



## Summary of the report on the Public Establishments and Enterprises (PEE) sector accompanying the 2022 Finance Bill

The sector of Public Establishments and Enterprises (**PEE**) is a major player in the process of the economic and social development of the country, notably, through its multiple contributions in terms of strategic investments, infrastructure, public services and influence of Morocco at the regional and international level.

In line with the **High Royal Instructions**, particularly on the occasion of the Throne Speech in July 29<sup>th</sup> 2020, addressed to the Parliament on October 09<sup>th</sup> 2020 and during the Council of Ministers of October 14<sup>th</sup> 2020, this sector is the subject of a profound reform program. This plan provides the foundations of a new paradigm for the governance, management and control of the PEEs, through:

- the profound reform and substantial and balanced redefinition of the public sector;
- the creation of a national agency in charge of the strategic management of the State's holdings and the monitoring of the performance of the PEEs ;
- The creation of the Mohammed VI Fund for Investment as an essential lever for financing the country's economic recovery, launched by **his majesty the king, may God assist him**, at the opening of the 1<sup>st</sup> session of the 5<sup>th</sup> legislative year of the 10<sup>th</sup> legislature.

On the other hand, the report on the New Development Model, elaborated by the Special Commission for the Development Model (CSMD) and submitted to the Sovereign's High Attention on May 25<sup>th</sup> 2021, calls upon the PEEs to further efforts to accompany the dynamics of reforms more and more affirmed by our country.

This report also recommends accelerating the revision of the State's shareholding policy through the operationalization of the National Agency in charge of the strategic management of the State's holdings and the monitoring of the performance of the PEEs, reconfiguring the public portfolio in order to control its management, and carrying out reforms in certain key sectors of the economy (energy, water, logistics, the financial sector, etc.), so as to ensure the provision of quality services to the citizenry at the lowest possible cost, and to boost the competitiveness of the productive fabric.

To this end, **his majesty the king, may God assist him**, called on the Government, the various actors and institutions, each in its own field, to contribute to the implementation of the relevant recommendations of the CSMD report.

Within the framework of the implementation of the High Royal Instructions, the Government has proceeded, among others, to the establishment of the following texts in relation with the public sector:

The law n° 76.20 creating the Mohammed VI Fund for Investments published in the official bulletin on 11/01/2021;

- Framework Law No. 50.21 on the reform of the PEE sector, published in the Official bulletin on 26/07/2021;
- the law n° 82-20 creating the National Agency in charge of the strategic management of the State's holdings and the monitoring of the performance of the PEEs, also published in the official bulletin on 26/07/2021.

It is worth noting that the **Circular of the Head of Government** n° 14/2021 of August 09<sup>th</sup> 2021 relating to the preparation of the Finance Bill 2022 and **the Circular of the Minister in charge of Economy and Finance** n° 1509 of September 24<sup>th</sup> 2021 aim to further measures to face the effects of the Covid-19 crisis. It also aim to the reinforcement of the bases of the revival of the country's economy, the acceleration of the reform of the public sector, the reinforcement of the mechanisms of inclusion and the generalization of social protection and the development of the human capital. In addition, the emphasis was on boosting the productive sectors and improving their performance and their ability to create added value, particularly through public-private partnership (PPP) contracts in connection with the operationalization of the Mohammed VI Fund for Investments.

In fact, the general orientations of the Finance Bill for the year 2022 are based on the following four axes:

- consolidating the foundations for the recovery of the national economy;
- strengthening mechanisms for inclusion and progress in the generalization of social protection;
- strengthening human capital;
- public sector reform and strengthening governance mechanisms.

## I. COMPOSITION AND PERFORMANCE OF THE PUBLIC PORTFOLIO

### 1. Composition of the public portfolio

The composition of the public portfolio, comprising **269 PEEs** operating in strategic and diversified sectors of the national economy, is, **at the end of August 2021**, as follows

- **225 Public Establishments (PE)**<sup>1</sup> ;
- **44 Public Limited Companies with Direct Treasury<sup>2</sup> Participation (SA-PDT)**.

In addition, some PEEs have subsidiaries or holdings totaling **498 entities**, 54% of which are majority-owned.

In addition, **21 Public Limited Company (SA) are under the responsibility of the Local authorities (CT)**, the same number as the last two years.

### 2. Economic and financial indicators

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<sup>1</sup>They are legal entities under public law with legal personality and financial autonomy, qualified as public establishments by their founding text.

<sup>2</sup>These are private companies whose capital is held directly, totally or partially, by the State.

