

Summary of the Report on the sector of Public Establishments and Companies appended to Finance Bill 2014

The Government objectives, set for the year 2014, focus on the following four priority lines:

- acceleration of the implementation of the major structuring reforms relating in particular to justice, advanced regionalization, tax system, organic law on Finance Act , compensation and retirement systems;
- stimulation of growth, encouragement of investment and entrepreneurship as well as the development of employment mechanisms;
- development of human capital and reinforcement of the mechanisms of solidarity as well as social and territorial cohesion by the improvement of integrated social services;
- Stabilization of external assets and the control of budget deficit.

Within this framework, Public Establishments and Companies (PEC), through their roles of providing public services to citizens and companies, executing structuring projects for economic and social development, land use planning and promoting investment in various activity sectors, are called to put forth their efforts to support the momentum of reforms established by our country.

In this respect, PEC will continue to serve as a driving force in the implementation of the various sector based strategies and the execution of infrastructure projects aiming at the improvement of the economic competitiveness of the country, the diversification of its sources of growth and the improvement of citizens' living conditions.

I- IMPROVEMENT OF PEC GOVERNANCE AND EFFECTIVENESS

The year 2014 is expected to witness the consolidation of the operational, economic and financial performances of PEC carried out during the years 2012 and 2013. For this reason, along with the various reforms initiated to support sector based liberalization, economic openness and the improvement of the output and quality of delivered services, PEC will strive to further reinforce their governance and transparency and to upgrade the effectiveness of their interventions.

1.1 - Reform of the system of governance and financial control of the State over PEC

The year 2014 will be characterized by the acceleration and finalization of the project of the reform of the system of governance and financial control of the State over PEC initiated in 2012. Such reform aims at setting up and clarifying the rules of good governance of public agencies and improving the effectiveness of financial control, currently governed by the Act n° 69-00 dated November 11th 2003.

The implementation of this reform will make it possible to consolidate the gains achieved, within the framework of the application of the Code of Governance Good Practices of PEC, as regards the improvement of PEC management and of responsabilization of their governing bodies. As regards control, it is also a question of redirecting control towards performance appraisal and risk prevention in addition to checking conformity to the regulations in force, reinforcing its effectiveness, generalizing

it to other entities not subjected to financial control and unifying it, seeking its adaptability and stimulation as well as conducting support and advice missions to these organizations.

Similarly, the Bill provides for a new typology of control in order to reinforce the modular and evolutionary character of financial control of the State on the basis of segmentation of the public portfolio based on risk and the quality of the management and governance system of PEC, the level of public participation and the contribution of the general budget of the State instead of the current criteria founded mainly on the legal status of PEC.

1.2 - Development of PEC management instruments

Within the framework of the reform of the system of concluding government contracts, based on the principle of harmonizing the procedures of the placement of the public purchase order, the scope of application of the regulation of government contracts was extended to regional governing bodies and certain public establishments by Decree n° 2-12-349 of 20 March 2013 on procurement contracts, whose effective date is set for 1 January 2014.

Moreover, within the framework of the improvement of the implementation of the procedures on the financial control of the State over PEC, instruments aiming harmonizing and standardizing the work methods of State Controllers, Accountants-General and Accountants at PEC were set up. This particularly concerns the Nomenclature of supporting documents for the payment of the expenditure of public establishments subjected to preliminary control and specific control as well as the Nomenclature of supporting documents for the visa of the agreements for the expenditure of public establishments subjected to preliminary control.

As regards external audits of PEC, it should be noted that there is intensification of such audits as well as a reorientation towards concerns exceeding the operational or managerial considerations towards those relating to the strategic and institutional spheres. The executive bodies of the audited PEC are informed of the conclusions of such audits and a permanent follow-up is established to guarantee the good execution of recommendations by the PEC concerned.

