

After two decades of uninterrupted expansion the Morocco economy is facing several challenges. Economic structural reforms launched in the late 1990s led to increase the country's real gross domestic product (GDP) by nearly 120 percent between 2000 and 2019, expand per capita income by 72 percent, and almost eradicate extreme poverty. However, real GDP fell by 6.3 percent in 2020 – according to recent estimates – due to the COVID-19 pandemic, the largest contraction on record. After the gradual lifting of restrictions, economic activity began to pick up in late 2020, and Morocco's real GDP grew by 7.9 percent in 2021.

GDP growth dropped to just 1.2 percent in 2022,¹ resulting from overlapping shocks, including the sharp contraction in agricultural GDP due to the drought, the commodity price shocks triggered by Russia's invasion of Ukraine, a slowing global economy, and higher global energy and food prices.

Economic growth is expected to accelerate to 2.5 percent in 2023.

The economic growth model that served Morocco well in recent decades shows signs of slowing down and needing to adapt to changing realities. More than half of GDP growth in recent decades was driven by fixed capital accumulation, which surpassed 30 percent of GDP since the early 2000s with two-thirds originating from public sources. The economy has not generated enough jobs to absorb a growing working-age population and overall unemployment remains high at around 12.8 percent in 2022, with urban youth unemployment reaching 33.4 percent. The female participation rate in the labor force in Morocco is low and declining, with important implications for women's autonomy and the country's economic potential.

Morocco's New Development Model (NDM) presents a new vision for the country's development. The structural reforms launched two decades ago gave way to a sustained period of economic growth and poverty reduction that is unparalleled in the country's contemporary history. But, even before the abrupt recession triggered by the pandemic, the model exhibited signs of exhaustion, prompting the launch of an inclusive dialogue on how to reinvigorate Morocco's path toward sustained economic growth and social inclusion. This dialogue resulted in 2021 in the NDM, which sets ambitious development targets with a 2035 horizon, including doubling per capita GDP levels.

¹The New Development Model, releasing energies and regaining trust to accelerate the march of progress and prosperity for all".

According to the Country Climate and Development Report for Morocco (CCDR),² the greatest potential for putting Morocco on a climate-resilient and low-carbon pathway lies in (a) tackling water scarcity and droughts, notably through the nexus of water and agriculture; (b) enhancing resilience to floods to preserve urban and coastal economies and livelihoods; and (c) decarbonizing the economy for a zero-net emission pathway by the 2050s. The CCDR highlights the need for improved inter-institutional coordination,³ and mainstreaming climate actions into economic, fiscal, and financial policies.

These changes in supply and demand could result in a deficit of between 4 to 7 BCM per year by 2050.⁹ Such constraints could significantly affect the Moroccan economy,¹⁰ with water scarcity exacerbating competition among water users and potential causing a 6.5 percent decline in real GDP under extreme conditions.¹¹

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Expected industrial demand growth is similar (from 241 to 370 MCM per year), and water from tourism is expected to more than double by 2050 (from 33 to 106 MCM per year).¹² Based on an estimated population growth of 1.5 percent per year and economic growth of 4 percent per year.

The governance of the water sector is evolving in response to the changing nature of water resources and the new socio-economic vision.

In keeping with the Constitutional goal of increasing women's political and economic participation, the Water Law 36-15 (2016) emphasizes a gender approach in the sector by promoting equitable access to water for women and men and ensuring equal participation in decision-making.

Finally, the PNAEPI recognizes female empowerment, workplace gender equity, and women's participation as critical aspects of Morocco's prosperity.

These efforts notwithstanding, the persistent challenges in the sector require a sustained effort to achieve greater gender equality and ensure women empowerment.

In this context, an enhanced governance model is needed to ensure an integrated approach to water production and distribution, optimize allocation decisions, ensure financial sustainability, and ensure that decisions about water are made to maximize socio-economic outcomes in alignment with the development model for Morocco.

The Program for Results (the Program) aligns with the World Bank's twin goals of ending extreme poverty and promoting shared prosperity within the context of the World Bank Group's Country Partnership Framework (CPF) for Morocco FY19-24.¹ The CPF aims to contribute to social cohesion by improving the conditions for growth and job creation and reducing social and territorial disparities.

It also contributes to improving the efficiency of public spending and the cross-cutting themes of ·Gender · Empowering Women and Girls for Shared Prosperity· and ·Harnessing Digital Economy for Jobs and Faster Growth·

This has had severe social and economic impacts and highlighted the need to improve resilience and secure water for sustained social and economic development.

In 2020, the COVID-19 pandemic, coupled with a poor agricultural harvest due to drought, led to an increase in the budget deficit and public debt, which reached 7 percent and 67 percent of GDP -respectively.

The budget deficit is MAD 73.1 billion against an initial forecast of MAD 72.6 billion. 1 The MEF revised its budget deficit and growth forecasts for 2023 to 5.3 percent and 1.5 percent of GDP, respectively.

