REGIONAL

TRADE AND INVESTMENT INITIATIVE

RESULTS PACKAGE

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This document is a “hybrid” of a standard USAID strategic plan and a USAID results package. It describes the Strategic Objective to be achieved by the Regional Trade and Investment Initiative from FY 1999 to FY 2004 and the implementation mechanisms to be used to achieve the Strategic Objective. It draws heavily on the Technical Analysis found in Annex B.

Over the past 15 years, Middle Eastern and North African governments have undertaken major macroeconomic reforms to stabilize their economies. They have also undertaken extensive restructuring reforms to move away from import substitution political economies, though much remains to be done. With the support of multiple donors, most countries in the region have restructuring reform programs underway. These reform programs need additional support if they are to lead to increased investment, increased trade, and thus increased sustainable economic growth.

It is clearly within the US national interest, as expressed in the Strategic Plan for International Affairs, to assist these reforms efforts. An assistance program in the region also conforms to the USAID Strategic Plan. It also supports the new relationship sought through the Maghreb Initiative, a multi-agency program to improve trade and investment relations with the three Maghreb states -- Morocco, Algeria and Tunisia -- that will be implemented by the Department of State, the Department of Commerce, the US Trade Representative, USAID, and other USG agencies. In order to ensure that the program sets out and achieves reasonable objectives with a high level of impact, the primary focus of the program is the Maghreb countries.

The USAID Regional Trade and Investment Initiative seeks to address the legal, policy and regulatory constraints to increasing trade and investment in the Maghreb region. The Goal of the program is to increase sustainable economic growth and expand U.S. trade and investment. The Strategic Objective is to improve the legal, policy and regulatory framework for trade and investment. The program will be kept flexible, so that funds may be programmed annually on a “rolling” basis, to take advantage of opportunities to best achieve the objectives described above. The program will be managed by USAID’s Asia and Near East Bureau, with USAID/Morocco taking the lead for activities in the Maghreb and an ANE/Washington economist leading on activities in countries outside the Maghreb. A full-time US Personal Services Contractor trade and investment specialist, paid from program funds, will be hired and assigned to USAID/Morocco. This specialist will assist in program management and monitor program implementation and results achievement. The program will carry an annual budget of $6 million (consisting of $5 million in Economic Support Funds and $1 million in Development Assistance Funds) over the course of three fiscal years, FY 2000 - FY 2002. Some ANE Bureau RD&S DA funds will be expended in FY 99 for program planning and baseline measurement.

List of Acronyms

ANE	Asia Near East Bureau of USAID
EGAD	USAID Economic Growth and Agricultural Development Center
EU	European Union
EURO-MED	European-Mediterranean Partnership
FIAS	World Bank Foreign Investment Advisory Service
FY	Fiscal Year
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
IMF	International Monetary Fund
IR	Intermediate Result
MENA	Middle East and North Africa Region
MENAMET	Middle East and North Africa Metrology Network
NIST	National Institute for Standards and Technology
OPIC	Overseas Private Investment Corporation
PASA	Participating Agency Services Agreement
PSC	Personal Services Contractor
SEA	Strategic and Economic Analysis Office
USDH	United State Direct Hire
USG	United States Government
USTR	United States Trade Representative
WTO	World Trade Organization

I. Introduction

This document is a “hybrid” of a standard USAID strategic plan and a USAID results package. It describes the Special Objective to be achieved by the Regional Trade and Investment Initiative from FY 1999 to FY 2004 and the implementation mechanisms to be used to achieve the Special Objective. It is intended to function as the design document for that initiative. Thus it meets the requirements of USAID’s strategic planning and implementation planning directives (ADS Chapters 201 and 202).

The document has been prepared by two consultants contracted by USAID's Asia Near East Bureau: economist Paul O'Farrell, who prepared the Technical Analysis found in Annex B, and project design specialist James Walsh, who compiled the Results Package and condensed Mr. O'Farrell's Technical Analysis into Sections IIA, IIB and IIC. In the course of preparing these reports, the consultants met with numerous USAID staff in the Asia Near East Bureau and the Global Bureau, with State Department staff in the Economic Bureau and the Near East Affairs Bureau, and with staff in the US Trade Representative’s office, the Overseas Private Investment Corporation, the National Institute of Standards and Technology, and the US Treasury. The consultants also met with the Washington representatives of the other major donors in the Middle East and North Africa, namely the European Union and the World Bank. A list of persons met is attached.

Section II lays out the constraints to increased trade and investment throughout the Middle East and North Africa region and associated opportunities for the US government to assist with improving the policy, legal and regulatory environment for trade and investment. To briefly summarize this analysis, Middle Eastern and North African governments have, over the past 15 years, undertaken major macroeconomic reforms to stabilize their economies. They have also undertaken extensive restructuring reforms to move away from import substitution political economies, though much remains to be done. With the support of multiple donors, most countries in the region have restructuring reform programs underway. These reforms programs need additional support if they are to lead to increased investment, increased trade, and thus increased sustainable economic growth. It is clearly within the US national interest, as expressed in the Strategic Plan for International Affairs, to assist these reforms efforts. An assistance program in the region also conforms to the USAID Strategic Plan. It also supports the new relationship sought through the Maghreb Initiative, a multi-agency program to improve trade and investment relations with the three Maghreb states -- Morocco, Algeria and Tunisia -- that will be implemented by the Department of State, Department of Commerce, the US Trade Representative, the Treasury, and of course USAID. In order to ensure that the program sets out and achieves reasonable objectives with a high level of impact, the program is focussed on the Maghreb countries, while leaving open the possibility of tackling opportunities as they arise in other countries of the region.

Section III describes the Results Framework for the program, including the Goal, Strategic

Objective, Intermediate Results, and illustrative approaches for activities that the program might undertake to achieve the strategic objective by the end of FY 2004.

Section IV of this document describes implementation modalities and proposed management structure for the program. This is not an implementation plan; that will not be possible until the program gets underway and the policy agenda is more clearly defined. However, ground rules for the "rolling programming" process are explained.

Section V briefly describes resource scenarios, which are few at this time but may be clarified in the approaching FY 2000 budget review process.

Finally, the Technical Analysis prepared by economist Paul O'Farrell is presented in its entirety in Annex B.

II. Opportunities and Constraints

A. Structure of the Region's Economy

Taken as a whole, the total economy of the Middle East and North Africa region, as measured by GNP, was approximately $510 billion in 1997. This amount is slightly smaller than the economy of Spain. However, in terms of development, the region has an average per capita GNP of only $2,624 compared to Spain's $14,350. Also, other quality of life indicators show that there is a long road ahead for most of the countries in the region in order to catch up with Spain. The region does have a significant population, a large land area and, if managed prudently, a very respectable resource base. Thus, there is significant potential for economic growth and a dramatic improvement in the quality of life of the region's residents.

Viewing the region through an undefined mix of geography, politics and resources, three groups of countries emerge. For the countries eligible to participate in this ANE Bureau initiative, the groupings are: the Maghreb states of Morocco, Algeria and Tunisia; the peace process states of Egypt, Israel, Jordan, the territory under Palestinian self-rule and Lebanon; and the Gulf states which include Yemen and the countries of the Gulf Cooperation Council (GCC).

Maghreb	Peace Process	Gulf
Morocco	Egypt	Saudi Arabia
Algeria	Israel	Yemen
Tunisia	West Bank/Gaza	Kuwait
	Lebanon	Oman
	Jordan	Qatar
		Bahrain
		U.A.E.