Concurrently with these actions, other supporting measures were materialized. They concern in particular communication to the Presidents of PEC Boards, during 2013, of the entire set of annual reports of State Controllers and Government Commissioners, in which the latter give an account on their mission and put forth recommendations aiming at the improvement of the management of the entity concerned. These reports are also the subject of a presentation and follow-up of their recommendations at the meetings of the executive bodies of PEC.

1.3 - Generalization of the contractualisation of State-PEC relations

In accordance with governmental orientations, the contractual approach will be generalized gradually to the entire portfolio of PEC. Within this framework, under Circular n° 8/2013 of 15 May 2013, the Head of the Government invited government departments and the PEC under their supervision to prepare, with the support of the Ministry of Economy and Finance, multiannual action plans to be formalized as multiannual contracts to conclude between these entities and the State.

In complementarity with the actions carried out within the framework of the Code of PEC Good Governance Practices launched in 2012, the Methodological Guide for Contractualizing Relations between the State and PEC, published in 2013, constitutes the roadmap of the contract-based approach for its generalization in conformity with the provisions of the Circular of the Head of Government of 15 May 2013 mentioned above. This Guide sets the provisions which should be addressed in the Contracts to conclude, defines the various phases of the contractualisation procedure and lays down the methods of follow-up and evaluation of such contracts.

1.4 - Development of an active management policy of public portfolio

In view of the requirements of good governance, transparency and correlation between responsibility and accountability, a thorough qualitative and quantitative diagnosis of the evolution of the structure of the public portfolio is necessary.

It is accordingly that the Ministry of Economy and Finance launched a study in 2013 on the establishment of active management of the public portfolio aiming at the reinforcement of establishing PEC in the national economy (openness, competitiveness, diversification of the sources of growth and development of investment), the improvement of the financial position of the public portfolio (output of equities, optimization of results, control of risks and budgetary transfers) and the development of the policy of shareholders representing the State (implementation of public policies, safeguard of interests and assets, good governance and dividend policy).

This study also targets the establishment of a new legal, institutional and procedural framework so to ensure a better steering of the public portfolio, integrating a recasting of the current framework (Act n° 39-89 on the transfer of state companies to the private sector and its implementation texts).

1.5 - Convergence towards international accounting standards

Within the setting of the orientations of the program of the Government as regards the modernization of the Moroccan accounting and financial framework, the project of convergence of the General Code of Accounting Standardization (GCAS) towards the international accounting standards, namely International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), aims at the modernization of the framework of financial information and the introduction of climate of trust and economic visibility for investors.

Similarly, a bill on the consolidation of accounts (with the obligation of the application of IFRS standards for public interest entities) was prepared and whose main objectives are the assessment of the true financial position of Groups, a better comparability of performances and the improvement of decision making.

In addition, as regards the organization of the accounting profession, a bill regulating the profession of chartered accountant and instituting a “professional organization of chartered accountants” was adopted at a government council. This project aims at harmonizing the institutional and professional organization of the chartered accountant with the new constitutional orientations providing for good governance and accountability. Moreover, it seeks to contribute the improvement of business conditions in Morocco and hence the reinforcement of the attractiveness of the country and the promotion of investment.

Moreover, a draft decree fixing **the forms of publishing the annual accounts of public establishments**

and a draft decree fixing **the forms of publishing the accounts of public establishments not holding accounts in conformity** with the General Code of Accounting Standardization have been transmitted recently to SGG.

These draft decrees lie within the scope of the implementation of the principles of the new Constitution of the Kingdom, establishing the right of access to information, good governance and transparency in the management of public affairs as well as accountability. They are established pursuant to the provisions of Act n° 69-00 on the financial control of the State over public corporations and other organizations, especially its Article 20 which stipulates that “the annual accounts of public corporations are the subject of publication in the Official Gazette according to the forms stipulated by decree”.

1.6 - Public-private partnership: lever of development of PEC investments

The bill on PPP was submitted to the Parliament on February 21st 2013 and it is currently under discussion at the House of the Representatives. It will make it possible to reinforce the involvement of private operators in the development of public projects, while upgrading economic governance and business environment in terms of effectiveness, celerity and transparency.

