

Report on the Public Establishments and Enterprises (EEP) sector accompanying the 2024 Finance Bill - SUMMARY -

The role of the EEP has become more visible over the last few years, thanks to their involvement in the strategic projects launched by **his majesty the king, may God assist him.**, notably those relating to the generalization of social protection and quality education, the deployment of the new national health system, the promotion of private investment, the extension of infrastructures and the acceleration of strategic programs in the water, energy, agriculture, transport, logistics ports, fisheries, tourism and water and forestry sectors.

In view of the strategic stakes, involved, public authorities are stepping up measures to restructure and reform this sector, with the aim of making their models more viable, modernizing their governance and enhancing the efficiency of their actions.

In this context, the New Development Model (NMD) emphasizes the need to reform the EEPs in view of their structuring role in sectors that are strategic for national competitiveness, and their ability to drive sectoral and territorial ecosystems. According to the NMD, this reform will involve empowering the EEPs, managing them on the basis of performance, clarifying their supervisory role and separating the functions of strategy, management and regulation.

In line with the **Royal High Directions**, in particular, those set out in the **Royal Speech** of July 29, 2020, which called for far-reaching reform of the PPE sector, Framework Law 50-21 on PPE reform was published in July 2021, defining the objectives and principles of the reform and the types of action to be taken to implement it.

One of the key objectives of this reform is to optimize the size of the public portfolio, enabling the State to concentrate on sectors of activity considered strategic for the national economy and offering margins for growth, while avoiding the dispersal of resources in lower-priority areas.

Restructuring operations can include the elimination of low-impact activities, the merger or regrouping of entities to create more efficient ones, or the transfer of certain activities to private players better able to manage them, with the aim of fostering value creation, stimulating efficiency and innovation, and reducing calls on the State budget.

The Head of Government's Guidance Note n° 11/2023 of August 04, 2023, concerning the preparation of the 2024 Finance Bill, confirms the choices made to boost the national economy by pursuing efforts to implement the **High Royal Orientations** and the various components of the government program. This will enable our country to enter a new phase in its development dynamic, and open up broader prospects for reforms and large-scale projects to serve our citizens. Thus, the general orientations of the Finance Bill for the 2024 fiscal year are as follows:

1. **Implementing the general reconstruction and upgrading program for the regions affected by the Al Haouz earthquake, as well as reinforcing measures to combat the economic impact of the earthquake;**
2. **Continuing to consolidate the foundations of the social State ;**
3. **Continued implementation of structural reforms ;**
4. **Strengthening the sustainability of public finances.**

I. COMPOSITION AND PERFORMANCE OF THE PUBLIC PORTFOLIO

The public portfolio, which forms a solid foundation for the country's model of economic and social growth and development, is characterized by its consistency and the diversity of the entities that make it up, thus offering a wide range of ways to consolidate performance in its sectoral, territorial and international dimensions.

1. Composition of the public portfolio

At the **end of September 2023**, the public portfolio comprised **272 EEPs**, broken down as follows:

- **227 Public establishments (EP)¹ ;**
- **45 Public limited companies with direct Treasury participation ² (SA-PDT).**

In addition, some EEPs own subsidiaries and/or holdings totalling 517 entities, 53% of which are majority-owned.

The above-mentioned public portfolio of **272 EEPs** does not take into account **21 limited companies owned by local authorities (CT)**, the same number as the previous year, which are controlled and monitored by the public portfolio.

2. Economic and financial indicators

In terms of financial performance, **total sales** and **added value** of the EEPs will rise from **285,482 MDH** and **97,164 MDH** respectively in 2021 to **331,905 MDH (+16%)** and **83,979 MDH (-14%)** in 2022. Similarly, **the operating profit³** of EEPs in 2022 amounted to **51,478 MDH**, compared with **41,772 MDH** in 2021, while **the operating profit¹** of EEPs increased by **167%** from **-10,594 MDH to -28,336 MDH**.

Net profit¹ is set at **34,220 MDH** in 2022, up 34% compared to 2021. The net loss¹ has fallen sharply by 250%, from **-9,485 MDH** in 2021 to **-33,176 MDH** in 2022.

It should be emphasized that the decline in results for the EEPs sector in 2022 is largely due to the contraction in results for EEPs in the strategic management perimeter. Indeed, the operating and net results of this perimeter have fallen, respectively, from **31,765 MDH** and **14,703 MDH** in 2021 to **23,426 MDH** and **-744 MDH** in 2022.

