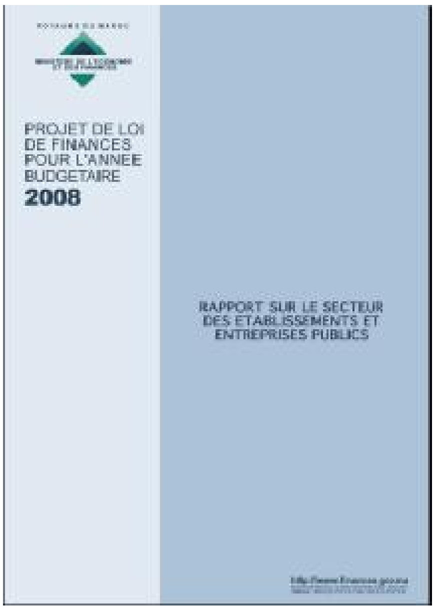
Kingdom of Morocco

MINISTERE DE L'ECONOMIE ET DES FINANCES

Department of Privatisation and Public Enterprises

Report on the Sector of State-Owned Institutions: An Appendix to the 2008 Finance Act

A broad Outline



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Introduction

Public enterprises have always been key vectors of economic and social development. They take part in conducting large scale national programs such as the development and modernization of railway, highway, port and airport infrastructure and the equipment of rural areas with basic facilities (PERG, PAGER, PNRR 2).

They also vigorously intervene in social domains such as training and job placement, construction of low cost housing units, implementation of social security and health coverage programs (AMO, CNSS, CNOPS).

The evolution of public enterprises genuinely reflects Morocco's efforts in the domain of economic liberalization. In fact, this evolution is driven by a clear perspective that gives priority to perennial strategic objectives: liberalizing the economy, increasing the returns of public portfolio, controlling its extension, re-centering the focus of public enterprises on the basic mission, clarifying the relationship between the state and its organizations, reinforcing transparency and modernizing governance styles.

Hassan II fund for economic and social development, which is provisioned by privatization receipts, remains a strong leverage of productive investment and an efficient tool of economic as well as social development.

Accomplishments made in the area of privatization together with the great potential of delegated management enterprises provide an incentive for players from the private sector to follow and broaden their entervention programs through policies of sectorial liberalization and development of public and private partnerships, particularly in areas of public services and sectors involving infrastructure. All aforementioned actions are endorsed by the new legal framework.

The present document examines the following points

- Public Portfolio;
- Budgetary Transfers between the State and Public Enterprises;
- Restructuring;
- Governance;
- Privatization;
- Delegated Management and Partnerships;

1. Public Portfolio

At the end of 2006, the inventory of state-owned institutions together with the state and the local councils' direct and indirect financial participations reached a total of 673 entities compared to 687 in 2005

According to the classification introduced by Law n° 69-00 relating to the state's financial control of public enterprises and other organizations, the public portfolio includes:

- 257 state-owned institutions
- 416 Firms which could be broken down as follows
    - 88 state-owned firms;
    - 131 state-owned subsidiaries;
    - 197 joint firms;

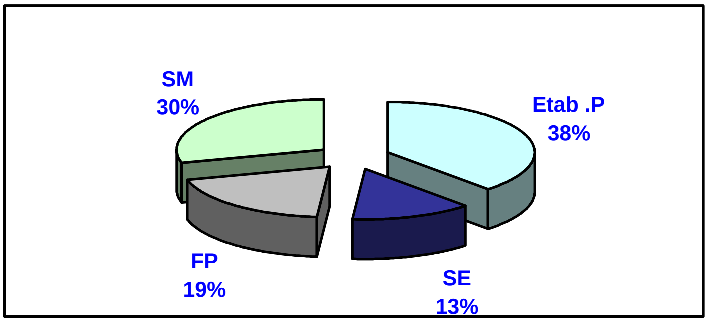


Chart 1: Structure of Public Portfolio

The public portfolio has known a relative stability in terms of the number of entities. Extensions particularly involved holdings of the CDG.

In spite of unfavorable economic climate characterized by the price increase of energy products and raw materials, the major technical and economic indicators of public enterprises point to a remarkable performance at all levels, particularly at the level of investment, activity and results.

