Summary of the report on Public Establishments and Enterprises (EEP) accompanying the draft Finance Act 2017

In a context marked by strategic challenges for EEPs, the latter are a major player in the growth model of Morocco and continue to play the role of locomotive for the development of large infrastructures and for territorial development, EEP’s performance is not sought in itself but also for its impact on the cost of factors in terms of service offerings and reinforcement of the country’s network of infrastructures (energy, motorway, rail, port, airport ...) to serve investment.

In this regard, the Government’s objectives set for the year 2017 and aiming to meet the expectations of the citizens focus on the following prior axes:

- accelerating the structural transformation of the national economy that is based on industrialization and export;
- strengthening the competitiveness of the national economy and promoting private investment;
- increasing the value of the human capital;
- strengthening the institutional governance instruments particularly through implementing the advanced regionalization and deconcentrating the administration as well as implementing the new concept of authority.

In this way, many reform projects are being carried out, in a participatory and gradual manner, to strengthen EEP’s performance and improve the efficiency of their management, particularly through reforming of the system of governance, control and transparency of EEP, strengthening the public orders system, contractualization of EEP’s relations with the State and implementing active portfolio management.

Similarly, and from 2017, the Government will implement a new management approach for public investment projects that is based on determining predefined and common criteria, supervising the execution and evaluating the impact of these projects. This is particularly about ensuring that all public projects are the subject of preliminary studies that highlight their economic and social profitability, their cost and duration of execution, and how they are financed.

I - Public portfolio composition and performances

The role of the EEP sector is called to strengthen further in 2017, in line with the strategic development guidelines aimed at implementing reforms that foster the business climate, acceleration of the national economy transformation and the promotion of sustainable growth. This ambition is corroborated both by consolidating the consistency of the public portfolio and by improving the sustained operational and financial performance of its components.
1.1 - Overview of the public portfolio

The composition of the public portfolio is as follows:

- **209 public establishments**, covering mainly seven sectoral groups operating in key areas of the national economy, namely agriculture, health, education, urban planning and development, infrastructure, energy, tourism and the financial sector.

It should be noted that in 2016 and with the entry into force of the new regional division, the number of Regional Academies of Education and Training (AREF) was reduced from 16 to 12. In addition, the portfolio was expanded by the creation of the Moroccan Agency for Safety and Security in Nuclear and Radiological fields (AMSSNUR).

- **44 public enterprises** with direct participation of the Treasury, include mainly highly important companies (37 units, i.e. 84%): OCP, HAO, ADM, CAM, MASEN, RAM and Barid Al-Maghrib.

In addition, some EEPs hold **subsidiaries or shares of a total number of 462 units** of which 242 are held in majority (direct and indirect public share more than or equal to 50%) and 220 are held in minority (direct and indirect public share less than 50%).

The sectoral distribution of EEPs highlights the relative importance of EEPs operating in the socio-educational fields (24%), followed by housing, urban planning and territorial development sectors (18%), agriculture and maritime fisheries sector (16%) and the energy and mining sector (12%).

Public portfolio is also marked by a strong **presence at the regional and local level with the establishment of 170 EEP**, which allow EEPs to make an important participation in the territorial development.

1.2 - Investments

The estimated investment volume of EEPs for the fiscal year 2017, would amount to **MAD 107,055 million** slightly less than the forecasts of 2016 (MAD 112,663 million) particularly related to the decline of the investment of TMSA group, ONCF, ORMVA, ANCFCC and Distribution Public Companies, because of the finishing of many projects of these EEPs. This decrease will however be alleviated by the improvement of the following EEP's investment: ONEE, Groupe HAO, CFR and the launching of Nador West Med (NWM) project.

