

## Summary of the report on the Public Entities and Enterprises (EEP) sector accompanying the 2020 Draft Finance Law

The drafting of the **2020 Finance Law** has coincided with the celebration of the **twenty years of His Majesty the King's reign**. These 20 years of Reign were marked by quantitative leaps and qualitative changes between 1999 and 2019 in the EEP sector, especially in terms of infrastructure (undeniable progress in drinking water supply, sanitation and electrification projects, vast highway and road network, high-speed railway line, the world's largest multi-technology solar production site, Tanger Med port complex ...) and programs dedicated to rural areas (PAGER, PNER and PNRR II) as well as in terms of social and territorial cohesion (RAMED, AREF, AREP, CHU...). Similarly, significant developments were made in terms of governance and transparency in the management and control of EEP. Lastly, public and private sector complementarities have been strengthened.

Therefore, the EEP sector has undergone major reforms during the 1999-2019 period, in particular, reforms linked to the control and governance of EEP, liberalization and sectorial restructuring, privatization, the award of contracts for public services and the development of different forms of public-private partnerships.

The major and structuring projects policy was given a strong boost so as to take advantage of the vision focused on sectorial strategies.

### I. Structure and performance of the public portfolio

The EEP sector is a key player that continues to be instrumental in the implementation and support of public policies and structuring projects in key sectors of the national economy. Given its scale and the diversity of the entities that make it up, this sector faces major economic and financial challenges that require the strengthening of the role of the State-Shareholder in order to guarantee better management, improve its value and performance and ensure its sustainability.

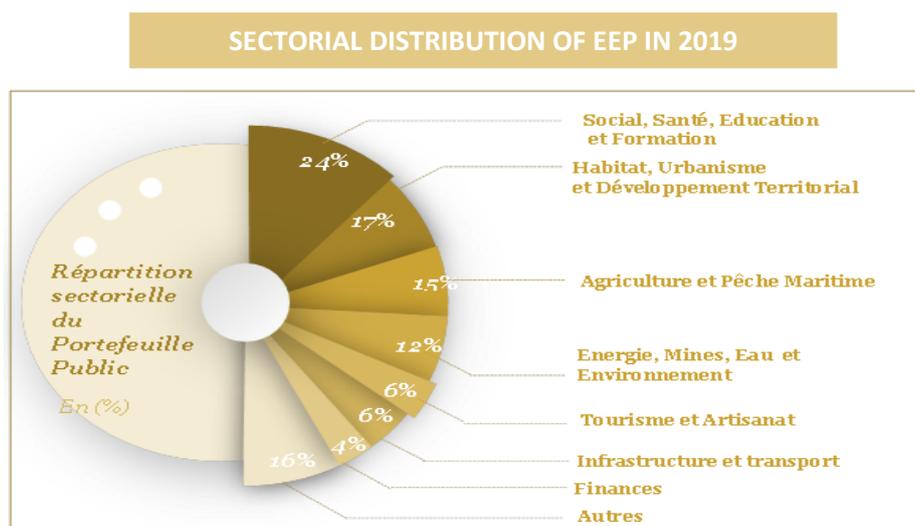
#### 1.1. Structure and evolution of the public portfolio

The role of the EEP in terms of economic and social development both at sectorial and territorial level entails the need for continuous adaptation of the entities that make up the public portfolio. To this end, the latter records the numerous operations of establishment, transfer, transformation and merger or dissolution / liquidation.

The EEP inventory, completed at the end of September 2019, shows 225 Public Entities (EP)<sup>1</sup> and 43 Public Limited Companies with Direct Participation of the Treasury<sup>2</sup>, with an increase in Public Entities compared to 2018 (+16 units) and establishments and eliminations or liquidation at the level of holdings (+13 units).

It is important to note that the EEP own 479 Subsidiaries or holdings, 54% of which are majority owned.

