers, the Joint Economic Committee of Congress, the Brookings Institution, or the American Enterprise Institute). Training in Morocco will consist largely of periodic seminars and workshops tailored to specific needs of the DP staff or specific policy issues, with participation of others from the GOM and the private sector as feasible.

All training activities will be conducted or arranged for by the resident advisers, with the help of short-term consultants. Administrative backstopping will be performed mainly by USAID in Morocco, and by the parent institution(s) and AID/W in the U.S.

As mentioned above, the DP staff members are already well started on their English-language training, and some are already sufficiently proficient to

communicate professionally in English, to use software for which French documentation may not yet exist, and to participate in international activities for which English is required.

2.4 Microcomputer Equipment and Software²

The microcomputer equipment to be furnished under this subproject for the Direction des Prix is intended to (a) improve data base management and analytical capabilities for the DP's work in price determination, using more market-oriented criteria, and (b) allow DP analysts to perform economic policy analysis using appropriate macroeconomic data, and preparing reports and recommendations for policy makers.

The assessment of the microcomputer needs and use potential of the Direction des Prix indicated that the best arrangement would involve a microcomputer "center" in the DP building with four individual workstations, plus another unit in the office of the Directeur des Prix. Requirements for each unit include:

- a minimum of 512K of user memory (RAM);
- a floppy-disk drive and a 10 megabyte (minimum) hard disk;
- a numerical co-processor;
- a printer.

The hardware to be provided under the Limited Scope Grant Agreement signed July 22, 1985 also includes video monitors and hard-disk backup units. Because of compatibility requirements with the equipment installed in the Statistics Directorate and the Planning Directorate, and because of limited maintenance and parts availability in the country, IBM XT equipment has been specified.

The software to be purchased under the Limited Scope Grant Agreement as part of the pricing policy subproject includes a general integrated package (combining a spreadsheet, graphics, word processing, and data base management — as well as communications capabilities that go beyond the current state of the art of the Moroccan telecommunications system) a statistical analysis package, a program development package, and special-purpose software for data base management, project management and word processing.

² See Annex C for a detailed assessment of the microcomputer needs of the Direction des Prix, conducted with the assistance of AID/W's SER/IRM office. See Annex D for the Limited Scope Grant Agreement relating to the procurement of the microcomputers and requisite software.

3.0 SUBPROJECT JUSTIFICATION

The Economic Policy Analysis Project (608-0191) aims at supporting the implementation of Morocco's economic policy reforms moving in the direction of a more market-oriented economy. The pricing policy subproject directly reflects this intent. Given the key role of pricing policy reform in the overall reorientation of the economy, project support to the GOM agency that has potentially a major impact on the effective implementation of pricing policy reform assumes a high priority within Project 608-0191. The subproject is therefore justified in terms of its overall thrust.

In addition, the Project Paper for the overall project (608-0191) establishes specific criteria that must be met by all subprojects to be funded. Section III.D of that Project Paper lists four substantive criteria grouped into two categories:

Category A:

1. Subprojects should provide support for improved capabilities to develop sound economic policies.
2. Subprojects should provide support for improved efficiency in carrying out and managing functions related to the economic policy reform.

Category B:

1. Subproject should contribute to an increased market orientation of the economy as a whole and better conditions for private sector ownership and management of productive assets.
2. Subprojects should show clear indications of the potential for creating lasting impacts on institutional capabilities in economic policy formulation and implementation.

In addition, category B includes a few formal conditions (such as completion within the overall PACD of September 30, 1990, compliance with AID documentation requirements) that are met by this subproject. Each subproject must meet at least one of the conditions in Category A and all in Category B. The proposed subproject clearly passes this test. With respect to Category A, the pricing policy subproject expressly aims at improving the GOM capabilities to develop sound economic policies in a critical area of reform.

In terms of the two substantive criteria in Category B, the proposed subproject will contribute to an increased market orientation of the Moroccan economy by facilitating continuing price decontrol, and by introducing efficiency (marginal cost) criteria in the determination of prices and rates that may remain subject to regulation. In addition, by working with an established agency with tenured professionals, the pricing policy subproject shows adequate prospects of achieving a lasting impact on the GOM's institutional capabilities in economic policy formulation and appraisal.