The detailed estimated investments of the main EEPs are as follows:

<table>
<thead>
<tr>
<th>EEP</th>
<th>Amount (MAD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GROUPE CDG</td>
<td>18,000.0</td>
</tr>
<tr>
<td>GROUPE OCP</td>
<td>17,333.2</td>
</tr>
<tr>
<td>ONEE</td>
<td>14,141.5</td>
</tr>
<tr>
<td>GROUPE HAO</td>
<td>7,009.0</td>
</tr>
<tr>
<td>ONCF</td>
<td>6,000.0</td>
</tr>
<tr>
<td>ORMVA</td>
<td>2,655.0</td>
</tr>
<tr>
<td>NWM</td>
<td>2,561.0</td>
</tr>
<tr>
<td>CFR</td>
<td>2,500.0</td>
</tr>
<tr>
<td>UNIVERSITIES</td>
<td>2,440.3</td>
</tr>
<tr>
<td>Distribution Public Companies</td>
<td>2,427.4</td>
</tr>
<tr>
<td>ANCFCC</td>
<td>2,371.0</td>
</tr>
<tr>
<td>RABAT REGION</td>
<td>2,000.0</td>
</tr>
<tr>
<td>Other EEPs</td>
<td>27,616.6</td>
</tr>
<tr>
<td><strong>Sector Total</strong></td>
<td><strong>107,055.0</strong></td>
</tr>
</tbody>
</table>
90% of EEPs investments in 2017 will be devoted to sectors of infrastructures, transports, water, energy and mining, as well as financing, housing and social sectors. This investment effort of EEPs reflects the extent of EEPs intervention in most sectoral strategies and action plans.

For its part, the regional distribution of investment by the EEPs confirms the relative rebalancing achieved in recent years particularly through the decline in investment of Casablanca-Settat region by almost 9 points between 2016 and 2017 in favor of other regions which are making an advance in investments, particularly that of the Oriental region under the impetus of the Nador West Med (NWM) project.

The following table summarizes the regional distribution of investments for the year 2017:

<table>
<thead>
<tr>
<th>Regions</th>
<th>Amount (MAD)</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rabat- Salé - Kénitra</td>
<td>31,294.0</td>
<td>29%</td>
</tr>
<tr>
<td>Casablanca - Settat</td>
<td>29,738.0</td>
<td>28%</td>
</tr>
<tr>
<td>Tanger - Tétouan - Al Hoceima</td>
<td>10,236.0</td>
<td>10%</td>
</tr>
<tr>
<td>Marrakech - Safi</td>
<td>8,594.3</td>
<td>8%</td>
</tr>
<tr>
<td>Oriental</td>
<td>7,298.1</td>
<td>7%</td>
</tr>
<tr>
<td>Fez - Meknès</td>
<td>4,987.9</td>
<td>5%</td>
</tr>
<tr>
<td>Beni Mellal - Khénifra</td>
<td>4,592.9</td>
<td>4%</td>
</tr>
<tr>
<td>Darâa - Tafilalet</td>
<td>3,209.3</td>
<td>3%</td>
</tr>
<tr>
<td>Souss - Massa</td>
<td>3,092.8</td>
<td>3%</td>
</tr>
<tr>
<td>Laâyoune- Sakia El Hamra</td>
<td>1,925.8</td>
<td>2%</td>
</tr>
<tr>
<td>Guelmim - Oued Noun</td>
<td>1,577.9</td>
<td>1%</td>
</tr>
<tr>
<td>Dakhla - Oued Eddahab</td>
<td>507.9</td>
<td>0%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>107,055.0</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

1.3 - Financial performances

In 2017, the estimated Turnover of EEPs is expected to achieve an increase of 5.4% compared to 2016 fiscal year to reach MAD 235,737.7 million. This increase is related to the improvement of the turnover of ONEE, RAM, ANCFCC, ADM, Groupe HAO, Distribution Public Companies, ONDA and ONCF.

In 2017, the expected Added Value (AV) will be MAD 84,629.4, i.e. an increase of 7% compared to 2016 in relation with the improvement of the expected AV of ONEE, ANCFCC and the company ADM.
1.4 - Financial relations between the State and EEPs

In terms of budgetary subsidies for EEPs, the forecasts within the framework of the finance act 2017 are MAD 27,000 million. The mobilization of these subsidies is essentially linked to the support given by the State to the EEPs for the investment of EEPs involved in strategic projects and structuring projects, to the importance of programs intended the socio-educational sectors.

Achievements under the finance act 2016 in terms of subsidies for EEPs amounted to MAD 16,698 million at the end of July 2016 (against MAD 15,812 million at the end of July 2015), i.e. a completion rate of 62% compared to updated forecasts of 2016 (MAD 27,118 million).

