CORPORATE GOVERNANCE CHALLENGES FOR THE PUBLIC SECTOR: CASE OF MOROCCAN SOEs

Abdesselam Aboudrar
Part I:
OECD Experience in the Development of Principles of Corporate Governance for SOEs

Part II:
Corporate Governance Challenges for the Public Sector: the Case of Morocco
Part I:

OECD Experience in the Development of Principles of Corporate Governance for SOEs
Overview of the concept of Corporate Governance

- Power management mode: relationships between the company management, its board of directors, its shareholders and other stakeholders (employees, State, community...)

- Market confidence rests on spreading corporate governance best practices: formalized in OECD principles and adopted by the international business community
SOEs specificities

*The State must act as a shareholder that is*

- Well informed
- Accountable
- Active

*and set up a shareholding strategy that is*

- Precise
- Consistent
SOEs specificities

Avoid confusion between the various roles of the State as

- Enterpriser vs.
- Social welfare protector
- or
- Regulator vs.
- Operator
Shareholder function regulation

For SOE governance to be conducted in a manner that is

- Independent, and
- Accountable

and with

- Professionalism, and
- Efficiency
Shareholder function regulation

- Clearly identify the shareholder function within the public administration

- Exercise all the rights related to State contributions:
  - attend the general shareholders meetings
  - exercise voting rights, particularly on the appointment of members of the board of directors
Relations with other shareholders

Shareholders, mainly minority shareholders, must have the right to

- Equitable treatment
- Equal access to company records and information
Relations with other shareholders

Two risks of abuse

- Majority
- Public power
Relations with stakeholders

- Acknowledge and protect the rights of stakeholders
- Account for these relations
- Design a code of ethics
- Abide by competition requirements
Relations with stakeholders

- Monopoly and competition
- Exercise of government guaranty
- Bankruptcy and liquidation
Transparency and information flow

- Subject larger SOEs to the same financial reporting requirements as those applied to companies listed on the stock exchange
- Disclose information on significant risk factors, financial aid, and guaranties granted by the government
- Set up an internal control system
- Resort to external auditors
Appointment and role of the board of directors

The board of directors must have

- Power of
  - appointment of managers
  - removal of the General Manager

- Responsibilities for
  - results
  - report to the owners
Appointment and role of the board of directors

Members of the board of directors must have

- Competence
- Independence
- Equitable remuneration
Appointment and role of the board of directors

The board of directors must fully play its role in

- Strategic control
- Management monitoring
Part II:

Corporate Governance Challenges for the Public Sector: Case of Morocco
Corporate governance in Moroccan SOEs

Over the past 2 decades, the country has experienced a large economic opening up, entailing for the public sector:

- important privatizations
- profound restructuring
- reform of the institutional framework and governance
Size and structure of the public sector

- 687 SOEs, including:
  - 260 public institutions
  - 427 publicly-owned companies:
    - 84 state owned companies
    - 113 public subsidiaries
    - 230 semi public companies
Size and structure of the public sector

- Privatizations involving about sixty large companies in the competitive sector caused the public sector weight in the economy to drop by half.

- On the other hand, clear performance improvement has been achieved; and investment contribution is playing a top-ranking role.
## Public portfolio performance

<table>
<thead>
<tr>
<th>Indicators (B$)</th>
<th>2004</th>
<th>2005</th>
<th>2004/2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment</td>
<td>3.1</td>
<td>3.6</td>
<td>+15%</td>
</tr>
<tr>
<td>Turnover</td>
<td>10.8</td>
<td>12.3</td>
<td>+14%</td>
</tr>
<tr>
<td>Payroll</td>
<td>2.2</td>
<td>2.2</td>
<td>--</td>
</tr>
<tr>
<td>Value added</td>
<td>3.8</td>
<td>4.5</td>
<td>+20%</td>
</tr>
<tr>
<td>Net income</td>
<td>0.5</td>
<td>0.8</td>
<td>+66%</td>
</tr>
<tr>
<td>Shareholders equity</td>
<td>12.3</td>
<td>13.3</td>
<td>+8%</td>
</tr>
<tr>
<td>Total assets</td>
<td>44.7</td>
<td>52.4</td>
<td>+17%</td>
</tr>
<tr>
<td>Subsidies</td>
<td>1.3</td>
<td>1.1a</td>
<td>-15%</td>
</tr>
<tr>
<td>Dividends</td>
<td>0.6</td>
<td>0.9</td>
<td>+50%</td>
</tr>
<tr>
<td>Staff</td>
<td>155 000</td>
<td>140 000</td>
<td>-10%</td>
</tr>
</tbody>
</table>

VA/GDP = 9%  
Investment/Gross Capital Formation = 28%

Conference on « Governance, Competitiveness, and the Future »
Muscat - Oman, March 24 & 25, 2007

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Organization of the State ownership function

- Centralized financial control within the Department of SOEs and Privatization (DEPP-Ministry of Finance).

- Shareholder function scattered throughout a number of technical departments.
Organization of the State ownership function

- Greater watchfulness about SOEs performance but absence of a clear-cut shareholding policy: except for program agreements and external auditing.

- The need to ensure a higher efficiency of potentially privatizable enterprises requires the implementation of restructuring, but also and above all the clarification of the missions and the strategic vision.
Regulatory function

- Usually practiced by ministerial departments; however the disengagement of the State and the abolition of monopolies has been combined with the creation and rise of independent regulation agencies.

- Bank Al-Maghrib: banking sector
- CDVM: capital market
- DAPS: insurance
- ANRT: telecommunications
- HACA: audiovisual
Regulatory function

- The above agencies are still at the learning stage of their missions, under the pressure of an unfavorable balance of power and a burgeoning culture of checks and balances system.
SOEs / Publicly-owned banks relationships

- In normal circumstances, publicly-owned banks do not grant any preferential treatment to SOEs.
- The Government is reluctant to concede guaranties and/or subsidies.
- The regulatory authority of the Central Bank is strong and independent.
- However, in case of a bankruptcy threat, both public and private banks are called on for help.
CG of SOEs and Privatization
The case of telecom

- 1996: New law separating between operating and regulating powers (setting up of ANRT)
- 1998: Start of ANRT (regulation agency)
- 1999: Demonopolization of mobile telephony
- 2001: Maroc Telecom privatization
- 2005: Demonopolization of fixed telephony

The process of the State’s disengagement and the implementation of an independent and effective regulation is very slow and complex.
Other issues related to SOEs Governance

- Appointment of trustees and exercise of their functions.
- Appointment, compensation, and removal of managers.
- Setting up of specialized committees (audit, appointment, compensation).
- Appointment of independent trustees.
The privatizing process provides such a strong incentive to corporate governance development that it is worth being accelerated.

The private sector, still being the major actor in the economy, has a role to play as an example-setter and a pacemaker for the promotion of corporate governance including in the private sector.
CG of SOEs in Morocco
A few lessons

- Important efforts need to be made in order to achieve progress particularly in:
  - separating the ownership function from the regulating function of the State
  - clarifying the shareholding policy
  - drawing a distinction between guidance and management

- Huge requirements in terms of corporate governance training programs at all levels.

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Thank you for your attention!