Moreover, the central role of the Direction des Prix assures not only necessary linkages to other subprojects under the Economic Policy Analysis Project, but also to other USAID-supported projects. For example, energy pricing has long constituted a central topic for the Energy Planning Project (608-0180). Similarly, pricing of agricultural inputs and products represents a key issue for projects such as 608-0182 (agricultural pricing and analysis). The exchange of information between the DP and other USAID-supported agencies contributing to the formulation of pricing policies could significantly enhance USAID's work with the technical Ministries. (See also section 5.0 for a further discussion of this issue).

Thus, in terms of both overall thrust and subproject selection criteria enunciated in the Project Paper for 608-0191, the proposed USAID support for the pricing policy subproject is justified.

4.0 INSTITUTIONAL CAPABILITY AND COUNTERPART AVAILABILITY

The Direction des Prix is a relatively small, but tightly organized and effective agency in the GOM bureaucracy. Its staff of nine professionals, including the Director, is divided nearly equally between economists and financial/accounting specialists; one staff member is a lawyer. While the pricing policy reforms have altered the nature of its work somewhat, the DP is continuing to serve as the secretariat to the Interministerial Pricing Commission and its specialized subcommittees. This Pricing Commission comprises representatives of the Ministry of Finance, the Prime Minister's Office, and various technical Ministries. It reviews all requests for changes in regulated prices at the national level. The Directeur des Prix usually chairs the meetings of the Commission; similarly, the meeting of specialized subcommittees are typically chaired by DP staff. The DP prepares or coordinates all materials and analyses used by the Commission. It also prepares the final recommendations submitted to the Prime Minister, who issues the price decrees.

Price deregulation has changed the responsibilities of the DP to some extent. For most goods and services, the staff is no longer concerned with determining prices, but rather with monitoring price developments and trends and assessing the implications of such trends on macroeconomic indicators, such as the cost-of-living index. In addition, they have been used more and more by policy makers in the Ministry of Economic Affairs and beyond it to prepare economic analyses of specific issues on a periodic or an ad-hoc basis.

Thus, the DP finds itself in a position of responding to both a need and an opportunity for developing its economic policy analysis role. Individual staff members have also come to the conclusion that the methods of determining "appropriate" prices used until now have failed to produce the hoped-for benefits of price regulation. Thus, one finds both institutional and individual readiness for change.

Both the institution of the Direction des Prix and the individual staff members -- who typically have spent the major part of their professional career with the DP -- exhibit all signs of being capable to benefit from the

assistance to be provided by the pricing policy subproject, and to evolve into an effective and respected source of economic policy advice. Cooperation of the DP staff in the development of this subproject has been exceptionally active and open.

5.0 RELATIONSHIP TO OTHER USAID PROJECTS

As already indicated in the justification of the pricing policy subproject with respect to the selection criteria, assistance to the DP can contribute directly to other projects in two key sectors, energy and agriculture. The potential contribution can be sketched by looking at the example of energy pricing, a key issue -- along with food pricing policies -- in the GOM's policy dialogue with the international donor community.

The first step in determining energy prices, notably for refinery products, coal, and electricity, is an assessment of the cost of production. Inadequate cost accounting in many of the energy parastatals makes estimates just of average costs (let alone marginal costs) difficult. The results are often suspect. Estimates of average costs are then used to determine producer prices -- prices that allow the producer/importer to recoup costs and earn some profit ("marge bénéficiaire"). These producer prices in turn are translated into consumer prices ("prix de vente") by a process that is largely political, at least for refinery products. For those products, the resulting price structure taxes "luxury" products, i.e., gasolines, heavily, and subsidizes butane as well as heavier fuels. A revision of the price structure for refinery products to eliminate net subsidies, agreed on with the IMF as part of the first Stand-By Arrangement, does not preclude cross-subsidization. Maintaining zero net subsidies, however, does require a constant tinkering with consumer prices, as direct and cross-price elasticities change the composition of consumption.

