

Public Institutions in Morocco: What Possibilities for Financial Control?

Pr Mina Makboul¹, Ardy Manal², Sayih Otmane³

¹Professor of Higher Education at University of Hassan II, Faculty of Legal, Economic and Social Sciences Ain Sebaa, LARNED, Casablanca, Morocco

²PHD Student at University of Hassan II, Faculty of Legal, Economic and Social Sciences Ain Sebaa, LARNED, Casablanca, Morocco;

³PHD Student at University of Hassan II, Faculty of Legal, Economic and Social Sciences Ain Sebaa, LARNED, Casablanca, Morocco.

Abstract: *This article examines the critical role of public institutions in Morocco's infrastructure development, economic transformation, and the provision of quality public services, focusing on the financial governance of non-commercial public institutions. Drawing on the 2023 Report on Public Establishments and Enterprises, it highlights the upward trend in state fund transfers to these institutions since 2012 and their significant, yet financially dependent, contributions to the state budget. The analysis delves into the challenges of ensuring effective use of resources within non-commercial public institutions and the importance of aligning their financial governance with international standards. By exploring Morocco's participation in international financial management initiatives and the implementation of reforms aimed at enhancing transparency, accountability, and efficiency, the article underscores the persistent challenges and the necessity for skilled financial oversight, transparency, and anti-corruption measures to improve public financial management and attract investment*

Keywords: Public institutions, Financial governance, Morocco, International standards, Public fund management

Public institutions play an essential role in infrastructure development, the implementation of sectoral programs and the provision of quality public services; This is part of the contribution to accelerating the dynamic of transformation of the country's economy. It should be noted that according to the report on public institutions¹; in 2022, the public portfolio consists of 227 public institutions, 44 public limited companies with direct participation from the Treasury and 502 subsidiaries and public participations.

These public institutions benefit from transfers of public funds, from the state budget, so that they can carry out the

missions assigned to them. The evolution of these funds has seen an upward trend since 2012. In 2021, transfers from the state to the profits of public institutions were 40, 687 MDH against 20, 023 MDH in 2012.

At the same time, the public institutions contribute to the state budget, by paying their annual gain. In 2021, they contributed to the general budget of the State to the tune of 10, 704 MDH. This represents 26% of what the State has made available to public institutions. The figure below measures the financial dependence of public institutions on the State.

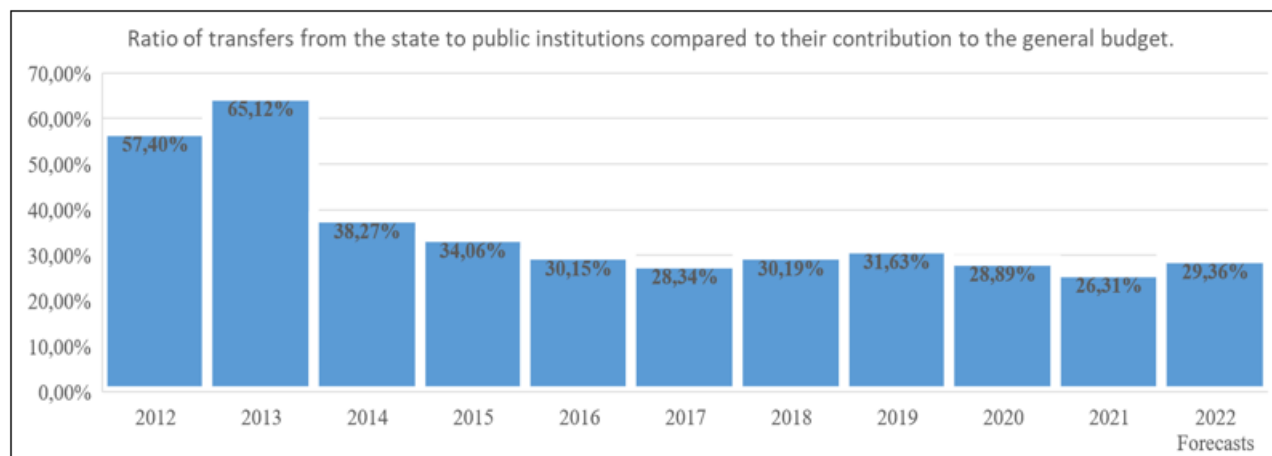


Figure 1: Transfer ratio from the State to public institutions in relation to their contribution to the general budget (Personal elaboration using the data of the Report on Public Establishments and Enterprises accompanying the draft budget law for the budget year 2023).

In general, between 2012 and 2021, public institutions generated about 35% compared to state transfers. This rate

emphasizes their financial dependence on the state. However, public institutions have public service missions that may not

¹ Ministry of Economy and Finance., (2023). Report on Public Establishments and Enterprises accompanying the draft budget law for the budget year 2023. Page 4.

be economically profitable, but are essential for society as a whole, which justifies this financial dependence.

However, by going into more detail, in 2021 public non-commercial institutions benefited from 81% of state transfers, mainly to finance their operation, while public commercial establishments received only 19% of state transfers, mainly for a capital increase.

As a result, non-commercial public institutions consume a large budget financed by taxpayers' money, in order to guarantee the continuity and quality of public service essential for the socio-economic development of the country. However, poor financial governance of these institutions will have a negative impact on the macroeconomic and social magnitudes of the country.

This article will focus on the financial governance of non-commercial public institutions, since it is crucial to ensure that they effectively use the resources allocated to them and provide the services that society needs.