This bill aims at defining a unified and indicative general framework for Public-Private development of Partnerships in Morocco for the benefit of the State, State-run public corporations and State-owned companies.

Thus, this partnership approach makes it possible to benefit from the innovation and financing capacities of the private sector, ensure an optimized division of risks by allocating responsibilities to the party that can assume them most effectively and remunerate the services delivered as to their efficiency and according to their performance.

In order to supplement the legal framework allowing the development of the recourse to PPP, a set of methodological guides have been prepared to help with the reinforcement of the recourse to PPP in Morocco.

These are the “Guide of minimum clauses”, which is a tool of assistance to drafting PPP contracts and which offers to decision makers a standardized architecture of a model of contract with variables according to the specificities of sectors, “Handbook of good practices in PPP”, an instrument of assistance to the execution of PPP projects for Government departments and public entities concerned and “Note on the “Value for Money (VfM)” aspect”, which aims at clarifying the concept of “Value For Money”, describe the basic principles to calculate it in a coherent and rational fashion and to determine specificities of its application during the various phases of the implementation of a PPP project.

II. PERFORMANCE OF PUBLIC PORTFOLIO

Public Portfolio is composed of the following:

- 244 public corporations. It should be noted that during 2013, seven new public establishments were created whereas two others were withdrawn from the portfolio;
- 42 state companies with direct contribution of the Treasury, including 33 where the total public contribution holds a majority stake.

Some of these PEC hold subsidiary companies or contributions totaling 436 units, of which 195 are held with a majority stake.

In addition to the diversity of the status of the entities constituting it, this portfolio is characterized by

a strong establishment at the local and regional levels, since 173 PEC have local or regional target areas, thus reflecting the contribution of the public portfolio to the regional development of the country and its involvement in the reinforcement of the devolution and decentralization of public action.

In spite of the repercussions of the international context still marked by the crisis, the strong contribution of the public portfolio to the economic and social momentum of the country will continue in 2014, hence confirming the performances achieved in the preceding years concerning, in particular, investment and the improvement of PEC productivity.

1.1 - Investments

The volume of estimated investment of PEC for 2014 amounts to 126.7 BMAD, up 4.6% as against the forecasts of 2013 which amounts to 121.1 BMAD.

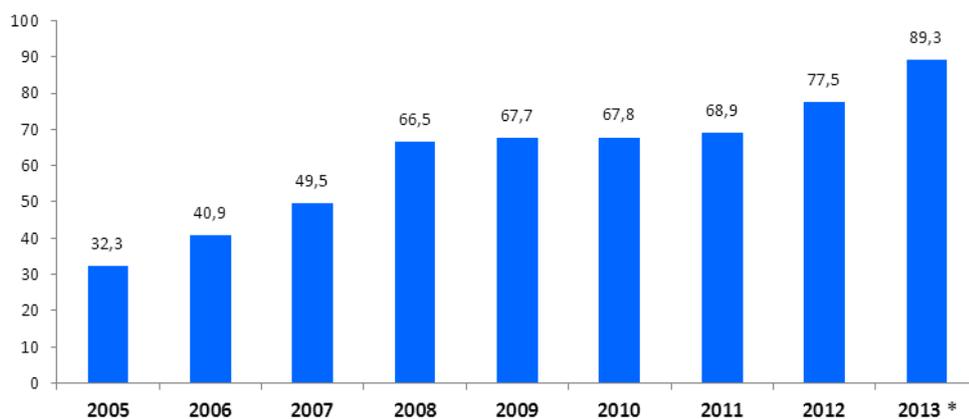
This investment effort of PEC is founded on the strategic visions of the country based on key sectors such as infrastructures, transport, energy, phosphate, housing, agriculture and social sectors.