Forecasts of products coming from EEPs under the draft Finance Act 2017, are estimated at MAD 9,067.3 million, an increase of 8.8% compared to the forecasts of the Finance Act 2016 (MAD 8,330 million). This increase is essentially related to the expected improvement of the contribution of ANCFCC, particularly, in relation with the expected positive evolution of its results and, to a lesser extent, of that of other EEPs: ANP, BAM, HAO...

Regarding the Finance Act 2016, payments at the end of July 2016 amounted to MAD 5,349 million, i.e. a completion rate of 62% compared to the forecasts of MAD 8,330.4 million against 62% at the end of July 2015, bearing in mind that the year 2015 witnessed an exceptional payment of MAD 1,700 million by the telecommunications operators for the granting of the 4G license.

II - EEPs, major players of the economic and social policy

In order to accompany the development of a competitive national economy that creates wealth and jobs on the one hand, and the restoration of social, territorial and macroeconomic balances on the other, a strong impetus has been given to the policy of major projects and structuring projects.
In this context, and alongside with the use of public-private partnerships, which is to be increasingly privileged, EEPs, taking into account their missions, play a role in most of these sectoral strategies and action plans.

In this way, Morocco keeps improving infrastructures through developing the highway, railway and air transports network, as well as strengthening port and airport networks. It is in this way that will be launched the modernization and strengthening of the rail network’s capacities, particularly the High Speed Line (LGV) and the development of the highway network through the construction of new sections. The same applies to the development of port infrastructure, which is being pursued through the construction of the port of Tanger Med II to increase its capacity to 8 million twenty-foot equivalent units (TEUs), the actual launch of Nador West Med project (NWM) and the preparation of the launch of the Kénitra Atlantique port project.

In its part, air transport sector was also able to improve its performance thanks to the intervention of RAM in accordance with the Contract Program entered into with the State for the period 2011-2016.

At the level of agriculture and since the launch of Morocco Green Plan (PMV) in April 2008, the agricultural sector lives a continuous development. The objective is to attract investments of MAD 95,000 million in the horizon of 2020 within the framework of the pillar I related to high-added-value agriculture (MAD 75,000 million) and pillar II concerning solidarity agriculture (MAD 20,000 million).

The strategy "Halieutis" for developing the maritime fisheries sector continues with the main objective of enhancing the Moroccan fisheries richness and triple the GDP of the sector by 2020 to bring it to about MAD 22,000 million.

Concerning the State policy on housing and urban development, the EEPs in charge of the implementation of this policy work to reinforce their interventions particularly in the field of land management and equipment, production of social housing, slum eradication and urban upgrading as well as the treatment of run-down buildings, rehabilitation of ancient fabrics and creation of new urban poles and new cities.

In the field of mining and energy, the consolidation of OCP leadership continues in parallel with the implementation of the strategy aimed at reducing energy dependence, developing renewable energies and increasing energy efficiency (ONEE, MASEN and ADEREE). It is in this way that the targets fixed for renewable energies by 2020 at 42% of the installed capacity of electricity generation, have been increased following the High Royal Instructions in the margin of the COP21, organized in September 2015 in Paris, bringing them to 52% by 2030. Similarly, as part of the implementation of the Royal High Guidelines concerning the institutional and organizational reorganization of the renewable energy sector and aimed at strengthening the positioning of Morocco as a leader in this field, and to enhance synergies among renewable energies branches, the texts creating EEPs intervening in the sector were reviewed to entrust MASEN with the tasks of developing these energies.

Concerning the 2020 Vision of tourism and taking into account the difficult international context, the public sector players have adapted their strategy through, in particular, the acceleration of the diversification policy initiated several years ago, carrying out repositioning studies of certain tourist resorts and widening the circle of investors, in order to reinforce Morocco’s resilience and attractiveness in this field.