Closing forecasts for 2023 predict a return to the upward trend in results for the EEPs sector, with an improvement in operating results (**27,435 MDH**) and net results (**12,508 MDH**). For the strategic management perimeter, these forecasts point to an improvement in operating income and net income to **28,183 MDH** and **11,308 MDH** respectively.

¹These are legal entities under public law, with legal personality and financial autonomy, qualified as public establishments by their founding documents.

²These are private companies whose capital is held directly in whole or in part by the State.

³ Excluding the Moroccan Retirement Fund (CMR) and the National Social Security Fund (CNSS).

3. Investments by Public Establishments and Enterprises

In 2022, **investments** made by the EEPs will total **76,752 MDH**, representing a realization rate of 77% of initial forecasts and marking an increase of 20% compared with 2021 (**64,164 MDH**). For the 2023 financial year, the adjusted forecast investment volume of the EEP amounts to **143,569 MDH**, recording a slight increase of 2% compared with the initial forecasts set out in the 2023 Finance Act. This readjustment is explained by the updates subsequently introduced during the budget discussions and deliberations of the EEP's deliberative bodies. The closing forecasts for 2023 are based on an investment volume of **89,944 MDH**, representing 63% of the adjusted forecasts.

Forecasts for the years 2024, 2025 and 2026, for investments by EEPs would be, respectively, **152,013 MDH**, **123,110 MDH** and **112,825 MDH**.

4. Financial relations between the State and EEPs

On another level, the **financial relationship between the State and the EEPs** is gradually consolidating, insofar as the income from **dividends and contributions** paid by the **EEPs** to the State has risen from **10,711 MDH** in 2021 to **13,146 MDH** in 2022, while the closing forecasts for 2023 are estimated at **16,787 MDH**. This does not take into account proceeds from privatization and asset disposals amounting to **8,000 MDH** in 2023, of which **5,000 MDH** relates to **privatization operations** that are not expected to be carried out due to the unfavorable context, and **3,000 MDH** to asset disposals for which the estimated amount is limited to **2,880 MDH**.

At the end of September 2023, income paid out by EEP amounted to **10,363 MDH**. Closing forecasts are for an amount of **16,787 MDH**, compared with the **16,464 MDH** initially forecast for 2023.

Forecasts for the 2024 financial year are for **15,440 MDH** in proceeds from dividends and contributions from **EEPs**, down almost 8% on the updated forecast of the 2023 Finance Act (**16,787 MDH**), in addition to **9,000 MDH** in expected proceeds from privatization and asset disposals.

In 2022, **total State subsidies granted to the EEPs** amounted to **55,879 MDH**, of which 51% was for operations, 33% for investment and 16% for capital grants. Forecasts for 2023 stood at **65,139 MDH**, 66% of which had been realized by the end of September 2023.

II. SECTORAL POLICIES SUPPORTED BY EEP

The international context, marked by a succession of crises and persistent geopolitical tensions, has resulted in strong pressure on global economic growth, due in particular to rising commodity prices, volatile financial markets and disrupted supply chains.

This context was also marked by more exacerbated impacts on the national economy due to prolonged water stress, resulting in higher water costs and costly programs to mobilize water resources.

These developments have had differentiated repercussions on the public utilities, with a more pronounced impact on **ONEE**, which has recorded substantial financial deficits as a result of rising fuel prices and the massive use of more expensive water sources (seawater desalination, etc.).

To guarantee the continuity of drinking water and electricity services, support measures have been taken under a memorandum of understanding signed between the State and **ONEE** in November 2022.

In the **air transport sector**, after three years of declining business, **RAM** is aiming for a sustained recovery in traffic, which had reached 92% by the end of April 2023 compared with the volume achieved in 2019, opening up promising prospects for the Company as it launches its plan to develop and strengthen its fleet.

For its part, after two years of health crisis, **ONDA** has managed to restore its financial equilibrium following the recovery of a large proportion (96%) of pre-crisis traffic.

As regards **ONCF** and **ADM**, despite the resumption of activities having reached levels close to those of 2019, their financial structures remain marked by a structural imbalance under the effect of the worsening of the service of repayment of their debt, mobilized, essentially, for the financing of infrastructure and which has reached levels disproportionate to the model of these entities.