The presence of the public portfolio at sectoral, territorial and international levels reflects the strategic choices aimed at providing the country with basic infrastructure and providing quality public services to citizens and companies, among other things. In this regard, EEP can be found in almost all economic and social sectors, especially infrastructure, energy, agriculture, sea fishing, education, teaching, vocational training, health, tourism, industrial sector, logistics and financial services.



In addition, development programs are launched at the territorial level as a result of the involvement of EEP within the public portfolio which contribute to the economic and social development momentum at the territorial level and establish the bases for advanced regionalization. These entities represent 64% of the public portfolio.

## 1.2. Investments

Investments made by EEP amounted 66,063 million dirhams in 2018, i.e. an achievement rate of 68%, thus showing an increase of 8 percentage points compared to 2017. Investments would reach 73,323 million dirhams by the end of the year 2019, or a forecast achievement rate of 74%, thus confirming the strong recovery of the achievement rate of EEP investments initiated in 2018 (68% compared to 60% in 2017).

For the 2020 fiscal year, the planned investment of EEP amounts to 101,195 million dirhams and would stabilize at around 100,000 million dirhams for the second consecutive year, along with an increasingly high implementation rate. For the 2021 and 2022 financial years, the planned

<sup>1</sup> These are legal persons under public law with legal personality and financial autonomy qualified as a public establishment by their agreement on the establishment.

<sup>2</sup> These are companies governed by private law, the capital of which is directly or partially owned by the State

investments of the EEP would be 100,446 million dirhams and 91,527 million dirhams, respectively.

### **1.3. Financial performance**

Over the period 2018-2022, the main economic and financial indicators in the EEP sector showed positive developments in general.

The main economic and financial indicators in the EEP sector experienced positive developments over the period 2017-2018.

- **Turnover** increased by 5% from 226,523 million dirhams in 2017 to 238,327 million dirhams in 2018. It would show an increase of 2.7% by the end of the year 2019 with an amount of 244,695 million dirhams. Forecasts show an increase in turnover in the sector over the period 2020-2022.
- **Value added (VA)** reached 81,268 million dirhams in 2018, a slight increase of 1.6% compared to 2017 (80,006 million dirhams), while by the end of the year 2019 it would show an increase 13.8% compared to 2018 to reach 92.648 million dirhams. The period 2020-2022 will see an increase in VA in the EEP sector.
- **The total assets** of EEP, at the end of 2018, increased by 5% compared to 2017, to reach 1,501,229 million dirhams and the forecasts for the end of 2019 show a slight increase of 0.7% of the total assets of EEP (1,511,978 million dirhams). In 2020-2022, the total assets of EEP will experience an increase.

It is important to note that certain indicators in the EEP sector were affected in 2018 by the significant drop in CDG's results during that year, due to its restructuring program. Thus, **excluding CDG**, the value added of the sector increased by 5% compared to 2017.

### **1.4. Financial relations between the State and the EEP**

EEP investment for the carrying out of their strategic and structuring projects is accompanied by budgetary support from the State. This support is also for entities in charge of public service missions, particularly in the socio-educational sectors.

The total amount of **funds released from the general state budget for subsidies to the EEP**, at the end of December 2018, amounted to 30,792 million dirhams, i.e. an achievement rate of 93% compared to the forecasts for the year 2018 (33,152 million dirhams). By category, 56% of the funds are intended for operation, the rest, or 13,690 million dirhams is for equipment (40%) and capital increases (4%).

The sectorial distribution shows that the budgetary transfers from the State to the EEP are mainly intended for the priority sectors, namely the social sector (20,325 million dirhams), agriculture (4,297 million dirhams), infrastructure (2,365 million dirhams), transport (996 million dirhams) and energy and mining (977 million dirhams).

At the end of November 2019, the total amount of funds released from the general state budget for subsidies to the EEP amounted to 28,453 million dirhams (compared to 27,134 million dirhams at the end of November 2018), i.e. an achievement rate of 78% compared to the forecasts for 2019 (36,425 million dirhams) against 81% at the end of November 2018.