Improving energy pricing in Morocco requires two things: better information on production costs, especially marginal costs, and a better understanding of the impacts of price changes on factors such as consumption, cost of living, production costs, etc. Parastatals in the energy sector have begun to work on the first aspect, with the support of the World Bank. Better production cost information can then be used by the Ministry of Energy and Mines (MEM), supported by the Energy Planning Project (608-0180), to calculate producer prices in a consistent manner across different types of energy products. To examine the impact of different pricing strategies on consumption, and other macroeconomic or sectoral factors, however, the MEM depends on the cooperation of other GOM agencies, notably the Direction des Prix, to provide the needed information. Energy pricing therefore represents an excellent opportunity for cross-fertilization among USAID projects.

Similarly, another subproject of the Economic Policy Analysis Support Project currently under development concerns possible improvements in the collection, organization and analysis of price data by the Direction de la Statistique (Ministry of Plan). What data should in fact be collected and how they should be made available depends on needs of users who draw on this information for policy purposes. The Direction des Prix would be one of the

key users of such more general price information (to perform analyses such as that of the impact of energy price changes on macroeconomic or sectoral indicators). Thus, the pricing policy subproject would yield specifications that would be essential in developing an adequate design of another subproject.

6.0 TRAINING REQUIREMENTS

As already discussed in the overall description of the pricing policy subproject (Section 2.3), the educational background and professional experience of DP staff suggest that training and education under the subproject should be limited to short-term training in the U.S. and Morocco. One of the key requirements for the technical assistance contractor will be the development of innovative concepts for short-term training both in the U.S. and in Morocco. Attendance of seminars and internships will be important. But some staff members may also benefit from "mini-sabbaticals," relatively short visits to the U.S. to prepare policy reports on specific issues.

7.0 CONTRACTING AND EQUIPMENT PROCUREMENT PLAN

7.1 Microcomputer and Related Procurement Activities

As discussed in detail in Annex C, the needs assessment for the Direction des Prix suggested a combination of five IBM XT microcomputers with appropriate software and peripherals. Four of the microcomputers will be installed in a central "lab," with the fifth destined for the office of the Directeur des Prix. The procurement of the microcomputers is covered in a separate Limited Scope Grant Agreement, signed with the Ministry of Economic Affairs on July 22, 1985.

The microcomputers are being procured through local vendors. Two reasons underlie that decision. First, local procurement provides access to continuing technical support as well as maintenance. "Technical support" refers to assistance with minor problems, adjustments of cables, replacement of defective parts, etc., typically unpaid (or, rather, prepaid) services provided by dealers as part of their business. In addition, local procurement also provides access to introductory training in the use of the software packages supplied. Generally, there is no need to draw on the services of U.S. experts for such introductory training -- which is, however, essential to familiarize analysts with the full potential of the equipment and software.

Second, local procurement also greatly facilitates the tasks of putting together a package that meets the needs of GOM users with respect to equipment specifications (e.g., 50Hz power supplies, AZERTY keyboards) and French-language documentation.

7.2 Technical Assistance and Training Support

Technical assistance and training support services will be procured through open competition in the U.S. Every conceivable effort will be made to assure the involvement of minority-owned businesses in this procurement.

The services to be provided under this subproject place a premium on the institutional capabilities of the technical assistance contractor. The home office support must be of sufficient high quality to

- (a) help insure that resident advisers and consultants remain fully aware of important prior and current research and experience worldwide;
- (b) facilitate access to the numerous experts at American universities and institutions as well as in U.S. local and national-level government institutions who have had substantial experience in pricing policies, regulation of natural monopolies, restraint-of-trade issues, and subsidies for needy population groups under a free-market system;
- (c) obtain short-term consultant services from among these experts; and
- (d) locate the most appropriate institutions and courses in the U.S. (or possibly third countries) for short-term training of DP staff.

Conceivably, no single U.S. institution would have either the expertise or the backstopping abilities required to meet these demands. Universities often have a comparative advantage in (1) providing long-term resident advisers who have the technical competence, developing-country experience, and personal qualities required, (2) facilitating access to prior and current research and other materials, and (3) locating appropriate training institutions.

Consulting firms as a rule are a better source for competent short-term consultants with the specialized expertise, personal qualities and hands-on experience in developing countries. Moreover, such firms and their employees and consultants have usually had substantial experience with AID procedures and policies in such areas as training and report-writing, and also with tailoring the technical assistance to the specific needs of the project.

A consortium of one or more universities and consulting firms might therefore offer the best combination for the tasks at hand in the pricing policy subproject.