Major PEC Investors				
in MMAD	2012 Achievements	2013		2014 Forecasts
		Forecasts	Probabilities of closure	
OCP GROUP	12.614	20.420	22.600	29.500
CDG GROUP	9.000	13.933	8.890	14.000
ONEE	7.917	12.215	10.800	12.459
HAO GROUP	6.689	7.500	7.000	7.500
ONCF	5.993	7.500	7.500	7.500
TMSA	2.994	5.311	5.312	1.794
ALEM	2.070	4.000	2.351	3.500
ADM	3.797	3.774	3.019	4.980
ORMVAs (09)	1.940	3.552	1.869	2.819
SODEP	240	2.871	2.654	368
DISTRIBUTION AGENCIES(12)	2.510	2.546	1.895	2.392
OTHER	21.781	37.487	15.452	39.874
TOTAL OF THE SECTOR	77.545	121.109	89.342	126.686

The probable result for 2013 are estimated at 89.3 BMAD; that is an estimated achievement rate of almost 74% thus confirming the maintenance of PEC investment at high levels and translating a significant improvement of achievement rate compared to 2012 (61% or 77.5 BMAD).

According to the regional distribution, the investments of PEC during the period 2011-2014 tended to be rebalanced gradually for the benefit of the regions of Chaouia-Ouardigha, the Eastern region as well as Taza-Al Hoceima-Taounate. Indeed, the share of these regions should increase from 18.4% in 2011 to 22% in 2014.

Trend of PEC investissement in BMAD



Nearly 80% of PEC investments are intended, in 2014, to the sectors of infrastructures, water, energy and mines as well as social sectors and housing.

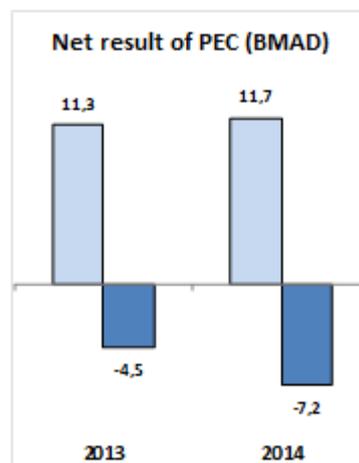
1.2 - Financial performance

The estimated turnover of PEC, in 2014, should witness a rise of 8% compared to 2013. The probabilities of closure of the year 2013 show a turnover of 191.7 BMAD, down 4% as against 2012 (199.7 BMAD), in relation to the achievements of OCP.

Concerning the net result, the forecasts of closure of 2013 post a decline of the net result of 49.6% compared to 2012, down from 13.5 BMAD at 6.8 BMAD resulting from the benefit at 11.3 BMAD and loss of 4.5 BMAD.

Loss will post a deterioration, in 2013, particularly that of ADM Company (loss of 1.397 MMAD envisaged at the end of 2013 as against a loss of 179 MMAD posted in 2012), while the deficit of ONEE will be substantially reabsorbed (expected loss of 2.787 MMAD in 2013 against a loss of 4.352 MMAD recorded in 2012).

This global trend should be confirmed in 2014 mainly due to a slight improvement of the benefit taking into account the stabilization of the results of OCP and CDG groups, on the one hand, and of the aggravation of the loss of ONEE, on the other hand.



1.3 - *Financial relations between the State and PEC*

The budgetary transfers of the State to PEC in 2014 will continue to be directed towards priority

sectors: education, health, agriculture, infrastructures and basic public services, with special attention to the timely mobilization of the necessary resources and the upgrading of the capacity of PEC concerned to honor their commitments within contract completion periods.

Indeed, a new procedure was established in 2013 in order to optimize the pace of releasing to PEC the budgetary transfers programmed within the framework of the General Budget of the State in terms of time frames and volume on the basis of their cash flow and effective payment needs.