With regard to the Royal project to generalize social protection, an assessment of the achievements of the commitments made in this respect shows that the number of new AMO members had reached **14.1 million by the end of September 2023**, out of a **target of 22 million**, highlighting the difficulties encountered in terms of communication and redundancy of beneficiary information.

Likewise, CNSS has stepped up its efforts to meet the target of extending family allowances to 7 million children by the end of 2023.

The same applies to commitments relating to the extension of the pension scheme membership base to 5 million working people, and to the generalization of compensation for loss of employment (IPE) by 2025.

It should be emphasized that the project to generalize social protection will undergo profound changes following the **royal high directions** in the **royal address** to parliament on October 13, 2023, calling for the operationalization, from the end of 2023, of the **direct social assistance program**. The latter will no longer be limited to family allowances insofar as this program will also benefit certain needy bangs of society.

When it comes to mitigating the effects of water stress, the public utilities concerned (**ONEE, ABH, ORMVA, distribution operators, etc.**) play a crucial role in drawing up and deploying action plans and carrying out projects to combat the effects of drought and the increasing scarcity of water resources. This is part of the National Drinking Water Supply and Irrigation Program (PNAEPI 2020-2027), set up under the **high royal directives**. Indeed, these entities are committed to implementing the components of this program, which essentially concern water transfer projects, the construction of seawater desalination and purified wastewater reuse units, awareness campaigns to promote actions to save and rationalize water consumption, and the acceleration of action plans to boost network performance and convert irrigation methods.

For its part, **OCP** has embarked on an ambitious program at a total cost of **23,500 MDH**, essentially dedicated to the construction of several seawater desalination units and the reuse of purified wastewater.

In the energy sector, the action plans of **MASEN** and **ONEE** have been reoriented to bring them into line with the objectives of the energy transition strategy, and to reduce our country's energy dependency by accelerating the development of renewable energies (RE), as launched by **his majesty the king, May God assist him**. The target of 52% of the electricity mix by 2030 will be reached in 2027, rising to over 60% by 2030.

Similarly, and in accordance with the **high royal directions**, work is underway to draw up a roadmap setting out Morocco's offer for the development of the green hydrogen sector.

For its part, **ONHYM** is continuing to roll out its action plan, aimed in particular at bringing new natural gas discoveries on stream and developing a natural gas transmission network. The purpose is to accelerate the transition to a low-carbon energy mix and guarantee greater flexibility in the face of the intermittency and variability of renewable energies, thereby promote the development of large-scale renewable energy production.

In addition, discussions and studies have been launched to consolidate **MASEN's** and **ONEE's** financial models and optimize their repositioning in line with the objectives of accelerating the energy transition strategy.

In the field of vocational training, the OFPPT is continuing to implement its roadmap, which focuses primarily on a thorough overhaul of the specialties map, upgrading the training offering and creating a new generation of training centers (Cités des Métiers et des Compétences (CMCs)).

With regard to CMCs, housing estates in four regions (Souss-Massa, Laâyoune Sakia-El Hamra, Oriental and Rabat-Salé-Kénitra) have been commissioned, while 3 CMCs (Béni Mellal-Khénifra, Tanger-Tétouan-El Hoceima and Casablanca-Settat) will be ready for start-up in 2023-2024. Financial commitments under this program have reached **4,046 MDH**, representing 79% of its overall cost.

With regard to business support, and with a view to stepping up initiatives to promote access to financing, the Société Nationale de Garantie et de Financement de l'Entreprise (**SNGFE**) has launched, in conjunction with banks, a digital platform dedicated to putting project sponsors in touch with banks. In terms of achievements, by 2022, SNGFE had mobilized a credit volume of **47,600 MDH** for 83,300 operations, including 68,800 for SMEs and 14,500 for individuals. Closing forecasts for 2023 are based on a commitment level of **30,218 MDH**.

For its part, the **Mohammed VI Fund for Investment (FM6I)** has, since the effective start of its activities in December 2022, carried out the due diligence required for the preparation and approval of its development strategy and action plan. They have been structured in line with national priorities, notably in terms of promoting private investment and consolidating national sovereignty in the energy, food and water sectors.

The Fund's action plan is based essentially on co-financing major strategic projects aimed at strengthening national sovereignty in key sectors, acquiring stakes in companies carrying priority projects via sub-funds to be entrusted to management companies (an AMI for the selection of these companies is currently being evaluated). The Fund also plans to support infrastructure projects by aligning their structuring with the best standards to anticipate investor requirements.

