



Progress Report on Public Enterprises Appended to the 2009 Finance Bill

Public Enterprises have always been key vectors for social and economic development of the country by:

- F** Taking part in the important national programmes initiated by the government, as modernisation and development of port, highway, rail and airport infrastructure, as well as programmes related to the basic infrastructure of rural area (PERG, PAGER and PNRR2);
- F** Extensively taking part in social sectors; i.e., training-insertion schemes, construction of social housing and implementation of Compulsory Health Insurance (AMO).

The operational restructuring of these enterprises has been carried out as part of contract programmes with the state to assist them in their investment effort, and to reinvigorate economic viability.

Thanks to the multiplier effect of privatisation revenues, the Hassan II Fund has confirmed its lever role in productive investment, mainly in sectors related to infrastructure, industry and tourism.

1. Performance of Public Portfolio

At the end of 2007, the inventory of Public Enterprises, the state's direct and indirect economic interest and local councils totalled 695 entities, against 673 in 2006.

According to the classification introduced by law n° 69-00 related to the state's financial control in Public Enterprises and other institutions, the public portfolio comprises:

- 255 Public Enterprises (EP) ;
- 440 firms comprising:
 - § 94 State-owned institutions (SE) ;
 - § 120 Public subsidiaries (FP) ;
 - § 226 Mixed Companies (SM).

The public portfolio has 57 entries, 7 of which are subsidiaries of Al Omrane Holding, 5 new urban agencies, equity participation in CDG and BCP, and 35 disbursement, 7 of which are ex-ERAC, DRAPOR, COMANAV and its subsidiaries.

Generally, the contribution of Public Enterprises to the country's financial and economic aggregates, through the major indicators, confirms the importance and dynamism of this sector.

As far as the last financial year is concerned, 2007 saw a clear improvement of the performance indicators of the public portfolio, as shown in the following data:

q Investment	: MAD 49.5 million, with an increase of 20.9% representing 8% of GDP and 25.7% of GFCF (Gross Fixed Capital Formation);
q Turnover	: MAD 133.3 million, an increase of 9.8% ;
q Added Value	: MAD 54.2 million, a progression of 21.1% ;
q Current Operating Income	: MAD21.9 million, an increase of 61.5% ;
q Ongoing Results	: MAD 25.6 million, an increase of 111.6% ;
q Net Results	: MAD 21.7 million, an increase of 162% ;
q Human Resources	: 124,958 employees, a drop of 5.4% ;
q Own Funds	: MAD 185.4 million, an increase of 12% ;
q Financial Ratio	: MAD 638.9 million, a rise of 14.3% ;
q Self Financing Capacity	: MAD 27.8 million, an increase of 51.5% ;
q Debt Financing	: MAD 94.6 million, an increase of 25.9%

Public Enterprises' added value in relation to GDP accounted for 8.8% in 2007, against 7.8% in 2006 (7.7% in 2005, 6.72% in 2004 and 8.5% in 2003), which testifies to the dynamism of the sector and its contribution to the production of national wealth, in a context marked by the liberalisation of the national economy.

External debt of Public Enterprises reached MAD 54.4 million by the end of 2007, against MAD 47.9 million in 2006, a 13.6% increase, representing:

- § 57.5% of Public Enterprises' external debt, against 64% in 2006, and 70% in 2005;
- § 44.7% of the outstanding debt of Public Enterprises, against 41.6% in 2006 and 40% in 2005;
- § 8.8% of GDP against 8.3% in 2006 and 8.9% in 2005.

2. Budget Transfers between the State and Public Enterprises

F *Budget Subsidies to Public Enterprises :*

The transfer to Public Enterprises for the 2007 financial year, particularly enterprises operating in priority sectors (infrastructure, education, agriculture and basic public services) reached MAD 15,695 million, a 16% increase in relation to 2006. In 2007, the structure of transfers saw a reorientation towards restructuring and capital increase.