The discussion of the substantive requirements for the senior resident advisers outlines the standards that must be met by the personnel proposed by prospective technical assistance contractors. The senior advisers must be:

- (1) outstanding macroeconomists with substantial experience at high government levels in the development, appraisal, and reshaping of national economic policies, as well as in organizing and analyzing large bodies of economic and social data for economic policy purposes;

- (2) specialized in pricing policies in general, with one of the resident advisers also particularly expert in utility pricing policies and techniques, the other in means for targeting consumer subsidies so as to reduce their cost to the budget and the economy as a whole;
- (3) oriented toward problem-solving on a national scale, with a particular interest in stimulating overall economic growth and employment via improved economic policies;
- (4) outstanding communicators, both orally and in writing, and experienced in formal and informal teaching/training, preferably in the context of developing countries;
- (5) reasonably fluent (minimum 3+ level) in French or Moroccan Arabic;
- (6) aware of, and preferably experienced with, institutional and political realities in developing countries;
- (7) willing to commit themselves to an assignment for the entire three-year assistance period to maximize the potential for an in-depth involvement and lasting impact.

The two senior economists must of course be self-starters capable of independent work, but they must also be ready to cooperate closely with technical advisers working on policy tasks in other parts of the government, such as the Ministry of Plan, or one of the technical Ministries. Administrative duties should be held to a minimum through local hiring of an administrative assistant.

8.0 COST ESTIMATES AND FINANCIAL PLAN

8.1 Estimate of Expenditures

Under this subproject, USAID will finance technical assistance, short-term training for GOM counterpart staff in the U.S. and in Morocco (possibly including visits to third countries), and microcomputer (including software) and other equipment. The USAID portion of the budget also includes funding for two evaluations of the pricing policy subproject, scheduled for FY 87 and FY 89, as described in Section 10. The GOM will contribute primarily the salaries of counterpart staff, office space and equipment, as well as other in-kind services. Consistent with established practices, the GOM will also pay international air fare for staff traveling to the U.S. for short-term training.

Table 8-1 and 8-2 show the distribution of the USAID and GOM contributions, respectively, over the time horizon of the pricing policy subproject. To facilitate the comparison here, the GOM contribution also has been distributed across U.S. fiscal years; the GOM fiscal year is coterminous with the calendar year.

The cost estimates are based on the following assumptions regarding the structure of the project:

- a total of 72 person-months of senior resident economic advisers;
- an approximate total of 19 person-months of short-term technical advisers;
- about 30 person-months of in-country or U.S. training for staff members of the Direction des Prix;
- five microcomputers with requisite software.

The estimated distribution of totals across time is based on the assumption that the technical advisers would arrive toward the end of the second quarter of FY 1986 (early spring 1986).

8.2 Justification for Grant Financing

The AID contribution to the pricing policy subproject (as to all other subprojects under 608-0191) is proposed to be financed through a grant to the Government of Morocco. This decision is based on guidance from AID/W related to the question of grant financing vs. loans in State 178281. Two criteria in particular apply to this subproject.

First, the benefits, both economic and social, of the subproject will be broadly diffused throughout the Moroccan economy. The nature of macrolevel pricing policies precludes for the most part the option of singling out any narrowly defined target beneficiaries for whom any cost recovery schemes could be designed. Any long-term benefits accruing back to the GOM will be in form of higher tax revenues from increased economic activity, or reduced budgetary outlays for subsidies, gains which in turn are likely to be redistributed through the fiscal reforms that have already been initiated.

Second, the United States has a strong interest in supporting and guiding pricing policy reform in Morocco to assure a successful transition from excessive state intervention to a market-oriented economy. That is the reason for the heavy emphasis on technical assistance in this subproject.

Grant rather than loan financing is therefore justified on practical as well as on policy grounds.

