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ROYAUME DU MAROC

Ministère de l'Economie et des Finances

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DESI/DPR/SAS

وزارة الاقتصاد والمالية

مديرية المنشآت العامة والخوصصة

A Synthesis Report on the Public Enterprises' Sector Accompanying the 2012 Finance Bill

The year 2011 was marked by the adoption of the Kingdom of Morocco of a new constitution based on fundamental universal democratic principles, separation of powers and correlation between responsibility and accountability. The new constitution is also a leverage to give a further impulse to the economic dynamics, and accelerate the rhythm of modernization, human and territorial development. In this context, Public Enterprises (EP) have played an important role in development through their contribution in the implementation of public policies, provision of basic services, and carrying out of the appropriate infrastructure to boost growth initiatives in the public sector and involvement in territorial planning.

Public enterprises were also called upon to actively participate in the implementation of government programmes presented to parliamentarians on January 19th, 2012. Such programmes are aimed to boost growth, transparency, good governance, consolidation of the country's economic competitiveness, attractiveness and improvement of citizens' living standards.

On the whole, the year 2011 was marked by a good performance of public enterprises, in terms of their turnover, added value and net results, thus confirming what was already registered in 2010.

Similarly, the achievements of public enterprises in terms of investment, confirming the upward trend in the last few years, moved from MAD 157 billion over the period 2006-2008 to MAD 208 billion over the period 2009-2011; that is, a remarkable increase of 33%. This positive trend has carried on in 2012 with a global investment envelope of MAD 123 billion, thus consolidating the leading role that public investment plays in maintaining growth rhythm at a higher rate.

Investment programmes of public enterprises are a direct result of important structuring investment projects carried out mainly in the railway, motorway, port and housing sectors. Active support of public enterprises in the different sector-based strategy notably in sectors like energy, mines, tourism, logistics, agriculture, fishing and social programmes in the field of education, health and rural world isolation was also primordial.

In 2012 and in line with the government programme that aims to improve governance in public enterprises, generalization of contractualization of the relationship between public enterprises and the state, as well as the reform scheme on public enterprises' auditing tool, additional measures were taken, mostly targeting the:

- Harmonization of public enterprises' governance, management and audit tools with the requirement of the new constitution;
- Progressive generalization of public enterprise-state contractualization in view of implementing a correlation between responsibility with accountability and empowerment of entities in charge of carrying out public policies;
- Following up on public enterprises' investment in view of making it a reliable source of growth and job creation; while contributing in improving business climate and boosting Public /Public and Public/Private partnership to diversify financing sources, offer a good quality service to users, and impact on the country's foreign trade.
- Consolidation of the PEs' effort to assist the government in its sector-based policies, its structuring projects and social development schemes to boost the country's competitiveness and improve citizens' living standards;
- Intensification of measures to rationalize operational costs and sensibly decrease unnecessary expenses in public enterprises;
- Contribution to government effort in the field of urban planning, regional development, which goes in line with the objectives assigned by the advanced regionalization status, while committing to their social responsibility and adherence to the essential principle of a sustainable development.

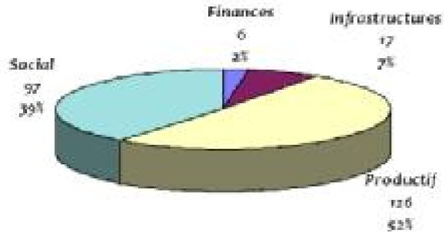
1. Performance of Public Portfolio

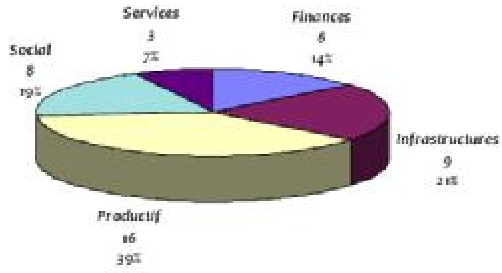
By the end of 2011, the composition of public portfolio was made up of the following:

- 246 public establishments and state-controlled institutions, of which 52% are in the productive sector and 39% in the social sector;
- 42 firms in direct joint venture with the treasury, of which 39% operate in the productive sector and 21% in the domain of infrastructure;

The partitioning of this portfolio by category and by activity sector was as follows:

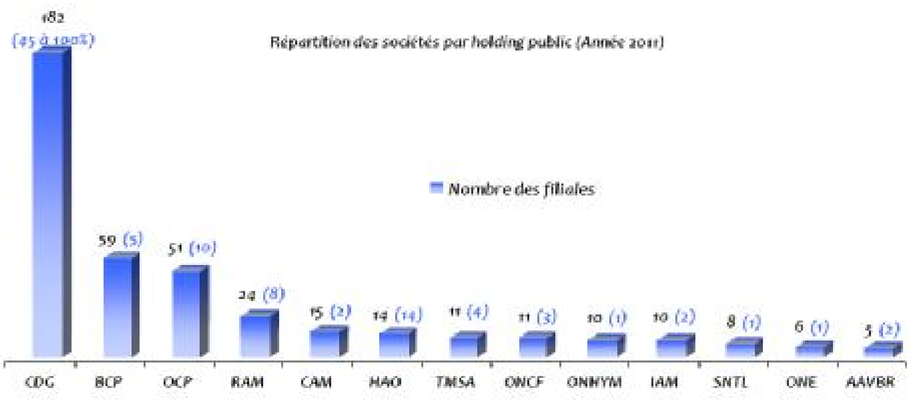
246 Public Establishments 42 firms in direct joint venture with the treasury





Some of these enterprises and firms have subsidiaries and hold shares totaling 476, of which 11 are traded and 53 operate internationally.

Thus, three public holdings; namely, CDG, OCP SA and BCP hold 61% of subsidiaries and shares. The partitioning of enterprises, part of public portfolio, by public Holding in 2011 was as follows:



As to geographic distribution of public portfolio, ii has been observed that in addition to PE operating at the national level, (RAM, ADM, ONDA, OCP Group, ONCF, ONE, ONEP, HAP, BAM, ANCFCC, ONHYM...) other enterprises that are in joint venture with local collectivities or the state operate in a geographically determined territory.

This portfolio includes 31 other entities which emanates from local collectivities, 117 entities operated locally in 2011. These firms include:

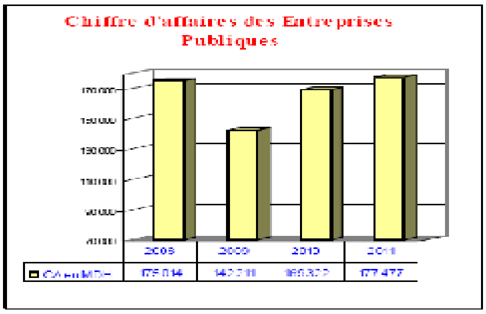
- 87 public enterprises operating in a territory from an urban centre reaching out to different regions: 9 offices of hydraulic basins, three regional development offices, 16 AREFs (the Regional Academy of Education and Training), 15 universities, 26 urban agencies, 4 hospital centers and 9 ORMVA (the Regional Office of Agricultural upgrade);
- 30 firms playing an important role at the local level; of which TMSA (Tangiers), Marchia Med (Nador), real Estate Firms like Al Omrane (14 firms covering all the regions) and Land Use Planning of Tangiers Port (SAPT).