This pragmatic grouping of the countries also parallels U.S. foreign assistance allocations. Two of the three Maghreb countries receive Development Assistance and the third is eligible. The peace process countries receive substantial amounts of Economic Support Funds and the Gulf states receive no assistance.

Looking at income category reveals a similar division across the region.

Low/Lower Middle	Upper Middle/High
Morocco	Israel
Algeria	Saudi Arabia
Tunisia	Kuwait
Egypt	Oman
West Bank/Gaza	Qatar
Lebanon	Bahrain
Jordan	U.A.E.
Yemen	

Eight of the eligible participant countries are categorized as lower middle or low income countries. Together they contain 82% of the population of the region. These countries, particularly the most populous ones of Egypt, Algeria and Morocco have a large pool of relatively low cost labor. The remaining 18 % of the population reside in countries categorized as high and upper middle income. These countries have limited labor forces but large amounts of investment capital. This complementarity, more than language or culture, could provide the real foundation for regional economic cooperation in facing the global market. It also is one of the most compelling arguments for the geographic scope of this USAID regional trade and investment initiative, particularly in terms of investment.

Until recently, the capital surplus countries have heavily invested in themselves and imported the needed labor from the region’s low cost labor surplus countries (and from South and South-East Asia). Anecdotal evidence from Egypt indicates that there is now significant investor interest in

Egypt from the GCC states. This interest emerged when the peace process moved forward and Egypt reformed its economy in the late 1980's and early 1990's. As the peace process deepens and more of the region's relatively poor economies improve their economic policies, the region's surplus capital could be more widely employed for greater economic growth in the region.

Grouping these countries by relative openness to trade, a similar breakdown is seen:

The Relative Openness of MENA Economies

Least Open	More Open	Most Open
Morocco (14%)	Tunisia (30.2%)	Israel (47.6%)
Algeria (15%)	Jordan (36.6%)	Lebanon
Egypt (14.8%)		Kuwait (45.8%)
		Oman (45.4%)
		Saudi Arabia (41.2%)
		U.A.E. (135.7%)
		Yemen (56.3)

Source: World Bank, World Development Indicators 1998. This table is explained in Annex B, Technical Analysis.

The principal trade partner of the Maghreb states and Egypt is the European Union (see table below). This is most likely explained by proximity and past political ties. This pattern of trade is likely to continue for some time into the future and perhaps become strengthened by the EU's initiative to negotiate Associate Agreements leading to a free trade arrangement.

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			Importer		
Exporter	MENA**	Gulf States	EU	USA	Rest of World
Morocco	3.2	1.1	73.9	3.5	18.2
Algeria	2.6	0.00	71.0	17.1	9.2
Tunisia	4.5	.6	79.4	1.2	14.0
Egypt	7.4	4.8	59.0	10.5	18.2
Jordan	8.2	28.9	9.1	2.6	51.2
Israel	0.1	0.00	30.0	31.0	38.9
Lebanon	7.4	19.0	13.2	3.2	57.2
Gulf States	2.8	5.7	26.5	22.8	42.3

Reproduced from Petri, Peter A., "Trade Strategies for the Southern Mediterranean", OECD Development Center, Technical Paper #127, Dec. 1997. **MENA excludes Gulf States.

However, while just as close and in many ways just as politically and culturally tied to the EU, the more advanced and open economies of Israel and Lebanon are not as closely tied in trade to the EU market as the Maghreb states and Egypt. Also, Jordan, probably because of its lack of access to a Mediterranean port, is not as focused on the EU market, but is dependent on trade with Iraq.

Israel maintains a large percentage of trade with the US and with the rest of the world. This is partly explained by its large amount of tied US foreign assistance as well as its free trade agreement with the US. Along with Lebanon and Jordan, it has been successful in going beyond the EU and trading with the rest of the world. Lebanon appears to have been the most successful in the region in marketing its products to the rest of the world. Jordan is a close second.

There is very little intra-regional trade among the countries with the exception of Jordan and Lebanon. Israel's almost complete isolation is most noticeable due to the *de facto* or *de jure* Arab boycott of its products. Within the region, only Egypt trades with Israel.

From the U.S. perspective, the region has a number of countries which are important trade partners. Six of the countries are among the top 60 U.S. merchandise trade partners and all except Algeria are among the U.S.'s 50 fastest growing merchandise trade partners. While one would expect the oil producing countries to be important because of our dependence on imported oil, Saudi Arabia, Kuwait and the U.A.E. are also important markets for U.S. produced capital and consumer goods (see Annex B, Appendix 1, Tables 12 and 13). So too is Egypt and Israel. Egypt is the important market in the region for U.S. food exports. But Israel, Saudi Arabia, Lebanon, Morocco and Algeria are also important for U.S. food exporters.

In recent times, efforts within the region to cooperate and even integrate have been made with limited success. The United Arab Republic (U.A.R.) attempted to form a single country out of Egypt, Libya and Syria. This effort failed. More recently, Jordan led an effort to integrate the economies of Egypt, Jordan, Iraq and Yemen. Again, this effort failed. The Maghreb states, including Libya, Tunisia, Algeria, Morocco and Mauritania formed the Arabic Maghreb Union. Little, if anything, resulted. The largest organization, in terms of the number of countries participating, The Arab League, is largely a speakers forum.

On the success side, the Gulf Cooperation Council (GCC) appears to have established itself as a useful and sustainable organization to advance the economic objectives of its members (Saudi Arabia, Kuwait, Bahrain, Qatar, The U.A.E. and Oman). Also, the two Yemens may have achieved sustained unification.

As seen in the table below, the private sector is now responsible for more than half of Gross Domestic Investment in all countries of the region. This is a substantial improvement over 1980, particularly for Egypt, Jordan and Morocco. Nevertheless, Morocco, Tunisia and Egypt need to make a bolder effort to make more opportunities available for investors.

Selected Measures of Investment, 1996Selected Measures of Investment, 1996Selected Measures of Investment, 1996Selected Measures of Investment, 1996Selected Measures of Investment, 1996Selected Measures of Investment, 1996Selected Measures of Investment, 1996Selected Measures of Investment, 19962Selected Measures of Investment, 1996Selected Measures of Investment, 1996

Country	Private Investment		Foreign Direct Investment		FDI	Risk	Net FDI
	% of GDI	% Change	% of GDI	% Change	% of GDP	ICRG**	US $ m
Morocco	57.8	58	4.1	-54	0.8	67.5	$311
Algeria	74.8	75	0	-75	0	59	$4
Tunisia	51	51	6.8	-44	1.6	70.5	$320
Egypt	59.1	59	5.7	-53	0.9	71.3	$636
Jordan	77.1	77	0.6	-76	0.2	74.8	$16
Israel			7.3	7	1.7	76.5	$2,110
Lebanon	71.8		2		0.6	61.3	$80
Oman			4	4	0.4	74.5	$67
Yemen	67.6		6.6		1.7		$100

Source: World Bank, World Development Indicators, 1998
% Change columns represent change from 1980 to 1996.
*GDI: Gross Domestic Investment
**ICRG: Composite International Country Risk Guide: 0 to 100 with 100 least risky.

In terms of Foreign Direct Investment (FDI), with the exception of Israel, the countries of the MENA region have not done as well as similarly situated countries in more peaceful regions. The decline in Algeria, Jordan, and Lebanon likely reflects the perceived security situation. Egypt’s decline reflects the decline in the oil industry which brought high levels of FDI in the late 1970’s and early 1980’s. It also reflects the very early stage of attracting foreign investors to Egypt’s newly reformed investment environment.