The comparative nature of these subsidies, between 2006 and 2007, is as follows:

Nature of Subsidies	2006 Financial Act Results		2007 Financial Act Results	
	MAD	Share in %	MAD	share in %
Operations	4 929,99	36,5	5 530,10	35,2
Equipment	5 769,14	42,7	6 091,75	38,8
Capital increase and restructuring	2 825,66	20,9	4 073,20	26,0
Total	13 524,79	100,0	15 695,04	100,0

By the end of August 2008, budget subsidies to Public Enterprises for the 2008 financial year reached MAD 10,781 million; which represents an implementation rate of 68% of its updated forecast, which was set at MAD 15,856 million.

Subsidies for the 2009 Finance Bill are estimated at around MAD 17 million.

F Other State Financial Assistance to Public Enterprises

In addition to budget subsidies, some Public Enterprises benefit from other types of financial assistance from the state. These can be para-fiscal taxes, levied by some public enterprises, or the undertaking of Public Enterprise personnel by BGE, or contribution to research and development.

Major para-fiscal taxes collected by some Public Enterprises totalled more than MAD 1,961 million in 2007, against MAD 1,819 million in 2006.

F Public Enterprises Products:

By December 31st, 2007, Public Enterprise products peaked at MAD 7,755 million, witnessing a MAD 26 million increase in comparison to 2006, which represents a realisation rate of 97% of forecasts made in the 2007 finance act (MAD 7,933 million). These products represented 1.3% of GDP in 2007, against 1.34% in 2006, and 4.6% of the state's general budget recurring revenues against 5.3% in 2006.

The following table and graph trace the evolution of these products;

Nature of transfer*	The 2007 Finance Act Results		The 2008 Finance Act Forecasts		The 2009 Finance Act Propositions	
	MAD	share in %	MAD	share in %	share in %	MAD
Products emanating from financial institutions	2 399,00	30,9	3 095,00	44,8	4 080,00	41,1
Dividendes and other products	4 453,00	57,4	3 592,00	52,0	5 635,00	56,7
government royalties	202,00	2,6	215,00	3,1	220,00	2,2
phosphates royalties	701,00	9,0	0,00	0,0	0,00	0,0
TOTAL	7 755,00	100,0	6 902,00	100,0	9 935,00	100,0
Annual Variation in %	-		-11,0%		43,9%	

* Before privatisation revenues

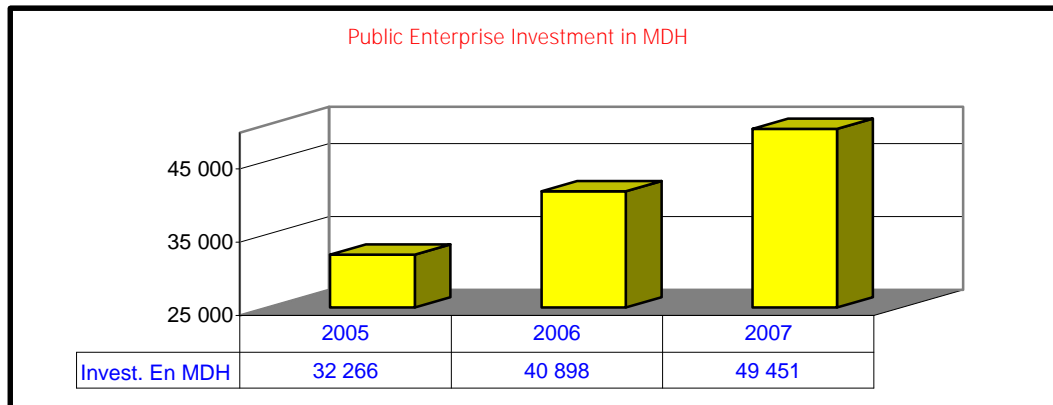
For the year 2009, Public Enterprise products have reached the unprecedented amount of MAD 10 billion, a 44% increase compared to 2008. This is largely due to dividend registration from

OCP, PLC, from HAO and from the greater contributions of IFP, Maroc Telecom, and that of ANCFCC (the National Office of Conservation, Land Register and Cartography).

3. Public Enterprise Investment

Public Enterprise investment has reached a record figure of MAD 50 billion, thus confirming its upward trend since 2002. The capacity for self-operation, fiscal contribution and transfers to the state's general budget have reached unprecedented levels.

