# PROGRAM INFORMATION DOCUMENT (PID)
## CONCEPT STAGE

February 9, 2015
Report No.:AB7722

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| **Operation Name** | Second Inclusive Green Growth Development Policy Lending |
| **Region** | Middle East and North Africa |
| **Country** | Morocco |
| **Sector** | Irrigation and drainage (20%); Energy efficiency in Heat and Power (20%); Urban Transport (20%); Forestry (20%); Crops (20%) |
| **Operation ID** | P149747 |
| **Lending Instrument** | Development Policy Lending (DPL) |
| **Borrower(s)** | Kingdom of Morocco |
| **Implementing Agency** | Ministry of Economy and Finance,<br>Rabat, Morocco<br>Tel: (212-37) 774-287Fax: (212-37) 677-530<br>benchekroun@affaires-générales.gov.ma;<br>oucibles@db.finances.gov.ma<br>nbou@environnement.gov.ma |
| **Date PID Prepared** | February 9, 2015 |
| **Estimated Date of Appraisal** | September 25, 2015 |
| **Estimated Date of Board Approval** | December 18, 2015 |
| **Corporate Review Decision** | Following the concept review, the decision was taken to proceed with the preparation of the operation. |

## I. Country and Sector Context

**Country Context**. Morocco recently achieved a consolidation of its macroeconomic framework. Public finances continued to improve in 2014 thanks to reduced recurrent expenditures and particularly a substantial cut to the fuel subsidy envelope - a reform supported by the present DPL series. The external position benefited from an improved current account deficit and consolidation of foreign reserves. Morocco's medium-term prospects will continue to depend a) on the continuation of sound macroeconomic management, including a robust fiscal consolidation and acceleration of the pension and tax reforms, but also on b) growth dynamics, which remain dependent on climatic variability due to the continued relevance of the agricultural sector's share of GDP (15%) – an area addressed by some of the policy actions supported by the present DPL series. Further progress in reducing poverty (currently at 9%) and vulnerability (17.5%) will require higher rates of growth as well as increased attention to the equity dimension of Morocco's development model. The social and political implications of disparities in wealth and social outcomes continue to be of concern to the Government. The bulk of those living under two dollars/day live in rural areas, where the incidence of poverty is three times as high as in urban areas (14.4% versus 4.8%), and 23.6% of rural people live just above the poverty line. This DPL series supported actions contribute to address the limited revenue-generating opportunities and pervasive underemployment characterizing rural areas, and economic effects of natural resource depletion and degradation which the rural poor and vulnerable are notably more exposed to.

**Green Growth and Environmental Sustainability**. Continued high level ownership of the Green Growth agenda reflects the continued awareness of the sustainability challenges facing Morocco. Over the last decade Morocco made remarkable progress in achieving poverty-reducing growth whilst taking steps to consolidate the sustainability of its growth model. Since the late 1990s, the environmental sustainability agenda has moved from fringe policy item to national priority. In his 2009 and 2010 Throne Speeches, King Mohammed VI called for comprehensive legislation on environment management, and explicitly set “Green Growth” as a priority for government action. In addition to reinforcing the principles of good governance and protection of individual freedoms and rights, the new 2011 Constitution, through its Art 31, compels the state and its agencies to work towards ensuring equal access to a healthy environment and sustainable development. In May 2012, Morocco signed the *OECD’s Declaration on Green Growth* for a socially inclusive and environmentally sound growth, highlighting Morocco’s positioning as the MENA country with the firmest commitments to the sustainable development agenda.

The Government is strengthening key aspects of its environmental sustainability framework. In addition to the parliamentary approval of the *Framework Law on Environment and Sustainable Development* in March 2014 (Law 99-12) ─ which sets the rights and obligations of the State for the protection and preservation of the environment and the sustainable use of domestic natural resources ─ the Government finalized its *National Sustainable Development Strategy* (NSDS). The NSDS articulates the country’s Green Growth goals – including policy reforms supported by this DPL series – with a view to aligning sectoral strategies along common long-term sustainability objectives. Legislation is underway to regulate investments in sensitive areas such as coastal zones, and to improve existing legislation on critical sectors such as water. Work on natural capital accounting is ongoing in sectors including water and fisheries, following the Palace’s call for an assessment of Morocco’s total wealth based on the WB *Wealth of Nations* methodology. On the fiscal side, together with the Ministry of Economy and Finance, the Ministry of Environment has started the implementation of Law 99-12’s call for the extension of green fiscal framework aimed at bolstering revenue mobilization to encourage pollution management. Impressive progress was achieved in the implementation of the energy subsidy reform agenda, with the full elimination of gasoline, diesel and Heavy Fuel Oil subsidies. Finally, the Government is making important strides towards the emergence and expansion of sectors such as aquaculture and eco-tourism in order to support growth and job creation in rural areas.

