



**Summary of the Report
on the Sector of Public Companies
Appended to Finance Act 2013**

Public Establishments and Companies (PEC) constitute the spearhead for the implementation of government policy in various activity sectors, where they show increased dynamism conducive to the achievement of the objectives of sector-based strategies and the materialization of the anchor projects of Morocco.

In spite of a context marked by the global economic and financial crisis, the fluctuations of raw materials prices and geopolitical events in the region, PEC posted good performance in terms of activity, turnover, added-value and results, in the years 2011 and 2012. Their financial position also improved.

With regard to the year 2013, PEC are invited to conduct their actions within the framework of the guidelines formulated by the Circular of the Head of Government, on the preparation of Finance Act 2013, targeting the following three major objectives:

- improvement of the competitiveness of national economy, the promotion of productive investment and the development of employment;

- reduction of social and spatial disparities, ensuring that rural areas continue to benefit from special programs aiming at accelerating the pace of providing them with infrastructures and reducing their isolation;
- implementation of structural reforms and improvement of governance, ensuring the safeguard of macro-economic balances.

In this connection, PEC are called to contribute to the achievement of the above-mentioned objectives, for the year 2013, through four major lines targeting the following:

- consolidation of the effectiveness and return on their existing investments and acceleration of the pace of achieving the investment plans in progress, promoting recourse to Public-Private Partnership (PPP);
- consolidation of the performance and quality of the services provided by PEC;
- rationalization of spending;
- improvement of governance and reinforcement of transparency in conformity with the regulations of the Code of Good Practices of Governance of PEC launched in March 2012.

1. Trend of public sector performance

1.1. Major indicators of activity and results

Some of the achievements of PEC in 2011 are as follows:

- **their turnover** amounts to **189 billion MAD**, posting a rise of 11.8% compared to 2010 (169.1 billion MAD);
- **their value added** stood at 81.2 billion MAD, up 15,3% compared to 2010 (70.4 billion MAD). **In relation to GDP**, PEC value added accounted for 9.6% in 2011 as against 8.9% in 2010;

- **their operating income** reached **34.9 billion MAD**, up 20% compared to 2010, primarily due to the improvement of the results of OCP¹ Group (+52.8%), CNSS² (+19.9%), CAM³ (+8.4%) and CMR⁴ (+58.5%);
- **the current results** of PEC sector amount to **33.5 billion MAD in 2011**, up 7.4% compared to 2010, particularly due to the profits of OCP Group, CNSS and ONDA⁵;
- **their net income** reached **27.8 billion MAD**, up 23.7% compared to 2010;
- **their self-financing capacity** amounts to **49.7 billion MAD**, posting a rise of 52.1% compared to 2010 (32.7 billion MAD). The total turnover of PEC sector contributed to financing 72.1% of PEC investment in 2011 as against 48% in 2010;
- their consolidated balance sheets amount to **920.4 billion MAD**, up **5.7%** compared to the previous year;
- **stockholders' equity** reached **363 billion MAD** in 2011, up 8.9% compared to 2010. This change is explained by capital increase or endowments funds as well as the increase of reserves, carry-forward operations and profit;
- **financing liabilities** amount to **158.7 billion MAD**, up 6.1% compared to 2010. In relation to GDP, these debts account for 19%, almost the same rate as in 2010 (19.2%);
- **operating profitability** of PEC, measured by the EBITDA⁶, stood at **61.4 billion MAD**, up 8.5% compared to 2010 (56.6 billion MAD), hence translating the continuous improvement of such profitability;
- **financial performance ratio** reached 7.6% in 2011 compared to 6.7% in 2010 and **business performance ratio** accounted for 14.7% in 2011 as against 13.2% in 2010;
- PEC cash account reached 25.4 billion MAD as against 33.2 billion MAD one year earlier. As for PEC investments, they stood at 182.9 billion MAD as against 177.1 billion MAD in 2010. A share of 95% of this amount corresponds to the following PEC investments: CMR (71.8 billion MAD), CNSS (47 billion MAD), Hassan II Fund (21.3 billion MAD) and OCP Group (19.5 billion MAD).

¹ Sherifian Office of Phosphate

² Social Security Fund

³ Agricultural Credit Agency

⁴ Moroccan Pension Fund

⁵ National Office of Airports

⁶ Earnings before interest, taxes, depreciation and amortization

1-2- Financial relations between the State and PEC

The State's budget transfers to PEC rose from 9.3 billion MAD in 2002 to **16.8 billion MAD** in 2011 with an annual average growth rate of 6.8% compared with 8.3% for the ordinary spending of the General State Budget (GSB).