Table 1: Major Economic and Financial Indictors of PE for the years 2005 and 2006

Indicators (in MDH million)	2005	2006	Evolution 2006 / 2005
Investment	32 266	40 898	26,8%
Turnover	109 292	121 404	11,1%
Operating Costs	78 658	100 162	27,3%
Payroll expenses*	20 002	21 898	9,5%
Financial expenses	11 267	12 198	8,3%
Added Value	40 238	44 770	11,3%
Operating Profit	12 670	13 563	7,1%
Current Profit	10 500	12 103	15,3%
Net Earnings	7 459	8 284	11,1%
Corporate Tax	1 873	2 444	30,5%
Cash Flow	14 977	18 379	22,7%
Financing Debt	66 571	75 126	12,9%
Proper Funds	118 353	165 454	39,8%
Final Balance	466 152	558 967	19,9%
Personnel Turnover	138 632	132 115	-4,7

*Operation allocation not included

The rate of Public enterprises investments, after surpassing the record of MDH 40 billion in 2006, has been sustained for the past four years. Such a record performance has been registered at the level of cash flow which has exceeded MDH18 billion the same year. Investment effort shows in the involvement of public enterprises in major socioeconomic programmes such as housing, highways and motorways, water, electricity, drainage, education and vocational training.

In 2006, investments of public enterprises have reached an all time high of (MMDH) 40.9 % compared to (MMDH) 32.3 in 2005, which is an increase of almost 27%. Moreover, public enterprises investments account for 25% of Gross Fixed Capital Formation (FBCF) against 22% in 2005. These investments also represent 174.5% of investment expenditures of the state's general budget against 157% in 2005 and 127% in 2004.

The main feature of the public portfolio activities resides in consolidating investment in the sectors of infrastructure, and in particular in railway, highway, power and water supply, and port facilities. On the social front, it must be noted that the satisfactory performance of public operators in housing is readily visible in the growing sector of low-cost housing and the eradication of slums.

With regard to GDP, the added value pertaining to public enterprises amounts to 7.8% in 2006, compared to 7.7% in 2005, 6.72% in 2004, and 8.5% in 2003, which illustrates the liberalisation trend in the national economy.

The external debt of public enterprises stood at 47.9 million MDH at the end of 2006, compared to 46.8 million MDH in 2005, which represents slight increase of 2.4%. It also represents:

- 63% of public enterprises' funding debt, compared to 70% in 2005;
- 41.6% of outstanding public external debt, compared to 40% in 2005;
- 8.3% of GDP, compared to 10% in 2005 and 2004.

2 - Budget Transfers between the State and Public Enterprises

2.1 Budget subsidies to Public Enterprises

Table n° 2 : State subsidies to public enterprises (Réalisations 2005-2006)

Nature of subsidies	Implementation 2005 Financial Act		Implementations 2006 Financial Act	
	MDH	Share in %	MDH	Share in %
Operating costs	**4 417**	45,9	**4 930**	36,5
Equipment	**3 301**	34,3	**5 769**	42,7
Other	**1 910**	19,8	**2 826**	20,9
Total	**9 628**	100,0	**13 525**	100,0

Other expenditure *: this rubric comprises transfers relating to capital increase and restructuring.*

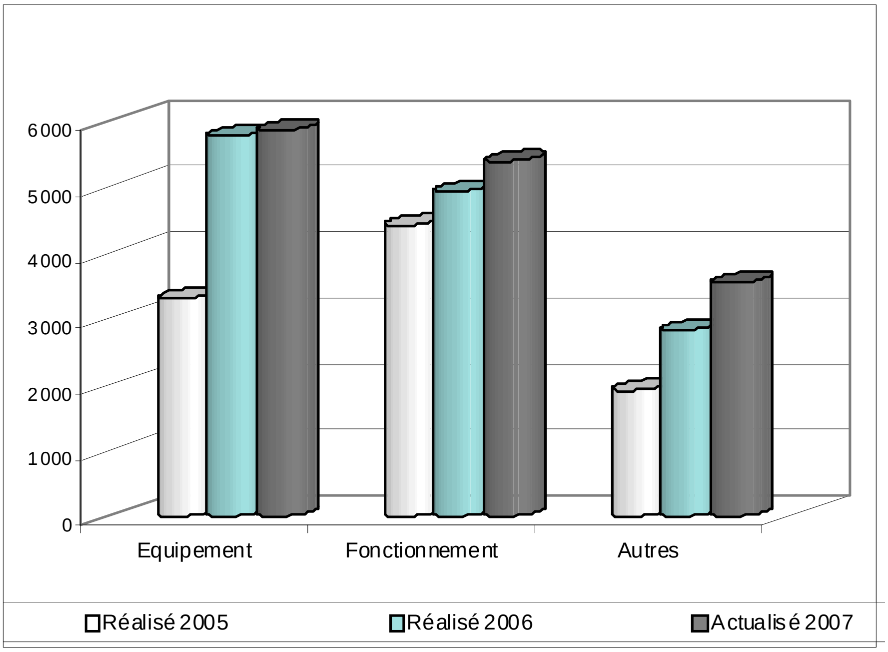


Table n°2 : State subsidies to PE 2005-2007 (in MDH)