## II. Key development issues and rational for Bank involvement

**The sustainability challenge facing Morocco is threefold**: (i) *A dwindling natural capital resource base*. The economy remains reliant on a natural capital base which is rapidly being eroded. Agriculture accounts for 15 percent of GDP and 23% of total exports; but future growth will be affected by water and land constraints. The gap between water supply and demand is estimated at 2 billion $m^3$. Land degradation translates in a reduction in crop production translating into an estimated annual cost of US$134 million per year. Shrinking natural capital is expected to impact additional productive sectors such as fisheries, which accounts for 2.3 percent of GDP and employs nearly half a million people, and suffers from persisting trend towards overexploitation of key species menacing its medium term prospects; (ii) *The long-lived impacts of physical investments*. Annual damage costs of environmental degradation are estimated at 3.7 percent of GDP, driven partly by inadequate pollution and waste management. Heavy dependency on energy imports (97 percent) entail energy supply and macro risks compounded by an inefficient pricing and subsidy structure that contributes to overuse an expensive imported resource; (iii) *Limited leveraging of green technologies and investments.* Recent growth gains have not eradicated widespread vulnerability and income disparities. Labor market and education shortcomings only partly explain the persistently large reservoir of low productivity jobs and pervasive underemployment affecting particularly rural areas. The creation of more and better quality jobs also hinges on investments in labor intensive green sectors, accompanied by innovations that boost productivity and help rural economies to diversify.

The proposed DPL/2 will contribute to the World Bank's vision of reducing poverty and Boosting shared prosperity. Bank support to environmental sustainability in Morocco is among the core activities of the Bank's Country Partnership Strategy (CPS) for Morocco (2014-17). This DPL series is a key vehicle towards the achievement of the CPS Results Area 1 (Promoting Competitive and Inclusive Growth) and Results Area 2 (Building a Green and Resilient Future). Additionally, in supporting policy measures aimed at cleaner, more efficient, resilient and socially inclusive growth, the DPL series operationalizes the World Bank's conceptual framework for *Inclusive Green Growth*. Furthermore, the proposed operation complements and leverages several ongoing policy and investment engagement in Morocco.

## III. Proposed Objective

The proposed DPL/2 is the second in a programmatic series of two operations which supports the Government's green growth agenda. The **development objectives** of this programmatic series are: (i) improving the management of natural capital; (ii) greening physical capital and (iii) strengthening and diversifying the rural economy by leveraging human capital.

## IV. Preliminary Description

Based on internal government consultations, the Bank and the Government have defined an extended menu of tentative prior actions for each development objective.

*Development Objective 1.* Improving the Management of Natural Assets. This development objective supports the Government's effort to improve the management of natural resources. Natural assets make up a significant portion of Morocco's total wealth but could underpin growth in key sectors. Therefore measures supported under this DPL series aim at improving management of coastal and marine assets and water sector governance.

*Development Objective 2.* Greening physical capital. This objective supports the Government's program of reducing adverse environmental impacts of infrastructure investments and promoting low carbon growth. Investing now in an infrastructure base that puts Morocco on sustainable growth involves trade-offs in terms of extra-costs to economic agents, particularly in the short term. Energy is a major challenge in this respect: the country is currently too heavily dependent on fossil fuels and the projected increase in demand across different sectors (particularly transport, housing, industry and tourism) require significant additional investment in power generation capacity. Providing the right price signals is a prerequisite to eliminate existing distortions in consumer's and producers' behavior, but needs to be accompanied with interventions to smoothen the transition for economic actors. Objective 2 is composed of two policy areas: low carbon growth and pollution management.