In 2007, Public Enterprise investment stood at MAD 49.5 billion against MAD 40.9 billion in 2006, a 20.9% increase, as shown in the following graph:



Compared with other economic operators' input, Public Enterprise investment represents a significant share :

- Around 25.7% of GFCF against 25.1% in 2006;
- The equivalent of 179.3% of investment expenditure of the state's general budget against 174.5% in 2006.

Considering its regional distribution, Public Enterprise investment has recently enjoyed an upward trend in the regions of Rabat-Salé – Zemmour-ZaÛers, Chaouia-Ouerdigha, Meknes-Tafilelt, Souss-Massa-Deraâ, Guelmim-Essmara and Laâyoune-Boujdour - Sakiat El Hamara. This shows that each region exceeds 12% of the total in 2007.

At this new level, the dynamism of Public Enterprise investment should achieve sustainability in order to participate in the government programme for the 2008-2012 period, which focuses on major projects in the fields of energy, phosphates, housing, transport and basic infrastructure, estimated at more than MAD 430 billion.

4. Restructuring

The above-mentioned performance is the result of restructuring and modernisation plans for Public Enterprise management carried out in recent years. The reform process, through sector-based liberalisations, operational restructuring and the consolidation of PPP operations, is ongoing and aims to improve public service efficiency. The housing and transport sectors, as well as the public financial institutions and Public Enterprises' internal pension funds, have been at the heart of this reform scheme.

The restructuring of Public Enterprises was preceded by diagnosis, studies, and other internal and external auditing conducted at the level of commissions to discuss technical tutelage, enterprise management and other administrative bodies. As to social schemes, a round of dialogue with social partners was initiated.

The tool designed to formalise Public Enterprise restructuring is a programme contract or a plan implementation agreement, which sets up, over a period of years, a follow up mechanism, and the commitments of both state and public enterprise.

The actions taken mainly focus on:

- F** Institutional and strategic restructuring which affect some priority sectors: these are dictated mainly by the public authorities' willingness to prepare and implement reforms of public social service, as transport (air, highway, rail and sea), port, airport, post and telecommunications, media, housing, social sector, agriculture, energy, water, ...;
- F** Operational and financial restructuring that concerns Public Enterprises: carried out within the framework of programme contracts. This restructuring is implemented to take the necessary measures to reorganise and/or consolidate some Public Enterprises playing a major role in the development of the national economy.

These operations are sometimes carried out as part of sector-based liberalisation policies.

5. Public Enterprise Governance

To improve the public portfolio's contribution to Morocco's development, in addition to reform and restructuring plans, there is need for better governance of the Public Enterprise and modernisation of management tools.

Major advances characterize governance and management of public enterprises; especially:

- F** Pressing ahead with the reform in the field of state financial control of Public Enterprises, in accordance with the statutory law n° 69-00;
- F** Developing auditing of different aspects of the management of Public Enterprises (accounts, productivity, strategy, organisation, ...);
- F** Pursuing the process of transforming some public enterprises into private firms (ONCF/SMCF, OCP, ...) together with the introduction of fiscal neutrality attending to this transformation;
- F** Improving Board of Administration work procedures and other deliberating bodies of Public enterprises;
- F** Implementing the guide for Good Practices and Governance of Public Enterprises project, which has borrowed from the best management practices at the international level, following the official launch of the Moroccan Code of Good Practices and Governance of Enterprises in March 2008;
- F** Outsourcing internal pension plans of Public Enterprises: ONE, OCP, distribution administration and delegated firms.

It's worth noting the importance of objectives set for ongoing contracts, particularly investment programmes planned. These contracts relate to the following five Public Enterprises:

Public Enterprise	Contract Period	Date of Signature	Main objectives	Investment
ADM	2008-2015	July 2 nd 2008	Implementation of the first programme on the extension of national motorway by 1,416 Km, and the beginning of a new programme for 384 Km	MAD32 million
CMR	2007-2009	September 19 th 2007	Upgrade of the information system and management of the Fund	-
Barid Al-Maghrib	2006-2008	January 16 th 2007	Preparation of the re-engineering of the institutional framework of BAM	MAD1,9 million
SNRT	2006-2008	February 8 th 2006	Upgrade of the SIG and of technical installations	MAD 426 million
ONCF (*)	2005-2009	July 29 th 2005	Transformation into Plc and consolidation of the rail tool	MAD 15 million

* This contract was amended in December 2008

6. Privatisation

These actions have been pursued in compliance with the policy of liberalisation of the Moroccan economy, through endorsing a policy of Privatisation and Public-Private Partnerships.