To address this theme, the following problem is proposed:

How to evaluate the financial governance of non-commercial public institutions in Morocco by referring to international standards?

The public institution sector plays a key role in Morocco's economy by providing essential public services and contributing to the country's socio-economic development.

The governance, performance and modernization of these companies are important issues for Morocco to ensure an efficient use of public resources and also meet the needs of society.

In this perspective, Morocco is committed to major reforms aimed at modernizing the institutional, economic and financial environment of public enterprises, in order to offer them a modern governance framework.

The aim of these reforms is to strengthen the accountability and effectiveness of public enterprises, aligning them with international governance standards.

This is due to its participation in several international initiatives to promote good practices in public financial management, such as:

- The Financial Management Evaluation Program (PEM)
- The International Monetary Fund (IMF)
- The Public Expenditure and Financial Accountability (PEFA) program.

The primary objective of Morocco's participation in these initiatives is to strengthen the transparency, accountability and efficiency of public commercial establishments, and especially non-commercial ones, since they consume a large budget financed by taxpayers' money.

That said, to assess the financial governance of non-commercial public institutions in Morocco, based on international standards, it is necessary to address international standards of public financial management.

First of all, it should be remembered that the financial governance of public institutions is understood in the sense of the terms of management of institutions and organizations that define operating rules intended to be applied consistently.

In other words, it is a question of putting in place an arsenal of procedures allowing the proper use of public money and putting this arsenal into practice, hence the need for state control.

International financial management standards are guidelines established by international organizations to improve best practices in public financial management.

Among the main international standards for public financial management, we can mention:

The International Public Sector Accounting Standards (IPSAS): These are a set of international accounting standards developed by the International Public Sector Accounting Standards Board (IPSASB), specifically for the public sector.

Their objectives include:

- Improving the quality, transparency, and comparability of financial information in the public sector.
- Covering various aspects of public sector accounting.
- Facilitating comparability of financial statements between public sector entities and private sector companies: IPSAS standards are designed to be consistent with the International Financial Reporting Standards (IFRS).

OECD Corporate Governance Principles: They aim to improve the quality of public governance and serve as an integrated diagnostic tool providing recommendations on institutional governance.

They are based on:

- Fairness,
- Board accountability,
- Transparency,
- Integrity and ethics.

Government Finance Statistics Manual (GFSM): These are standards established by the International Monetary Fund (IMF) to guide the presentation and analysis of financial statistics of the public sector.

Their objectives include:

- Enhancing comparability and quality of public sector financial data globally,
- Providing a common framework for collection, compilation, and presentation of government financial statistics.

Morocco is part of the international community. This means that it considers international standards and takes measures to align its governance and public financial practices with these international norms. It has also adopted a legal framework for public financial management, notably the Organic Law on Budget (LOLF). This law aims to enhance transparency and ensure rigorous management of public institutions.

Additionally, Morocco has established independent oversight

bodies such as the Court of Accounts, responsible for assessing the regularity and performance of public financial management.

It has also participated in international initiatives to promote transparency and good governance of public institutions. For example, Morocco is a member of the Financial Action Task Force (FATF). This Financial Action Task Force has decided this year to remove the Kingdom of Morocco from the enhanced monitoring process (grey list).

It is also important to note that governance of public enterprises is not limited to financial and economic aspects alone but also includes social and environmental aspects. Strong governance must consider the interests of society as a whole and enable public enterprises to contribute responsibly to sustainable development.

However, despite these efforts, challenges persist in the financial management of public institutions in Morocco. Since financial governance requires state control, the issue arises of the existence of experts in the field.

Furthermore, within the framework of the connection between responsibility and accountability inherent in effective public administration, justice must be sought in case of evidence of mismanagement of state funds, which is where the problem persists as it requires courts with human resources, judges with financial training in addition to their basic legal training.

An exigency for which the response remains difficult, evidenced by: the number of judges meeting this profile in Morocco is few, leading to observed failures in the state control apparatus.

Also, Morocco faces Another problem, which is the repetitive cases of misappropriation of public funds by the relevant authorities inevitably damages the country's image and constitutes a deterrent for investors. Knowing that a developing country like Morocco, whose state resources are limited, needs national and foreign private capital to create wealth and employment, especially to create and attempt to maintain a certain balance and social cohesion.

Problems also include lack of accountability, corruption, and lack of transparency in certain areas. The Moroccan government continues to implement reforms to address these challenges and improve financial management in the country.

To summarize, good financial governance in any country, regardless of its level of development, requires logistical and human resources:

- Financial experts capable of verifying the accuracy of accounting documents, which is lacking in developing countries like Morocco.

Financial governance oversight remains a sensitive subject as it directly impacts the image and reputation of public institutions, thereby affecting the reputation of the country. Any negative revelations in this regard can only harm the country's image in the eyes of international bodies.

Conclusion

The importance of robust financial governance within Morocco's non-commercial public institutions cannot be overstated, given their pivotal role in the nation's socio-economic development and infrastructure. This analysis underscores the necessity for Morocco to enhance the transparency, accountability, and efficiency of these institutions through adherence to international standards and reforms. Despite significant efforts, challenges such as the need for expert oversight, accountability, and the reduction of corruption persist. Addressing these issues is crucial for Morocco to not only ensure the effective and responsible use of public funds, but also to maintain investor confidence and foster sustainable development. The path forward involves continued commitment to reform, investment in human and logistical resources, and an unwavering focus on improving the financial governance framework of public institutions to meet both national and international expectations.