B. Constraints to Increasing Trade and Investment in the MENA Region

Since the late 1980s, MENA countries have undertaken reforms to liberalize their economies away from import-substitution models. A great number of reforms have been implemented, particularly dealing with macro-economic stabilization. Government spending has been reined in and budgets almost balanced. Inflation has been brought under control. Currencies are for the most part convertible and exchange and interest rates, in general, reflect market conditions. Substantial progress has also been made to focus subsidies and correct prices.

Although significant policy and institutional barriers to economic growth have been overcome in countries such as Egypt and Morocco, much more needs to be done in the region: economic growth is lackluster, the volume of intra-regional trade is low, the pace of job creation is inadequate, non-oil exports are weak, and investment rates are too low to overcome these problems. Much of the problem can be traced to a legacy of policies and regulatory practices that increase the costs of trading and discourage investment and the transfer of technology and knowledge. There remain substantial shortcomings in eliminating the old legal and regulatory environment which protected state enterprises and the import-substitution policy. Trade is impeded by relatively high tariffs and inefficient institutions and infrastructure. Privatization has been slow to get off the ground, and investors still face a daunting process in moving through the licensing and permit approval bureaucracy. For those already in the private sector, serious complaints are still voiced about arbitrary bureaucratic interference with business, particularly by the tax authorities, and the woeful inadequacies of corporate law and the courts system.

Aside from the problems associated with the continuance of outmoded laws, regulations and institutions, businessmen and investors in this new environment face very high risks. Essential institutions for market oversight are either missing or are weak due to inexperience or insufficiently trained staff. The banking system is not yet sound. Efficient and fair adjudication of disputes is lacking. While aggressively dismantling the obsolete environment will certainly attract heightened international investor interest, the size and dollar value of the actual market response is likely to be limited to the subset of *avant garde*, high risk investors. A more broad based connection to the global economy may be delayed until the governments are able to make a convincing case to the longer term, more prudent investors that the new environment is safe.

There is no doubt that the reforms already undertaken have reversed the downward spiral experienced by these economies in the late 1980s and now produce real growth, although not sufficient for them to earn the title of “tiger economies”. In countries such as Egypt and the United Arab Emirates, entrepreneurs feel that opportunities now abound. Encouraging and promoting a response to these opportunities will involve support for continued restructuring of these economies. In this context, several priority constraints to increased trade and investment emerge.

Constraints to Trade:

This discussion of the policy constraints to trade applies primarily to the three least open economies in the region -- Morocco, Algeria, and Egypt -- although it is partly relevant to Jordan and Tunisia.

At its core, the seemingly slow process of reform to open these economies to relatively unfettered global trade relates to the continued, albeit diminished, belief that the government’s responsibility is to control economic activity. Thus, the concept and practice of the government "approving" activities still take precedence over the concept and practice of "notification and oversight".

In the past, the approval process was a key element of the import substitution policy. Imports which threatened the protection of domestic producers were not approved. The import of luxury items was not approved in order to save scarce foreign exchange for the import of needed raw materials for domestically produced mass consumption goods. Exports were also controlled so that domestic prices were detached from world prices and domestic shortages were avoided.

Where trade was permitted, the governments relied on a number of instruments of control. High tariff walls not only restricted imports but provided protection for producers and generated needed revenue for the budget. Since much of the importation was for publicly owned factories, most if not all of the facilities related to trade were also placed in publicly owned monopolies. Finally, organized labor in the public sector was encouraged to maintain a form of xenophobia which argued that imports eliminated domestic jobs.

Today, while the philosophy has shifted in favor of more openness and progress has been made in this regard, there remains much of the legal and bureaucratic infrastructure of the past import substitution policy. In addition, there remains the fear that a rapid opening of the borders to trade will do serious and long term damage to the economy. Policy makers in Egypt, Tunisia, Algeria and Morocco are well aware of the vast differences in human resource development between themselves and the advanced countries. They see potentially unbeatable competition from China and other Asian countries which have vast numbers of low wage workers. It is difficult for them to conceive of a sufficient number of areas of comparative advantage that can be developed within their borders in order to fully employ their citizens and provide them with an improved livelihood.

On a more practical level, it is difficult for government leadership to see a politically safe path to dismantle the large vested interests which were built to control and restrict trade. In Egypt alone, without tariff and other protection, up to one million workers in public sector factories could lose their jobs due to lower priced, higher quality imports. Thus, trade reform has been slow and cautious.

Annex B, Appendix 2 presents a matrix of selected policy issues of concern to the IMF and the World Bank by country. The matrix is preliminary and incomplete in terms of the detailed steps and the sequencing needed to accomplish each of the reforms. In addition, the matrix is particularly lacking in dealing with the extensive problems of human resource development, an area of particular importance to the region to enhance its international competitiveness and develop the new areas of comparative advantage.

Under trade specific reforms, high tariffs, other bans and restrictions and the procedures related to customs appear on the reform agenda for each of the countries from Egypt to Morocco. These items are of immediate concern. It should be noted that many of the countries of the region are members of, or seeking to join, the World Trade Organization. In addition, the European Union is extending Association Agreements to the countries on the Mediterranean Sea, as part of its Euro-Med Partnership, with the objective of creating a free trade area by the year 2010. Both processes will, if successful, push these countries to drop tariff and non-tariff barriers. As progress is made on these issues, the World Bank has additional reform agenda items dealing with the privatization of ports and the trade related facilities. When progress has been made on tariff reduction and improving the efficiency with which goods are handled at ports, the trade reform agenda will then focus on other barriers such as restrictive product quality controls.

Two other areas of related concern which appear on the agendas for these countries are the need for greater speed (or maintained momentum) in privatization and fiscal reforms which are described as either expenditure controls or civil service reforms. In the case of privatization, the impact on trade arises from the recognition that the new private sector management will have to advocate and rely on freer trade in order to increase profitability. There will be a concomitant lowering of the public sector's vested interest in maintaining protectionist barriers, particularly if labor finds that its new private sector status improves its productivity and salary.

On fiscal reform, reorganization of the civil service is an opportunity to eliminate the functions related to trade controls. It also should bring more transparency to state budgets in terms of the real costs of retaining the remaining public sector industries. Tax reform supports trade reform by strengthening alternatives to customs taxes.

In the import of some goods and services related to government procurement, there are issues related to bid bonds and performance bonds. These are usually specific cases, although in general, the countries need to amend their laws related to public procurement because they remain biased towards parastatals and have serious imbalances between the rights of the government and the rights of the supplier.

While incomplete, the policy matrix provides a starting point for defining the priorities for this ANE Bureau's trade and investment initiative. With further consultation with the international finance organizations and their affiliates and with the input from the USAID field missions, annual priorities for support under this project can be identified and agreed to.

Constraints to Investment:

The first concern is physical security. Security problems devastated Lebanon's investment climate in the past and conditions still provoke a "wait and see" attitude among prudent investors today. Algeria is now experiencing a similar problem. Kuwait needs more time for investors to forget the war, which is unlikely to happen until political changes in Iraq occur. The investment environment of Israel, Egypt and Jordan is probably less affected by security issues despite their "front line" status in the Arab-Israeli peace process and the occasional acts of terrorism which occur within their borders. However, the unknown future political status of the West Bank/Gaza probably is having a serious detrimental effect on investment.

