

## Summary of the report on Establishment and Public Enterprises (EPE) sector accompanying the 2021 Finance Bill

During his Speech from the Throne of July 29, 2020, His Majesty King Mohammed VI, may God assist him, gave his High Guidelines for the implementation of an ambitious recovery plan, the generalization of social coverage and the public sector reform.

Thus, His Majesty called for a profound reform of the public sector which must be launched with diligence to correct the structural dysfunctions of public establishments and enterprises, guarantee optimal complementarity and coherence between their respective missions and, ultimately, improve their efficiency. economic and social. To this end, he called for the creation of a National Agency whose mission will be to ensure the strategic management of state holdings and to monitor the performance of public establishments and enterprises.

Along this line, during the Speech to Parliament on the occasion of the opening of the 1<sup>st</sup> session of the 5<sup>th</sup> legislative year of the 10<sup>th</sup> legislature, His Majesty the King, may God assist him, called for a substantial and balanced redefinition the public sector and that the aforementioned Agency plays a key role in this area.

His Majesty the King also called for the creation of a Strategic Investment Fund "to fulfil a mission of supporting production, support and financing activities of major public-private investment projects, in various fields." And which the Sovereign called" Mohammed VI Fund for Investment ".

Thus, these Royal Directives stimulate a new dynamic of reform of a strategic sector for the country and constitute a historic turning point for Public Establishments and Enterprises (EPEs) which will see their strategic management, management and governance fundamentally transformed.

They follow on from those provided by His Majesty the King during the Council of Ministers of October 10, 2018 relating to the restructuring of certain EPEs with strong socio-economic challenges in order to perpetuate their economic models and establish the bases of their future development by refocusing their activities on their core businesses.

### I. THE PUBLIC SECTOR: PRESENTATION AND GLOBAL ANALYSIS

#### 1.1. Composition

##### 1.1.1. Composition and evolution of the public portfolio

At the end of September 2020, the public portfolio was made up of 225 Public Establishments (PE) operating in diversified sectors and 43 Public Limited Companies with Direct Participation of the Treasury (PLC-DPT).

In addition, it should be noted that these EPEs hold 492 Subsidiaries or Participations, of which 54% are majority owned. The Public Limited Companies (PLC) under the Territorial Communities group together 22 entities, which is almost the same number as the last two years.

## 1.1.2. Distribution of public portfolio by category

### ❖ Commercial EPEs

The category of **Commercial EPE** includes entities providing a market activity (M) of public goods and services and Public Financial Institutions (PFI).

At the end of September 2020, the commercial EPEs totalled 71 entities (including 28 Public Establishments and 43 Public Limited Companies with direct participation from the Treasury) thus representing 26.5% of the portfolio, while they hold 98% of subsidiaries and public holdings (482) .

### ❖ Non Commercial EPEs

The **Non-Commercial EEP** category includes entities of a Non-Commercial (NM) nature generally providing a public service (education, health, etc.) as well as Social Organizations (SO).

At the end of September 2020, non-commercial EPEs represented 73.5% of the portfolio (197 Public Establishments), while they only held 2% of subsidiaries and public holdings (10).

## 1.1.3. Sectoral and territorial distribution of the public portfolio

EPEs are present in virtually all economic and social sectors, including infrastructure, energy, agriculture, sea fishing, education, teaching, vocational training, health, tourism, industry, logistics and financial services. In addition, EPEs are increasingly developing their international presence.

On another note, development programs have been launched at the territorial level thanks to the involvement of a large group of EPEs, representing 64% of the public portfolio.

However, the public portfolio remains marked by a concentration at the level of two large regions (Rabat-Salé-Kénitra and Casablanca-Settat) with 53% of the total EPE. However, several entities headquartered in these same regions conduct their activities at national level.

In addition, a growing presence internationally with 86 subsidiaries, of which a fifth (1/5) is located in Africa, given the strategic opportunities offered by the Continent.

## 1.2. Main indicators

For the period 2018-2023, the evolution of the main economic and financial aggregates of EPEs is positive. However, for the 2020 closing forecasts, the trend is less favorable, given the economic effects dictated by the Covid-19 pandemic

The **Turnover (T/O)** of EPEs increased by 6% between 2018 and 2019, with a forecast decrease of 4% in 2020. The forecasts for the period 2021-2023 would see a gradual increase compared to 2020 to reach 308,640 MDH.