Subsidies granted to public enterprises during the financial year 2006 reached MDH 13.525 million against MDH 9.628 million in 2005, and involved the following enterprises : AREF (MDH 2.082 million), ORMVA (MDH 926 million), Public Financial Institutions (MDH 865 million), ONCF (MDH 774 million), universities (MDH 732 million), OCP (MDH 600 million), Hospital Complexes (573 MDH million), Mohamed VI Foundation for Social Welfare, Education and Training (MDH 538 million) Regional Development Agencies (536 MDH million), Urban Planning Agencies (491 MDH million), ONMT (401 MDH), OFPPT (398 MDH), Work Centres (394 MDH), and ADM (MDH 320 million). One can note the increase in transfers relating to equipment (MDH 5.770 million in 2006 compared to MDH 3.301 million in 2005), and to restructuring (MDH 2.826 million in 2006 compared to MDH1.91 million 0 in 2005). These subsidies represent 10.9% of common expenditure in the overall budget of the state, compared to 7.6% in 2005.

The Impact of the above Subsidies on Beneficiaries:

- Subsidies are granted to non-profit public enterprises to cover their operating costs and equipment supply. These entities, which are extensions of administrations, provide administrative, cultural, social, and scientific services, more generally a public service, without making profit;
- As to profit-making public enterprises, these transfers represent the financial input of the state as a shareholder in these enterprises, either to support their investment programmes, contribute to their financial structuring, or to pay for expenditures authorized by the government (writing off debts incurred by small farmers; a measure taken to offset the impact of drought).

It should be pointed out that there is no equivalence between subsidies and the revenues of PE, in their entirety, on the one hand, and the state budget on the other hand because these revenues are not meant to pay for these subsidies.

2.2 Public Enterprises’ Products

Table 3: evolution of Public Enterprises' output between 2006 and 2008

Type of Tansfers*	Achievements 2006		2007 Financial Act Forecast		2008Financial Act Forecast	
	MDH	in %	MDH	in %	MDH	in %
Products emanating from Financial Organisations	2 270	29,4	2 466	30,9	3 095	44,8
Dividends and other products	4 556	58,9	4 551	56,9	3 592	52,0
Land Office Dues	202	2,6	202	2,5	215	3,1
Phosphate dues	701	9,1	774	9,7	0,00	0,0
TOTAL	7 729	100,0	7 993	100,0	6 902	100,0
Variation in %	-		3,4%		-13,7%	

** privatisation revenues not included*

For the year 2008, PE output is estimated at MDH 6.901,8 million, a drop of 13.7% compared to 2007, due mainly to the non-entry revenues from Phosphate exploitation (more than excess of MDH 750 million) and the non-awarding of any telecom licence.

3. Restructuring

The modernization and rationalization of public enterprises' management are carried out through the implementation of action plans, mostly aimed at the public sector, as well as at specific sectors of activity or specific enterprises. These restructuring reforms are part of a coherent vision that is in keeping with the government programme.

The restructuring of public enterprises follows a series of diagnosis, studies, internal and external auditing, discussed at the level of commissions usually comprising technical supervisors, managers, and representatives of public administration. In the case of staff redeployment, discussions are held with partners representing staff.

A wide range of measures to restructure public enterprises

- ***recapitalisation***
- ***Human resources redeployment***
- ***Overheads streamlining***
- ***Tariff recasting***
- ***Reorganisation***
- ***Unwarranted asset transfers***
- ***Debt reduction***
- ***Rescheduling of outstanding instalments and debts***
- ***Outsourcing and sub-contracting of retirement plans***
- ***Compensation for public service liability.***

The favourite approach to the restructuring of public enterprise is a formal programme agreement which defines, for a period covering several years reciprocal commitments of the state and the enterprise to ensure monitoring and follow up.

Initiatives launched, sometimes as part of a sector-based liberalization policy, focus particularly on:

- Institutional and strategic restructuring in specific priority sectors: this is notably the result of the will of Public Authorities to launch and implement reforms within public or social services such as transport (road[1], highway, railway[2], and maritime), ports[3], airports, postal services, telecoms, radio and TV, housing, social services, energy supply, and water supply…;

- Operational and financial restructuring of public enterprises: can be implemented through formal programme agreements. These actions result from the necessity to take measures to improve the financial status of public enterprises, which play an important role in the country's economic development: RAM, ONCF, COMANAV, CAM, CIH, BNDE, SODEA, SOGETA.

