

## THE WAY FORWARD

The current budget reform in Morocco constitutes a unique opportunity to integrate climate change concerns into the budget process and strengthen the management of climate related programs. Generalization of the integrated expenditure management system, as well as the development of a clear and sound climate strategy are also key factors to the success of the climate budget mainstreaming process. To take full advantage of the ongoing reform process it is advisable to focus on the following measures:

- Issuing of a ministerial circular for budget preparation encouraging climate expenditures and systematizing the climate dimension of projects at inception, coupled with the preparation of a 'handbook on public climate expenditures' to provide guidance;
- Establishing a Climate MTEF, in order to strengthen fiscal discipline, improve intersectoral allocation of climate resources as well as operational performance;
- Introducing a Transversal Policy Document as annex of the law of finances which allows for a structured assessment of the financial commitments by the State to actions aimed at climate change, but is also used in screening across several programs (to be set-up) covering the competence of different Ministries, in order to guarantee the implementation and monitoring of the climate mainstreaming process;
- Improving budgetary performance for key "climate priority" ministerial departments as well as special accounts such as the Natural Catastrophe Special Fund
- Establishing a monitoring mechanism for climate resources and expenditures by setting up "climate focal points" within each key department;

## THE WAY FORWARD (continued)

- Reinforcing the local to central "bottom-up" approach in the project identification process;
- Mobilizing additional climate resources by considering (i) the adoption of climate-friendly innovative tools for development finance such as Climate Bonds and Cat-Deferred Drawback Options (DDO), and (ii) the creation of a National Climate Fund could support Morocco to strengthen its management of climate funds and to optimize access to climate finance at the international scene. The proliferation of global climate finance initiatives represents an opportunity for Morocco, but often requires a country to collect, combine, coordinate and report on the use of these funds.

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# MOROCCO

## CLIMATE PUBLIC EXPENDITURE AND INSTITUTIONAL REVIEW

### CONTEXT

Morocco is highly vulnerable to climate change, particularly in two key sectors of the domestic economy – water resources and agriculture. Natural disasters pose a high risk for the country's infrastructure in urban and coastal areas. But the climate challenge also allows the country to take advantage of growth and employment opportunities, notably by taking a regional lead in renewable energy.

However, in a context of limited budget resources and competing national priorities, priority needs to be given to using climate resources efficiently and effectively.

### GOALS

The Climate Public Expenditure and Institutional Review (CPEIR) aims at supporting the Government of Morocco in improving its climate governance as well as its climate public expenditure efficiency. More specifically, the review intends to clarify: (i) the financial dimension of Morocco's climate policy, (ii) the classification of climate change related expenditures, (iii) the mainstreaming of climate change aspects in the budget process, including the development of a "Climate" Medium Term Expenditure Framework (MTEF), and (iv) options to strengthen the country's climate governance arrangements based on international best practices.

METHODOLOGY AND LIMITATIONS

The National Plan against Global Warming (*Plan National de Lutte contre le Réchauffement Climatique*, or PNRC) provides insights regarding the definition of climate actions in Morocco. The assessment covered public expenditure between 2005-2010 to assess Government's commitment addressing climate aspects prior and after the elaboration of the PNRC in 2009. The exercise resulted in an update of the PNRC measures as well as a better alignment between the PNRC listed programs and projects, the sectoral strategies and the respective budget sources.

Five sectors were selected based on their mitigation potential and their climate vulnerability: Agriculture, Energy, Water and Forestry, Solid waste and Sanitation. The budget assessment covered the national budget, (including the investment budget and special accounts - CAS) and foreign aid. In addition to Government's central budget, the review also examined the investment budget of semi independently state run government bodies (SEGMA) and two major independent public agencies (EP). The review did not address fiscal considerations and reforms.

METHODOLOGICAL LESSONS

Being the first exercise of this kind conducted by the World Bank and a Partner Government, the Morocco CC PEIR also had important learning implications. The main methodological constraints revolved around the issue of additionality for the definition of climate expenditures, their tracing to the national budget, data collection challenges due to budget data classification and availability issues, and separate reporting of donor aid.

KEY MESSAGES

The CPEIR revealed considerable public investments by the Government in favor of the PNRC sectors. With the exception of 2010, climate spending doubled between 2005 and 2009, representing on average 13% of the national investment budget between 2005 and 2010. In 2010, the Government of Morocco spent about 525 million USD (4.4 billion MAD) on climate sensitive programs and projects. However, the study reveals a preponderance of infrastructure programs while other interventions could either not be identified or suggest to be underfunded. The climate impact of certain expenditures is also questioned in view of the relatively low use of the climate resources in some cases or the underfunding in others..

Much of the funding was in favor of adaptation activities, notably related to water resource management. Spending on adaptation has accounted on average for 64% of climate expenditures (and 9% of national investment expenditures) over the reviewed period, most of which was used for water and agriculture sectors. Most of the investment programs and projects in these sectors address water efficiency and are closely linked with traditional development projects (dams, hydro-agricultural development, etc.).

About a third of climate relevant expenditures are funded through special accounts managed by respective sector ministries. The recently established Fund to address Natural Disaster (*Fonds de Lutte contre les Catastrophes Naturelles*) is an important tool for the government to address prevention and mitigation aspects but its management, impact and sustainability raise questions and point to the need for reform. The mainstreaming of climate change aspects in strategic decision-making and budget processes remains limited until now. This is in part due to the lack of a clear and sound climate strategy, as well as to weak climate governance arrangements. As a result: (i) the integration of climate issues in the sectoral strategies and budget planning varies among sectors, (ii) processes and systems to support climate activities have not yet been developed, (iii) the chart of accounts does not allow to identify specific climate relevant expenditures, (iiii) central and local government units have not been sensitized to develop specific climate activities, and (iv) existing performance indicators do not yet include climate aspects.

KEY MESSAGES (Continued)

Budget planning tools, such as the MTEF, constitute a key entry point for mainstreaming climate change in strategic planning. As part of the CPEIR, a draft framework for a Climate MTEF was prepared, incorporating key climate programs and projects and climate performance indicators. Since the early 1990s, Morocco experienced a proliferation of consultative bodies for environmental issues directly or indirectly related to climate change. The Department of Environment engaged in the set up of several climate entities, such as the National Committee on Climate Change, the Scientific and Technical National Committee on Climate Change, as well as the CDM Designated National Authority lodged in the Climate Change unit of the Department of Environment. This institutional framework deserves to be streamlined and reinvigorated with a view to making it more effective.

In line with the recent decentralization process introduced by the July 2011 Constitution, a regional institutional approach is building up in the country, with the establishment of regional observatories for environment and sustainable development (ORED), as well as the development of territorial plans against global warming.