Other financial assistance that the EEP benefits from comes in the form of **parafiscal charges**, the amount of which increased from 2,923.7 million dirhams in 2010 to 4,519.8 million dirhams at the end of 2018, i.e. an average annual growth rate of around 6 %.

The **revenues from the EEP** for the 2018 budget year are 9,336 million dirhams, i.e. a 95% achievement rate of the initial forecasts of 9,821 million dirhams, against 7,958 million dirhams at the end of 2017, i.e. an achievement rate of 88%.

As for the Finance Law for the 2019 budget year, the forecasts for the revenues from the EEP are 11,450 million dirhams, excluding privatization revenues and the combined income at the end of December 2019 are 13,790 million dirhams, or a 120% achievement rate, paid mainly by ANCFCC (3,000 million dirhams), OCP S.A (2,700 million dirhams), IAM (1,531 million dirhams), Bank Al-Maghrib (852 million dirhams including 412 million dirhams for shares of the profit), ONDA (660 million dirhams including 550 million dirhams for shares of the profit), Marsa Maroc (348 million dirhams) and ANRT (300 million dirhams).

For 2020, the forecast amounts to 12,209 million dirhams and shows an increase of nearly 6.6% compared to the forecast for 2019 (excluding privatization revenues).

## II. EEP, major players in economic and social policy

The EEP are the main public investor, they contribute to the development of the national economy, in particular by ensuring the support of public policies by the implementation of structuring projects aiming to expand the supply of quality public services to citizens and companies by developing infrastructures contributing to the improvement of the country's economic and territorial competitiveness.

In this respect, the EEP have delivered quality infrastructure (ports, airports, roads, highways, railways, energy, irrigation, major urban developments, etc.), as well as social development programs aimed at reducing social and territorial disparities, particularly in the context of the overall overhaul under way of support and social protection programs as well as with regard to the adequacy between training and employment, and this comes with the aim of improving the efficiency of public actions and policies for vulnerable social categories and reducing unemployment.

In this context, the Hassan II Fund for Economic and Social Development as well as Public Financial Institutions, will continue to work for the economic and social development of the country through the availability of financing adapted to the needs of their partners and customers to whom they provide the necessary advice and support.

The strategic plans of the EEP fulfill three objectives, which include satisfying the needs of the populations, planning and improving the competitiveness and access to the territories while guaranteeing to the economic players the suitable conditions to fully play their role and ultimately allow the State to focus on its governmental and regulatory functions.

Thus, the increased pace of investments in the **highway sector** has helped to put Morocco in the 2<sup>nd</sup> place at the African level through the development of an important highway network covering a distance of 1,800 km, and upgrading the facilities.

Similarly, in the **railway sector**, the year 2018 was marked by the inauguration by His Majesty the King, on November 15, 2018, of the High Speed Train (TGV) connecting Tangier to Casablanca and the commissioning of new stations allowing improved services to customers.

In the **port sector**, maritime connectivity has experienced a remarkable improvement thanks to the Tanger Med port complex, which was commissioned in 2007, and has become the main port in Africa since 2017. This sector saw the inauguration by His Majesty the King, in 2018, of the infrastructures built as part of the conversion project of the port of Tangier city including a Marina and a new fishing port. Similarly, and thanks to the new Tanger Med 2 (**TM2**), which was inaugurated in June 2019, by His Royal Highness the Crown Prince Moulay El Hassan, the capacity of the container terminals of the port complex has been increased to 9 million TEU (Twenty Foot Equivalent Unit), and now makes this port the main African port for containers and the main port in the Mediterranean with the ambition of joining the top 20 ports worldwide.

With regard to the **airport sector**, His Majesty the King laid the first foundation stone of the construction project of the new terminal at Rabat-Sale Airport in 2018, with an area of 69,000 m<sup>2</sup> and an additional accommodation capacity of 4 million passengers per year. His Majesty the King also inaugurated, in January 2019, the project to extend and refurbish Terminal 1 of Mohammed V Airport in Casablanca, thus increasing the capacity of the Airport to 14 million passengers per year.