For their part, the sector of industry and that of economic promotion are called to make improvements and changes aimed at developing the productive systems and reinforcing the integration and increase of the local industrial added value. It is also a question of promoting the Moroccan export offer, within the framework of an integrated vision, through merging the public
The upgrading of rural areas continues to benefit from a particular interest in the intervention of the EEPs through, in particular, programs dedicated to rural roads (PNRR2), electrification and the generalization of access to drinking water. The PNRR2 thus enabled the construction and development of an overall line of 14,630 km of rural roads at the end of June 2016 and the achievement of an accessibility rate of the rural population of 78%. The Global Rural Electrification Program (PERG) achieved by the end of 2015 an electrification rate of 99.15% against 97.4% at the end of 2011. The rate of drinking water access in rural areas reached 95%, compared against 92% in 2011 thanks to the acceleration of the Grouped Water Supply Program for Rural Populations (PAGER).

For the 2017 fiscal year and as part of its 2012-2020 strategy for the oasis zones and Argan tree, ANDZOA will launch the call for proposals procedure for the compilation of socio-economic development and environment preservation projects.

At the social level and with a view to social, fair and inclusive development, the efforts made in recent years in the field of combating poverty and reducing social and territorial disparities, as well as employment promotion, are intensified through the continued deployment of the action plans of many EEPs, namely Regional Development Agencies, AREFs, Universities, OFPPT, ANAPEC, CHU, National Mutual Aid and through HAO, particularly in the area of social housing.

The same applies to the actions of the EEPs aimed at the emergence of regional development poles and the reduction of social and spatial inequalities, particularly through the intervention of regional development agencies and EEP with specific action such as AAVBR or Marchica Med, with the aim of strongly taking part in the advanced regionalization project.

III - Improvement of the governance and efficiency of EEPs management

Good governance and transparency are cardinal principles that guide the process of consolidating and strengthening the efficiency of EEPs activities and improving their performance in support of the country's sustainable economic and social development.

In this respect, the period 2012-2016 was characterized, in particular, by the publication of the new legal framework governing the Public-Private Partnership (PPP) and the establishment of the concerned institutions, the finalization of the reform project of the measures of governance and State financial control over EEPs, the implementation by the Government of the Code of Good Governance Practices of EEPs as a benchmark, including rules and best practices for improving the management framework of public entities, implementation of tools for the gradual generalization of signing multi-annual State-EEP contracts, improvement of public procurement procedures, modernization of the functioning and governance of the accountant profession particularly through implementing the Professional Organization of Chartered Accountants and the beginning of the implementation of an Active Portfolio Management policy.

In addition, real progress has been made in terms of the regularity of the meetings of the EEPs governance bodies, the progressive generalization of the certification of accounts, the setting up of audit committees and the deployment of information and management systems to improve the running of EEPs.

The years 2016 and 2017 will see the acceleration of the implementation of the abovementioned reforms through road maps covering all the legal, institutional, organizational and management aspects of change.
3.1 - Public-Private partnerships: a boost to public investments development

The process of boosting the use of Public-Private Partnerships (PPP), which began in 2010 and which led in 2015 to the establishment of an institutional, legal and operational framework inspired by best international practices in this field continues with the first actions of implementing the new PPP mode, particularly through the identification and support of new PPP projects.

In this regard, and in order to face the infrastructures financing challenges, the act No. 86-12 relating to PPP paved the way for new types of PPP that are based on payment to performance and effective availability of assets. This mode is also based on the development of a new culture of public order management, based on prior needs assessment, performance analysis, cost control and optimized risk sharing.

3.2 - Reform of the governance measures and the State's financial control over EEPs and reinforcement of internal control of these entities

Concerning the reform of governance measures and State's financial control over EEPs, a draft act has been drawn up with all players and finalized with the services of the Government General Secretariat (SGG). The aim of this project is to develop these measures to include concerns about risk management, performance improvement and the safeguarding of public assets, while at the same time professionalizing supervisory and administrative functions within the EEPs.

In this context, the draft act on the governance and the State's financial control over the EEPs, which was transmitted by the Ministry of Economy and Finance (MEF) to the SGG on 6 January 2015 then published on the SGG website on 27 January 2015, was finalized with the SGG services in 2015-2016.

The improvement of the effectiveness of the control is also sought through the introduction of a new dynamic classification of EEPs allowing to define the type of control applicable to each category of EEP based on three criteria, namely the level of ownership of public bodies capital, the level of assistance of the State's General Budget and of financial risk, and the quality of management and governance.