In this way, the Fund aims to achieve an investment volume of **120 MMDH** over 2023-2026.

With regard to the agricultural sector, the sector's EEPs are continuing to roll out the "Generation Green 2020-2030" strategy, the main components of which focus on agricultural aggregation, PPP projects around State-owned farmland, encouraging youth entrepreneurship in the agricultural sector and improving the agricultural investment environment.

Through their adapted action plans, the EEPs operating in the agricultural sector are making a massive contribution to consolidating the sector's performance. Indeed, despite the pressure of water stress and the scarcity of water resources, exports of agricultural and agri-food products in 2022 will reach **81,236 MDH**, compared with **69,891 MDH** in 2021, an increase of 16.2%, making this sector the **3rd largest source of foreign currency** earnings, behind phosphates and automobiles.

It should be pointed out that by the end of 2022, the total cumulative area covered by PPP projects had reached 116,970 ha, including three new PPP projects to be deployed in 2022, such as the Dakhla project to irrigate a 5,200 ha perimeter using seawater desalination.

As far as tourism is concerned, 2022 was a pivotal year for this sector, thanks to the historic achievement of the Atlas Lions at the World Cup in Qatar, and the intelligent coordination of efforts across the entire tourism ecosystem, which led to a gradual recovery in pre-Covid performance.

In this context, **the ONMT** has stepped up its efforts to successfully restart business and strengthen the fundamentals of promoting Morocco as a destination, enabling the recovery of a large proportion of the volume of business recorded in 2019.

By the end of 2022, Morocco had welcomed more than **10.8 million tourists**, up **+192%** compared to 2021 and - 16% compared to 2019, while revenues generated by the sector reached **91 MMDH**, up 166% compared to 2021 and 16% compared to 2019.

In the phosphates sector, the OCP has set itself a new strategic course based on sustainable development and the transition to decarbonization of its production. With a budget of **130 MMDH**, the Green Program 2023-2027 aims to strengthen the Group's strategic positioning in the sustainable fertilizers sector, opening up new horizons for growth while consolidating the foundations of its competitiveness.

In terms of financial performance, following the sharp rise in phosphate product prices in 2022, due to inflationary pressures linked to international conflicts, the OCP achieved record sales of **114,574 MDH** in 2022, up 36% on the previous year. Exports, all segments combined, rose from **79,638 MDH** in 2021 to **111,068 MDH** in 2022.

III. Operationalization of the comprehensive reform of the EEPs sector

The reform of the EEPs sector is a continuation of the efforts made following the **high royal directions** at the Council of Ministers on October 10, 2018 relating to the restructuring of certain EEPs with high socio-economic stakes. The aim is to perpetuate their models and lay the foundations for their future development through the refocusing of their activities on core businesses.

The **Mohammed VI Fund for Investment (FM6I)** held two meetings of its Board of Directors in December 2022 and March 2023. The Fund also took the necessary steps to prepare and approve its development strategy and action plan, which focuses primarily on co-financing major strategic projects aimed at strengthening national sovereignty in key sectors, equity investments in companies carrying out priority projects, through sub-funds to be entrusted to management companies (an AMI for the selection of these companies is currently being evaluated). It also includes support for infrastructure projects by aligning their structuring with the best standards to anticipate investor requirements.

With regard to framework **law no. 50-21 on the in-depth reform of the EEPs sector**, concrete progress has been made in preparing the implementing regulations, making the National Agency for Strategic Management of State Holdings and Monitoring of EEPs (ANGSPE) operational, and carrying out EEPs restructuring operations.

Of the four **legislative texts** provided for in the aforementioned framework law, two are currently being finalized in consultation with stakeholders. The texts concern the reform of the governance and financial control framework for public limited companies, and the introduction of a privatization regime. The third text, concerning the creation of the Central Liquidation Authority, is currently the subject of a study. The fourth text concerns Act no. 40-22 setting the number of independent directors and the conditions and procedure for their appointment to the decision-making bodies of public companies, which was published on July 17, 2023.

As for the five **regulatory texts**, two decrees have already been published, dealing respectively with the terms and conditions for appointing and remunerating State representatives sitting on the governing bodies of EEPs, and the terms and conditions for appointing and remunerating independent members sitting on the governing bodies of Public Establishments. The 3rd draft decree, which has been put on the adoption circuit, concerns the contractualization of relations between the State and EEPs, while the draft decree approving

the code of good governance practices for EEPs is currently being finalized. The 5th text, concerning the evaluation of the public domain made available to EEPs, is currently being drafted.