In terms of results, SODEA and SOGET are a case in point:

- 1st phase of partnership which is underway: 160 agreements signed with national and international partners – 38.000 hectares - MDH 4.500 million in investment generating 17.000 jobs.
- 2nd phase of this partnership which is currently under evaluation, with the aim of finalizing it in 2008: one (1) international tender notice and two (2) bids for tenders concerning more than 38.500 hectares;
- Estimated investments for the second phase: approximately MDH 6.000 million, generating 20.000 jobs.

Table 4 : data related to the second phase of partnership up to mid-September 2007

Type	Number of projects	Acreage in Ha	Number of project application	Average project/application
Start up projects	5	11.762	27	5,4
Small & Medium Sized Enterprises	92	13.791	629	6,8
Large Scale projet tracks	19	19.976	203	10,7
Total	116	38.529	859	7,4

[1] Act 25-02 pertaining to the creation of SNTL
[2] Act 52-032 stipulates through article 26 the provisions of this act concerning the conversion of ONCF into a Plc (Private Limited Company, SA)
[3] Act 15-02 pertaining to ports and providing for the creation of National Ports' Office (ANEP) as well as Company of Ports Exploitations (SODEP).

4. Governance

Besides institutional, structural, operational and financial restructuring which has an impact on the governance of Public Enterprises, we should highlight:

° The on-going reform of the state financial auditing of Public Enterprises, conducted in accordance with Act 69-00[4]. This reform was evaluated in the CFAA (Country Financial Accountability Assessment) report of the World Bank, with regard to economic and financial reforms launched by Morocco in recent years.

The CFAA report underlines that the financial auditing of public enterprises complies with international standards and norms, and emphasizes a number of recommendations relating to putting in place management tools within direct investment state-owned companies, setting up of auditing committees, adopting a decree draft-project to regulate the publication of the annual accounts of public entities in the Official Bulletin and the submission of a report assessing the implementation of the reform relating to public sector auditing;

° The development of auditing of different facets of Public Enterprise management (accounts, performance, strategy, organization…);

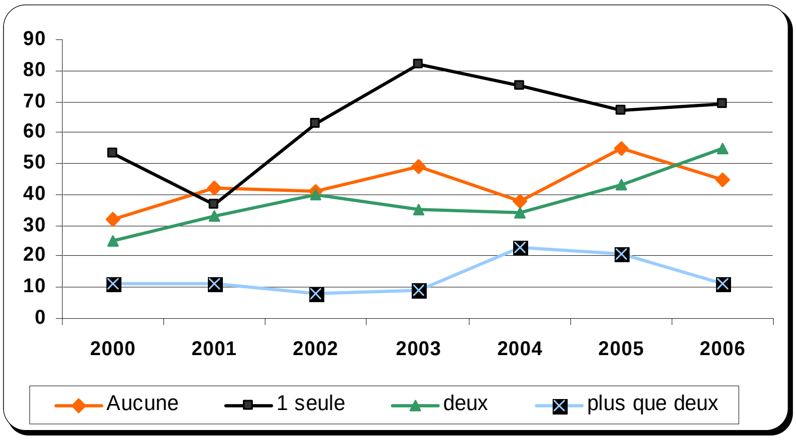
° The ongoing transformation of certain *Epic* institutions into Plc (ONCF/ SMCF, OCP, ONE…) aimed at improving governance, reinforcing the legal framework of liberalization in target sectors, and especially introducing a more modern and flexible status;

° The improvement of the running of boards of directors and the deliberating bodies in Public Enterprises:

Table 5: Frequency rate of board of directors' meetings (2000-2006)

Number of meetings	2000		2001		2002		2003		2004		2005		2006	
	EP	%	EP	%	EP	%	EP	%	EP	%	EP	%	EP	%
None	32	26	42	33	41	26	49	28	38	22	55	30	45	25
Once	53	44	37	30	63	43	82	47	75	44	67	36	69	38
Twice	25	21	33	27	40	26	35	20	34	20	43	23	55	31
Twice and above	11	9	11	10	8	5	9	5	23	14	21	11	11	6
Total	121	100	123	100	152	100	175	100	170	100	186	100	180	100

[4] Act 69-00, pertaining to the state's financial control of Public Enterprises and other organisations, enacted by Dahir N° 1-03-195 of 16 Ramadan 1424 (November 11th, 2003) and published in the Official Bulletin issue N° 5170 of December 18th, 2003.