In terms of performance and in **the context of the pandemic**, the PEEs show, in 2020, an **overall turnover** and an **added value**, down, respectively, by 7% and 19%, from **252,988 MDH** and **84,778 MDH** in 2019 to **235,713 MDH** and **68,774 MDH** in 2020. In the same way, the **profitable<sup>3</sup> operating results** of the PEEs were established, in 2020, at **15.924 MDH**, down by 26% compared to 2019 and the **deficit operating results** recorded a worsening of 120% by passing from **7.051 MDH** to **15.521 MDH**.

With regard to **the net profit results**, they amounted to **9,430 MDH**, down 13% compared to 2019. The **net loss results**, meanwhile, experienced a worsening of 276% from **4,112 MDH** in 2019 to **15,474 MDH** in 2020.

### 3. PEEs Investments

The realized **investments**, in 2020, total **59.033 MDH**, that is to say a realization rate of 84% marking a reduction of 17% compared to 2019 (**71.175 MDH**). For fiscal year 2021, the adjusted investment volume forecast for the PEEs amounts to **84,075 MDH**, an increase of 3% compared to the forecasts under the 2021 Finance Act. This readjustment is explained by the updates introduced, subsequently, during the budgetary discussions and the work of the legislative bodies of the PEEs, taking into account the prospects taken into consideration for the evolution of the Covid-19 pandemic in 2021. For the years 2022, 2023 and 2024, the investments planned by the PEEs would be, respectively, of **92.125 MDH**, **83.759 MDH** and **73.902 MDH**.

### 4. Financial relations between the State and the PEEs

**The optimization of the financial relations between the State and the PEEs** continues within the framework of the global reform of the PEE sector. Thus, the **income from dividends and contributions paid by the PEEs to the State** reached **9,717 MDH** in 2020, while the forecasts for 2021 are **11,118 MDH**, not taking into account the forecasts of income from the sale of assets (**6,000 MDH**) and those resulting from privatization for **4,000 MDH**.

The achievements of the income paid by the PEEs at the end of August 2021 reached **MAD 12,204 MDH**. Their closing forecasts are estimated at **16,374 MDH**, of which **10,959 MDH** for the income from dividends and contributions and **5,415 MDH** for the asset disposals, mainly attributed to the operation of transferring to TMSA of a part of the participation held by the State in the capital of Marsa Maroc. No proceeds are expected to be realized from privatization operations in 2021, given the market context.

The forecasts for the year 2022 are **10,985 MDH** for income from dividends and contributions from PEEs, in addition to **8,000 MDH** in expected income from asset disposals (**3,000 MDH**) and privatization operations (**5,000 MDH**).

For the **subsidies granted by the State to the PEEs**, the total of these transfers reached, in 2020, an amount of **33,213 MDH**, 63% of which were for operations, 32% for investment and 5% for capital grants. The forecasts for 2021 amount to **41,202 MDH**, of which 61% was realized by the end of August 2021.

## II. THE PEE AT THE SERVICE OF THE ECONOMIC AND SOCIAL DEVELOPMENT OF THE COUNTRY

<sup>3</sup> Excluding CMR et CNSS

The PEEs continue to implement their action plans with the aim of developing the supply of public services and extending the infrastructure necessary to consolidate the competitiveness and productivity of the national economic fabric. It also aims to strengthen the connectivity of the territories, to promote the attractiveness of investment, to reduce the costs of factors of production and to support the acceleration of the economic recovery of the country.

In this respect and **concerning social coverage**, following the **High Royal Instructions**, the government proceeded to the launching of the strategic building site. The aim is the acceleration of the generalization of social protection to all Moroccans. The objective is also to guarantee the medical coverage of 22 million beneficiaries during 2021-2022, the generalization of the family allowances to 7 million children in the course of 2023-2024, the widening, in 2025, of the coverage of retirement to 5 million people and the generalization of the indemnity for loss of employment (IPE)

CNSS, which has to lead and manage this strategic project, has implemented an action plan to adapt its production tool to the evolution of the scope of its services in order to guarantee a fluidity and a quality of service in line with the requirements observed in the sector. This action plan, which includes, among other things, the reinforcement of the CNSS staff, the extension of its network of agencies throughout the Kingdom and, above all, the overhaul of its information system, has been approved by its Board of Directors and will be enshrined in the draft contract program currently being finalized.

