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Morocco's Quest for Stronger Inclusive Growth

« Public Finance and growth:
In daily life and in detail »

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Morocco's Quest For Stronger Inclusive Growth, as the theme of this conference suggests, comes just at the right time, given the challenges that lie ahead.

I'd like to start by making a literary borrowing from Yasmine Chami' latest novel, Casablanca Circus, published in 2023, when she describes Hakim, who lives in a slum known as "Karyane d'El Bahriyine" (the slam of the seamen): "I can hear his gravelly and drawling voice, telling with an apparent indifference his broken life".

Here is, painted with an exceptional talent, an example of non-inclusive growth that leaves on the sidelines a part of the population.

The public authorities are aware of these realities and are sparing no effort to relocate slum dwellers to new neighborhoods, providing them with a suitable environment in terms of job opportunities, education, healthcare, transportation...

And these are all subjects about public finance that include social and local finances.

In this respect, I would like to emphasize that Morocco, under the enlightened leadership of His Majesty King Mohammed VI, may God assist Him, has made the choice that "all Moroccans can benefit from the wealth of their country"¹.

The State is one of the economic players who help create wealth, I mean here, the State in the broadest sense of the term (l'Etat), i.e. public administrations (Government), local authorities and State owned Enterprises (SOEs).

Many economists, including Turkish-American Daron Acemoglu, argue that "government action and institutions play a central role in the long-term growth process"².

Through its actions and the reforms it implements, the State, as regulator, must ensure a viable and sustainable balance between the interests of what the Americans call "Main Street", i.e. the working-class social categories and small businesses, and the interests of "Wall Street", which represents the major Capital owners. Because, if growth concerns the nation and society as a whole, so do crises.

As a reminder, the OECD rightfully considers that "Public finance reforms, defined as lasting changes in the size and efficiency of public administrations, as well as in the structure of spending and taxation, can have considerable effects on economic prosperity and the distribution of growth dividends"³.

¹ Discours de Sa Majesté Le Roi Mohammed VI adressé à la Nation à l'occasion de la Fête du Trône, mercredi 30 juillet 2014.

² Un trublion électrique, Simon Wilson dresse le portrait de Daron Acemoglu, Finances et Développement, F.M.I., Mars 2010, 5p., p.4.

³ OCDE, Structure des finances publiques et croissance inclusive. Etudes de politique économique, Décembre 2018 n° 25, 52p., p.14.

The basic postulate that will form the guiding thread of my analysis is that any delay in mobilizing fiscal resources or implementing public expenditures equals a loss of growth points.

Based on my experience at the Ministry of Economy and Finance, I would like to share with you three topics relating to "State action" that deserve to be improved in order to help increase growth rate and make growth more inclusive: local taxation, execution of public investment spending and consistency in the State's actions.

These three subjects are a reflection of detailed day-to-day practice of public finance.

The first topic is local taxation, a necessary and very useful instrument for territorial development.

It's a fact that local finance remains dependent on financial support from the Government in Morocco and in other countries. It's a topical issue that has given rise to passionate debates.

In France, local authorities have recently been asked, in the name of solidarity, to help rebalance public accounts. The law on public finance programming, adopted late 2023, provides that local authorities must limit the increase in their operating expenditures to a rate of 0.5 points below inflation⁴.

The aim is to develop a partnership-based approach to control public spending and reduce public deficit as a follow up on the Cahors agreements, named after the town where the National Territorial Conference was held in 2017.

In Morocco, there's a strong political will to wholly develop territories and make territorial development a lever for sustainable economic and social development.

It goes without saying, however, that this willingness must be underpinned by high-performance management based on "relationships of cooperation, consultation, consistency and partnership required [...] by the State modernization"⁵.

Several entities have addressed local taxes in Morocco: the Economic and Social Council in 2012, the Court of Auditors in 2015, the Michel Bouvier consultancy office in 2016 and 2018, Ernest and Young consultancy office in 2018, the World Bank in 2018 and the study carried out in 2022 in partnership with the World Bank on modernizing the governance of local tax management structures.

Overall, these studies showed that local taxation in Morocco is characterized by a predominance of resources transferred by (central) Government, which represented 63.2% of local authorities' total tax resources in 2023.

⁴ Benoit Floc'h, les collectivités locales appelées à prendre part à l'effort, le Monde du mercredi 10 avril 2024, p. 8.

⁵ Omar Azziman, la cohérence budgétaire de l'Etat territorial au Maroc, Actes du 5ème colloque international de Rabat, 9 et 10 septembre 2011, L.G.D.J lextenso éditions, Paris 2012, p.63.

However, resources managed by (central) Government on behalf of local authorities, and those managed directly by local authorities, are characterized by (are impacted by) a poorly controlled and out-of-date tax base.