Graph 3 : Frequency rate of meetings held by public enterprises (2000-2006)

The table above shows that, in absolute terms, 135 public enterprises convened at least one meeting in 2006, compared to 131 in 2005, 126 in 2003, 111 in 2002, and only 81 PE in 2001. The growing dynamism of deliberating bodies is further emphasized by a significant increase in the number of public enterprises which convened 2 meetings when compared to 2005 (55 PE in 2006 against 43 in 2005).

- the improvement of Internal Pension Funds for PE : OCP, ONE, distribution firms and proxy companies;
- the on-going contractualisation of state and DPE dealings : ADM, ONCF… ; contracts currently carried out , the terms of which entail considerable investment, relate to the following five PE :

Table n° 6: The five state-public enterprise contracts being carried out

Public Enterprise	Contract period	Main objectives	Investment
Moroccan Retirement Fund (CMR)	2007-2009	SIG upgrade	-
Barid Al-Maghrib (BAM)	2006 - 2008	Drafting of the institutional framework for Moroccan Post Office	MDH 1,9 million
National Company for Radio and Television Broadcasting (SNRT)	2006 - 2008	SIG upgrade and technical installations	MDH 426 million
National Rail Office (ONCF) *	2005 - 2009	Converting into Plc and consolidation railway equipment	MDH 15 million brought to more than MDH17 million
National Highway Office (ADM) *	2004-2008	Renforcement du réseau autoroutier national	MDH10 million to be brought to more than MDH25 million in 2010

** Contract amendment underway*

5 - Privatisation

Since the first privatisation operation launched in 1993, 47 companies and 26 hotels in total have been transferred to the private sector, in accordance with legislation act n. 39-89, through 107 privatisation operations. The total revenues are in excess of MDH 87,6 billion.

Privatisation revenues amounted to more than 4,7 MMDH in 2006, an implementation rate of 107% of the budget's forecasts with regard to :

- the asset transfer of 0,1% of the capital of the « Maroc Telecom » company for an amount of (MDH) 98,5 at the Casablanca Stock Market ;
- the asset transfer, through a public call for tenders, of the entire capital of « Société Marocaine du Thé et du Sucre », SOMATHES, in favor of « Holding Marocaine Commerciale et Financière », HOLMARCOM, for an amount of MDH 539 ;
- the asset transfer of 20% of the capital of « Régie des Tabacs » in favour of the ALTADIS Group for an amount of MDH 4.020.

By the end of September 2007, privatisation revenues were in excess of MDH 6.081,1 in relation to the following three operations:

- Asset transfer through a public call for tenders for the entirety of the capital of the DRAPOR company, in favour of the SATRAM company for an amount of MDH 327,6;
- Asset transfer of public stakes in the capital of COMANAV in favour of CMA-CGM Group. This transfer saw the joint-exit of the state (for an amount of MDH 1.182,2) and two minority shareholders, namely FIPAR-HOLDING and Finance.com (BMCE Group) from the capital of COMANAV ;
- Asset transfer of 4% of the Maroc Telecom capital for an amount of MDH 4.571,3 on the stock market.

Privatisation revenues for the year 2008 are estimated at MDH 3.000. These revenues include, besides on-going operations (BIOPHARMA, SSM, SOCOCHARBO, BTNA and COTEF), the asset transfer of public stakes in the capital of the SONACOS and SCS companies.

As to forecasts, and apart from SODEP whose legal status includes its transfer to the private sector in accordance with current legislation, privatisation and/ or opening capital to the public can apply to other companies which have been earmarked and may be included on the list of companies considered for privatisation.

Likewise, the potential for privatisation opening of capital of PE can be enhanced by transforming some public institutions into public limited companies.

6- Delegated Management and Partnerships

In 2006 Act n° 54-05 appeared in the "official bulletin" to regulate the delegated management of public services as well as contracts involving PE and Local Authorities or their holdings.

An agreement protocol was signed on 24th May 2007 with Société Financière Internationale (SFI) to conduct a survey of viable Public-Private Partnerships (PPP) in the infrastructure and public service sector within a period of three years. The sectors in question are transport, social services, water supply, sanitation and energy supply.

The current delegated management schemes and those planned for 2008, underline the trend of positive incitement of concessions and delegated management to develop infrastructure and manage public services. The main projects being finalised include a whole range of sectors: rail network for SMCF, a new Rabat zoo, CNSS general hospitals, Moulay Yacoub Spa Centre, wind-generated electric power, coal-generated power plant, water and electricity supply and sanitation in Marrakesh, urban bus network in the Rabat-Sale area, trade monopoly in ethylic alcohol and International Conference and Exhibition Centre of the Foreign Exchange Office.