**In terms of vocational training**, following the agreement, dated 04/04/2019, of **his majesty the king**, on the roadmap for the realization of 12 Trades and Skills Cities (CMC) throughout the Kingdom, an institutional, legal and financial framework was established for the realization of CMC for a total cost of 4.397 MDH. This project was co-financed by the OFPPT, the Hassan II Fund for Economic and Social Development, the Regions and the State. In terms of implementation of this program, 3 CMC (Sous-Massa, Oriental and Laayoune Sakia-El Hamra) will be delivered in 2021 and entrusted to management companies for their operation. The realization of the other cities is planned in accordance with the terms of the sheet which provides for the closure of this program in 2023.

**With regard to business support**, the transformation, in 2021, of the Central Guarantee Fund into a public limited company called national corporate guarantee and financing company « **SNGFE** », has made it possible to modernize the legal and governance framework governing this institution. It also enables it to have access to the flexibility required to provide services adapted to the diversity of business situations through the diversification of financing and guarantee tools and instruments.

**Regarding the agricultural sector**, the PEEs operating in this sector contribute decisively to the successful implementation of the agricultural development strategy launched in 2008 under the Green Morocco Plan (GMP). Indeed, the balance sheet of the GMP, at the end of 2018, shows that the achievements are up to the objectives set with a sustained increase in agricultural GDP to 5.25% per year. Exports of products from the agricultural and agri-food sector increased to reach **62,546 MDH** in 2020, constituting the 2<sup>nd</sup> source of foreign exchange during this exercise. New challenges and projects are promised for this sector following the launch, in 2020, by **his majesty the king, may God assist him**, of the new agricultural strategy "Green Generation 2020-2030" which is based on objectives aimed, essentially, at prioritizing the human element and the sustainability of agricultural development.

Moreover, and in order to anticipate **the recovery of the tourism sector**, the ONMT has focused its recovery strategy, essentially, on the launch of a communication campaign of the international brand of

Morocco by targeting the growth markets and by advocating the contracting with the operators of public relations.

**Concerning the audiovisual sector** and in order to provide the country with a public audiovisual pole able to better accompany the national causes and more efficient in terms of the development of complementarities and synergies and endowed with a balanced and sustainable model, a new organizational scheme was launched, in May 2021. This scheme was structured around a public television holding company carried by the SNRT to which will be spun off, 100%, SOREAD-2M and MEDI-1-TV, and which will integrate, in a 2<sup>nd</sup> stage, other operators in the sector.

**The phosphate sector** should experience, for the next few years, a sustained growth with new levels in terms of exports under the effect of a recovery of the world market. This evolution should further benefit OCP thanks to its strategy implemented since 2009 and which allowed the reinforcement of the production capacities and the diversification of the range of products offered by the Group. Thus, the export turnover increased from **48,600 MDH** in 2019 to **50,700 MDH** in 2020 and could reach **64,900 MDH** in 2021.

**Regarding the energy sector**, ONEE and MASEN continue to implement their action plans by giving priority to the development of Renewable Energies (RE), whose installed capacity reached **3,934 MW at the end of 2020** representing 37% of the national electricity mix.

The discussion on **the reform of the railway sector**, launched since 2018, tends to advocate an institutional and organizational restructuring scheme aimed at aligning with international best practices through the separation between commercial operation and infrastructure development. It aims to open up this sector to the private sector, improve the quality of service as well as the sustainability of the economic and financial model of the sector that should ensure visibility on the financing of infrastructure development in order to accelerate land use planning and strengthen the country's connectivity.

### III. THE OPERATIONALIZATION OF THE PUBLIC SECTOR REFORM

#### 1. Creation and operation of the Mohammed VI Fund for Investments

The Mohammed VI Fund for Investments was created in accordance with the **High Royal Instructions**, with the mission of supporting production activities, accompanying and financing major public-private investment projects in various fields of activity. This Fund is part of the economic recovery plan aimed at mitigating the negative impacts of the health and economic crisis related to the Covid-19 pandemic. This creation was concretized by the law n° 76.20 of December 31, 2020 and its enforcement decree n° 2.21.67 of February 19, 2021 approving the statutes of the company and setting its capital at 15 MMDH.

The above-mentioned law has given the Mohammed VI Fund for Investments the status of a public limited company in order to raise it to the best standards in terms of governance, management and transparency. The aim is to reassure investors and stakeholders, to enable it to implement an investment strategy giving more visibility on the priorities and choices of the State's intervention in terms of economic recovery and to develop, for the benefit of economic operators, an alternative and complementary financing offer to debt.

Likewise, this Fund will be supported by sectoral and thematic funds that will intervene, each in a specific segment, with mechanisms appropriate to its scope, such as industrial restructuring, innovation and activities with high growth potential, promotion of small and medium-sized enterprises, infrastructure, agriculture and tourism.

