



Corporate Governance of State-Owned Enterprises (SOEs) in Morocco

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Direction des Entreprises Publiques et de la Privatisation (DEPP) - Direction of SOEs and Privatization in Ministry of Economy and Finance : missions diversity

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Privatization

A square button with a blue-to-dark-blue gradient background and a light blue circle in the center containing the text "Financial Control".

**Financial
Control**

A square button with a blue-to-dark-blue gradient background and a light blue circle in the center containing the text "Supervision of the public portfolio".

**Supervision
of the public
portfolio**

A yellow rectangular box with an orange border containing the text "In direct or indirect relationship with the Governance".

**In direct or indirect relationship with
the Governance**

A square button with a blue-to-dark-blue gradient background and a light blue circle in the center containing the text "Restructurations".

Restructurations

A square button with a green-to-dark-green gradient background and a green circle in the center containing the text "Accounting Standardization".

**Accounting
Standardization**

A square button with a grey-to-dark-grey gradient background and a grey circle in the center containing the text "Auditing and Assesment".

**Auditing and
Assesment**

DEPP : Missions diversity

The DEPP :

- ❑ Ensure **State financial control** over SOEs
- ❑ Examine projects aimed at the **creation of public enterprises**, and the state's participation, extension or reduction of state ownership
- ❑ Participate in the **management of the State's portfolio**
- ❑ Prepare **Programs-Contracts** to conclude with SOEs
- ❑ Participate in the elaboration of **sectorial strategies** in which SOEs operate
- ❑ Examine the **multi-annual plans and major investment projects** of the SOEs

DEPP: Mission diversity

- ❑ Opinion on external financing
- ❑ Decide on the deployment of external audits on SOEs
- ❑ Evaluate the management performance of SOEs
- ❑ Develop an information database, detailing the SOEs sector's economic, financial and social data
- ❑ Promulgate accounting standards for firms
- ❑ Prepare and conduct privatization and PPP

DEPP : Strategic Orientations and Objectives

- ❑ Economic liberalization
- ❑ Clarification of relations between State and SOEs
- ❑ Increase return on equity within the public portfolio
- ❑ Rationalization of budget transfers
- ❑ Reinforcement of governance modernization and transparency

Public portfolio and SOEs' performances

716 entities in the portfolio including :

- ❑ 469 majority owned SOEs including 256 Public Entities
- ❑ 247 minority owned SOEs

INDICATORS	2007	2008
Investment (milliards US\$)	5,9	8,1
Value added (milliards US\$)	6,5	9,9
Turnover (milliards US\$)	16,1	21,1
Added Value / GDP (<i>Gross Domestic Product</i>)	8,8%	11,9 %
EBITDA (milliards US\$)	3,4	6,2
EBITDA / Investment	56,3%	77,1 %
Number of Employees	124.958	124.610

Merchant public sector trends

- ❑ **Multi-paced sectorial restructuring** : Telecom, Transport, Port activities, Audiovisual, Post, Electricity, Logistics...

- ❑ **The effect of economic liberalization** is discernible through a declining GDP contribution of the SOEs sector : **11.9%** in **2008** vs. **18%** in **1980**

- ❑ **The intensification of SOEs' investments in Public Facilities:**
 - ✓ average growth rate of **27,3%** per year over the 2005-2008 period
 - ✓ supported by privatization incomes assigned to the State Budget and to the Hassan II Fund for Economic and Social Development

Corporate governance environment in Morocco

An expanded and recent legal framework

- Law on the S.A (Companies)
- Law on competition regulation
- Banking law
- Regulation of Call Public Offering
- Labor Code...

Monitoring bodies

- CACs : Financial Auditors
- CDVM : The securities regulation authority
- Ministry of Finance
- Regulatory agencies
- Supervisory bodies of the competition
- Rating institutions
- Financial analysts...