The **Added Value (AV)** increased in 2019 by 4% compared to the previous year, while the probabilities of closing the year 2020 would be down by 2% compared to the year 2019. The period 2021- 2023 would see an increase in the AV in the EPE sector.

For the 2020 financial year, the updated **investment** EPE forecast is 70.172 MDH, down 31% from the original forecast of 101.195 MDH. This adjustment is due in part, as usual, to the impact of decisions taken in the budget discussions of the work of the parliamentary bodies of the EPE. In addition, the decrease reflects the impact of the Covid-19 pandemic on the activity of some EPEs as well as on the implementation planning of some deferred projects.

For the 2021 financial year, investments in the EPE sector would increase by 17%, to 81,884 MDH, in a context marked by the uncertainties dictated by the Covid-19 pandemic.

On another level, the income paid by the EPE in 2019, to the General State Budget reached 13,794 MDH, i.e. a strong increase of 48% compared to the achievements of 2018 mainly due to the 900 MDH in the for the sale of assets between EPE and MAD 2,400 million under the new mechanism retained for the financing of the New Port of Safi. The completion rate is 120% compared to 95% at the end of December 2018.

The forecast of income from EPEs registered in the 2020 Amending Finance Law is MAD 14,697 million, i.e. an additional revenue of MAD 2,488 million compared to the initial forecasts (MAD 12,209 million).

For 2021, the estimates, including disposals of assets and excluding privatization revenues, estimated at 4,000 MDH, amount to 17,118 MDH and mark an increase of 16% over the forecasts of the Corrective Finance Act of 2020.

## II. EPE, MAJOR ACTORS IN ECONOMIC AND SOCIAL POLICY

The years 2019 and 2020 were marked by the continuation of dialogues with some PECs with strong socio-economic challenges, in particular ONCF, ONEE, Barid Al Maghrib, RAM, ADM, HAO and ONDA. The main objective of these dialogues is to identify structuring actions to be implemented to improve their governance and performance and to identify actions capable of consolidating the role of the State Shareholder.

In this context and with a view to launching the foundations of a new model capable of supporting the development and growth of the rail sector, the State-ONCF memorandum of understanding signed in July 2019, defines the restructuring of this sector through:

- 1<sup>st</sup> phase dedicated to the reprofiling of the Office's debt, the disposal of non-strategic assets, the valuation of the assets around the stations
- 2<sup>nd</sup> phase of institutional transformation to be launched in 2022, leading to the separation between commercial operation and management of the development of the railway infrastructure.

For the airport sector, consultations are continuing for the implementation of the recommendations of the study relating to the new economic model of ONDA aimed at the separation between the sovereign mission relating to civil aviation and the commercial operation of major airports. to be supported by dedicated entities to ensure the development and professionalization of management, while further promoting partnership with private operators.

Concerning the RAM and given the severe impact of the Covid-19 crisis on the air transport sector in Morocco and around the world, the stakeholders are diligently pursuing consultations for the in-depth review of the model of this company to ensure optimal positioning on the market, notably through a restructuring plan relating to the resizing of the fleet, the optimization of costs and the reshaping of its workforce.

With regard to the electric energy and drinking water sector, the steering committee for the study to set up regional multiservice distribution companies integrating the 3 businesses (electricity, drinking water and liquid sanitation) is continuing its works. This structuring project is part of the strategic vision whose purpose is to achieve the separation between the activities of Production, Transport and Distribution.

In the same vein, and in accordance with the reform of the institutional framework of the Renewable Energies (RE) sector introduced in 2016, in March 2020, the agreement for the transfer of RE projects from ONEE to MASEN was concluded. pending completion of this operation before September 2021 by resolving all the constraints to be overcome in order to formalize the effective porting of renewable energies by MASEN

For its part, the ONMT has put in place an action plan by setting itself the objective of transforming the crisis linked to the Covid-19 pandemic into an opportunity and quickly regaining market share with issuing countries while preserving competitiveness. of the Morocco destination in a context of reconquest of markets and increased competition post-crisis.