Measures are underway for the holding of the first Board of Directors of the Fund to approve several resolutions relating to the effective start-up of the Fund, including structuring and setting up the sectoral and thematic funds provided for by Law No. 76.20 mentioned above and finalizing the governance bodies and management instruments (committees, control agreement, procurement regulations).

## **2. Framework Law No. 50.21 on the reform of the PEEs**

**With regard to the reform of the PEEs**, and following the publication of the framework law n° 50.21, the ongoing consultations, in association with the PEEs and their technical supervisors, aim to set up an integrated reform program of the PEEs sector, of which an emergency phase is to be carried out in 2021-2022.

This program will be built on the basis of the reform measures defined by the framework law and whose ultimate goals are the resizing of the public portfolio, the strengthening of efficiency, the professionalization of the governance and management of the PEEs, the drastic limitation of the recourse to the State budget, the reliability of the models of the PEEs and especially the emergence of large poles having the size and the capacities required to face the challenges of competition and to succeed in the carrying of the public programs of development and of the great building sites.

Thus, in accordance with the **High Royal Instructions**, during the Speech of October 8, 2021 in the Parliament, which emphasize the need to include the reform of the PEEs in the perspective of the implementation of the development model, the consultations will be accelerated to set up, as a matter of urgency, an integrated program of reform of the PEEs, which should be structured around the following priority actions

- grouping and merging of PEEs to increase efficiency, strengthen capacities and, above all, allow the emergence of large poles capable of successfully carrying out the major projects launched within the framework of public policies;
- operations of rapprochement and complementarity between the PEEs carrying out similar, close or complementary missions, with the aim of enhancing synergies, increasing efficiency, reducing costs and improving the quality of service;
- accelerating the liquidation of PEEs whose missions are no longer relevant or are characterized by a chronic deficit;
- the acceleration of actions aimed at limiting or even eliminating the use of the state budget;
- the disposal of assets, subsidiaries and shareholdings not required for the performance of core missions;
- the transformation into public limited companies of the Public Establishments exercising a commercial activity.

Similarly, the necessary steps have been taken to activate the implementation of the application texts and mechanisms and accelerate the implementation of the cross-cutting reform measures prescribed by the aforementioned framework law. These actions concern, in particular, the improvement of governance, the modernization of financial control in order to focus results and risks, as well as the contracting of the relations of the PEEs internally and with the State.

## **3. Creation of a National Agency in Charge of the Strategic Management of the State's Holdings and the Monitoring of the Performance of the PEEs (APE)**

The creation of the APE, one of the major pillars of the PEE reform, is part of the implementation of the **High Royal Instructions** given in the Speech from the Throne on July 29, 2020 and in the Speech to Parliament on October 9, 2020.

For this purpose, and in application of the **High Royal Instructions**, Law No. 82.20 relating to the creation of the APE was adopted by both Parliamentary Chambers in July 2021 and was published in the Official Bulletin on July 26, 2021 in Arabic and August 5, 2021 in French. The entry into force of this law is linked to the establishment of the administrative and management bodies of the Agency (Article 32 of the law).

The creation of this Agency aims to consolidate the institutional and organizational framework of the intervention of the State as a shareholder in order to inscribe it in the framework of a strategic management of the public shareholding carried by the sector of the PEE.

#### IV. SYNERGIES PUBLIC-PRIVATE SYNERGIES AND THE CONTRIBUTION OF PEE TO IMPROVING THE BUSINESS CLIMATE

##### 1. Strengthening the management efficiency of PEEs and public-private synergies

The consecration of **the contracting of the relations between the State and the PEEs** in accordance with the provisions of the framework law n° 50.21 relating to the reform of the PEEs makes it possible to ensure a coherence of the components of the reorganization of the economic and financial model of the PEE on the institutional level, a coherent positioning on the chain of value, a construction of viable business plans, a better articulation of the investment policy and a modernization of the management and the governance

Regarding **the issue of payment periods, the first annual report of the Payment Period Observatory** of which was **published in May 2021**, there have been many actions since the year 2018 including the implementation of exceptional measures to cope with the economic crisis due to the Covid-19 pandemic and therefore help companies overcome cash flow difficulties, especially SMEs and VSEs in order to maintain the positive trend of reducing payment periods of PEEs.