Over the period 2002-2011, the **proceeds** paid by PEC into the General State Budget increased from 4.241 million MAD in 2002 to **10.483** million MAD in 2011, with an annual average growth rate of 10.6% as against 7% for GSB regular income.

PEC tax contribution in terms of **Corporation tax** of 2011 amounted to 5.759 million MAD as against 4.894 million MAD in 2010.

I-3- PEC investment performance in 2011

The volume of PEC investment reached **68.9 billion MAD** in 2011, twice as much compared to the investment carried out in 2005, hence confirming the maintenance of PEC investment to advanced levels in comparison with the previous period. Thus, over the period 2009-2011, the achievements concerning investment reached 204 billion MAD, up 30.2% as against the amount of 157 billion MAD posted over the period 2006-2008.

The sector-based distribution of PEC investments emphasizes the importance of the programs initiated in the areas of infrastructures (36%), social sectors, housing, town planning and territorial development (24%) as well as energy and mining (22%). The significance of these sectors confirms the report established in 2010 and will be reinforced through the programs planned for 2012 and 2013.

As regards the financing of PEC investment spending for the year 2011, self-financing remains dominating. Thus, the total self-financing capacity of the sector, in 2011, accounted for the equivalent of 72.1% of PEC investment, followed by the contribution of the State, which was materialized through the provision of equity capital and equipment subsidies of the General State Budget.

Besides, **Economic and Social Development** contributes to the financing of projects, particularly in the fields of low-cost housing, tourism, urban rehabilitation, industry, energy and railway, harbor, road and highway infrastructures. The total Hassan II Fund payments at the end of 2011 amounted to 22 billion MAD. PEC benefited from an overall amount of 13.7 billion MAD, a rate of 62%.

For the year 2013, the amount of PEC investments is estimated at 114.4 billion MAD confirming their maintenance at an advanced level, considering that emphasis is laid on the consolidation of the efficiency and profitability of PEC investments, while allowing the achievements of the objectives of the governmental program.

In order to diversify projects' funding sources, a **bill on PPP** was finalized aiming at establishing a clear and flexible legal framework making it possible to consolidate a climate of trust for the PPP market and to contribute to reinforce, under the responsibility of the State, the cost-effective supply of quality social and economic services and infrastructures, as well as sharing the related risks involved.

I. 4 – PEC contribution to foreign trade

The contribution of PEC to exports is basically materialized by **OCP Group**, world leader of the phosphates market. This Group operates in both industrial activities in 4 continents, and commercial activities in 5 continents. Exports of the Group (phosphates and derivatives) at the end of 2011 accounted for 28% in the total exports of Morocco. The investments programmed within the framework of the overall development plan of OCP Group for the period 2010-2020, amounting to 114 billion MAD, will make it possible to equip the Group with an installed production capacity of 50 MT/year through many projects of infrastructures and production units, including the project of Jorf Phosphate Hub.

PEC also constitute key tools which contribute to make of Morocco a platform of export and investment. It is within this framework that the actions and missions of many PEC are conducted, including those the Moroccan Agency for the Development of Investments (AMDI) and the Moroccan Center for the Promotion of

Exports (CMPE), public corporations in charge of the development of investments and the promotion of exports.

I-5 - PEC contribution to regional development and competitiveness

PEC play a leading role in the implementation of regional development. Hence, as regards investment, PEC acting at the local and regional levels achieved 45.3% of the investment of PEC sector in 2011 as against 34.8% in 2010. In this regard, regional development agencies, including Agency of the North, Agency of the Oriental and Agency of the South, achieved with their partners development projects ranging between anchor projects (roads, stations, urban development works ...) and proximity actions (support to associations, income-generating activities, craft industry,...).

Concerning regional planning and development, the actions of Bouregreg Valley Development Agency and Marchika Med Company relate to conducting studies and works of environmental clean-up, rehabilitation of ecological space, building major structures, planning cultural and leisure space as well as residential, commercial and tourist zones.

II Role of PEC in the implementation of sector-based strategies and anchor projects

To support the development by a competitive as well as wealth and employment generating national economy, the Government implemented targeted sector-based policies. PEC are involved in most of these strategies and sectoral action plans.

In this respect, a strong impetus was given to the policy of large-scale projects and anchor projects, drawing on the liberalization process of the economy conducted by our country relating to the highway, railway and airway **transport sectors** (ADM, ONCF, RAM), the management of harbor and airport infrastructures (ANP, TMSA, SODEP- Marsa Maroc, ONDA...), the transport of goods and logistics (SNTL), telecommunications and audio-visual sector (ANRT, Barid Al Maghrib, SNRT, SOREAD-2M.). Within this framework, the partnership between public and private sectors is increasingly promoted.