Governance reform

□ Previous law : Dahir of 1960

- ✓ Control focusing on legal procedures
- ✓ Fixed system, not evolutionary and not generalized
- ✓ prior control

□ New feature : Law n° 69-00 in 2004

→ Four major guiding principles :

- ✓ Generalization
- ✓ Modulation and relevance
- ✓ Dynamic Process
- ✓ Clarification of powers within the company (Corporate Governance & shareholders rights)

Governance reform in 2004

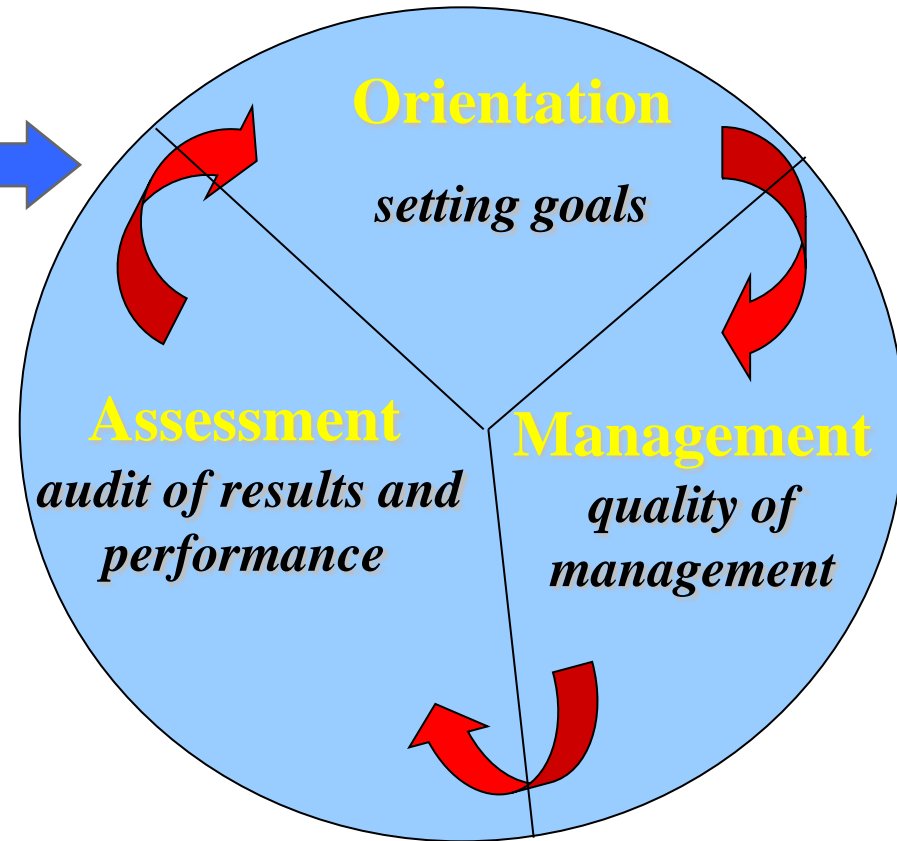
Staging and Prototyping :

- ▶ Progressive implementation
- ▶ Guidelines conform to international standards
- ▶ Entities test pilot



Priority areas :

- ▶ Flexible Regulations
- ▶ International Standards : MIS, Accounting ...
- ▶ Emergence of public managers



**Universal Principles
of Corporate
governance**

Reform of the financial control

Type of control



prior

accompaniment

conventional

contractual

Modulation and relevance of control



Setting-up bodies
of permanent control

Approval of strategic acts
by the Minister of Finance

Reporting

Reform of the financial control

□ The type of control is not related to SOEs' merchant activity or not → Performance of the Management Information System are the criteria for the eligibility to the type of control