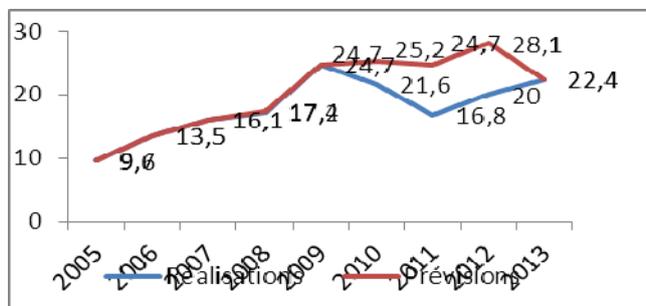
Concerning the execution of Finance Act 2013, the entire amount of the funds released at the end of November 2013 amounts to 19.284 MMAD, that is a achievement rate of 86% compared to the updated estimates of the year 2013 (22.407 MMAD).

By nature, the transfers to PEC were devoted to infrastructure and capital increase to a total value of 60% and operation at 40%.

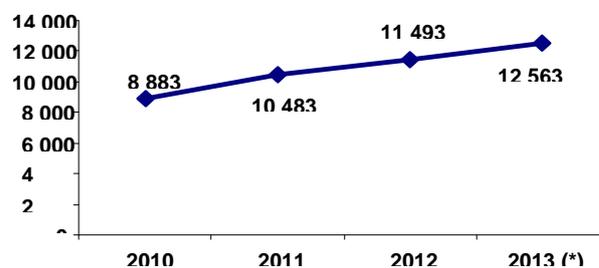
The forecasts of the receipts originating from PEC, for the year 2014, are estimated at 10.841 MMAD as against the 2013 forecasts of 12.563 MMAD; that is a decline of 14% compared to 2013 and 5% compared to 2012 (11.380 MMAD). This fall of forecasts is mainly related to the shrinking contributions of OCP Group due to the fall of its net result in relation to the declining cycle of demand and phosphate prices. The dividends and profit shares originating from PEC in 2014 account for 68% of the forecasts.

Concerning the execution of Finance Act 2013, the total amount of the payments at the end of November 2013 amounts to 12.827 MMAD; that is an achievement rate of 102% compared to the initial forecasts of the year 2013.

Transfers of the State to PEC (in BMAD)



Trend of PEC receipts (in MMAD)



III. PEC MAJOR ACTORS OF ECONOMIC AND SOCIAL POLICY

In accordance with the program of the Government, the public authorities strive to accelerate the implementation of the major structuring reforms, chief of which those of retirement system impacting, on the one hand, the system of civil pensions of CMR and, on the other hand, conducive to the establishment of a single public pole gathering the retirement systems of the public sector and a private pole covering the employees of the private sector, as well as the progressive and participative reform of compensation that should allow to safeguard social and macroeconomic balances through a set of measures, including the implementation of the system of indexing prices of some oil products.

Efforts will be also focused on conducting actions aiming at the encouragement of SME, including the allocation to these companies of 20% of the public purchase orders and improvement of the terms of payment.

It is within this framework that the delivery, by PEC, of various structuring projects of the country directly and significantly impacting the competitiveness of the national economy, especially in the fields of rail, road, highway transport, harbor and airport infrastructures as well as their contribution to the implementation of the sector based strategies as regards energy and mines, housing, tourism and the social programs of education, health and access improvement for rural areas.

Indeed, PEC play a leadership role in some sectors through their interventions in significant sectors, both via the development and modernization of the input necessary to other sectors such as energy and transport, and via the development of suitable mechanisms for a particular competitive sector, as it is the case for tourism.

Hence, as regards infrastructures, sizable investments are about to be accomplished through projects in the railway, highway, harbor and airport fields allowing, in particular, the acceleration of the execution pace of the scheduled highway sections aiming at reaching a total of more than 1.800 km by 2015, considering that the network operated by the National Company of the Highways of Morocco (ADM) at the end of 2012 reached approximately 1.416 km, as well as the continuation of the execution of the high speed line of Casablanca-Tangier and the preparation of the deployment of master plan of the other lines, including the triple railway of Kénitra-Casablanca, along with the execution of the Tangier Med Port II, allowing to upgrade the capacity of this port to 8 million EVP, and the execution of the port of Safi and scheduling of Nador-West-Med Port, airport infrastructures with the development of capacities correlatively with the traffic.