The second concern is openness to trade. In today's global economy, if a company can not easily trade from a proposed production site, it will not invest in that production site. Not only do trade impediments restrict a producer's market by raising production costs, but in the post communist era, there are many alternative investment locations with similar resource endowments which offer low transaction costs for acquiring inputs and distributing products internationally.

Globalization has shifted the nature of economic growth from resource based to value added based. While some countries in the region, such as the those in the GCC, can still earn a good living from a resource based economy, most of the rest of the world has found its comparative advantage niche in its ability to provide value added to some other country's products for some other country's market.

U.S. trade statistics show a number of the top U.S. export items are also among its top imports. This exemplifies the fact that modern economies do not rely on the vertical integration of production from the raw materials to finished products. Rather, they gain their comparative advantage by focusing on particular segments of the production process. MENA countries have not yet prepared their trade regimes for this kind of investor.

The free flow of goods and services into and out of an economy is essential for mass consumption goods whose production costs depend on the scale of production. However, even the relatively small producer of more specialized goods and services has come to appreciate the importance of access to the world market. Not only is the customer base enlarged, but the producer can hedge economic recessions in its base country market.

Eliminating trade barriers within the region could improve the investment climate somewhat because the almost 200 million people in the region make for a potentially attractive market. However, this limited opening would not necessarily provide a good source for all of the inputs needed for products whose competitiveness relies on low labor costs. In addition, in the near term, even if internal regional barriers were removed, the region's attractiveness to investors is diminished by the relatively large percent of the population with low incomes and limited purchasing power. Thus, for the Maghreb states, Egypt and Jordan, the authorities' willingness to permit freer international trade in both imports and exports is a crucial determinant of investment in these countries. Until this is done, direct investment is likely to remain below expectations and below the levels required to more fully employ the citizens of the region.

The third impediment to investment is financial risk. While reform has opened new opportunities, investors in this new environment face very high financial risks. New institutions such as stock exchanges are almost wholly unregulated and vulnerable to sharp practices and boom/bust cycles. The banking system is extremely fragile with continuing heavy public sector involvement. Its staff is relatively inexperience in project appraisal, diversification of portfolio risk and due diligence, and supervisory and deposit insurance structures are inadequate. There is little or no law to ensure fair competition practices. Arbitrary bureaucratic interference in business, particularly by the tax authorities, and the woeful inadequacies of corporate law and the courts system also add to financial risk. These last points were the biggest complaints of the private sector in Morocco in a recent, unpublished World Bank study.

The continued presence of parastatals in the Maghreb states, Egypt and Jordan still influences decisions related to some investments which will compete with public sector production. In some cases, mainly "public utilities" and airlines there are outright prohibitions on investment so that a public sector monopoly remains intact. In other cases, the public sector company is given special treatment or partial control over its competition to ensure its survival. For example, when Egypt Airlines' monopoly on domestic air service was legally ended, special privileges relating to the provision of ground services at domestic airports was given to Egypt Air. Egypt Air's pricing policy for these services quickly pushed its first competitor into bankruptcy. No new investor has come forward since then.

Investors face additional business costs in obtaining local level licenses and permits and the approvals required by ministries such as health and environment. This is a particular concern in Egypt where central government approval of investments has been shifted to a notification process. New investors who, in the past, never got to the local licensing and permit level are now experiencing this kind of red tape. Local level permits can often be avoided if investors locate in specialized industrial zones. However, these zones may not be close to the labor force or may have other drawbacks such as lack of adequate infrastructure.

The approval of ministries such as health and environment is more problematic. In most cases in the region, the basic laws and approval procedures relating to product safety, worker safety, protection of the environment and other similar matters were modeled after laws in the U.S., the U.K. or France. It would be inappropriate, to say the least, to argue that these should not be applied in these countries, knowing that they are essential for worker and consumer safety in the advanced countries. What can be reformed, however, is the method of application of these rules, in so far as the process is carried out to extract rent or is done by persons who have been inadequately trained. Reform is also needed to help applicants ensure that the permit or inspection certificate is being processed expeditiously and fairly. Finally, reforms are needed for appeal processes. In the southern Mediterranean countries there are few avenues of appeal short of involving the responsible minister or other senior official on a political level.

Continued reform will certainly attract heightened foreign investor interest, but the size and value of the actual investments is likely to be limited to the subset of *avant garde*, high risk investors who require high returns to compensate for the risks. The higher the threshold profit requirement for investment, the fewer the opportunities for investment. While countries in the region all want direct investors who are in for the long term, these kinds of investors are usually operating in competitive markets which yield more "normal" profits. They are reluctant to invest in reforming economies such as the Maghreb, Egypt and Jordan until they can be assured that the risks are commensurate with their “normal” profit expectations. For this to happen, the behavior of governments and their oversight institutions and the experience of the *avant garde* investors must demonstrate that the new environment is financially safe over the life of the investment, fair and competitive in terms of the transaction costs associated with business oversight procedures.

C. Commitment of MENA Governments and Private Sectors to Reform

Each of the MENA countries has undertaken macroeconomic reforms and some restructuring reforms, as described above. All of the countries now appreciate their vulnerability to economic lethargy or decline if they continue to rely on traditionally traded commodities in a world whose economy has gone global. Over time, extractive resources become depleted, worker demand shifts from some goods and services to others, and technical and managerial development alter the costs of production. These changes, in some cases gradually and in others precipitously, modify the comparative advantages these countries have with the outside world and among themselves. However, most countries in the region are only recently recognizing the need to improve their expertise to produce and market new products and services as well as increase traditional exports. To go much beyond their present level of development and to avoid the tremendous economic shocks associated with dependence on a narrow export base, all of these countries appreciate the need to attract the new and improved products and services, the modern technologies, the management practices and the market linkages brought to them by foreign direct investment.

D. Links to U.S. Foreign Policy, Strategies and Objectives

It is clearly within the scope of US foreign policy objectives to seek to increase trade and investment in the MENA region. This is evident in several US Government strategy frameworks:

o Strategic Plan for International Affairs

The U.S. Strategic Plan for International Affairs outlines seven U.S. national interests to be served by foreign affairs agencies and programs, including increasing economic prosperity. Within that National Interest, the strategic plan outlines four goals, including: (I) Open foreign markets to free the flow of goods, services, and capital; (ii) Expand U.S. exports to $1.2 trillion by 2000; (iii) Increase global economic growth; and (iv) Promote broad-based economic growth in developing and transitional economies. The Middle East and North Africa Trade and Investment Initiative responds to each of these goals.

- o Maghreb Initiative

The Maghreb Initiative, launched by State Department Under Secretary Eizenstat in the autumn of 1998, is intended to work along four principles to achieve improved trading relations with three of the Maghreb countries: Morocco, Algeria and Tunisia.

(1) intensified economic policy dialogue;
(2) greater private sector voice in economic policy dialogue;
(3) more government-to-government contacts between the United States and the region; and
(4) more cross-border contacts among the Maghreb countries.

The Maghreb Initiative seeks to mobilize several US Government agencies along diplomatic, technical assistance, commercial relations, and trade negotiations fronts. The Department of Commerce, including the National Institute for Standards and Technology, as well as the Overseas Private Investment Corporation, will also support the Initiative. At present, the Maghreb Initiative is focused on activities over the next two years to formalize and focus the process of improving trading relations, namely by agreeing to Trade and Investment Framework Agreements with Tunisia and Algeria and improving the existing Trade and Investment Framework Agreement with Morocco. Trade missions are also planned. Because of sensitivities in relations between the three beneficiary countries, efforts for now will be restricted to bilateral activities in the three countries. Work on intra-regional issues to create a larger market for goods and services (an important motivation for US interests) will begin later.