9.0 IMPLEMENTATION AND MONITORING PLAN

9.1 Implementation Plan

Implementation of portions of this subproject, specifically those linked to the procurement of microcomputers, software and introductory training, is already underway. As discussed in the Project Identification Document for

Table 8-1
Pricing Policy Subproject, Expenditure Distribution, USAID Grant
(\$1,000, in current prices)

Expenditure Category	FY 85	FY 86	FY 87	FY 88	FY 89	Total
- Technical assistance	0	197	417	457	233	1,304
- Training	0	45	79	85	42	251
- Microcomputer & other direct costs	58	35	39	22	16	154
- Evaluation	0	0	30	0	40	70
- Contingency (10%)	6	28	56	56	33	178
T O T A L	64	304	620	621	364	1,956

Table 8-2
Pricing Policy Subproject, Expenditure Distribution, GOM Contribution
(\$1,000, in current prices)

Expenditure Category	FY 85	FY 86	FY 87	FY 88	FY 89	Total
- Training	0	15	20	20	15	70
- Salaries	19	82	92	96	75	364
- Other direct costs	11	49	55	58	45	219
T O T A L	30	146	167	174	135	653

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Project 608-0191, and approved by the NEAC (in State 103195), the nature of the subproject and the timing justified a pre-project implementation phase. Consequently, USAID signed a Limited Scope Grant Agreement with the Ministry of Economic Affairs for a total grant amount of \$75,000 to cover procurement activities related to the microcomputers for the Direction des Prix. USAID is now in the process of preparing the necessary documentation (PIO/C), soliciting bids from local vendors, and organizing the introductory training sessions, which will be held over a period of three months. The content of these training sessions is described in Annex C, "An Assessment of the Microcomputer Needs of the Direction des Prix."

Following approval of the Project Paper for 608-0191, signing of the Project Agreement for the overall project, and project authorization, procurement for the technical assistance and training support contract will begin with the preparation of the RFP, and the placement of the notice in the Commerce Business Daily. The issue of the RFP is now scheduled for mid-October 1985. Evaluation of the RFP's will take place in December, with contractor selection and contract negotiations to be completed by the end of January. The first resident adviser would then be expected to arrive toward the end of the second quarter of FY 86.

The time schedule is summarized in Table 9-1.

9.2 Monitoring Plan

Supervision of the pricing policy subproject is the responsibility of the USAID Project Officer. The Ministry of Economic Affairs has already named the counterpart GOM staff member (in the communication from the MEA also referred to as a "Project Officer"). Procedures for monitoring progress on this subproject will involve close and frequent contacts between the USAID Project Officer, the GOM counterpart and the senior resident advisers. These extensive informal contacts represent an important means for effective project management, since they will enable the Project Officer to remain fully informed of current and prospective subproject activities, and to spot opportunities and problems in time to take effective action.

In addition, a monthly management review will be held around the 10th of each month to assess the accomplishment of technical milestones, and review briefly resource use. These brief monthly reviews will be complemented by more in-depth semi-annual reviews in March and September to assess accomplishments, examine major or recurrent problems and issues, and review and approve more detailed workplans for the next review period. The first review of this nature will be held as a planning session following the arrival of the first resident adviser.

Project management will also stay abreast of the developments on the pricing policy subproject through debriefings of TDY experts, and periodic or occasional technical reports and papers prepared by the analysis unit according to the respective work plans.

Table 9-1
 Implementation Schedule:
 Pricing Policy Subproject

September 1985	Procurement of microcomputers, software and introductory training for DP staff
September 1985	Subproject approved
September 1985	Project Agreement signed
September-December 1985	Introductory training in using microcomputers and supplied software for DP staff
October 1985	RFP for technical assistance and training support services issued
December 1985	Proposals received and evaluated
January 1986	Contract negotiated with successful bidder
March 1986	First resident adviser arrives; submission of first semi-annual work plan
April 1986	Second resident adviser arrives
September 1986	First semi-annual project review
March/April 1987	Interim subproject evaluation
February/March 1989	Final subproject evaluation
March/April 1989	Resident advisers depart

10. EVALUATION PLAN

Two evaluations are scheduled for this subproject, the first for roughly a year after the arrival of the first resident adviser, i.e., the third quarter of FY 87, the second just prior to the departure of the resident economic advisers, i.e., in the second quarter of FY 1989.

The substantive orientation of the evaluations is given by the Logical Framework for the pricing policy subproject shown in Annex A. Annex B already provides a general description of the "pre-project" conditions; more detailed information is available in the files of the Direction des Prix, the general economic and social data base maintained by USAID, and data on particular sectors produced through other USAID-supported projects (such as 608-0182 and 608-0180) on price structures and issues. Thus, the initial evaluation will be able to draw on a broad range of readily available information.