For its part, the **RAM** (Royal Air Maroc) is continuing its new development plan launched in 2017 through a process of product improvement, network optimization, fleet modernization, as well as the acceleration of digital transformation and the development of partnerships.

When it comes to the **mining sector**, the **OCP** is working on strengthening its mining and chemical production capacities in Morocco as well as in Africa. In this respect, and thanks to its competitive position in terms of price, its exceptional ore reserves and its position as a leader in phosphoric acid and phosphate, the OCP Group benefited in October 2019 from confirmation by the international rating agency Fitch Ratings, of its long-term rating BBB- with stable outlook.

In regards to the **energy sector**, the investments planned by **ONEE** for the period 2019-2023 mainly concern the increase in production capacity with a view to ensuring the supply and demand for electrical energy in the country, the promotion of renewable energies (hydraulic, wind and solar), the reinforcement of the access of the population to drinking water and sanitation and the extension of the distribution networks as well as ensuring access to electricity and drinking water in rural areas.

In addition and within the framework of the implementation of the Royal Guidelines pertaining to the institutional and organizational overhaul of the **renewable energy sector** (ENR) which aims to strengthen the positioning of Morocco as a leader in this field and develop synergies, **MASEN** continues to carry out, at a sustained pace, its development program aimed at achieving a share of renewable energy of 52% in 2030. The year 2018 has thus been characterized by the commissioning of 5 solar power plants, namely Noor Ouarzazate II (200 MW), Noor Ouarzazate III (150 MW), Noor Ouarzazate IV (72 MW), Noor Laayoune (85 MW in PV) and Noor Boucraa (20 MW in PV). As a result, the commissioning of the entire Noor Ouarzazate solar complex confirms its position as the largest multi-technology complex in operation in the World. These power

stations, which constitute the first projects initiated within the framework of the new development model of the southern provinces, promoted by His Majesty the King, pave the way for further progress for the benefit of the local populations and economic players.

As for the efforts made to ensure the **supply of drinking water** for areas mainly dependent on vulnerable water sources and in accordance with the Royal Guidelines, actions are continuing within the framework of the national water plan to provide solutions to water resource management issues over the next thirty years.

For the implementation of the **Green Morocco Plan** (PMV), the **ADA** plans, for 2020, to carry out actions related to the identification and validation of new projects of Pillar I (development of modern agriculture with high valued added) and of pillar II (solidarity agriculture) of the PMV as well as the exploitation of agricultural land (private domain of the State and collective land) for the launch of calls for tenders aimed at allocation of new partnership projects with investors. Similarly, the **ORMVA** will continue their actions in the field of agricultural development and localized irrigation equipment, in the irrigation systems of Doukkala, Gharb, Haouz, Loukkous and Tadla. Preparations for the second phase of PMV are underway.

The EEP involved in the **social sectors** are working towards the implementation of the global overhaul of support and social welfare programs. Similarly, the EEP involved in the **education and higher education** sector are working to implement the new framework law relating to education and training which aims to renew the education system, teaching, training and scientific research in order to guarantee fairness, equal opportunities, quality and individual advancement and the progress of society and its sustainability, as well as implementing a national contractual framework with the State and the other players and partners involved in this field.

On another level, the **OFPPT** is expected to successfully implement the new **roadmap relating to vocational training**, which revolves around upgrading vocational training in its present form, restructuring of the sectors according to their relevance on the job market and speeding up the work on the ambitious project of "**Cities of Trades and Skills**", which will be completed by the start of the 2021 academic year, taking into account that this new concept will be adapted to each Region depending on the specific needs of the local business ecosystem in order to promote the development of the Region.

In the **health sector**, the **University Hospital Centers**, as major players in the sector, are working to strengthen their efforts in terms of the development of the supply of healthcare with a view to improving access to health services, implementing the national health programs in which they are involved, optimizing the allocation and use of the resources allocated to them and improving their governance.

On another note, the **social welfare sector** saw the establishment of the Moroccan Health Insurance Fund (**CMAM**) which would take over the National Fund of Social welfare Organizations (**CNOPS**) in the management of Compulsory Health Insurance (AMO) in the public sector and improving the governance and performance of basic medical coverage.