In the area of **agriculture**, PEC intervention within the framework of the Green Morocco Plan (ADA, ORMVA,...) was materialized by the implementation of several projects for the support of agricultural sectors with strong added value as well as economically viable projects for the improvement of farmers' incomes. This plan was also implemented in conformity with the policy of water for a sustainable management of water resources. Within the framework of Halieutis Plan, the National Office of Fisheries continued its contribution to the development of production and the reinforcement of the competitiveness of the sector of fisheries.

In the field of **energy and mining**, significant achievements were posted thanks to sizeable public operators. As for the mining sector, Morocco enjoys a good standing thanks to the implementation of a strategy aiming at the consolidation of OCP leadership and through the reinforcement of the institutional and financial structures of the group. As regards the energy sector, PEC action was characterized by the continuation of the strategy aiming at reducing energy dependence, development of renewable energies and reinforcement of energy efficiency. The implementation of the new strategy aiming at the development of renewable energies, through solar and wind programs, was supported by the establishment of a supportive legal and institutional framework via the creation of MASEN, SIE and ADEREE companies. Within this framework, the signature by Morocco of the political declaration of Energy Charter, aims at the reinforcement of co-operation among the countries of MENA region in this sector.

The sector of **tourism** also benefits from a significant support within the framework of Vision 2020, aiming at the diversification of its national tourist attractions, considering the role of tourism in the national economy, as a major provider of foreign currency and employer of workforce. It is in this perspective that the Moroccan Fund for Tourist Development (MFTD) was created to finance the investments planned by SMIT, targeting the development of tourist sites and the consolidation of the actions of ONMT to promote Morocco as a tourist destination.

At the **social level** and to deliver equitable and inclusive social development, the efforts conducted in recent years, to fight against poverty, reduce social and spatial gaps, and promote employment, are intensified through the actions carried out by many PEC, especially regional development agencies, AREF, universities, OFPPT,

ANAPEC, CHU and National Mutual Aid. Moreover, the action of HAO in the area of housing aims at slum-clearance, reduction of the deficit in housing units through a diversified supply at low costs via special programs for the benefit of the middle-class and low-income citizens, within the scope of implementing the main objectives of the housing strategy and urban policy.

Finally, upgrading **rural areas** continues to benefit from particular attention in the intervention of PEC through programs dedicated to rural roads, electrification and the generalization of access to drinking water.

III Reinforcement of the control and governance of PEC

The new Constitution adopted in 2011 provides for good governance and transparency in cardinal principles in the process of the consolidation and reinforcement of the institutions of a modern State and the improvement of the performance to deliver sustainable economic and social development of the country.

Concerning PEC, the Government program over the period 2012-2016 establishes governance good practices as one of its main objectives, in order to reinforce the effectiveness of public action in the decision-making process and to develop ethics by raising moral standards and the fight against corruption.

1 - Reform of financial control mechanism

The modernization of State financial control of PEC consists of the improvement of State financial control of public institutions and other organizations, governed by Act n° 69-00, dated 2003, through the development of PEC management instruments as well as control tools in order to establish governance good practices and reinforce the autonomy and responsibility of PEC, enabling them to develop their performance and transparency.

In this context, many actions were undertaken relating to the following:

- evaluation of the application conditions of oversight;

- establishing a reference framework determining PEC management modes and instruments according to Article 17 of Act n° 69-00;
- extension of the application of the draft decree on government contracts to public corporations, taking account of their specificities;
- establishing common standards of control for the harmonization and standardization of work methods of State Controllers, Government Auditors, and Paymasters at PEC by establishing document nomenclatures and methodological guides for a better supervision of control activities;
- reinforcement of control capacities by the intensification of training activities.

Building on achievements and taking account of partners' expectations as well as the best practices at the international level, such reform aims at reinforcing the effectiveness of control by coupling it further with governance and directing it towards the follow-up of performance, risk prevention and the safeguard of public resources and assets, along with the requirements of regularity and management conformity.

In addition, special attention is granted to the observations and recommendations of the financial jurisdictions and the General Inspectorate of Finance through greater involvement of legislative bodies, responsibility for managers in the preparation of action plans for the implementation of such recommendations with the appointment, if necessary, of the audit committees affiliated to the legislative bodies to make sure of the relevance and efficiency of the actions carried out.

2 - Development of PEC management instruments

In this respect, the pace of the implementation of management instruments was accelerated in 2011 and the first half of the year 2012 for the benefit of many PEC, through the examination and approval of staff regulations, examination of flow charts, signature of orders on financial and accounting organization as well as the development and validation or amendment of contract regulations aiming at aligning them with the Regulation on the Award of Government Contracts.