*Development Objective 3.* Strengthening and diversifying the rural economy by leveraging human capital. This objective supports the Government program to: (i) strengthen the adoption of new technologies to increase agriculture's productivity and resilience and (ii) support the establishment and growth of new sectors in rural areas. Morocco has the largest inequalities in living standards between urban and rural areas in MENA. Although Morocco's rural population strives to participate in economic activity (in 2012 labor force participation rate in rural areas was 57% against 42.8% in urban areas) full economic participation faces serious constraints. Around 75% of rural labor force works in the primary sector (agriculture, fishing and forestry), a share increasing to 90% for working rural women. The concentration in low productivity agricultural activities entails significant risks of fluctuations in rural revenues due to weather variability. This contributes to creating vast pockets of vulnerability. Environmental constraints combined with these labor dynamics call for (i) technological innovations to increase the resilience and productivity of the agricultural sector (by ensuring producers' access to adequate agricultural services and by supporting institutions, including those related to direct seeding and agro-meteorological services) and (ii) the diversification of rural revenues through the establishment of sectors able to turn constraints into job creation opportunities, such as aquaculture and eco-tourism. In this context, Objective 3 includes two policy areas: green technologies in the agricultural sector and diversification of rural revenues.

## V. Poverty and Social Impacts and Environment Aspects

The reforms supported by the proposed operation are expected to generate positive and generalized social impacts, including for poor and vulnerable groups. In relative terms, poor and vulnerable groups are known to be more impacted by common pool problems and environmental externalities. Measures supported by the DPL aimed at improving the sustainability of natural assets and environmental stewardship are key to ensuring equity and shared prosperity, including from an inter-generational perspective. Additionally, several reform areas target directly rural areas, where most of Morocco's poverty and underemployment lie. To ascertain potentially adverse impacts on specific groups of the DPL series, the Bank carried out a framework poverty and social impact assessment of selected reform areas supported by the operation, including: energy subsidy reform; the introduction of environmental taxes on specific polluting goods; control of illicit fishing practices; groundwater management; industrial wastewater control; and coastal zone management. Additionally, the Bank has supported the Government in assessing and addressing the potential negative impacts of future reductions of energy subsidies through dedicated technical assistance.

As per its policy, the World Bank assessed whether specific country policies supported by the DPL series are likely to cause significant effects on the country's environment, forests, and other natural resources. The assessment concluded that the policies supported by the proposed DPL are not likely to have negative impacts on the country's natural assets. All actions supported by the proposed operation aim to enhance environmental stewardship and are likely to lead to net positive environmental outcomes:

- The implementation of the coastal zone legislation lays the regulatory framework protecting areas that harbor fragile ecosystems and are critical to the country's economy for their tourism and fisheries potential;
- Water sector-related measures, including for groundwater, aim to address critical aspects of resource management needs for a country that expects its water stress condition to deteriorate even further in the coming years. Existing analytical work demonstrates the positive environmental effects of leveraging participatory process to limit groundwater abstraction to sustainable levels, with no negative environmental impacts;
- The fisheries-sector actions aim squarely at reinforcing control over fishing activities and to prevent illegal fishing, which significantly compounds depletion of marine living resources. The marine fisheries measures contained supported by the DPL entail no environmental risks;
- Energy related measures support a decrease in energy intensity of the economy and related pollution and emission impacts. The type of renewable investments enabled by the legislation in

this sectors entail negligible environmental risks, as they essentially concern residential and small scale photovoltaic development, which in the case of the formal are impact neutral, and in the case of the latter will be subject to the environmental impact assessment law;

- Reforms related to seeding practices and improvements in the provision of agro-meteorological services will contribute to enhancing the resilience of the agricultural sector to climate change impacts, enhance conservation and reduce soli degradation.
- The development of the eco-tourism sector based on robust environmental norms and standards for investments will ensure that the sought-after development of economic activities in rural and remote areas will not come at the detriment of natural assets.
- Environmental risks arising from aquaculture sector development are being mitigated by measures supported by the proposed DPL/2 (Strategic Environmental Assessment of the Aquaculture Sector and National Directive for Impact Assessment of Aquaculture Investments) aim squarely at endowing the Ministry of Environment, the National Aquaculture Development Agency and private investors with the tools to ensure the environmental soundness of the sector.

## VI. Tentative financing

Source: International Bank for Reconstruction and Development
Borrower: Kingdom of Morocco
Amount: Euro xxx (US$ 300 million equivalent)

## VII. Contact point

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