However, many of the crucial conditions are unknown or poorly understood. Policy makers tend to be quite ignorant of the incidence of current consumer subsidies or of subsidies on factors of production -- which is one of the main reasons for launching the pricing policy subproject. Thus, the studies and analyses conducted as part of this project will provide additional information on baseline conditions for the evaluation(s).

As described in the evaluation plan for the overall project (Section VI of the Project Paper for 608-0191), the character of the two evaluations will be different. The first is designed as a formative evaluation, looking for ways in which the subproject could be run more effectively. The final evaluation will have a summative character, trying to assess the usefulness of such technical assistance in a crucial economic policy area as a component of the USAID portfolio. This final evaluation will focus more on the use of the policy information generated by the Direction des Prix with the assistance of the technical advisers by policy makers.

ANNEX D-A

LOGICAL FRAMEWORK,

Pricing Policy Subproject

10/1

LOGICAL FRAMEWORK
Pricing Policy Subproject

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p style="text-align: center;"><u>Program goal</u></p> <p>An economic system increasingly market-oriented (both domestically and internationally) and essentially free of price controls and subsidies, so as to stimulate production and employment.</p>	<p style="text-align: center;"><u>Measures of goal achievement</u></p> <p>(1) Extent of market determination of prices. (2) Difference between efficiency and market prices of utilities and other regulated industries (3) Performance of state-owned enterprises. (4) Subsidy costs.</p>	<p>(1) Price statistics. (2) Budget & expense data. (3) Accounts of SOEs. (4) Special studies.</p>	<p>(1) Continued GOM commitment and efforts to improve economic policies so that they stimulate production and employment.</p>
<p style="text-align: center;"><u>Project purpose</u></p> <p>To strengthen the analytical as well as data-collection and organizational capacities of the Direction des Prix (DP), to enable it to prepare (inter alia) studies which assess the net advantages of allowing market determination of most prices as well as realistic adjustments to international markets.</p>	<p style="text-align: center;"><u>End-of-Project Status</u></p> <p>(1) Role of DP staff visibly strengthened as key economic policy appraisal unit. (2) High professional quality of reports and analyses prepared by DP staff. (3) Ratio of regulatory to analytical activities reversed. (4) Formal process in place and operating, for cooperation with pricing/economic policy analysis units in sectoral ministries, etc.</p>	<p>(1) DP analysis reports. (2) Evaluation.</p>	<p>(1) Continued GOM commitment and concomitant efforts to liberalize prices.</p>
<p style="text-align: center;"><u>Outputs</u></p> <p>(1) Data base and microcomputers in place and functioning, for pricing policy and other purposes. (2) DP staff trained and experienced in: (a) organizing and analyzing economic-social data for specific action-oriented policy purposes, (b) using microcomputers as a tool for these purposes, and (c) formulating conclusions and policy recommendations on national-level economic issues. (3) DP staff capable of assessing with reasonable objectivity: (a) the impact of current and proposed government policies on various aspects of the Moroccan economy, (b) the advantages/disadvantages of free-market vs. regulated domestic prices, and (c) the need for GOM actions to enforce competitive market conditions and discourage restraint-of-trade attempts. (4) Policy-oriented analytical studies of high quality, prepared increasingly frequently on important national economic issues.</p>	<p style="text-align: center;"><u>Magnitude of Outputs</u></p> <p>(1) Time series in data base for price data, cost-of-living indices, world market prices, budget data, etc. (2) Product/firm budgets for all regulated prices in data base. (3) Periodic reports by DP.</p>	<p>(1) DP reports. (2) Annual and quarterly reports by T.A. team. (3) "Mini-evaluation." (4) Evaluation.</p>	<p>(1) Administrative stability for MEA/DP. (2) Continued commitment of DP staff.</p>