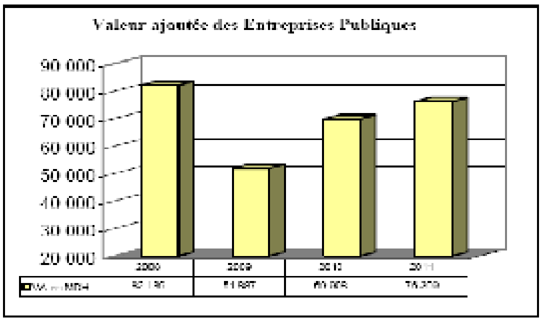
Synthesis Report on the main
Aggregates of PE Sector for the Year 2011
(Closing Probabilities)

The performances of public portfolio in 2011 reflect the importance of PEs' contribution in Morocco's economic and financial aggregates and confirm their good behavior in the previous years:

- Turnover : MAD 177, 5 million (+4,8%);
- Added Value : MAD 76,3 million (+9,2%);

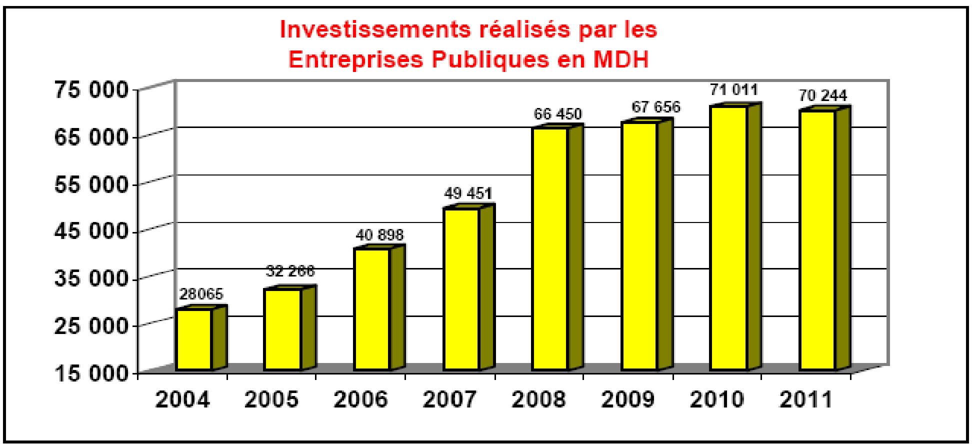
- Net Result : MAD 26,4 million (+18,1%);
- Sel-financing capacity: MAD 45, 8 million (+41,3%);
- Financing of Debts : MAD 154, 9 MMDH (+4%).





2. Public Enterprise Investment

Public Enterprise investment attained MAD 70.2 million in 2011; that is, twice as much as that realized in 2005, thus sustaining PEs' investment to a higher level if compared to the preceding period as shown in the following graph:



On the whole, PEs' investment represents the equivalent of 27.8% of Gross Fixed Capital Formation (GFCF) and 146% of investment of the State's General Budget.

The regional partitioning of PEs' investment for the period 2008-2010 shows how sustained investment effort is in all regions, while at the same time preserving an equilibrium to all of them. For example, the part of Chaouia-Ouardigha, the Orient and Taza-Al Hoceima-Taounate moved from 15.7% in 2008 to 22.4% in 2010.

Regional Partitioning of Public Enterprise Investment in MAD Million

En MDH

REGION	2008		2009		2010	
	Valeurs	%	Valeurs	%	Valeurs	%
Rabat - Salé - Zemmour Zaër	13 944	20,98%	13 132	19,41%	14 461	20,36%
Tanger Tetouan	9 527	14,34%	5 712	8,44%	7 425	10,46%
Grand Casablanca	9 422	14.18%	9 132	13.50%	7 393	10.41%
Marrakech - Tensift - Al Haouz	6 291	9,47%	7 148	10,57%	6 914	9,74%
Oriental	4 765	7,17%	7 246	10,71%	7 219	10,17%
Chaouia - Ouardigha	4 594	6,91%	4 488	6,63%	5 643	7,95%
Souss Massa - Draâ	4 394	6,61%	4 573	6,76%	4 389	6,18%
Doukala - Abda	3 633	5,47%	3 056	4,52%	3 521	4,96%
Meknès - Tafilalet	1 970	2,96%	2 182	3,23%	2 410	3,39%
Guelmim - Es Semara	1 629	2,45%	812	1,20%	990	1,39%
Fès - Boulemane	1 440	2,17%	2 197	3,25%	2 581	3,63%
Laâyoune - Boujdour - Sakia El Hamra	1 417	2,13%	2 412	3,56%	1 890	2,66%
Gharb Chrarda - Beni Hssen	1 133	1,71%	1 587	2,35%	1 536	2,16%
Taza - Al Hoceima - Taounate	1 070	1,61%	2 602	3,85%	3 045	4,29%
Tadla - Azilal	779	1,17%	997	1,47%	1 307	1,84%
Oued Eddahab - Lagouira	442	0,66%	347	0,51%	290	0,41%
Total	66 450	100,00%	67 656	100,00%	71 011	100,00%