In the financial sector, the work of the Hassan II Fund and Ithmar Capital is likely to intensify. Also, Public Financial Institutions (Institutions Financières Publiques: **IFP**) are now expected to

conform to the new framework drawn up by His Majesty the King for the financial sector. In fact, and in the context of His Majesty the King's call, during the Speech of October 11, 2019, for a strong involvement of the national financial sector in the development process of the country, these Funds and these IFP are called upon to take the lead with regard to financing the economy and supporting the various business sectors.

### III. Strengthening the governance and transparency of the public portfolio

Since the late 1990s, the EEP sector has undergone significant restructuring with sectorial liberalization and the disengagement of the State from many sectors. This restructuring was aimed at a better rationalization of public funds and the strengthening of the performance of the EEP.

The 2000s were characterized by sectorial liberalizations, the reform of state financial control over the EEP and increased contractual relations between the state and EEP, in addition to strengthening the complementarity between the public and private sectors, the continuation of the privatization process where the Moroccan economy integrated and opened up to the world economy.

Thus, the **reform of State financial control over the EEP**, which came into force in 2004 with the repeal of the Dahir in 1960, represented a major event in the 2000s and contributed significantly to greater accountability of leaders and to the improvement of the effectiveness of management.

In this respect, efforts to strengthen the institutional and legal structure governing the EEP and the strengthening of their governance are carried out with a view to ensuring better implementation of public policies and strategies and represent a way of meeting international best practices, in line of the 2011 Constitution which contains the principles of good governance, transparency and the relationship between responsibility and accountability. In this context, **good EEP governance practices** were reinforced with the issuance in 2012 of the Moroccan Code of Good EEP Governance Practices, the implementation of which enabled better scheduling and an increased rate of meetings of the governance bodies of these organizations and motivation of their specialized committees, as well as increased use by the EEP of transparency and information dissemination practices, risk management and fair treatment of stakeholders.

The strengthening of the process of **contractual** relations between the State and the EEP is also continuing, in order to make it a tool for better integration of the EEP in public policies and improving their operational and financial performance.

The Ministry of Economy, Finance and Administration Reform carries out each year, with the approval of the Head of the Government, **external audits of the EEP**. These audits target, in particular, the institutional and strategic aspects and conditions under which they've become EEP.

Thus, 81 external audit operations targeting 91 EEP were carried out during the period 2000-2018.

For the 2018 financial year, the audits carried out are as follows:

- the strategic, organizational and human resources audit of the Moroccan Agency for Energy Efficiency (AMEE);
- the strategic, operational and performance audit of the Marchica Med Lagoon Development Company (Marchica Med);

- the institutional, operational and management audit of the National Office for University, Social and Cultural Works (ONOUSC);
- the operational, management and performance audit of the Moroccan Cinematographic Center (CCM)

Similarly, **the implementation of an EEP risk management approach** is part of the improvement of governance and management of the public sector, management of EEP risks with the aim of improving the performance of these entities.

Moreover, the implementation of **management tools** allows for the strengthening of operational efficiency of the concerned EEP and to improve the quality of their management in accordance with the principles of transparency and competition.

Furthermore, during the period 2012-2018, 28 organizational charts, 28 staff regulations and 115 specific market regulations were approved.

As part of the strategy of digitizing the work of the Ministry of Economy, Finance and Administration Reform, several **paperless processes and digitization** projects are being implemented or prepared in the case of the DEPP, including:

- Computerized payroll;
- Online handling of complaints from EEP suppliers.

#### IV. Public-private collaborations and improving the business climate

The scarcity of public resources to allocate to investment and the priority given to certain social sectors require the development of complementarity between the public and private sectors as recalled by His Majesty the King in His Speech before Parliament on October 11, 2019. In this regard, the 2020 Draft Finance Law establishes the revival of the privatization program started in 2019. Moreover, the EEP, like the ministerial departments, will have to prioritize the use of Public-Private Partnership (PPP) contracts as a method of managing public procurement which, under the current circumstances, is an essential alternative financing method for the public investments needed.