Similarly, a detailed roadmap has been drawn up for the implementation of this reform, in order to manage change by programming medium- and long-term actions aimed at strengthening human resources, improving the information system of the DEPP, developing communication and the upgrading organization.

At the same time, the process of implementing the code of good practices of the Governance of EEPs will be intensified in 2017 through accelerating the adoption by the legislative bodies of the EEPs of plans for improving governance and implementing various governance instruments at the level of a large population of EEPs.
In order to accelerate the implementation of the recommendations of the code of governance good practices of EEPs, an action plan is being implemented to give a more accelerated pace to the dissemination of good governance practices of EEPs, particularly with regard to the direct support of EEPs in their efforts to implement governance practices and documents, the internal improvement of EEPs (implementation of risk mapping...), the acceleration of deployment of the code and the deepening of its implementation (good functioning of legislative bodies, control of risks...), strengthening training and information and communication intended for the general public (reports, websites, publications ...) and the evaluation of the performance of the legislative organs' action. Similarly, the years 2016 and 2017 are expected to witness new activities in this area: conducting external evaluation of the governance of certain EEPs on the one hand, and starting works of updating the 2012 Moroccan code of governance good practice of EEPs.

In order to improve the positioning of the EEPs and strengthen their contribution to the country's economic and social development dynamics, efforts are continuing to progressively extend the **multi-annual contractual relationship between the EEPs and the State** and strengthen the quality of EEPs management and transparency. The main objective is to positively impact the operational and managerial performance of the public portfolio thanks, in particular, to its contributions in modernizing the management of the concerned EEPs, rationalizing their expenses, improving their mode of governance, of accountability and of the sustainability of their business model.

Particular contractual relations between the State and certain entities are to be emphasized, taking into account the financial, economic and social stakes that characterize them. These are Agreements State-ONEE and State-RAM which are examined on a regular quarterly basis by external Firms.

### 3.3- Strengthening of EEPs performance

In terms of improving the quality of management and transparency, and in relation to the improvement of the business climate, which is a key part of the government's strategy to build a strong economy capable of facing the challenges of improving the productivity and competitiveness of its production system, actions will be taken during 2017 for the continuous development of the **EEPs management instruments** and the consolidation of their transparency.

To this end, efforts are being made to continuously develop and permanently update the EEPs management instruments set forth in the Act No. 69-00 on State financial control of public enterprises and other bodies. Currently, the majority of EEPs have management tools that are adapted and updated in terms of organizational charts, staff statuses and accounting and financial organization.

As part of the continuation of the **harmonization of market regulations for Public Establishments**, 31 regulations governing public procurements were signed by the MEF for the period from 30/01/2015 to 31/07/2016, bringing the total number of market regulations for Public Establishments (EPs) approved by the MEF to 112 regulations for a population of 120 EPs.

In addition, actions are under way to support EEPs in solving the problem of debts vis-à-vis suppliers and **improving payment deadlines** particularly through the adoption of the Act No. 49-15 amending and completing Act No. 15-95 forming the commercial code and its publication in the Official Bulletin of 19 September 2016 and the publication of the Decree No. 2-16-344 on 4 August 2016 fixing payment periods and moratory interests relating to public procurement, and the preparation, in consultation with CGEM and based on a participatory approach involving EEPs, of a platform project dedicated to the reception and processing of suppliers' claims on the payment deadlines linking direct suppliers and EEPs with the supervision of the MEF.
Similarly, as part of the modernization and harmonization of the working methods of State Controllers and Paying Treasurers and the standardization of the list of supporting documents, the Ministry of Economy and Finance (DEPP) elaborated two nomenclatures of the documents justifying the expenditure of the public establishments, intended for the State Controllers and the Paying Treasurers and Accounting Agents.

Concerning the external audit operations of EEPs carried out by the MEF after approval of the Head of Government, they affected almost all the sectors of activity, with 67 audit operations concerning 75 EEPs carried out during the period 2000-2015. For the fiscal year 2016, the external audit operations scheduled with the approval of the Head of Government dated 15 February 2016 concern the audit of economic, financial and operational performances and the viability of the SNTL business model, the institutional, operational and management audit of ONOUSC, the operational, management and performances audit of the IPM and the audit of the commercial function (invoicing / recovery) of the Urban Agencies of Rabat-salé and Marrakech.