## III. MALFUNCTIONING AND FRAGILITIES HINDERING THE DEVELOPMENT OF THE PUBLIC SECTOR

The results of the diagnostics carried out by the various control bodies (Parliament, Court of Auditors, External Audits carried out on behalf of the Head of Government, General Finance Inspectorate, control officers of the

Ministry in charge of Finance, etc.) show that, despite the various contributions of EPEs to socio-economic development (infrastructure, public services, international presence, etc.), their development remains hampered by a number of dysfunctions and weaknesses including:

- The multiplication of EPEs, particularly those of a non-market nature, with some overlapping between EPEs or with administrative structures under the responsibility of ministries;
- The dependence of the EPE in particular those not merchant of the General Budget of the State;
- Concentration and weakness of transfers to the state;
- The growing needs expressed by commercial EPEs in terms of state support in equity and/or guarantees for their sustainability/development;
- The absence of synergies and critical sizes allowing for external growth;
- The lack of momentum in the economic models of some PEEs and governance needing to be further boosted.
- Liquidations (more than 70 entities) which have dragged on for more than a decade due to lack of voluntarism, in particular technical supervision

These weaknesses were exacerbated by the context born of **the Covid-19 pandemic** which directly affected some PECs exposing their structural weaknesses. At the same time, the crisis creates new opportunities for substantive and accelerated reforms.

#### IV. CHANNELS FOR A DEEP REFORM OF THE PUBLIC SECTOR

### PHASE I (October 2018 - June 2020): ACTION PLAN FOR THE RESTRUCTURING OF EPE

During the year 2019 and until July 29, 2020, date of the **Throne Speech**, the implementation of the action plan put in place in application of the **Royal Guidelines provided during the Council of Ministers of October 10, 2018** aimed at restructuring of some PECs was continued.

Thus, the years 2019 and 2020 were marked, in particular, by the continuation of **strategic dialogues** with certain EEPs with strong socio-economic issues mentioned above, in particular the ONCF, ONEE, Barid Al Maghrib, RAM, ONDA, HAO and ADM.

In addition, the strengthening of the governance of the EPE is sought through the **reform projects of the governance and financial control system of the State on the EPE and updating of the Code of good practices for the governance of the EPE.**

In addition, and following the Royal Guidelines contained in the Royal Speech of August 20, 2018 and the Council of Ministers of October 10th 2018, the MEFRA continues to undertake actions with the objective of putting in place concrete solutions to the problem of **deadlines of payment** including those of EPE. Thus, since October 2019, there has been a regular monthly publication of the payment terms declared by the EPEs. The latter were also encouraged, like other public operators, to accelerate the payment of sums due to companies, in particular SMEs and very small businesses following the dissemination of the MEFRA circular of March 26, 2020 on this subject. Likewise, 2020 was marked by the holding of the 3rd meeting of the Observatory of Payment Deadlines on February 7th 2020, at the end of which it was agreed to put in place a system of pecuniary sanctions against companies with delays beyond regulatory limits whose proceeds will be allocated to support the financing of entrepreneurship. At the same time, the gradual implementation of electronic filing of invoices at the EPE level was initiated following the MEFRA circular of June 1st 2020. The combination of these actions leads to a substantial reduction in the payment deadlines for EPEs In terms of **public procurement**, the year 2020 was marked by the acceleration of the implementation of the national preference through the publication of two circulars, including that of the Head of Government, of November 25th 2020 Circular n ° 15-20 -cab of 21 moharrem 1442 (September 10, 2020), relating to the application of national preference and the encouragement of the use of national products. The second MEFRA circular, dated July 28, 2020, invites EPEs with their own procurement regulations to amend the said regulations in order to align with the new provisions introduced by the regulations governing public procurement as completed in 2019 and this, in terms of the obligation to resort to national preference and access of cooperatives, unions of cooperatives and self-employed persons to EPE markets.

On another level and with the objective of further developing **Public-Private Partnerships (PPP)**, 2020 saw the adoption of Law No. 46-18 amending and supplementing Law No. 86-12 on PPP contracts. The implementing texts

of this law, introduced into the approval circuit in September 2020, address a number of issues relating to the institutional framework and the operating mode, particularly in terms of governance and the specificity of local authorities.