□ Control: a support for modernization of governance

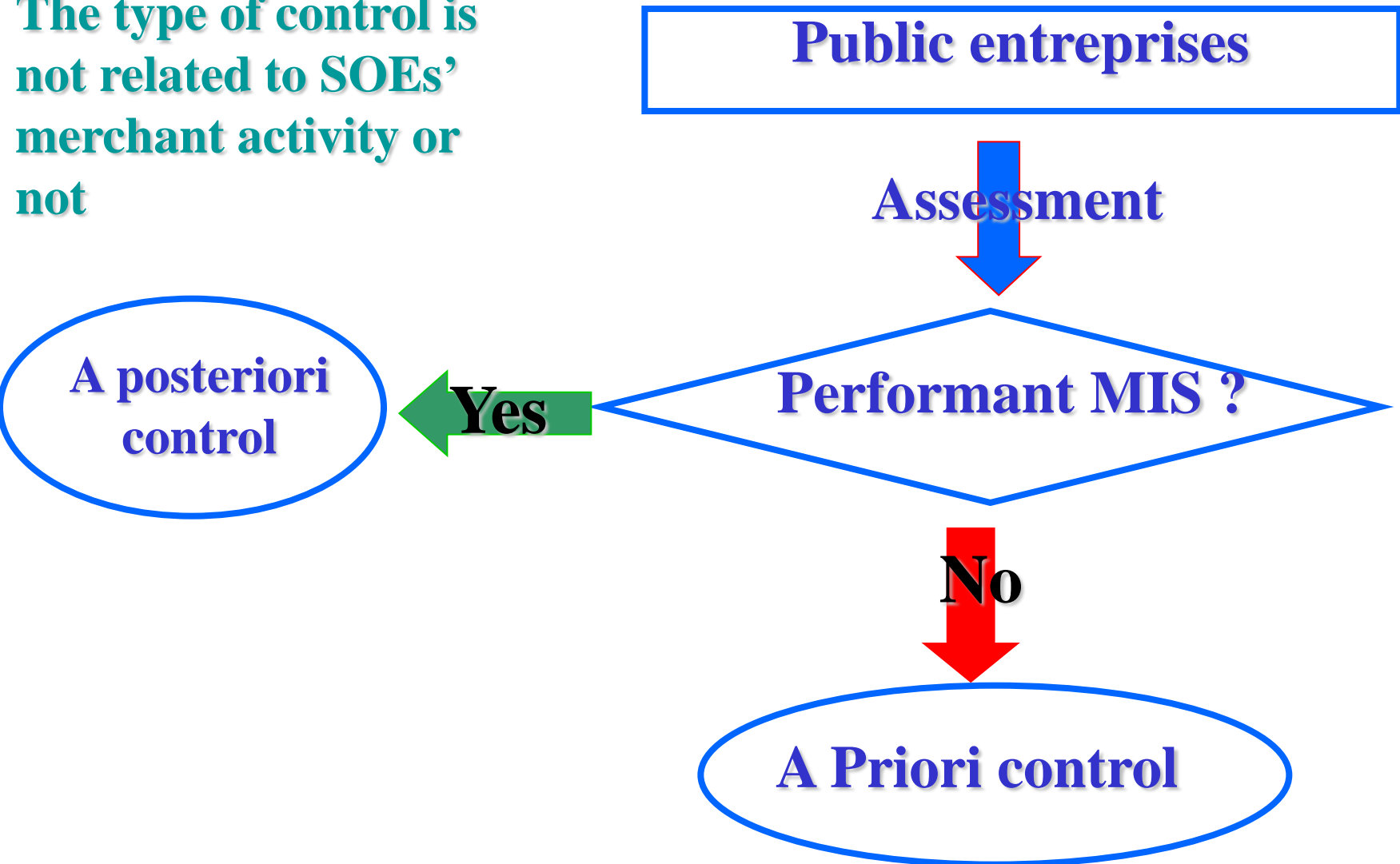
□ Generalization of audit committees

□ Publication of accounts of SOEs in the Official Bulletin

□ Annual Report to Parliament on activities & performance of SOEs

Relationship Governance - Control

The type of control is not related to SOEs' merchant activity or not



Criteria of eligibility to the accompaniment control

Management tools approved by the Board

- Employees status
- organization chart
- manual procedures and organization
- accounts certified by independent auditors
- Procurement regulation
- Business plan and annual Budget
- annual report of management

State – SOE contract

3 to 5 years

Accompaniment control



Reform of financial control : Assessment

Conclusions of World Bank Report CFAA 2007

- The reform reaches the international standards
- The primary results are encouraging, although the number of state owned enterprises which have benefited from an accompaniment control are limited
- The implementation of accompaniment control is gradual

Recommendations of CFAA report

- to implement the management tools
- To Generalize audit committees
- To elaborate a stage report to assess the application of the reform of the accompaniment control within the public sector

