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MILLENNIUM CHALLENGE CORPORATION

MCC FR 15-05

Notice of Entering into a Compact with the Kingdom of Morocco

AGENCY: Millennium Challenge Corporation

ACTION: Notice

SUMMARY: In accordance with Section 610(b)(2) of the Millennium Challenge Act of 2003 (22 U.S.C. 7701-7718) as amended (the Act), and the heading "Millennium Challenge Corporation" of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2015, the Millennium Challenge Corporation (MCC) is publishing a summary of the Millennium Challenge Compact between the United States of America, acting through the Millennium Challenge Corporation, and the Kingdom of Morocco. Representatives of the United States Government and Morocco executed the Compact documents on November 30, 2015. The complete text of the Compact has been posted at <https://assets.mcc.gov/documents/compact-morocco-employability-and-land.pdf>.

Dated: December 9, 2015.

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## **Summary of Millennium Challenge Compact with the Kingdom of Morocco**

### **Overview**

MCC has signed a five-year, \$450 million compact with the Government of Morocco (GoM) aimed at reducing poverty through economic growth. The compact seeks to assist the GoM in addressing two major constraints to economic growth: education quality and land productivity, with an approach and methodology that incorporate the core issues of government and public-private coordination.

### **Program Overview and Budget**

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

The land and education sectors represent binding constraints to growth and provide opportunities to develop policy responses to both the supply and demand for skilled labor. The compact directly addresses the root causes of these binding constraints, which are:

- 1) secondary education and workforce development systems that produce a supply of workers that do not adequately meet private sector skills demand, and

2) land policy and implementation that inhibit access to and productive uses of rural and industrial land, thus diminishing investment and consequent demand for labor.

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

The budget for the compact is \$450 million, not including the contribution by the GoM of approximately \$67.5 million or 15 percent of the U.S. contribution, allocated as follows (all figures are approximate due to rounding):

#### **Compact Budget Summary**

<b>Project/Activity</b>	<b>Budget (in US \$)</b>
<b>Education and Training for Employability Project</b>	
Secondary Education	<b>\$112,580,000</b>
Workforce Development	<b>\$107,420,000</b>
<b>Education and Training for Employability Project Subtotal</b>	<b>\$220,000,000</b>
<b>Land Productivity Project</b>	
Governance	<b>\$10,500,000</b>
Rural Land	<b>\$33,000,000</b>
Industrial Land	<b>\$127,000,000</b>
<b>Land Productivity Project Subtotal</b>	<b>\$170,500,000</b>
<b>Monitoring and Evaluation</b>	<b>\$10,000,000</b>
<b>Program Administration and Oversight</b>	<b>\$49,500,000</b>
<b>Compact Grand Total</b>	<b>\$450,000,000</b>
<b>Government of Morocco Contribution</b>	<b>\$67,500,000</b>
<b>Program Grand Total</b>	<b>\$517,500,000</b>

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

The Land Productivity Project aims to increase land productivity in Morocco by enabling land markets to better respond to investor demand and by strengthening the enabling environment for investment

### **Education and Training for Employability Project**

The Education and Training for Employability Project is comprised of two activities aimed at increasing the employability and employment rate of Moroccans by improving the quality and relevance of, and equitable access to, secondary education and workforce development programs in response to private sector needs.

**1. Secondary Education Activity.** The Secondary Education Activity aims to demonstrate a new cost-effective, sustainable, and scalable model of public secondary schools for delivering quality secondary education focused on the employability competencies needed for the modern workforce. It will also support key reforms to improve system performance management. The model will be piloted and rigorously evaluated in approximately 90-110 schools, which will receive a multi-faceted package of interventions in the three key areas of school management, pedagogy, and infrastructure. This package will support schools in meeting the terms of new performance contracts and will also work to create an enhanced learning environment for students that better meets

their developmental needs, and better prepares them for tertiary education or entry into the labor market.

MCC funding will also support the development, planning, and implementation of rigorous international and national assessments of student learning, and the utilization of assessment data to inform decisions for improving performance. MCC funding will additionally support the development and piloting of a new approach to school infrastructure and information technology operations and maintenance, through private sector performance contracts in these areas.

**2. Workforce Development Activity.** The Workforce Development Activity aims to increase the employability of Moroccans by: improving the quality and relevance of, and equitable access to, private sector-driven technical and vocational education and training (TVET). The activity will also provide: (i) technical assistance to develop and implement demand-driven TVET sector policy; (ii) effective employment services to help unemployed or economically inactive women as well as at-risk urban and peri-urban youth to obtain quality jobs; and (iii) support to a labor market observatory that will provide dynamic labor market information to improve decision-making for public policy and private investment.

An MCC- and GoM-funded grant facility will support selected private sector-driven training centers by issuing grants for infrastructure, equipment, and technical assistance. Additionally, results-based incentive mechanisms, such as social impact bonds, will be used to support promising programs that provide integrated job placement services for women and at-risk urban youth. MCC funding will also support the

development and implementation of rigorous impact evaluations to test other non-MCC funded promising labor market interventions.

### **Land Productivity Project**

The project aims to increase land productivity in Morocco by enabling land markets to better respond to investor demand and by strengthening the enabling environment for investment. To achieve this objective, MCC funding will support the following activities:

**1. Governance Activity.** The Governance Activity is designed to support the development and implementation of a long-term land productivity strategy to address governance and land market constraints to investment and productivity. Once the strategy and roadmap to its implementation are in place, the activity will finance implementation of key elements of the roadmap.

**2. Rural Land Activity.** The Rural Land Activity aims to increase rural productivity by making the GoM's current process for privatizing irrigated collective lands more inclusive and less time-consuming. The activity will (i) develop procedures for privatization of irrigated collective land that can be implemented within three years or less; (ii) use these improved procedures to support the privatization of up to 46,000 hectares of collective land within Morocco's Gharb region; and (iii) develop and apply tools to address other land-related root causes of low productivity identified during due diligence, such as minimum parcel size requirements. The activity will engage in extensive consultations and outreach in the region of intervention and will develop and apply fair and inclusive land allocation criteria that protect the rights of land holders, including women.

**3. Industrial Land Activity.** The Industrial Land Activity aims to transform the way the GoM brings industrial land to market, from a state- to a market-driven approach, through the development of a new model for industrial zone development. By using public-private partnerships for industrial land development, the activity seeks to encourage private sector participation in the development and management of industrial zones, and to ensure that such development and management responds to private sector demand in terms of location, land offering, infrastructure and site and social services.

## Economic Analysis

<b>Project/Activity</b>	<b>ERR</b>	<b>Beneficiaries</b>
<b>Education and Training for Employability Project</b>	<b>12.7% to 14.5%</b>	<b>2,019,100</b>
Secondary Education	12.4% to 15.1%	1,744,100
Workforce Development	13.2%	275,000
<b>Land Productivity Project</b>	<b>15.8% to 18.0%</b>	<b>177,800</b>
Governance		
Rural Land	23.0%	81,500
Industrial Land	13.4% to 16.7%	96,300

\*The costs of the governance activity are included in the Land Productivity Project's overall ERR.

An economic rate of return (ERR) was calculated for each of the compact's projects. The costs of the Governance Activity, which is a critical national policy and institutional reform component that will support a land strategy and roadmap, as well as the long-term sustainability and impact of the project's other two activities, are included in the overall ERR for the Land Productivity Project.

The Compact is expected to benefit 2.2 million people over a twenty-year period.

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