Privatisation has greatly contributed to the national economy, the state's general budget and to the Hassan II Fund for Social and Economic Development. It has also resulted in sector-based liberalisation, as in the telecommunications sector. Finally, privatisation has ushered in an important private investment trend which has had positive effects on the job market, productivity and tax receipts.

- F** Since the first privatisation operation in 1993, 47 firms and 26 hotels have been privatised in total, through 107 privatisation operations, in compliance with law n° 39-89. The total amount has exceeded MAD 87.6 billion;

For the year 2007, privatisation receipts totalled more than MAD 6,081 million, which correspond to the following operations:

- F** Sale through open bid for tender of the overall capital of DRAPOR to SATRAM for the amount of MAD 327.6 million;
- F** Sale of public shares held by COMANAV to Group CMA-CGM. This operation was marked by a joint exiting of the state (for an amount of MAD 1,182.2 million) and two minority shareholders, FIPAR-HOLDING and Finance.com (BMCE group) from COMANAV;
- F** Floating 4% of Maroc Telecom's capital for an amount of MAD 4.571,3 million.

Ongoing privatisation receipts are estimated at MAD 3,000 million.

Given the progress report of the ongoing operations related to BIOPHARMA, SSM, SOCOCHARBO, BTNA and COTEF, evaluation missions, investment and legal assistance are underway. The possible sale of a new stake in BCP capital is to be considered.

7. Delegated Management of Public Services

Despite the fact that the legal provisions outlined in Law n° 54-05 related to the delegated management of the public sector, which regulate the previous contracts of public enterprises and local councils or their groupings, are applicable only to delegated management contracts of public establishments and local councils, they can be easily applicable to state projects.

Delegated management operations executed in 2007 and 2008, and those planned for 2009, attest to the government's readiness to encourage delegated management to run public service

infrastructure. In addition to PPP for farming land and the project of delegated management of the citrus-producing perimeter El Guerdane, major projects, which are in their final stage of implementation, pertain to a variety of sectors: lease of Moulay Yacoub thermal spa, delegated management of the realisation and management of the new Rabat Zoo, delegated management of the CNSS hospital, delegated management of ethylic alcohol commercialisation monopoly, delegated management of the irrigated water service in the Loukkos perimeter, leasing of SMCF rail network, wind-power electricity projects, coal plant for electricity production of 2 X 660 MW and delegated management of the urban bus transport in the Rabat-Salé region.

Private-Public Partnerships are called upon to further develop in the future because of the positive effects they generate in terms of conceptualisation, financing, project management, and the benefits that such partnerships offer to the public party (state, local councils or state-owned institutions).

In this context, a study intended to identify viable PPPs in public infrastructure and services over a period of three years, is being conducted as part of an agreement protocol signed on May 24th, 2007, with SFI (Société Financière Internationale). The sectors involved are transport, social services, water, including irrigation, sewage and energy.

In addition, the promotion of PPPs is now a feature of many cooperation projects between Morocco and some partner countries.

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Change will go on with the launch of a new generation of structuring, and sometimes complex, programmes, through integrated and innovative projects involving public enterprises extensively, such as *Emergence Phosphates*, *Maroc Vert*, *Energy Pro*, *Highway Programme*, urban transport in large agglomerations and rail programmes.

Gains made with privatisation and PPP will be pursued in other but more challenging fields, such as education, health, energy, valorisation of farming land and water management.

The modernisation of the institutional and organisational framework of Public Enterprises is also underway. It will be carried out as part of the transformation of state-owned institutions operating as limited companies, and alongside the adoption of rules related to governance, management, financial control, and transparency, in accordance with international standards.

Still, the public enterprise sector remains a government tool to support its social and economic policy, by consolidating its outreach in the socio-educational domains, rural areas, tourism development, as well as the promotion of regional development.