As to PEs' investment expenditure, auto-financing is preponderant in relation to other resources mainly the state's assistance and loan.

Self Financing Capacity (CAF) of public enterprises reached MAD 45.8 million in 2011. It witnessed an increase of 41.3% compared to 2010 (MAD 32.4 million). This upward trend is due to the increase of self-financing capacity of OCP Group (MAD 25.000 million; that is 188.4%), which represents 55% of the total amount of CAF. Additionally; the overall self-financing capacity represented the equivalent of 65% of PEs' investment in 2011 against 46% in 2009.

- **The State's Contribution** in PEs' investment financing was carried out through capital endowments and investment grants from the state's general budget to these enterprises for a total amount of MAD 11 628 million in 2011 against MAD 14 131million in 2010 and MAD 14 009 million in 2009.

- **Contribution of Hassan II Fund for Economic and Social Development** in financing some public enterprises' projects reached MAD 1 564 million in 2010 against MAD 2 109 million in 2009. Such a contribution particularly targets the social housing sector, tourism, urban rehabilitation, industry, energy, rail, port and motorway infrastructure.

- **Public Enterprises' Indebtedness** has contributed in capital investment both in local and international markets. In this context, PEs' total indebtedness reached MAD 154 886 million in 2011 against MAD 148 925 million by the end of 2010, thus recording a positive net variation of MAD 5961 million (+4%). This variation represented less than 9% of PEs' overall investment carried out in 2011.

PEs' forecasts reflect the sustaining of a volunteering policy pursued by public authorities to better equip the country, intensify the basic service offer and boost new development engines.

Thus, these forecasts amounted to MAD 122.8 million in 2012, against MAD 114.4 million in 2011. In this respect, 12 public enterprises or PE Groups contributed with more than 78% of the total investment effort of the sector, as is shown in the following table:

en MDH	2011	2012
OCP	22 899	24 930
CDG	14 635	13 068
HAO	8 000	8 000
ONCF	6 271	7 469
ONE	8 201	7 417
ADM	6 957	6 917
TMSA	4 791	5 983
ONEP	4 810	5 640
Régies Distribution	3 780	4 242
ALEM	4 860	4 000
ORMVA	3 063	2 611
ONDA	1 988	2 007
Autres EP	24 186	30 560
Total	**114 441**	**122 844**

3. Gouvernance of Public Enterprises

2010 and 2011 were marked by the elaboration of a Moroccan code of best practices for public enterprises, the consolidation of their control and auditing tools. They were also characterized by the pursuing of the contractualization policy between the state and public enterprises to define their respective commitments in terms of performance and objectives.

4-1 – Moroccan Code of Best Practices for Public Enterprises

This code, based on the best international standards and designed for both private and public sector practitioners, aims to establish the best standards of governance in PEs to promote values and practices of transparency, visibility and anchor the culture of accountability. It includes recommendations, rules and practices that target:

- Clearly defining the state's role and highlighting its different missions as a strategy designer, controller and shareholder;

- Consolidating the role of the governance body focusing its missions on piloting enterprises' strategy, monitoring their performance, following up on their management, and improving the professionalization of its administrators and periodic evaluation of their input;
- Consolidating ethic and transparency through broadcasting regular news update , mainly the enterprise's financial data, dematerialization and transparency of procedures to provide a good quality service, strictly applying the best practices of tenders, and finally through elaborating and disseminating a charter of ethics of governance bodies;
- Equitably dealing with partners and economic stakeholders working with public enterprises.