Moreover, in order to consolidate the transparency and improve the legibility of the accounts of Moroccan enterprises and following the adoption and publication of the Act No. 127-12 regulating the profession of chartered accountant and creating the Organization of Chartered Accountants (OPCA), the decree implementing the said Act was published on 14 April 2016. This decree concerns the organization of the professional aptitude test for practicing professionals who do not fulfill the criteria required to integrate OPCA and the entrance examination for new OPCA candidates. The decision of the MEF establishing the list of members of the committee in charge of drawing up the list of chartered accountants per region with a view to organizing elections to set up the OPCA's bodies (national and regional councils) was signed on 11 November 2015.

Similarly, accounting standardization activities were also marked by the holding of the XIII Plenary Assembly of the National Accounting Council (CNC) on 22 December 2015, during which it was recommended to carry out an institutional and operational reform of this Council with a view to making it a modern, dynamic, responsive monitoring structure capable of being integrated into the current national context, marked by the commitment of several institutional, macroeconomic and sectoral reforms and the rapid evolution of international accounting standards.

For its part, the project of convergence of the General Code of the Accounting Standardization (CGNC) towards the international accounting standards, is a priority project, with a view to modernizing our accounting and financial system and to bring it in line with the international standards, contributing thus to the improvement of the business climate in our country and to meeting the needs of domestic and foreign operators in better quality accounting standards.

Similarly, bills and draft methodologies related to consolidated accounts, prepared by an ad-hoc working group will be presented to the CNC bodies and will be followed by the elaboration of consolidation methodology, replacing that adopted by CNC in 1999.
3.4 - Implementation of an active management of the public portfolio

The implementation of an active management of the public portfolio (GAP) aimed at better governing the role of the shareholder State is now a major project aimed at strengthening the leadership of EEPs through creating value, improving competitiveness, developing investment, improving the yield of their equity, optimizing earnings and controlling risk.

In this context, the MEF, in its capacity as representative of the shareholder State, conducted a reflection supported by a study, to identify and implement an active management of the public portfolio.

Thus, the incarnation of this function and a precise definition of the objectives thereto appertaining remains an essential condition for the valuation of public contributions, through the creation of more value including shareholding, with a view to contributing even more to efforts of national socio-economic development. It should be carried out through the implementation of a system of active management of public contributions, that is based in four components:

- a shareholding strategy clarifying the orientations of the shareholder State and its commitments and requirements with regard to EEPs;
- a legal framework favoring active management of the public portfolio;
- institutional and organizational governance aimed at implementing an active and prudent public participation management;
- a target scope for the deployment of the shareholder strategy, dynamic and adapted to the objectives and stakes of the shareholder State.

Regarding the public shareholding strategy, it will be based on a long-term strategic vision with explicit and clearly defined objectives, thus making it possible to give more visibility to the various partners, particularly EEPs, regarding the choice of the State in terms of public shareholding.

This strategy aims, first of all, to create value around leader EEPs, encourage diversification of their sources of financing to further strengthen their investment efforts in the service of development and optimize their patrimonial intervention while working for the implementation of good governance practices.

In addition, the reflection on the incarnation of the role of the shareholder State has shown the need to revise the institutional and organizational model relating to the management of public shareholding through the creation of a dedicated structure. In this regard, a new structure has been created within MEF/DEPP.

As for the relevant perimeter to be put under active management, it will be restricted and composed of some thirty EEPs operating in different activity sectors (energy, transport, industry, etc.) selected on the basis of criteria allowing to assess the interest in applying this method of management, in particular the socio-economic and financial stakes carried by the entity as well as the expectations of the State vis-à-vis said entity.

This will enable the State to concentrate its efforts on a limited number of EEPs and to fully play its role as a shareholder through, in particular, a more active participation in the legislative bodies of the concerned EEPs, a permanent search for value creation and the defense of the State's patrimonial interests within said EEPs.