Mode of corporate governance of SOEs

The State representation in boards

- ❑ The representative of the state must be named on the basis of criterias, in particular, professionnel skills
- ❑ The representative of the state could'nt be named in more than 7 SOEs' boards
- ❑ The state representation is incompatible with any activity or act likely to affect the representative independance
- ❑ The state representative could be represented only by an other board member

Mode of corporate governance of SOEs

Rules

- ❑ The number of the board members can't exceed **12 members**
- ❑ The board is able to deliberate if **at least half** of it's members are present
- ❑ **The reports** must be transmitted to the Minister in charge of economy and finance, technical departements Minister and to all board members
- ❑ The board must hold at least **2 meetings per year:**
 - ✓ the first to adopt **the financial statements** of the last financial year in attendance of an external auditor
 - ✓ the second, to adopt the **budget** and the action plan for the following financial year

Mode of corporate governance of SOEs

Key tools, technics and supports

- Business plan
- Reports of various committees setted up by the board
- Scoreboard
- Reports of external auditor
- Report of Audit Committee
- Holding preparatory meetings before the board meeting
- Setting specialised committees : investments – salaries & remunerations – audit
- Detailed reports on subsidairies and investment portfolio

Audit Committee

❑ Committee membership

- ✓ Two to four members selected by the Board among the non-executive members
- ✓ The State Controller

❑ Missions

- ✓ Assess the regularity of operations, quality organization, reliability and fair application of information system and the performance of the organization
- ✓ Prescribe internal and external audits and evaluations as it seems necessary
- ✓ May invite any independent expert to participate in its work

❑ Report of the Audit Committee

- ✓ Retrace the outcome of each procedure as well as recommendations for improving management and control of economic and financial risks of the organization
- ✓ Adresse directly to the Board president
- ✓ Submitted to the Board

Manager's responsabilization

□ A mission letter :

- ✓ Addressed by the Minister of Finance in relation with the Minister in charge of the sector
- ✓ Defining the government expectations towards the SOE managers and the orientations that are assigned to him
- ✓ Charge the Board to assess the quality of management on this basis

Moroccan Code of Good Practices in Corporate Governance (March 2008)

□ **Public-private national committee : steered** by the CGEM (Organization of Employers) and the Gouvernement

- ✓ Work started in February 2007
- ✓ Dissemination in March 2008

□ **Landmark :**

- ✓ a Code conform to the international standards
- ✓ expertise of the **OECD and the IFC** (*Global Corporate Governance Forum*)

Moroccan Code of Good Practices in Corporate Governance (March 2008)

The Code content

□ General principles

- ✓ The responsibility of the board
- ✓ The shareholders rights
- ✓ Transparency and disclosure of the information
- ✓ Role of shareholders and equitable treatment

□ Specific standards : 3 categories:

- ✓ *SME (PME/PMI)*
- ✓ *Banks*
- ✓ *Public enterprises*

Transformation of the Public Establishment (Public law) to Companies (Private law)

Accomplished :

- OCP / OCP SA (phosphates) : February 2008
- ERAC / subsidairies of HAO (housing) : april 2007
- ODEP / SODEP / ANP (port) : december 2005
- ONT / SNTL (logistic) : december 2005
- CNCA / CAM (Farm Credit) : june 2004
- ONTS / SOMATHES (tea and sugar) : august 2002
- ONPT / IAM (telecom) : february 1998

Current :

- Barid Al Maghrib
- ONCF
- ONEP
- OCE

Principle : Continuity of the moral personnality without impact on the balance sheet

Tax Neutrality

[A guide for the transformation of a public entity to a company](#) : as a result of a study realised in the cooperation framework *ADETEF-DEPP 2006-2007*

Contract process between State & SOE

Définition

The **Contract** set up on multi-annual approach :

- ❑ **Commitments** of the State and the SOE
- ❑ Technical economic and financial **objectives** assigned to the agency
- ❑ **Means** to achieve them
- ❑ **Tools for monitoring** their implementation

Contract process between State & SOE

New orientations

- ❑ Budget transfert Optimization/ State-SOE
- ❑ Accompaniment of liberalizations and restructurations
- ❑ Preparation to privatization / opening of capital
- ❑ Particular contractual commitment :
 - ✓ Remuneration of State as an Ownership
 - ✓ Pricing to reinforce the SOE Cash Flow
 - ✓ Investment program and debt policy
 - ✓ Mastring risks related to fiscal, legal, currency ...
- ❑ Innovative criteria for a better economic and social contribution of the SOE :
 - ✓ improving governance
 - ✓ Introducing social scoring
 - ✓ Environnement issues and Quality approach
 - ✓ Encouraging externalization, ...