This makes it difficult to collect taxes, and often means resorting to compulsory collection procedures.

For example, efforts to collect the unbuilt urban plots tax are undermined by cancellations sometimes granted on equivocal legal bases.

Statistics show that the performance of this tax remains far below its potential, and that there is substantial room for improvement both on the tax base and on the collection process, given the urban sprawl of cities resulting from the high demand for housing.

And this was confirmed by the resource mobilization effort undertaken in 2023, which led to a 14.7% increase in revenues compared to 2022, of the unbuilt urban plots tax.

Reinforcing mobilization of the local tax potential is therefore becoming an imperative to enable local authorities to meet the citizens growing needs for quality public services on one hand and to better contribute to the country's economic and social development on the other hand.

It is thus vital to speed up the reform of local taxation globally in order to make it simpler and more effective.

Generally speaking, the positive regional and local dynamic would be due more to the improvement in response times of local players in terms of authorization of subdivisions, construction, carrying on businesses, etc. and to the universality of administrative procedures and practices.

Integrating the time factor into all the players' behavior at central, regional and local level is crucial to achieving strong and inclusive growth.

That is why the second topic, execution of public investment spending, stands out as a major issue.

In 2012, I gave a presentation on "State Finance in Morocco: Between Ambition, Forecasting and Execution,"⁶ in which I addressed, among other topics, Investment as a driving force of development and job creation.

But to invest you first need to save, because it's universally acknowledged that investment depends heavily on saving.

⁶ Nouredine Bensouda, Public finances in Morocco: between ambition, forecasting and execution, Proceedings of the 6th International Conference of Rabat, September 7 and 8, 2012, L.G.D.J lextenso editions, Paris 2013, p.55.

In this regard, as far as the State is concerned, the implementation of the successive budget laws has resulted in positive savings, except during the period of economic crisis and structural adjustment program with the IMF (1980 to 1986), between 2011 and 2013 a period of sharp increase in compensation costs and during the Covid-19 crisis (2020).

Though the State's ordinary resources, during these periods, were generally sufficient to cover ordinary expenditures, the savings generated could only finance a limited part of the investment.

However, despite the shortfall in savings, the State has deliberately carried on investing by resorting to debt. This has led to a legal framing set by Article 20 of the Organic Budget Law of 2015.

In 2024, investment appropriations of 118 billion dirhams in the general budget are over five times higher than in 2001, which should logically have had an impact on economic growth.

Although from a timeline standpoint, the impact on growth is not instantaneous. Historically, there has always been a time lag between the State's investment effort and its effects on growth and employment.

There are two important reasons for the apparent non correlation between investments and economic growth.

The first reason has to do with the ability of public authorities to make use of the appropriations made available to them. As a result, the execution of investment spending has showed a constant gap between forecasts and actual expenditure, generating an accumulation of deferred appropriations from year to year.

The second reason, as Abdellatif Jouahri, Wali of Bank Al-Maghrib⁷, points out, reflects the low return on investment in Morocco.

The return on investment is often measured by the incremental capital output ratio (ICOR), which represents the number of units of investment (as a % of GDP) needed to achieve one point of growth.

And "With an average ICOR of 9.4 over the period 2000-2019, investment in Morocco remains relatively of low yield, compared with lower middle-income countries, where it stands at 5.7"⁸.

In addition to these two reasons, a "deep dive" in Government investment spending helps understand why it is not producing its full effect on growth.

⁷ Intervention de M. Abdellatif Jouahri sur la situation de l'investissement devant la Commission des finances et du développement économique de la Chambre des Représentants le 15 février 2022.

⁸ Idem, p.7

As an illustration, a detailed analysis of investment spending in 2018 (67.8 billion dirhams) shows that only 32% was attributed to works, construction and diverse purchases.

Whereas 41% of total investment spending was in the form of remittances to special Treasury accounts, 23% in the form of subsidies, remittances and transfers to State owned enterprises (SOEs) and other beneficiaries, and 1.9% in the form of capital endowments to SOEs.

These various mechanisms do not allow to determine whether the amounts of subsidies, remittances and credit transfers were fully spent by the beneficiary organizations during the same year 2018 and whether they were actually used for investment.

Another explicative element of the lack of growth, compared to investments, has to do with the extra costs of expenditure, resulting from the cascading of public expenditure through the mechanisms of transferring appropriations and related funds from one administrative structure to another or to a SOE, etc.

This brings us to the third topic of my presentation which is about the consistency of Government action.

In illustration of this matter, let us take the fact that budgetary appropriations are initially made at the level of a Ministry's budget, with the Ministry being responsible for implementing the respective investment spending.