- o USAID Strategic Plan, Economic Growth

As part of its Strategic Plan, USAID seeks to promote broad-based and sustained economic growth in developing countries, concentrating in three broad areas: strengthening markets, investing in people, and expanding access and opportunity. Within the area of strengthening markets, improving the policy and institutional setting in beneficiary countries is a key determinant of performance and an important area for USAID intervention, as are efforts to attract increased trade and investment. The MENA Trade and Investment Initiative will contribute directly to achieving this goal, both by increasing the level of trade and investment in the MENA region and through improvements the legal, policy and regulatory framework for trade and investment.

- o US Trade Representative’s 1998 Trade Policy Agenda

While there are few specific concerns about the MENA region expressed in the USTR’s current trade policy agenda, the general concern expressed that countries move into and adhere to the World Trade Organization system of trade rules is directly addressed by this program. It is expected that in future years the USTR’s trade policy agenda will include specific actions associated with the Maghreb Initiative.

E. Current Opportunities for Interventions E. Current Opportunities for InterventionsE. Current Opportunities for InterventionsE. Current Opportunities for Interventions

The sections above described the constraints to increased trade and investment in the MENA region, the commitment of governments and businesses in the region to continue reforms, and the U.S. interest in seeing levels of trade and investment with the region increase. It is clear that the potential agenda of constraints to trade and investment described above is enormous in scope and difficulty across a diverse array of economies. Taking on the entire region would make this $6 million per year program infeasible. Fortunately, many of the constraints described above are being addressed through large, well-funded USAID bilateral programs in economic growth in Egypt, Jordan, West Bank/Gaza and Lebanon. The DA and ESF funding of this regional initiative will focus on addressing the most pressing, highest-payoff priorities for improving the policy framework in Morocco, Tunisia, and Algeria, as a complement to the other donor programs described below. The advantage of focusing the program on a limited sub-region includes the likelihood of greater impact per dollar spent if efforts are concentrated on three countries.

By focussing on the Maghreb sub-region, the program can begin to work bilaterally but later emphasize intra-regional activities, such as joint workshops on similar issues. The program can also work later on intra-regional barriers to trade, though these should become less important over time as barriers to the global market are lowered. (The fact that tariff rates among Maghreb countries are currently lower than those for other countries has not had the effect of increasing intra-regional trade.)

F. Other Donors' Trade & Investment Programs in the Maghreb Region

The World Bank and European Union have large programs dedicated to improving conditions for trade and investment in the three Maghreb countries.

The World Bank has recently completed a study and survey of the private sector in Morocco, which it is using to design conditions for a $500 million multi-sectoral Policy Reform Adjustment operation to be financed equally by the World Bank and the African Development Bank. This will be followed in the near future with sector specific adjustment operations, beginning with a $200 million adjustment operation associated with telecommunications reform, also to be equally financed by the World Bank and the African Development Bank. Future investment operations that are now under design include an export operations program and a tourism operations program, both likely to fall in the range of $30-$50 million. The Foreign Investment Advisory Service is undertaking a study to examine the policy, legal and regulatory framework for private investment in infrastructure and is helping to establish the Investment Promotion Agency, set its strategy and build its capacity. FIAS had planned to undertake an administrative barriers study but that has now been replaced by a USAID funded Investors' Roadmap.

In Tunisia, the Bank has a wide-ranging program that includes a mix of grant and loan financing: (1) institutional development of the Foreign Investment Promotion Agency; (2) service sector liberalization, including technical assistance to help the government prepare for accession to the World Trade Organization; (3) a major study and survey of the private sector; (4) a trade strategy paper for the government for export development; (5) a transport sector loan to make the sector more efficient and to introduce private investment; and (6) a vocational training and employment project.

In Algeria, the Bank is undertaking preparatory steps to initiate a program, including a likely study and survey of the private sector as is being done in Morocco and Tunisia. Privatization would be at the top of the agenda should a program get underway. FIAS, on the other hand, will not currently send any of its personnel to Algeria.

The European Union is undertaking an extensive program to improve ties with the Maghreb countries in the context of its Euro-Med Partnership Program. Since the launching of the "Barcelona Process" in 1995, the EU has signed Association Agreements with Tunisia and Morocco and is negotiating an agreement with Algeria. The Association Agreements are similar to the U.S. Government's Trade and Investment Framework Agreements in that they set out the process for trade negotiations over the next few years. But the Association Agreements go considerably further in that political, security, and cultural issues are on the agenda.

The Association Agreements are also more objective-oriented, as they are to lead to establishment of the Euro-Mediterranean Free Trade Area before 2010. The Barcelona Work Program is worth quoting at length to understand the scope of the planned integration.

"Cooperation will focus on practical measures to facilitate the establishment of free trade as well as its consequences, including:

> o harmonizing rules and procedures in the customs field, with a view in particular to the progressive introduction of cumulation of origin; in the meantime, favorable consideration will be given, where appropriate, to finding ad hoc solutions in particular cases;
>
> o harmonization of standards, including meetings arranged by the European Standards Organizations;
>
> o elimination of unwarranted technical barriers to trade in agricultural products and adoption of relevant measures related to plant-health and veterinary rules as well as other legislation on foodstuffs;
>
> o cooperation among statistics organizations with a view to providing reliable data on a harmonized basis; and

o possibilities for regional and subregional cooperation (without prejudice to initiatives taken in other existing fora)."

This ambitious program for trade integration is backed up with an extensive aid program to "upgrade [the EU's] Mediterranean partners economically", covering eight specific goals:

Creating a favorable [regulatory and fiscal] environment
Facilitating trade
Promoting investment
Encouraging privatizations
Improving infrastructures
Supporting small and medium companies
Developing human resources
Improving companies' competitiveness

In this context, it must be understood that the USAID RegionalTrade and Investment Initiative will work to complement, not replace, these large ambitious programs of other donors.

III. Results

A. Goal and Special Objective

The goal of the Regional Trade and Investment Initiative is to increase sustainable economic growth and expand US trade and investment in the Maghreb. Indicators at the goal level will include a basket of macro-economic indicators, including change in the source and nature of investments and imports, level of U.S. exports to the region, level of U.S. direct investment in the region and change in per capita GDP. Additional interesting indicators of the progress of trade and investment reform will be measures of investment flows from capital surplus countries in the MENA region to labor surplus countries like Morocco and Algeria.

The Special Objective of this program is to improve the legal, policy and regulatory framework for trade and investment in North Africa. Based on the constraints analysis in Section II above, an improvement in the trade and investment regime with regard to the global market will have the effect of attracting more investors to consider and implement projects there, which should lead to increased growth in the region and to increased U.S. exports to the region. Success or failure of the program to achieve the strategic objective will be measured with a basket of indicators showing the region's competitiveness and openness to the world market (including the SRI International Competitiveness Index and the Heritage Foundation Economic Freedom Index). The program will seek to achieve this strategic objective over the course of FY 1999 to FY 2004.

Several assumptions lay behind the argument that the Special Objective can be achieved and that it can contribute to achievement of the Goal.

First, it is assumed that the security situation in the countries assisted will not worsen during the life of the program. Security is a key factor in domestic and foreign investors' calculation of risk; no amount of policy-related technical assistance can help if perceptions of danger increase. Nor can this program address security concerns. Thus it is reasonable to assume for the purposes of this program design that the current conflict in Algeria will not worsen; otherwise the U.S. Government must seriously reconsider undertaking the Maghreb Initiative at this time.

