

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

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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

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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

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

VA/GDP= 9%

Investment/Gross Capital Formation = 28%

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.

CG of SOEs in Morocco

A few lessons

- 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.**

Thank you for your attention!