ANGSPE became operational on December 12, 2022, the date of its first Board of Directors meeting. In accordance with article 49 of the French Constitution, ANGSPE is continuing to carry out a study, entrusted to a specialized firm, to establish the State's shareholding policy, to be approved by the Government Council and drawn up in line with the strategic guidelines to be approved by the Council of Ministers.

With regard to the **restructuring of the EEPs**, consultations and discussions led to the development of a roadmap aimed at rationalizing the size of the public portfolio, strengthening the EEPs' business models and enhancing the performance and impact of their actions. Certain sectors have been prioritized, including energy, transport and logistics, as well as other sectors (audiovisual, gaming and the national lottery) and high-stakes public enterprises (RAM, HAO, Barid Al Maghrib). These restructuring operations are being carried out as part of a collective, partnership-based approach, and aim to address, within a planned framework, all the risks and issues that stand in the way of the performance and development projects launched by the various players.

Similarly, a **strategic audit** of the social sector (ADS, ODCO and EN) is currently being carried out by a specialist firm. The aim is to establish an optimal institutional and organizational framework to ensure greater efficiency in public policies in the field of social development, and reduce recourse to the State budget.

IV. Public-private synergies and EEP's contribution to improving the business climate

The **Moroccan Code of Best Practices in Corporate Governance** was published for public consultation in July 2023 by the Commission Nationale de la Gouvernance de l'Entreprise (CNGE), noting that the code was developed in consultation with EEPs and leading governance institutions. As of the date of this report, the new version of the code, duly impacted in light of the proposals received during the public consultation, has been communicated to the CNGE with a view to its adoption, and then put on the adoption and publication circuit in accordance with article 38 of the aforementioned framework law no. 50-21.

Concerning the **contractualization of relations between the State and the EEPs**, and in accordance with article 36 of framework law no. 50-21, the draft decree setting out the terms and conditions under which program-contracts must be concluded between the State and the EEPs was finalized and forwarded to the SGG on April 20, 2023. Similarly, a new methodological guide to contractualization has been introduced, with the aim of adapting it to new priorities, notably the prior completion of a strategic reflection to better clarify the objectives of the strategy and the action plans covered by the contract, and to clarify roles, commitments and responsibilities of the parties to the contract, and to structure the contract as part of an overall approach focused on making the EEP model concerned viable, and raising to the highest standards the tools for its management, governance, steering and reporting, as well as targeting aspects relating to restructuring and the enhancement of synergies and complementarities.

With regard to the issue of **payment times**, efforts are continuing to bring about a favorable trend in payments between private companies. To this end, and in order to capitalize on the progress made in reducing public-sector payment times, innovative measures have been introduced, notably through the new system of financial penalties for companies exceeding legal payment times, in accordance with Act no. 69-21 amending Act no. 15-95 forming the Commercial Code and enacting special provisions relating to payment times, which was published in June 2023. In July 2023, a circular from the Ministry of Economy and Finance was sent to the EEPs concerned to raise their awareness of this new measure, and to call on them to adapt their information and management systems to better implement the aforementioned law.

With regard to the implementation of the new legal framework governing **public-private partnership (PPP)** contracts, and following the publication in March 2020 of law no. 46-18 amending and supplementing law no. 86-12 on PPP contracts, steps are well underway to put in place the implementing regulations provided for by this law, which are a prerequisite for its entry into force. These include the amendment of the decree appointing the members of the ministerial committee in charge of PPP, which has been put on the publication circuit. Similarly, the draft decree governing the pre-qualification of candidates for PPP projects has been finalized and will be published shortly. The entry into force of these implementing texts will enable the work of the National PPP Commission (CNPPP), chaired by the Head of Government, to get underway. Its main tasks are to approve the general guidelines and national strategy for PPPs, as well as the multi-year national program of PPP projects.

Finally, with regard to **digital transformation**, and in line with the national digital development strategy, an action plan has been put in place, giving priority to the digitization of business processes, particularly with regard to the exercise of financial control over EEPs, and the simplification of activity management procedures. These actions capitalize on the achievements of 2022, and set as their main objective the use of electronic signatures in all priority processes by 2026, through close collaboration with the EEPs and taking into account the challenges linked to the reform of the EEPs sector.