The 2019 finance law, the general guidelines of which were presented at the Council of Ministers on October 10, 2018 to His Majesty the King, may God assist him, provides, among other things, for a revival of the **program for the transfer of public companies to the private sector** with a view to refocusing EEP on their basic missions and the sale of assets not necessary for operation.

The revival of the privatization program during 2018 and 2019 which is part of the new strategic vision of the State as a shareholder, was initiated by the adoption by Parliament of Law No. 91-18 amending and supplementing law No. 39-89 authorizing the transfer of public companies to the private sector which allowed for adding two new entities to the list of the companies to be privatized, thus the amendment of the provision relating to the distribution of sales proceeds within the framework of the 2019 finance law No. 80-18.

As part of the implementation of the 2019 finance law which provides for privatization revenue of 10 billion dirhams, the first privatization operation carried out concerned the sale, in 2019, of 8% of the public equity stake in Maroc Telecom and the related voting rights.

The total proceeds from the sale of 8% of Maroc Telecom's equity stake amounted to **8,888 million dirhams**, of which **6,699 million dirhams** came from the sale of share capital (6%) and **2,189 million dirhams** by public offering (2%).

The use of **Public Private Partnership** constitutes today an inescapable strategic choice of the public authorities for public investment in Morocco and this, in accordance with the Royal Guidelines of His Majesty the King who emphasized, in his last Speeches, the importance of the private sector in the socio-economic growth of the country.

In light of the scarcity of public resources along with a growing demand for infrastructure and public services, efforts continued in 2019 to encourage private initiative through more public-private alliances based on the pooling of resources and means aiming for more collaborations and complementarities between the two sectors in order to further promote the emergence of national private capital, attracting foreign investment and optimizing public spending.

Draft Law No. 46-18 amending and supplementing Law No. 86-12 on **PPP contracts** introduces a number of amendments. It was sent to Parliament on August 8, 2019 for approval.

The aim of the draft amendment is to make the PPP procedures more flexible and to strengthen the

performance of the public and private sectors so that all players can contribute to the socio-economic development of the country, particularly through private capital in order to finance major projects with a strong impact on growth and job creation.

Finally, and following the Royal Guidelines contained in the Royal Speech of August 20, 2018 inciting the Public Administrations and Territorial Collectivities to settle their obligations towards companies, the problem of supplier debts and payment deadlines is receiving even more attention from the Ministry of Economy, Finance and Administration Reform.

Many steps have been taken in this regard, including in particular:

- Supporting the EEP in reducing their payment periods (availability of subsidies, clearance of VAT credit, review of procedures, etc.)
- The launch of the AJAL electronic platform on October 4 relating to complaints from EEP suppliers regarding payment deadlines;
- The organization of regional tours in order to raise awareness among local players at regional level as to the importance, the urgency and the need to improve the behavior of companies in terms of payment deadlines;
- The issuance of the joint decree of the Ministry of Economy, Finance and Administration Reform and the Minister of Industry, Investment, Trade and the Digital Economy No. 1990-19 fixing the rate of default interest;

#### **Main adjustments introduced by Draft Law No. 46-18**

- Providing a clearer definition of the PPP contract
- Applicability of the PPP law to local authorities
- Establishment of a national authority with strategic prerogatives
- Review of the governance process as a whole to integrate the regional dimension
- Adaptation of the provisions of the PPP law with the specific texts providing for the use of PPP
- Simplifying certain procedures in the event of a spontaneous offer and in the case of negotiated allocation

- The issuance, in September 2018 and June 2019, of circulars encouraging the EEP to respect payment deadlines and to establish more transparency and accountability in the matter;
- The publication, starting October 2019, of the payment deadlines declared by the EEP;
- The responsibility of the members of the deliberative bodies of the EEP, control agents and managers to ensure that measures are taken for the control of payment deadlines.