A communication and visibility programme will be used to disseminate and raise PEs' awareness to the importance of such a code.

4.2 – Implementation of Management Tools

The generalization of management instruments, stipulated in law 69-00 related to the state's financial control of PEs' and other organisms was accelerated. Hence, the major measures undertaken in 2010 and throughout 2011 relate to:

- The elaboration or amendment of tender rules aimed at more efficiency, transparency and implementation of orders related to financial, accounting organization and organigrams;

- Finalization of instruments related to human resources management, particularly personnel code of some public enterprises.

2011 was also marked by social dialogue designed to review salary grids and amendments of personnel code of the enterprises concerned.

4.3 – Qualitative Evolution of Control Tools

While pursuing the implementation of management tools stipulated in the above mentioned law
N° 69-00, various operations have been launched to qualitatively improve the tool of financial control of these enterprises. Similarly, this law was subject to an amendment designed for the application of a decree project related to public tenders to certain public enterprises taking into account their specificities.

Additionally, according to government orientations on starting reforms to improve PEs' governance and control tools, a study was launched to respond to the requirements of the new constitution in terms of correlating responsibility and accountability, consolidating transparency, improving PEs' performance and rationalizing public management. Equally important, the reform gears towards consolidating efficiency of control by orienting it toward follow up on performance, security and preservation of resources and wealth, and consistency in management. Finally, such a reform will allow the generalization of best practices and transparency, and modulate control according to each enterprise's specificity in terms of strategic challenges, economic weight, risks and quality of management.

In conformity with the dispositions of law n° 69-00, it was decided to proceed to communicating annual reports of state controllers and government commissioners to chief executive officers of public enterprises. Hence, 200 reports related to year 2010 have been elaborated for communication and visibility against 194 reports in 2009.

4.4 – External Audits of Public Enterprises

PEs' external audits, started by the minister in charge of finance after approbation with the head of government, are invited to multiply and should be reoriented toward preoccupations that go beyond financial and operational considerations, or toward strategic and institutional management.

In this framework, many operations were carried out in 2010 and throughout 2011, in public enterprises like ANAPEC, ANP, AREF of Marrakech, PFEC, ONHYM and ORMVAG.

Follow up and implementation of recommendations of external auditors and evaluation of their impact on improving governance of public enterprises relate to various enterprises like CMR, Office des Changes EACCE and CNESTEN

4.5 - Contractualization of the relationship between the State with Public Enterprisers

Encouraging the contractualization of the relationship between the state and the public sector is one of the most important factors for the sustainability of a public enterprise model, improvement of management of the state portfolio, especially if we look at its impact on managers' accountability, performance and performance.

Consequently, 2010 and 2011 recorded a speeding up in concluding 6 new contracts between the state and the following enterprises: RAM Group, CMR, Barid Al Maghrib, RADEEMA, SOREAD 2M and ONCF.

The following contracts between the state and some public enterprises are currently underway: Royal Air Maroc Group, CMR (the Moroccan Pension Scheme), Barid Al Maghreb (Post of Morocco), RADEEMA (Water and Electricity Distribution Office of Marrakech), SOREAD 2M (the Moroccan Second Channel), ONCF (the Moroccan Rail Office), Universities (15), CNRST and ONOUSC, ONP (The National Office of Fishing), ODCO (Development and Cooperation Office) and ADM (the Moroccan Motorway Office)

The 2012 action plan is particularly geared towards follow up and evaluation of contracts underway as well as a progressive generalization of contractualization policy by circulating a memo by the government head. It also aims the improvement of contract canvas and guidelines , initiation, elaboration and finalization of new contract projects, mainly with ONEE, ONDA, ANP, INRH, ORMVAT and CNESTEN.