The success of the reduction of average payment times of the PEE to **40.4 days** in June 2021 against **55.9 days** in December 2018 will be further consolidated through the measures underway, following the recommendations of the Payment Period Observatory times, through, in particular, the establishment of a mechanism of sanctions that provides for the application of fines for late payment. This mechanism targets especially an inflection and a reduction of the payment periods within the private sector, being specified that the draft text of installation of this mechanism was finalized and put in the circuit of adoption.

In the field of **accounting standardization** and support for the accounting profession, efforts will continue in this area, notably through the project to reform the National Accounting Council (CNC) and the project to upgrade the national accounting framework.

Regarding the implementation of the legal framework governing **public-private partnership contracts (PPP)**, and after the publication, on March 19, 2020, of Law No. 46-18 amending and supplementing Law No. 86-12 on PPP contracts, the steps are underway for the implementation of the texts of application envisaged by this law and which constitute a precondition for its entry into force, being underlined the strong expectations related to this reform in terms of amplification of PPP and financing

by the private sector of the public policies in particular in the sectors of the infrastructure, education and health.

Moreover, as part of the relaunch of the **privatization program**, begun in 2019, and after a "pause" dictated by the impact of Covid-19 on financial markets in 2020 and 2021, it is planned to schedule the sale, in addition to the state's holdings in entities already on the list of the privatization, companies to be included on the said list as well as the sale of non-strategic direct minority holdings of the State. The estimated revenue from privatization and asset disposals in 2022 is **8,000 MDH**.

Lastly, the health crisis linked to the Covid-19 pandemic has confirmed the importance and necessity of accelerating the **digital transformation**, particularly within the public sector. To this end, the year 2022 will see the launch and planning of several projects within the framework of the digitalization roadmap, the objective of which is the adoption of electronic signatures for financial control acts. Similarly, the PEEs are called to accelerate the dematerialization of their operational and management processes, giving priority to relations with suppliers and customers.

## **2. Strengthening governance and transparency of the public portfolio**

The draft reform of the system of governance and financial control of the State on the PEE is part of the government program under the period 2016-2021, being recalled that it was presented in its first version, to the Council of Government meeting on October 19, 2017 following which, the decision was taken to enrich it with the comments it has raised from the ministerial departments concerned.

In compliance with the Framework Law No. 50-21 on the reform of PEEs, a new control and governance system will be put in place, in accordance with the innovative reference provisions prescribed by this framework law on governance and control.

In parallel, the implementation of the **Code of Good Governance Practices of the PEEs** will be pursued through its updating in accordance with the framework law n° 50-21 relating to the reform of PEEs, which has introduced new reference guidelines for the governance of PEEs. The said code will have to be approved by decree as provided for by the said framework law.

On the other hand, the **external audit** operations carried out at the end of 2020 have affected almost all sectors of activity, namely energy, mining, transport, electricity, water and liquid sanitation as well as housing, agriculture, health, higher education, education and training, tourism and the port sector.

Thus, 85 audit operations concerning 95 PEEs were carried out during the period 2000-2020, being specified that some audit operations concerned more than one PEE, namely the Ibn Rochd and Ibn Sina University Hospital in 2002 and the Boards of Distribution of Water and Electricity (4) in 2015, two Urban Agencies in 2016, two (2) Mohammed VI University Hospital in Marrakech and Hassan II University Hospital in Fez and three SAOs (Marrakech, Agadir and Tamansourt) in 2017

In order to consolidate efforts to improve the governance of the public portfolio and to sustain the momentum of the PEEs' performance, technical assistance was launched in June 2019 to set up a system for **monitoring risks** emanating from PEEs and having an impact on public finances. This technical assistance continued in 2020 and 2021 with a sustained pace, despite the circumstances of the pandemic, and led to the following achievements:

- development of the system according to the families of risk supported by the structuring missions in terms of monitoring and control of the PEEs;

- Establishment, on the basis of the above-mentioned risk families, of tools and methodologies for the identification, evaluation and supervision of the risks borne by the PEs and having an impact on public finances and the BGE;
- Holding methodological workshops (20 sessions) and risk mapping workshops for 6 pilot PEEs (ADM, ANCFCC, CMR, HAO, OCP and ONDA) resulting in the identification of 50 risks.

On another level, within the framework of the simplification of the procedures related to the execution of the public order of the PEE, it was proceeded to **the amendment of the nomenclatures of the supporting documents (NPJ)** for the commitment and the payment of the expenditure of the Public Establishments subjected to the preliminary control by proceeding to the **abolition respectively of 32% and 35% of the supporting documents** required for the commitment and the payment of the expenditure, which will be translated by the reduction of the time of treatment of the files and ultimately, by the improvement of the time of payment of the suppliers.