Financial Governance

❑ Publishing accounts of SOE's

The annual accounts are published in the « Bulletin Officiel » under forms fixed by decree

❑ Law on consolidated accounts of SOE (2006) in force since 2008

The SOE and concessionnaires that controlling or owning subsidiaries or shares must present consolidated annual accounts under the **legislation in force or (in case of absence) under international standards.**

❑ ROSC program (*Report On Standards and Codes*) spread over 5 years and based on 4 main projects :

- Improvement of financial information standards
- Developpement of the accounting sector profession and legal control of financial information
- Setting up financial statements control mechanisms
- Financial information disclosure to the public

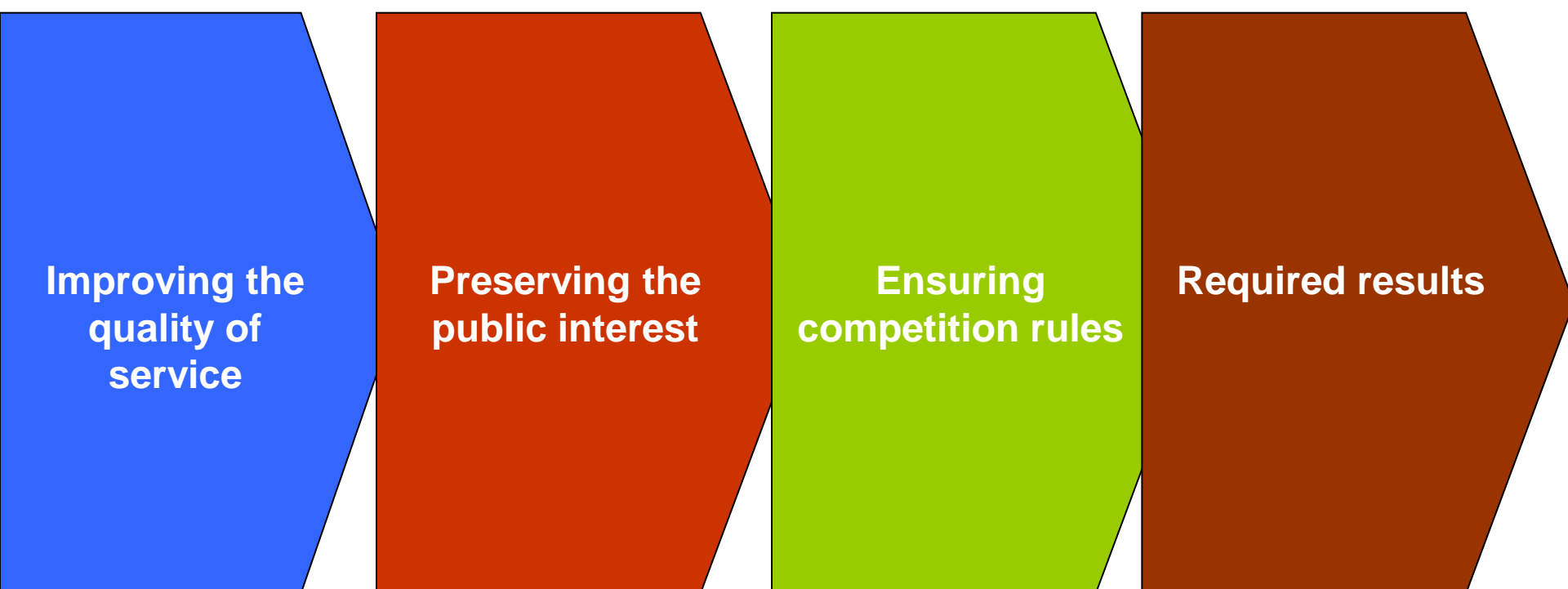
External Audit of SOE's

- ❑ **Financial auditing** : recurring and annual
- ❑ **Targeted annual program** subjected to the agreement of the Prime Minister: **many types of audit (strategic, institutional, operational, management, ...)**
- ❑ **New vision : audit of** SOE especially non submitted to a permanent control, and take into account financial issues and risks of the SOE and also the potential of privatization
- ❑ **The monitoring of the auditors recommendations** : action plan of the SOE and its assessment