Second, it is assumed that the governments of the countries assisted will not backtrack or seriously reverse their macro-economic and restructuring reforms taken to date. This small regional program will rely on the support provided to the region by other, larger donors to accomplish its objectives. Major policy reversals, such as an attempt to return to the import-substitution political economy of the past, would make the program's objectives impossible.

Third, it is assumed that the governments of the countries assisted will continue to seek to integrate their countries into the global trading economy and to abide by global trading rules. As will be seen below, the program will seek to assist these governments with meeting their commitments to those rules; but the program cannot create the will necessary on the part of these governments to continue to make progress.

In opting for a special objective, USAID's ANE Bureau is limiting its accountability for broad systemic changes, with people-level impact, in the beneficiary countries. ADS 201.5.10c guidelines *State "a mission or office may include activities in its portfolio which could not be associated with existing operating unit objectives, but which produce results to support other U.S. government assistance objectives." Further an SpO is justified if the activity is "exploratory/experimental…in a new program area which merits further exploration or which responds to new developments in the country, region, or sector;" and the "activities are expected to be small in scope relative to the portfolio as a whole." Further: " The operating unit, as a part of the strategic plan, will outline: the time-frame for the special objective, expected results to be achieved, a proposal for evaluating results, and an estimated budget. Results of experimental or exploratory activities may have different criteria for success than other activities where USAID has more experience."*

ANE has not opted for pursuing a Strategic Supporting Objective because it will achieve these results in two non-presence countries (Tunisia and Algeria) and one presence country (Morocco) that currently implements an economic growth program aimed at different objectives.

B. Intermediate Results and Illustrative Approaches

Achievement of the Special Objective will entail accomplishment of a set of intermediate results over the course of the five-year program. To simplify consideration of these intermediary objectives, they are divided in this document into two groups: those that address trade constraints and those that address investment constraints. (This is a false distinction, done for the convenience of organizing the program. For example, as was seen above, trade barriers are themselves an important constraint to investment. An objective tree elucidating these complex causal links will not serve to facilitate achievement of the Special Objective. Therefore program designers opted for the simpler, more flexible objective tree outlined here).

Grouped under these Intermediate Results are illustrative indicators, sub-results, and approaches. In a previous version of this document, specific "sub-intermediate results" were identified to address specific constraints. However, it was determined that such a definite list of sub-intermediate results was premature and should await development of the first annual workplan of the program (described in Section IV).

It should be noted that by taking on these objectives, the program managers risk taking on extensive "institutional development" responsibilities in the beneficiary countries. The program managers will need to ensure that the program introduces or promotes a reform but relies on others (including the beneficiaries) to carry the reform to fruition. The program will play the role of catalyst, not progenitor.

Intermediate Result 1. Improve conditions for trade principally in the Maghreb.

Indicators

One potential indicator to measure progress under this group of intermediate results is the status of beneficiary countries with regard to the World Trade Organization and the US Trade Representative. Agreement to enter into reductions in tariffs and non-tariff barriers is necessary to accede to the World Trade Organization. As of this writing, Tunisia is a member of the WTO and Algeria and Morocco seek to become members. Measuring tariffs or average tariff rates will not in itself be a valuable indicator for this program, as tariff levels are addressed by the IMF, World Trade Organization, and the US Trade Representative. Rather, progress toward identifying and lowering non-tariff barriers to trade will be reported by the WTO. A negative indicator would be appearance of a Maghreb country on the US Trade Representative's "priority" watch list of countries imposing barriers to US goods and services.

Illustrative Sub-Results and Approaches

Understanding of requirement of WTO membership increased

In order to facilitate the globalization of the region's economies and improve the prospects for US investors, activities under this sub-result will pursue a light education campaign to increase understanding among policymakers, businesspeople, and academia of the requirements and benefits of WTO membership. These activities can be concentrated in Morocco and Algeria and will work in cooperation with the World Bank programs there. The Africa Bureau has launched an activity of this sort in tandem with the Common Market for Eastern and Southern Africa (COMESA) and has hired a consulting firm to lead the workshops. This program can draw on that experience in FY 2000.

Increased/Improved "Advocacy Partnerships" between US and Maghreb business associations

Activities under this sub-result will seek to create a lasting link between American and North African business associations -- and among North Africans of different countries -- to advocate for improved conditions for trade and share business information. The program can support technical assistance for the creation of these partnerships or a grant of starter capital for fee-based membership associations (similar partnerships activities are being financed by USAID in other parts of the world, such as Eastern Europe, the Former Soviet Union, East Africa and West Africa). After start-up, the American partners can assist Maghrebian partners with advocacy methods, agenda development, and organizational strengthening. Through this activity, the program will also help North African businesses (and by extension governments) learn from American counterparts and potential business partners the impediments to working in the region. USAID's experience elsewhere in the world with developing enterprise networks should be illuminating to this effort.

Product standards process harmonized with global market requirements

Activities under this sub-result will address the constraint of overly stringent product standards by promoting business- and consumer-friendly methods and processes of developing standards. Technical assistance may be provided through Global Bureau indefinite quantity contracts, or through the National Institute for Standards and Technology (NIST), which is currently undertaking an initiative to create MENAMET, a network of Middle Eastern and North African standards boards and metrology laboratories. While the MENAMET initiative is focused on strengthening the infrastructure for metrology, this program may support an extension of work in the Maghreb countries to cover product standards, providing training and technical assistance in the American method of reaching consensus among government, business and consumers on product standards.

Customs administration modernized and made more efficient

Activities under this sub-result will complement the work of other donors, especially the Bretton Woods institutions, to make customs administrations more efficient by promoting intra-regional workshops of managerial staff on similar levels to compare systems and reform programs and effects. Activities might also include partnerships between the US Customs Service and customs services of the beneficiary countries, as well as short-term technical assistance financed through USAID's Global Bureau Indefinite Quantity Contracts.

Government procurement made more transparent and open to foreign firms

Activities under this sub-result will complement the work of other donors, especially the Bretton Woods institutions, to make government procurement more transparent and open. Workshops and technical assistance may be financed, probably through USAID's Global Bureau Indefinite Quantity Contracts.

Intermediate Result 2. Improved conditions for investment principally in the Maghreb.

Indicators

The classic indicator used to measure conditions for investment is the amount of time taken for investment approval or business licensing. However, in many of these countries getting a license to operate is no longer difficult; the succeeding steps and procedures leading to production are the sources of difficulty. Thus this program will measure the time taken for an investor to move to production. The baseline for this indicator will be established by the investor roadmaps in the Maghreb countries to be financed by USAID in FY 1999.

Illustrative Sub-Results and Approaches

Improved regulation and disclosure requirements in equity markets.

To address the constraint on investment caused by the financial risk associated with weak regulation of stock markets, activities under this sub-result might include technical assistance provided by the US Securities and Exchange Commission to the stock markets in the sub-region in methods of supervision of equity markets and creating and introducing disclosure requirements for members of stock exchanges and for firms whose equity is traded. [Note: the US SEC has not yet been consulted on this idea, but it does provide similar assistance elsewhere in the world]. Additional technical assistance from Global Bureau's Indefinite Quantity Contracts may be required for drafting of securities markets legislation.

Improved banking systems regulation to ensure sound financing of new projects.