Morocco CCDR estimated that a reduction in water availability could reduce GDP by up to 6.5 percent

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Water loss reduction will postpone the need to invest in non-conventional water sources. Treat

The extension and rehabilitation of potable water distribution systems and the WWTPs upgrades will positively benefit direct and indirect job creation during the work phase.

A further downturn in the global economic outlook could reduce exports, tourism receipts, and foreign direct investment. Inflationary pressures remain strong, eroding households' purchasing power and thus consumption, while the monetary policy tightening has increased the sovereign's domestic borrowing costs.

The IMF has recently approved a precautionary Flexible Credit line, which will boost Morocco's external buffers contributing to mitigate residual macroeconomic risks.

This was due primarily to non-climatic factors, such as population growth in the north, the expansion of irrigation, and urban, industrial, and tourism development, with water demand already exceeding available supply.

Expected industrial demand growth is similar (from 241 to 370 MCM per year), and water from tourism is expected to more than triple by 2050 (from 33 to 106 MCM per year).¹ Based on an estimated population growth of 1.5 percent per year and economic growth of 4 percent per year.

§ 7 A permanent reduction in water supplies could significantly affect the Moroccan economy, § 8 with water scarcity exacerbating competition among water users and leading to a 6.5 percent decline in real GDP under extreme conditions. § 9 For example, hotter and drier conditions are expected to increase the water requirement of crops by up to 12 percent, increasing demand for irrigation and further stressing limited water resources.

The water sector in Morocco is evolving to meet the changing needs for sustainable social and economic development.

Thus, since the 1970s, the GoM has undertaken efforts for water resources planning aimed at meeting Morocco's water needs, with the objectives of (a) integrated planning and conjunctive management of surface and groundwater; (b) optimizing the allocation of water resources to meet present and future demand in the medium and long term in support of Morocco's economic and social development growth at national and local levels and also between sectors; (c) providing access to water for the various regions of the country to ensure balanced development and the promotion of water-poor regions through water transfers from surplus to deficit regions; and, (d) protecting water resources.

Groundwater has come under unprecedented pressure over the past thirty years due to repeated droughts in the country, which have greatly reduced surface water supplies, pushing irrigators to draw more from aquifers, and partly because of the increase in water needs induced by the country's socio-economic development.

These policies and regulations will be important to reveal the range of values among different stakeholders and develop a shared vision within communities, to optimize the sustainable and efficient allocation of water, ensure the equitable pricing of water services, and guide investments aimed at safeguarding water security, its contribution to economic growth and development, and maintaining social equilibrium.

The Program will support the Government's efforts to anticipate and address the challenges of financial sustainability in the sector. The NDM report recommends measures reflecting the true value of the water resource and incentivizing a more efficient and rational use and management of the resource. The goal is future-orientated policy processes that anticipate, rather than react to, new challenges and account for the change in socio-economic and environmental conditions, shifts in societal values, and pervasive uncertainty associated with climate change. As part of updating the PNE, the Program will support a qualitative process that can build consensus around national priorities and reveal local values, culminating in adopting principles that will inform the development of quantitative tools to improve financial sustainability. The Program will build on these principles to identify and update the underlying costs and benefits associated with investments in the water sector to inform the development of a consolidated financial model.

In keeping with the 2011 Constitution's recognition of the need to increase women's political and economic participation, Morocco has undertaken concrete steps to promote gender equality and women empowerment in the water sector.

PNAEPI recognizes the empowerment of women and girls, the promotion of gender equity in the workplace, and the participation of women and youth as critical aspects of Morocco's prosperity.

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Rising temperatures and erratic rainfall have reduced river flows and increased evaporation and siltation of storage dams, leading to a 20 percent reduction in overall water resources in the last 30 years, exacerbating the problem of water scarcity generated by non-climate stressors such as population growth in the north, irrigation expansion, as well as urban, industrial and tourism development.

In 2020, the COVID-19 pandemic increased the budget deficit and public debt, reaching 7 percent and 67 percent of GDP, respectively. In 2020, the country's economic growth was strongly impacted by the health crisis and a poor harvest due to drought.

The MEF had revised its budget deficit and growth forecasts for the current year to 5.3 percent of GDP and 1.5 percent, respectively. Under these conditions, the total indebtedness of the Moroccan Treasury, compared to GDP, should exceed the threshold of 80 percent of GDP in 2022.

The economic, social, and financial measures taken rapidly by the government to offset the negative economic impact of the crisis have contributed to reducing the budgetary and financial margin of the government. In the medium to long term, however, economic performance is expected to improve thanks to sound fiscal and monetary policies, better governance and more coherent sector strategies, and an improved investment environment, all of which aim to support gradual gains in competitiveness.

The Government will attach particular importance to financing large-scale structural reforms initiated in recent years, to mobilize more resources and ensure their sustainability. Thus, the government will ensure the mobilization of all possible budgetary margins and direct them towards sectors with a strong economic and social impact.

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⁸ 7 The new decree aims to consolidate the public procurement system to provide more clarity to economic actors and improve the business climate. It also seeks to open opportunities for innovation, for new procurement features and approaches such as competitive dialogue and for small businesses and self-employed individuals (self-entrepreneurs) and establish a national preference for domestic products.