Innovative institutional frameworks

- ❑ **Legal entities** with the power of public authority : status of a single responsible of the implementation of the project
- ❑ **Innovative forms of partnerships** with worldwide leaders in their sectors
- ❑ **Great response capacity** to carry out work in record deadlines
- ❑ **Examples:**
 - ✓ Development Agency of Valley Bou Regreg - AAVBR
 - ✓ Companies of Local Development: Casa Transport, Tramway Rabat ...
 - ✓ Tanger Med Special Agency - TMSA

Principles governing PPP and Privatization = Principles of Governance



Improving the
quality of
service

Preserving the
public interest

Ensuring
competition rules

Required results

Privatization : assessment

❑ Privatization, partially or totally, of **73 units**

❑ Total revenues were nearly **10,6 billion US\$**

Year	Number of operations
1993	14
1994	21
1995	16
1996	8
1997	12
1998	8
1999	3
2000	1
2001	5
2002	2
2003	4
2004	1
2005	6
2006	3
2007	3
Total	107

Assessment of the Privatization: Impacts at various levels

Improvement of range of Morocco in the attractiveness FDI



Privatization has allowed Morocco to move from 4th to 1st place among Arab countries and the 3rd largest country in Africa in 2003

Liberalization corollary of privatization



Privatization has begun the process of liberalization of sectors where the state was the only operator: the telecommunications and tobacco

Energizing the financial market



Privatization main factor of CASABLANCA market place growth: Since 1989, market capitalization has increased more than 102 times, from US\$ 602 million to US\$ 61 billion at end-2009.

More than 50% of the capitalization result from privatization

Public Private Partnerships: Legal Framework

Entry into force of Law No. 54-05 on the delegated management in February 2006

Objectives

- Restructuring and harmonizing sectoral laws
- Ensuring national & international private investors with transparent & clear procedures and equal access and treatment
- Take into account users' interests and the imperatives of public service
- Share the risks associated with PPP projects on equitable basis

General principles

- Respect for public service principles: equality, continuity, adaptability
- Competition for bidding and transparency of operations
- Balance economic and financial delegated management contract
- Management delegate to its own risk and good father

Innovative Arrangements

- Mortgage assets back
- Arbitrage Procedure
- Subcontracting possibility

Areas of partnerships

State and SOEs

- sector of mining (OCP)
- Production of electricity (ONE)
- Urban planning (Bouregreg)
- Housing (Al Omrane)
- Agriculture : agricultural land management (SODEA/SOGETA)
- Tanger Med...
- Water Desalination

Local communities

- water distribution and electricity
- Sanitation and and purge of waste water
- Solid Waste Management
- Urban Transport
- slaughterhouses

Moroccan Institute of Board Members (IMA)

- Association founded in 2009 by **SOE and CGEM (Organization of Employers)**
- **Context :**
 - ✓ Requires **training** of board members with the rapid evolution of the national and international business conditions
 - ✓ Implementation of the **Moroccan Code of Good Practices on Corporate Governance** in March 2008
- **Primary mission :** Provide the enterprises with training, expertise, tools and working methods, adapted to **professionalize the role of Board members**

Conclusion

- ❑ **Governance** directly related to the concepts of **transparency, accountability**, availability of information and involvement of all stakeholders
- ❑ Phenomenon of globalization requires the adoption of **universal standards**
- ❑ Global standards are guiding corporate governance both on **public and private enterprises**
- ❑ Principle of **financial strength** becomes fundamental : sustainability of pension fund systems, protection of investor savings, issue of public finances ...)
- ❑ Constant need to harmonize our standards with international standards particularly for **enterprises such as** companies using a public savings, banks, insurance companies, major economic actors in the private and public sector
- ❑ **Advanced status of Morocco in the EU**: Convergence of the financial regulation in 2012