Regarding **privatizations**, the program covering the period 2020-2023 concerns entities registered on the list of privatizations, namely Maroc Telecom, Marsa Maroc, BIOPHARMA, SONACOS, La Mamounia and Energie Electrique de Tahaddart.

Under the Amending Finance Law for 2020, no revenue has been provided for the disposal of State holdings. The completion of the said disposals has been rescheduled for the years 2021 and 2022, due to the context marked by the Covid-19 pandemic, market conditions, as well as the legal and regulatory deadlines and procedures necessary for the completion of operations. privatization.

## PHASE II (FROM July 29th 2020): LAUNCH OF THE DEEP REFORM OF THE PUBLIC SECTOR

During the **Council of Ministers of October 14th 2020**, the emphasis was placed on strengthening the exemplary nature of the State and the rationalization of its management, through the launch of a major reform of the public sector, the treatment of structural dysfunctions of public establishments and enterprises with the aim of achieving greater complementarity and coherence in their missions and improving their economic and social efficiency.

To this end, the main actions taken or in preparation for the deployment of the deep reform of the public sector in application of the High Royal Guidelines contained in the Royal Speech of July 29th 2020 and in the Royal Speech to Parliament on the occasion of the opening of the 1st session of the 5th legislative year of the 10th legislature, mainly concern:

- The reform of the EPE through the substantial and balanced redefinition of the public sector and the conduct of proactive operations to restructure and resize the EPE sector;
- The creation of the National Agency responsible for ensuring the strategic management of State holdings and monitoring the performance of EPEs.

### 1. Founding texts of public sector reform

With a view to the rapid operationalization of the aforementioned Royal Guidelines, two founding texts are proposed for adoption before the end of 2020 and relate to:

- Reform of the EPE;
- The creation of the National Agency responsible for the strategic management of State holdings and monitoring the performance of EPE.

These projects will make it possible to supervise and plan the resizing and restructuring operations of the EPE sector and to bring out the role of the State Shareholder which will be carried by the future Agency.

In addition, work is underway to quickly implement all the mechanisms likely to guarantee the necessary effectiveness of the interventions of the **Mohammed VI Fund for Investment**. The formentioned Fund, initially created in the form of a C.A.S, will be endowed with the legal personality and adequate managerial structures able to guarantee its contribution to the success of the recovery of the Moroccan economy in a context marked by the negative impacts of the Covid- 19.

### 2. Axes of the reform

#### 2.1. For a comprehensive reform of the EPE

For the conduct of the reform, a **differentiated approach to the portfolio is considered, distinguishing two categories** for which the proposed actions will be adopted:

- For **commercial EPEs (Merchants and Financials)**:
  - Strengthening the sustainability of the model: reduction of dependence on the BGE, better contribution to the BGE, valuation of assets, PPP, etc.;

- Generalized transformation of said Public Establishments into Public limited companies;
  - Creation of new homogeneous sectoral groups/holdings;
  - Liquidation/dissolution of EPE whose mission is no longer proven.
- For **non-commercial EEPs (Non-commercial and social)**:
    - Liquidation / dissolution of EPEs whose mission is no longer opportune with the reinstatement of certain missions in the concerned ministries;
    - Regrouping of some EPE whose mission would be justified but requiring synergies ;
    - Review of models and missions to reduce dependence on the BGE.

In this context, the reform will relate, according to a **targeted and proactive approach**, to the following main components covered by the provisions of the bill : transformation of public establishments (PE) of a commercial nature into public limited companies **(A)**, dissolution / liquidation of EPE **(B)**, evaluation of the EPE missions **(C)** and Creation of public establishments and enterprises **(D)**.

#### ***A. Transformation of public establishments (PE) of a commercial nature into public limited companies.***

This section will include general provisions applicable to PE concerned by this transformation as well as specific provisions to certain PE to deal with aspects relating to the carrying out of sovereign missions (regulation, public service, public power, etc.).

#### ***B. Dissolution/liquidation of EPE***

The dissolution / liquidation of some EPE is motivated by the fact that their missions are no longer appropriate and / or outdated and their contributions in terms of socio-economic development near zero. At first glance, it should be remembered that 74 EPE liquidation operations are in progress and have been going on for more than a decade due to lack of voluntarism from the stakeholders. In this regard, a study on the reform of the liquidation system was launched by MEFRA in 2020.