To address the constraint on investment caused by the financial risk associated with weak capabilities among banks in the region to finance new investment projects, activities under this sub-result might include technical assistance -- provided by the US Treasury or consultants hired through Global Bureau's Indefinite Quantity Contracts -- to Ministries of Finance in the region. US Treasury advisors must take residence in the beneficiary country and can be supplemented with short-term TA. Program managers must determine, before committing a Treasury advisor, that there is a sufficient agenda for three to four years of effort in the beneficiary country.

Arbitration established as a method for resolving commercial disputes.

Short of taking on the reform of entire judicial systems in the Maghreb region, the program can tackle the constraint on investment caused by fear of local courts by introducing and promoting arbitration. Activities under this sub-result might include technical assistance -- purchased through Indefinite Quantity Contracts managed by USAID's Global Democracy/Governance Center or through a "buy-in" to the Department of Commerce's Commercial Law Development Program -- to governments seeking to introduce an arbitration system.

C. Sustainability

Without getting deeply involved in the institutional reform of large government bureaucracies that were established to prevent trade and are now proving difficult to downsize, this regional program cannot set out to ensure the sustainability of its opportunistic reform actions. It will, however, undertake activities under Intermediate Result 1 to promote business partnerships with American business associations and among North African business associations, which offer some possibility to sustain the reform agenda beyond the life of the program. As the program evolves, program managers may wish to seek other ways to ensure that the motivation behind the program -- if not the financial support -- that now comes from the US is generated instead in the beneficiary countries.

It is also important to recall that the program will be operating in a multi-donor environment, with donors in general agreement on the nature of reforms to be undertaken. The program will also be launched in a political environment that now includes the rules, rewards, and punishments of the multilateral trading system. Both of these factors will tend to encourage the sustainability of the policy, legal and regulatory reforms supported by the program.

D. Customers and Stakeholders

Since the dual goal of this program is to increase sustainable economic growth and expand U.S. trade and investment, ultimately its customers may indirectly include all participants in the assisted economics and in the U.S. economy. More directly, customers are expected to include government policy makers and institutions, private sector enterprises, associations and networks, and consumers in the region. At this relatively early stage of program planning, direct consultation with customers has not been practical; instead, information has been gathered from, and shared with program stakeholders, including USG participants in the Maghreb Initiative and, on a more limited basis, with national governments in the region. As annual workplans are developed and reviewed (see section IV.B.2) , best reasonable effort will be devoted to consideration of customer input and interests in the selection and design of particular activities.

IV. Implementation

A. Types of Interventions to be Supported

The Regional Trade and Investment Initiative will finance short-term and long-term technical assistance; workshops; conferences; short-term participant training in the United States and in the region; and studies for measuring progress and investigating policy options. Long-term participant training will not be financed. Commodities may be financed to support long-term technical assistants or for the purposes of a workshop or conference.

The program staff will utilize the following "filters" when selecting activities:

- The program will restrict its interventions to those that address the objectives set out in the Results Framework.

- Activities will complement or supplement, not displace or overlap, the work of the US Country Teams resident in beneficiary countries. Because this program is the technical assistance component of a US Government multi-agency initiative, any technical assistants (short- or long-term) will be expected to work with USG economic and commercial staff in-country. The minimum requirement would be a briefing on arrival and a debriefing on departure.

- Activities will not undertake long-term institutional reforms.

- As a general rule, the program will utilize existing technical assistance providers, either among US Government agencies or firms already under contract. Of particular importance in this respect will be the indefinite quantity contracts available through USAID Global Bureau's SEGIR Project. Exceptions to this general rule will be made if an opportunity is available to utilize -- and procure -- local expertise in the beneficiary countries.

- An important filter for program staff will be to ensure that no activity violates Section 599 of the Foreign Assistance Act. Thus export processing zones cannot be supported, and support for trade missions must be carefully scrutinized. The program staff will also observe the restrictions placed on programs in "non-presence" countries, i.e. those without a USAID post.

- Activities in Algeria will be carefully weighed for value-added and effectiveness in the face of necessary security precautions. It should be noted that, while other donors have varying degrees of enthusiasm for working in Algeria, none take risks with the physical security of their personnel. One donor that sends teams to work with the government is met at the plane (on the tarmac) by an armored van, driven to a hotel where counterparts come to meet the visitors, then delivered by the armored van back to the plane. The program managers will work closely with Embassy/Algiers in making judgements about security and the validity of activities undertaken in that environment.

B. Implementation Modalities and Procedure for Launching New Activities

The program will be implemented using a "rolling programming" format, following the steps listed below:

1. Setting the baseline and establishing the policy reform agenda. In order to establish the baseline for measurement of progress and to generate the policy reform agenda for the program, several studies are being financed in FY 1999 or are under consideration for each of the three Maghreb countries:

o **Investor roadmaps**. The investors' roadmap is a tool now being used by developing country governments and donor agencies to identify obstacles to trade encountered by investors and to spur governments into removing remaining barriers to trade and investment. The roadmap process involves three phases: (i) identification of the step-by-step requirements of an entrepreneur seeking to become legally operational in one country (i.e. the investment approval process); (ii) a series of workshops to review these requirements with relevant government agencies at the national and regional levels; (iii) technical assistance to those agencies to reduce, remove, or simplify blockages to trade and investment. Phase I of the roadmaps for Morocco, (FY 1998) Tunisia and Algeria (FY 1999) are being financed with ANE Bureau DA funds.

o **Commercial Policy Toolkits**. The USAID Global Bureau EGAD team has financed development of a policy scoring tool implemented by the Stanford Research Institute (SRI) International. The Commercial Policy Toolkit examines a country's performance, relative to other developing countries, in nine areas of policy development that are critical to increasing trade and investment: investment, pricing, import, financial sector, exchange rate, labor, tax, export and intellectual property rights policies. The consultants work through in-country focus groups and policy & procedures "audits" against best practices elsewhere. The result is a policy reform agenda in all nine areas. Such a study or a similar diagnostic for the Maghreb countries may be financed in FY 1999 with ANE Bureau RD&S funds.

These tools will be used to update and build on the policy reform agenda presented in the Technical Analysis, and to set the baseline for measurement of progress made by the program. Moreover, since a great deal of the basic studies for policy reform have been completed in the Maghreb countries, these tools -- the investors' roadmaps and the commercial policy toolkits -- will be focused on steps to implement existing recommendations and move reforms forward.

2. Development of Workplan. Annually, a workplan for the program will be developed, drawing on an update of the policy reform agenda developed by the USAID/Morocco Program Manager and the Trade and Investment Specialist (described in Section IV.D below) and on

updated action plans in the Trade and Investment Framework Agreements developed by the North African governments, the Department of State and the US Trade Representative. The USAID/Washington Asia and the Near East Bureau Economist (see Section IV.D below) will share the draft workplan with the other members of the Trade Promotion Coordinating Council's Working Group on North Africa; seek the clearance of the USAID General Counsel's Office to ensure that the program conforms with any new legislative requirements; and seek the final approval of the Asia Near East Bureau.

3. Implementation. Following the workplan, the Washington-based Economist will then launch procurement activities, through USAID contracts and grants officers or through Inter-Agency Agreements with other US Government agencies. The Morocco-based Program Manager and Trade and Investment Specialist will supervise and monitor implementation of program-funded activities, in some cases in the role of COTR. In order to ensure that the program managers and their counterparts in the Office of Procurement and the Global Bureau are not overwhelmed by a multitude of small contracting actions, similar small activities will be "bunched" into larger contracts.

4. Reporting. As with all other operating units, reporting will be done on schedule in the Results Review and Resources Request process, against the objectives and indicators set out in the Results Framework. In areas where the program is not succeeding, Intermediate Results will be revised or dropped. Modifications will be made to the next annual workplan at the beginning of the next fiscal year.