The development of the sector of logistics constitutes a strategic priority to complete the process of reinforcement of the competitiveness of the Moroccan economy. It is within this framework that lays the creation of the Moroccan Agency for the Development of Logistics (MADL), a public corporation that started operating in 2012 and whose crucial role is to support and to coordinate the implementation of this strategy.

Within the setting of **Green Morocco Plan** and in view of the key position occupied by the agricultural sector in the governmental program, the intervention of PEC through the Agency for Agricultural Development (AAD) and Regional Offices for Agricultural Development (ORMVA), in particular, allowed the implementation of several projects for the support of the agricultural sectors with strong added value. Thus, PEC concerned will continue to work for the development of the sector while contributing to the creation of highly productive agriculture geared towards export and the interdependent upgrading of the production fabric of farmers to improve their income. For this reason, the efforts will be intensified for the public-private development of partnership projects in farming lands, the increase of the use of seeds, the development of agricultural resources and the reinforcement of agricultural sectors.

With regard to **Halieutis Plan**, the operative PEC in this sector will continue their actions to accomplish the objectives of such plan aiming at the safeguard of fishing resources, the upgrade of the sector and the reinforcement of its contribution to the economic and social development of the country. For this reason, these establishments will strive to reinforce their development actions of fishing infrastructures and their management according to an integrated and global approach, safeguard of the quality of sea products, consolidation of the control system and enhancement of resources as well as the development of aquiculture. Thus, the National Office of Fisheries (ONP) continues working to reinforce the competitiveness of the sector and support a better development of production, in

accordance with the missions of organization of marketing and development of artisanal and coastal fishing. Similarly, the Office as “a global operator” continues the operationalization of the management of fishing ports and the project of generalizing the use of standardized containers.

With regard to energy, renewable energies constitute the pillar of the national energy strategy with the establishment of the integrated project of electricity production, entrusted to MASEN, a company dedicated to solar energy, as well as the integrated production program of wind power. ADEREE, in turn, is in charge of contributing to the implementation of the government policy as to renewable energies and energy efficiency. For this reason, the public entities concerned will continue their efforts to reinforce electricity supply in order to keep up with the development of the needs for the country, while ensuring the implementation of the proactive policy of the development of renewable energies, which should account for 42% of the national energy mix in 2020 and the national plan of energy efficiency. For this reason, the building works of the 1st phase of Ouarzazate solar complex will be continued and those of the preparation of its 2nd phase as well as the development program of wind energy will be accelerated.

The mining sector is now endowed with a new strategy by 2030, particularly aiming at the increase of production capacity, construction of new processing units, reinforcement of transport capacity and the increase in the capacity of phosphate enhancement.

Concerning the implementation of Vision 2020 of tourism, the contribution of PEC (SMIT, FMDT and ONMT) is crucial due to the initiation of investment plans and promotion actions, in spite of a difficult international economic situation. According to recent statistics of World Tourism Organization, Morocco is ranked second in the classification of the most visited countries of Africa.

PEC are also committed to the implementation of social development programs. In this connection, regional academies of education and training, universities and university hospital centers are harnessed for the execution of important programs and projects aiming at the improvement of human development indicators as regards access to education and health. In addition, PEC are also actors of the government policy for the reinforcement of social cohesion and the fight against insecurity.

Moreover, PEC play a leading role in the implementation of Government strategies intended to promote rural areas, improve citizens' living conditions and create the conditions conducive to balanced and sustainable development, through the Comprehensive Rural Electrification Program (PERG), the Generalization of Access to Drinking water (PAGER) and the National Plan of Rural Roads (PNRR 2).

Finally, besides their multiform interventions, PEC also contribute to the emergence of true national and regional development poles and the infrastructure of industrial parks. Thus, the action of these PEC, operating regional or local levels, is often crucial in their scope of action, hence contributing to the supply of basic services (water and electricity supply, urban transport, medical care, education...), the harmonious development of regional spaces (regional development agencies...) or sharing major projects in specific regions (Bouregreg, Marchica...).