Regarding the draft bill, it will establish the list of EPEs and subsidiaries and companies whose fields of action no longer correspond to the missions of establishments and parent companies and which must be subject to dissolution/liquidation. It will be an opportunity to introduce certain rules and deadlines able to avoid reproducing the difficulties and delays that marked previous operations, including in particular the establishment of a Central Authority in charge of liquidations.

#### ***C. Evaluation of the EPE missions***

The absence of a mandatory mechanism for the evaluation of EPE missions on a regular basis has resulted in the maintenance of some EPE whose existence is no longer justified.

Thus, the reform project will establish the obligation to assess, over a ten-year period at least, the relevance of maintaining existing EPEs through an in-depth assessment of their missions. These evaluations should also relate to the subsidiaries.

#### ***D. Creation of public establishments and enterprises***

The creation of new EPEs as well as their subsidiaries must obey precise rules and have as an immediate effect the abolition of the administrative or ministerial structure or any other organization previously in charge of the same missions devolved to the public establishment or the public enterprise concerned and the transfer if applicable of the resources at its disposal to the newly created entity.

Regarding the creation of new subsidiaries, it should be limited to duly justified cases such as the creation of strategic alliances or the backing of private or public partners according to a viable business model.

Control of the size of the public portfolio is also sought through consolidation/merger/attachment/merger operations.



Finally, this control of the portfolio will also be carried out through the transfer of certain entities to the private sector totally or partially according to the new vision of the shareholding strategy of the State which will be carried by the new Agency to be created.

## **2.2. Project to create the National Agency for the strategic management of State holdings and EPEs performance monitoring**

One of the levers of the reform consists in the creation of a National Agency whose mission will be to ensure the strategic management of State holdings and to monitor the performance of the EPEs.

The main tasks of this Agency, within a predetermined EPE scope, will be to:

- Ensuring the State's economic interests;
- Incarnate and exercise the function of the State Shareholder, ensuring strategic management of the State's holdings;
- Monitor the performance of public establishments and enterprises;
- Professionally represent the State in the deliberative bodies of public establishments and enterprises within the scope of the Agency's action;
- Implement the privatization program and other capital operations.

The main objectives of the Agency revolve around:

- Modernization and improvement of governance, transparency and accountability of establishments and EPEs falling within its scope as well as the development of CSR;
- The search for synergies and economies of scale at the level of certain EPE groups;
- Monitoring the performance of EPEs while ensuring the sustainability of their model and their financial profitability;
- Management control of EPEs falling within its scope, via a system of dissemination and feedback of information making it possible to regularly monitor and evaluate their performance.

The scope of the Agency, to be updated regularly, will include all EPEs with a commercial vocation.

On another level, the amendment of the provisions relating to privatization is necessary so that the Agency to be created can carry the prerogatives of the Minister in charge of privatization defined by Law No. 39-89. This amendment will make it possible to adapt the processes relating to capital operations (including privatizations, asset sales, equity investments, etc.) to the accountability objectives of governance bodies and EPE leaders.

## **2.3. Establishment of the Mohammed VI Investment Fund**

As part of the economic recovery plan aimed at mitigating the negative impacts that Morocco is suffering, like the rest of the countries of the world, in relation to the health and economic crisis linked to the Covid-19 pandemic and in conformity with the Royal Instructions a Strategic Investment Fund was created in the form of a Special Assignment Account, with a target size of MAD 45 billion, under the provisions of Decree No. 2-20-528 August 12, 2020.

This Fund, already endowed with MAD 15 billion, is intended to support production activities, support as well as the financing of major public-private investment projects, in various fields of activity.

To operationalize this mechanism, the "Mohammed VI Fund for Investment" will have legal personality in the form of a public limited company with a board of directors. The mission of this company will be to support the activity of economic operators including private sector companies and EPEs, support and finance major public and/or private investment projects in various fields.

The creation of the Mohammed VI Investment Fund, in the form of a public limited company, has advantages linked in particular to the mode of governance, the efficiency of management and transparency.

This institutional framework will also allow the Fund to adopt an investment strategy that gives more visibility to the priorities and choices of State intervention in the economic sphere.