5. Ad Hoc Additional Activities. During the course of the year, it is expected that additional activities will be added to the workplan under IR 3. Additional funds will need to be found to finance these activities after the workplan has been approved.

C. Contributions of Beneficiaries

Section 110 of the Foreign Assistance Act requires that a beneficiary host country make a 25% contribution to the total cost of a DA-funded project. (Section 110 does not apply to ESF.) The requirement can be waived for RLDCs. USAID has interpreted this legal requirement to apply to activities that are managed by, or directly benefit, the host country government. The requirement does not apply to truly regional activities or activities which are managed by and directly benefiting other organizations. As an example, this program might finance for two programs in a country, the first a training program for a government ministry and the second an umbrella grant for non-governmental organizations. The host country contribution requirement applies to the first activity, but not to the second. Unfortunately, planning for the amount of this host country contribution will be difficult at the start of the Regional Trade and Investment Initiative, given the flexible "rolling programming" to be undertaken each year. This issue will be reviewed further prior to implementation. USAID will encourage host country contributions as a way to induce beneficiary country "ownership" of activities and reforms

D. Management of the Initiative

To ensure that the program remains coherent in its objectives and to simplify management, all funds (no matter the source) will be transferred to USAID and managed by the ANE Bureau.

Because coordination among several USG agencies is an important component of this initiative, it is recommended that implementation responsibilities not be delegated out or contracted out to a grantee or firm.

o USAID/Morocco will take the lead in managing the initiative for the Maghreb region. An experienced USDH Private Sector Officer with strong technical, managerial and language skills will be the Program Manager. The Program Manager will be assisted by a full-time Trade and Investment Specialist who will be hired (likely to be a US Personal Service Contractor) and assigned to the USAID/Morocco mission. This team will play a key role in proposing an annual work plan. They will monitor progress of activities in the region and work with the three US Country Teams to ensure that the rolling programming is achieving realistic objectives. Program funds from the initiative will be needed to pay the cost of the PSC, travel costs within the Maghreb and periodic travel to Washington to coordinate with the Interagency Working Group..

o In Washington, a USDH economist in the ANE Bureau will support the field team and ensure program coordination. The ANE USDH will be responsible for coordination with the Department of State and other U.S. Government agencies on program activities and with the USAID Global Bureau on procurement actions relating to program implementation

Because numerous sources of trade and investment data are already available and produced by others, collection of performance data and monitoring of progress toward achievement of the targets will not require considerable additional funding. The Program manager in USAID/Morocco, supported by the USDH ANE economist, will take the lead in the monitoring of performance indicators and the regular collection and compilation of data

V. Resource Scenarios

A. Potential Sources of Funds and Personnel

Funds -- As of this writing, Department of State and USAID budget proposals for FY 2000 contain two line items for the Regional Trade and Investment Initiative, $5 million in Economic Support Funds and $1 million in Development Assistance.

Personnel – See IV.D above. A USAID/Morocco team will take the lead in managing the initiative for the Maghreb and a USAID/Washington ANE Economist will support the field team and ensure program coordination. A Trade and Investment Specialist to be assigned to USAID/Morocco must be hired.

B. Funding Scenarios

The budget table below sketches out how the currently planned funding levels for this program might be obligated over the five years of activity. Further detail, and funding scenarios, is not possible without a more fully developed set of interim ("sub-intermediate") results to be achieved over the course of the five years. Therefore this budget is proposed to show area of emphasis among trade activities and investment activities in the Maghreb countries, while leaving the minimum amount of funds necessary for program management and some funds available to commit to countries outside the Maghreb. Should fewer funds be made available, the budget on the investment side should be reduced first, to retain an emphasis on trade activities. The program management line item should not be reduced.

Illustrative Budget – Obligations

	FY 00	FY 01	FY 02	FY 03	FY 04	Total
IR 1 – Trade	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000	12,000,000
IR 2 – Investment	3,100,000	3,100,000	3,100,000	3,100,000	3,100,000	15,500,000
Prog. Management	500,000	500,000	500,000	500,000	500,000	2,500,000
Totals	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	30,000,000

Annex A - Persons Met

USAID

Stephen Haykin	Asia Near East Bureau, Office of Strategic and Economic Analysis
Kimberly Finan	Asia Near East Bureau, Office of Middle East Affairs
Dorothy Young	Asia Near East Bureau, Office of Middle East Affairs
Carla Barbiero	Asia Near East Bureau, Office of Strategic and Economic Analysis
Jon Breslar	Asia Near East Bureau, Office of Strategic and Economic Analysis
Andrew Luck	Asia Near East Bureau, Office of Strategic and Economic Analysis
Anne Van Dusen	Deputy Assistant Administrator, Asia Near East Bureau
Robert C. Randolph	Assistant Administrator (confirmation pending), Asia Near East Bureau
Mark Gellerson	Global Bureau, Economic Growth and Agricultural Development Center
Ken Lanza	Global Bureau, Economic Growth and Agricultural Development Center
Juan Butari	Global Bureau, Economic Growth and Agricultural Development Center
David Dod	Africa Bureau, Sustainable Development Office

U.S. Department of State

Roger Freeman	Economic Bureau, Office of Trade
Amy Holman	Economic Bureau, Office of Investment Affairs
Robert S. Ford	Near East Affairs Bureau, Office of Egypt and North Africa
Laura Byergo	Near East Affairs Bureau, Morocco Desk
Liz Dibble	Near East Affairs Bureau, Peace Process Countries
Jeanne Pratt	Saudi Arabia and GCC Countries
Howard Clark	Economic Bureau
Alexandra Lundquist	Economic Bureau

U.S. Trade Representative

Madelyn E. Spirnak	Director, Middle East and Mediterranean

U.S. National Institute of Standards and Technology

Dr. B. Stephen Carpenter	Director for International and Academic Affairs
Dr. Claire Saundry	Office of International Affairs

U.S. Overseas Private Investment Corporation

James T. Brache	Regional Manager, Insurance
Steven J. Cowan	Investment Funds Manager

U.S. Treasury

Ms. Geiser	Middle East Affairs
G. Edwin Smith	International Programs
Max Dupuy	Middle East Affairs
Zachary Hahn	Middle East Affairs
Judith Laufman	Middle East Affairs

World Bank Foreign Investment Advisory Service

Joseph Battat	Program Manager, Middle East and North Africa
Jacques Morisset	Investment Policy Officer

World Bank, Private Sector Development

Deane N. Jordan	Private Sector Development and Finance Group
Michel Kerf	Private Sector Development and Finance Group
Hamid Alavi	Private Sector Development and Finance Group
John F. Speakman	Privatization Sector Development Department

European Union Delegation

M. Aslam Aziz Minister Counselor, Development Affairs
Jennifer Tufts Special Assistant for DevelopmentJennifer Tufts Special Assistant for DevelopmentJennifer Tufts Special Assistant for DevelopmentJennifer Tufts Special Assistant for DevelopmentJennifer Tufts Special Assistant for DevelopmentJennifer Tufts Special Assistant for DevelopmentJennifer Tufts Special Assistant for DevelopmentJennifer Tufts Special Assistant for DevelopmentJennifer Tufts Special Assistant for DevelopmentJennifer Tufts Special Assistant for Development
Charlotte Hebebrand Special Assistant to the Trade Section

Annex B.

Technical Analysis by Paul O’Farrell