LOGICAL FRAMEWORK, Pricing Policy Subproject

Cont'd.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p style="text-align: center;"><u>Inputs</u></p> <p>(1) Long-term technical assistance in data collection, organizing, and analysis for overall economic policy purposes; also in formulating policy recommendations and report writing.</p> <p>(2) Short-term technical assistance in use of micro-computers as well as in above fields.</p> <p>(3) Short-term in-country and U.S. training for DP staff.</p> <p>(4) Provision of five micro-computers, peripherals, and general-purpose software.</p>	<p style="text-align: center;"><u>Implementation Target</u></p> <p>(1) Two long-term resident advisors working in DP by FY 1986.</p> <p>(2) Schedules established for 60 man-months of short-term technical assistance, to be completed by end of FY 1990, and 60 man months in-country and U.S. training of DP staff, to be completed by end of FY 1989.</p> <p>(3) All microcomputers in place and operating, by end of FY 1985, and all microcomputer-related project activities completed by end of CY 1985.</p>	<p>(1) Quarterly reports.</p> <p>(2) USAID Monitoring.</p>	<p>Project design completed and project authorized in fourth quarter of FY 1985.</p>

ANNEX E
DOCUMENTATION RELATED TO
PHASE I ACTIVITIES

- ANNEX E (1) - ACTION MEMORANDUM FOR THE MISSION DIRECTOR (attached)
- ANNEX E (2) - PROJECT AUTHORIZATION (attached)
- ANNEX E (3) - LIMITED SCOPE GRANT AGREEMENT - - signed by the Mission Director July 22, 1985 (by reference only)

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

USAID/RABAT

FROM: PROG/ECON, Ulrich Ernst *UE*
SUBJECT: Approval of Phase I of Direction des Prix Subproject of the
Economic Policy Analysis Support Project
DATE: June 27, 1985

Problem: Your approval is required to authorize Phase I of the Economic Policy Analysis Project, 608-0191 with the Direction des Prix.

Discussion: On March 27, 1985, the Near East Advisory Committee (NEAC) reviewed and recommended approval of the Economic Policy Analysis Project, subject to a number of decisions. The purpose of this project is to enhance the Government of Morocco's (GOM) capabilities in the area of economic policy development and appraisal to support the movement toward a more market-oriented economy. The project is designed to respond to specific opportunities to provide technical assistance, training, support in data collection and analysis, and appropriate equipment to units within the government or attached to government agencies charged with the responsibility of economic policy planning, budgeting and monitoring. In response to the NEAC recommendations, the original life of the project of three years has been extended to five, and the original LOF funding of \$4.8 million has been increased to \$7.8 million.

The project will respond to specific opportunities by developing individual subprojects tailored to the needs of the respective GOM agency and the USAID agenda for policy dialogue. The first subproject identified is the support of the capabilities of the Direction des Prix (DP) in the Ministry of Economic Affairs in the Prime Minister's Office in the area of economic policy development and appraisal. This unit, which has played a central role in price regulation and control, can contribute much to the success of a more liberal price policy to which the GOM has agreed as part of the structural adjustment process. This subproject comprises two major elements: (1) the provision of microcomputer equipment to improve the data base management and analysis capabilities of the Direction des Prix, and (2) the support of policy development and appraisal through technical assistance in macroeconomic analysis. Given the urgency of the need for better data base management and analysis to support the nascent role of the DP as an economic policy analysis unit, the subproject is designed to proceed in two phases. Phase I, to be implemented prior to completion of the Project Paper, is concerned with the procurement of microcomputer equipment and software. Phase II, following the completion and approval of the Project Paper and the selection of a contractor, is the provision of technical assistance. The NEAC review raised no objections to this procedure, per State 103195 (attached).

The basis for the implementation of Phase I of the Direction des Prix subproject is a detailed needs assessment conducted with assistance from SER/IRM. The costs for the equipment, software and training needs identified in that needs assessment have been estimated as \$75,000. The Project Authorization for which your approval is requested is for this amount.

The preparation of the Project Paper is underway, with the assistance of a senior economist consultant, David Redding. The substantive focus of the PP development responds to NEAC guidelines -- clearer statement of objectives and selection/approval criteria for additional subprojects, emphasis on market orientation, and a fully developed evaluation strategy.

The Congressional Advice of Program Change was sent to Congress on April 11, 1985 and expired without objection on April 26, 1985.

Recommendation: That you approve the implementation of Phase I of the Direction des Prix subproject by signing the attached Project Authorization.