3 - Reinforcement of external audits

PEC have witnessed an intensification of external audits as well as a reorientation towards issues exceeding financial, operational or management considerations, focusing on those relating to the strategic and institutional spheres.

In this respect, the operations conducted within the framework of the audits carried out by the Minister of Finance after the approval of the Head of Government, in 2011 and 2012, relate in particular to ANAPEC, ANP and ORMVAG.

The boards of directors or legislative bodies of audited PEC are informed of the results of such external audits and a permanent follow-up is initiated to guarantee the good execution of results by the PEC concerned.

4 - Reform of contract regulation relating to public corporations

In accordance with Government orientations, a new regulation on the award of government contracts was prepared as a single and harmonized regulation that should be mutually applied to the State and public establishments. This new framework, in which public corporations will develop, aims at the following major goals:

- better adoption, by public corporations, of the procedures of concluding their purchase orders;
- improvement of their management and information system;
- accountability of their governance bodies;
- better rationalization of their spending and profitability of their activities.

5 - Standardization and consolidation of accounts

Efforts are being made in order to reinforce accounting standardization through the upgrade of the accounting system and the institution of the obligation of accounts consolidation for public groups.

The accounting system upgrade is planned through the development of a new General Code of Accounting Standardization, in order to allow the integration of the development of accounting standards, homogenization of accounting practices and the communication of quality accounting information.

As regards the consolidation of accounts, it should be noted that significant progress has been made by certain Public Groups (OCP, ADM...) which produce consolidated accounts according to international standards (IFRS). In this respect, a draft law on the consolidation of accounts is under development to institute the obligation of such consolidation especially for public groups.

6 - Code of Governance Good Practices of PEC: a benchmark for the improvement of PEC governance

The major action for 2012 as regards the improvement of PEC governance is the official launch of the Code of Governance Good Practices of PEC by a circular of the Head of Government addressed to the members of the Government on 19 March 2012, inviting them to ensure of generalization and the implementation of the contents of such Code by the PEC under their supervision.

Indeed, this Code aims at the following:

- Disseminating and establishing the best practices of PEC governance and entrenching the culture of accountability as well as promoting the values of transparency, information and communication;
- improving the performance, viability and efficiency of PEC action by consolidating their contribution to the development of a competitive economic fabric;
- reinforcing the role and responsibilities for the Governance Body of such PEC, allowing the latter to acquire the capacities, competencies and objectivity necessary to deliver its mission of strategic steering and monitoring of the institution management;
- ensuring the equitable treatment of stakeholders and safeguarding their rights.

The Circular of the Head of Government, referred to above, invites PEC Governance Bodies to conduct assessment reviews of governance for these organizations and to set up plans to upgrade their governance and to ensure the follow-up of implementation.

Moreover, the years 2011 and 2012 witnessed significant development, namely the institution of specialized committees (audit, strategy and investment, appointment and remuneration, ..) from governance bodies in many PEC as well as the operationalization of the committees existing within PEC, in relation to the issues and momentum which mark the scope of public portfolio intervention, on the one hand, and the effort made for the promotion of governance good practices in the sector, on the other hand.

7 - Multiannual contract-based State-PEC relations

Since it was established in 2003 by Act n° 69-00 on State financial control of PEC, the process of contract-based relations between the State and PEC has stood as a priority of the policy of public authorities in PEC management governance.

In this respect, the year 2011 witnessed the conclusion of two new program-contracts with the Moroccan Pension Fund (CMR) and Royal Moroccan Airways Company (RAM).

The follow-up and annual evaluation of the execution of the provisions of the entire set of signed contracts are ensured by Follow-up Committees established by such contracts. Hence, several meetings of the Follow-up Committees of the contracts in force were held in 2011 and the first half of 2012, devoted to the evaluation of the execution of the provisions of such contracts.

In addition, the progressive generalization of contract-based transaction continues through the renewal, initiation, development or finalization of new draft contracts, particularly with the following PEC: ANP, ONEE, HAO, SNRT, SOREAD 2M, Barid Al Maghrib, RADEEMA and SMIT.

The entire progress achieved or scheduled for the improvement of PEC governance, and the progressive generalization of contract-based transactions, aims at increasing their efficiency and productivity and facing the requirements of an international and national context involving challenges to take up, particularly as regards the competitiveness of the national economy, consolidation of the foundations of a strong and sustainable growth and restoration of macro-economic balances, as well as the guarantee of citizens' equitable access to the basic services and the continuation of the effort made in implementing social programs.

Further, another objective is the optimization of choices and the acceleration of the pace of the completion of investment plans as well as the diversification of their funding sources through recourse to Public Private Partnerships (PPP).