Attachments:

1. Limited Scope Grant Agreement
2. An Assessment of Computer Needs of the Direction des Prix
3. Project Authorization
4. NEAC Cable Approving PID for 608-0191 (State 103195)

Clearances: WSRhodes, PROG: WJR
 AWilliams, RLA: AW
 SNevin, RCO: SN
 MMatthews, CONT: MM

TV

PROJECT AUTHORIZATION

Name of Country/Entity: Morocco

Name of Project: Economic Policy
Analysis Support

Number of Project: 608-0191

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize Phase I of the Economic Policy Analysis Support Project for Morocco (the "Cooperating Country") involving planned obligations of not to exceed \$75,000 in grant funds over a one year period from date of authorization subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is one year from the date of initial obligation.

2. Phase I of the project consists of the provision of computer hardware and software and training the Direction des Prix of the Ministry of Economic Affairs in the Prime Minister's Office.

3. The Project Agreement(s) which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

A. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the project shall have their source and origin in the Cooperating Country or in the United States except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the Cooperating Country or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing.

Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

B. Conditions precedent

The Grant Agreement shall contain conditions precedent in substance as follows:

Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of commitment documents pursuant to which disbursement will be made, the Grantee shall submit to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) a memorandum describing the steps taken by the Grantee for the installation, maintenance, security and effective use of the microcomputer equipment;

- (b) a memorandum outlining an introductory training schedule to accomplish project objectives without undue disruption of the on-going work of the DP.

C. Covenants

The Grant Agreement shall contain covenants in substance as follows:

- (a) The Grantee agrees that the introductory training program and materials are subject to approval by A.I.D.; and
- (b) The Grantee recognizes that this Grant is for Phase I of a two-phased project and covenants that the Grantee is committed to Phase II of the project, subject to the availability of funds and the mutual agreement of the Grantee and USAID as to the details of Phase II.

Signature Robert Chase
Title Director, USAID
Date July 2, 1985

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only:
B.1. applies to all projects funded with Development Assistance loans, and
B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

Yes (see Drought Recovery Credit Project, 608-0184)

Yes

A. GENERAL CRITERIA FOR PROJECT

1. FY 1985 Continuing Resolution Sec. 525; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or nor more than \$1 million over that amount)?

(a) Congressional Notification (No. 344 - submitted 4/11/85)

(b) Yes

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

(a) Yes

(b) Yes

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

None Required
4. FAA Sec. 611(b); FY 1985 Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973, or the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.)

Not Applicable
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

Not Applicable
6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

Yes: Project is, in effect, part of a multilateral effort to assist GOM in implementing economic policy reform.

7. FAA Sec. 601(a). Information and conclusions whether projects will encourage efforts of the country to:
- (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.
- (a) Yes
- (b) Yes
- (c) Not Applicable
- (d) Yes
- (e) Yes
- (f) Not Applicable
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
- Yes, to the extent that economic policy reform will encourage direct foreign investment.
9. FAA Sec. 612(b), 636(h); FY 1985 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.
- GOM will make significant in-kind contributions toward institution-building activities.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
- U.S. does not own excess foreign currency of Morocco.

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes
12. FY 1985 Continuing Resolution Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? Not Applicable
13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16. Does the project or program taken into consideration the problem of the destruction of tropical forests? Yes
14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)? Not Applicable

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15. FY 1985 Continuing Resolution Sec. 536. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?

No

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote

(a) Not Applicable

(b) Not Applicable

(c) Yes

- the participation of women in the national economies of developing countries and the improvement of women's status, (e) utilize and encourage regional cooperation by developing countries?
- (d) Not Applicable
- (e) Not Applicable
- b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?
- Yes
- c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?
- Not Applicable
- d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed country)?
- Yes
- e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project for more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country
- Not Applicable

"relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character."

- f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes

- g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

Project is designed to support institution-building efforts by the GOM in order to improve governmental processes.

2. Development Assistance Project
Criteria (Loans Only)

a. FAA Sec. 122(b). Information an conclusion on capacity of the country to repay the loan, at a reasonable rate of interest. Not Applicable

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? Not Applicable

3. Economic Support Fund Project
Criteria

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the extent possible, does it reflect the policy directions of FAA Section 102? Not Applicable

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? Not Applicable

c. FAA Sec. 534. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives? Not Applicable

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

Not Applicable