Quite often, however, the concerned ministry transfers these credits and funds to a public institution or a SOE, or even to a local authority which, for its part, concludes a delegated project management agreement with another public institution (e.g. Al Omrane, Compagnie Générale Immobilière CGI...) or a regional or local development company, which itself awards contracts to private companies for the actual implementation of the expenditure for which the credits were initially allocated.

These credit transfers from ministries or local authorities to businesses, agencies, companies, etc. are justified, according to the concerned entities, by the fact that they do not have the qualified human resources to carry out the projects and, consequently, they give themselves the freedom to set up agencies that give them greater agility and flexibility...

But beyond delays in implementation and extra costs, this "agencification" phenomenon, which consists in a proliferation of circumstantial structures created at will and overlapping with Government services, results in the duplication of public entities for the same set of prerogatives.

Furthermore, the redundant administrative bodies that still exist under these conditions are completely stripped of their remits and prerogatives and deprived, so to speak, of their "raison d'être", as the Court of Auditors has pointed out⁹.

This generally leads to watering down political responsibility and perhaps even to insufficient transparency and accountability.

It is precisely what explains why the 2008 global financial crisis triggered a process of "désagencification"¹⁰ in Europe under the pressure to reduce administrative spending.

The frequent use of delegated project management, with a brokerage fee of up to 10% excluding taxes on transferred amounts, makes the investment that much more expensive for the local authority.

This is why the brokerage fee has been capped at 2% by the recent public procurement reform of 2023.

We can therefore understand well the disconnect between the time it takes to grant credit to a concerned ministry and the time it takes to actually spend the money, as well as the additional costs incurred by intermediation, with all the implications on economic growth.

Overall, the multitude of players and stakeholders within the public sector (ministries, local authorities and SOEs, agencies, development companies, etc.) that we may call the "multilayers phenomenon" where players often work in silos deprives public policies of their relevance and effectiveness.¹¹

Clearly, to achieve tangible results, it is essential to ensure horizontal consistency between the various players, such as ministerial departments, involved in the process of designing and implementing public policies.

And in order to ensure a common vision and an identical implementation of public policies it is also necessary to guarantee vertical consistency between a ministry's central administration and its decentralized departments, as well as with local authorities and SOEs.

This consistency requires permanent real-time coordination and lasting convergence and will make it possible to counteract the accumulation of advantages known as the "advantages shopping" phenomenon.

⁹ Le secteur des établissements et entreprises publics au Maroc : Ancrage stratégique et gouvernance. Rapport de la Cour des comptes, Maroc, 2016, p.43.

¹⁰ Dawid Sześciło, L'agencification revisitée : tendances dans la consolidation de l'administration centrale en Europe. Revue Internationale des Sciences Administratives 2022/4 (Vol. 88), pages 773 à 790, Éditions I.I.S.A.

¹¹ Luc Bernier et Guy Lachapelle, l'analyse des politiques publiques, Sous la direction de Stéphane Paquin, Les Presses de l'Université de Montréal, 2010, 429p., p.309.

The "advantages shopping" phenomenon is a result of the lack of consultation between public players and sometimes their compartmentalization, which gives private operators the opportunity to abusively add up advantages.

Indeed, through "advantages shopping" some operators accumulate advantages and incentives from the State: they can benefit from reduced-priced public land owned by Government, a local authority or from collective land, they can also simultaneously benefit from tariff protection against international competition, from tax exemption or reduction, from subsidies (agricultural development fund, industrial development fund, etc.), from financial support (Société Nationale de Garantie et du Financement de l'Entreprise – SNGFE, etc.), or even a favorable interpretation of a legislative or regulatory text, etc.

They can also be the first to benefit from public contracts awarded by Government, local authorities or SOEs, thanks to national preference or public-private partnerships.

In order to ensure all Moroccans benefit from the national wealth, as stated by His Majesty, the Government needs a consolidated vision of its actions and of all the cumulated advantages that companies and citizens get. Cumulated advantages need to be assessed and determined in detail, even if some may resist or reject this approach claiming that it is not feasible or too difficult to achieve.

By doing so, the State can reallocate its resources towards the most vulnerable populations.

The State, as project sponsor, arbitrator, regulator and guarantor of last resort, should ensure the consistency of public players' actions both in the decision-making process, when defining the priorities of public policies in the short, medium and long terms, and in the implementation process making sure the set targets are achieved.

In conclusion, to produce savings substantial enough to cover investment spending, it is essential to promptly mobilize the full potential of tax revenues.

It is also essential, in a context of scarce and expensive financial resources, to prioritize spending through better budget programming and rationalization of the spending process. Because, as Mr. Fathallah Oualalou, former Minister of the Economy and Finance, so aptly used to say: "the best revenue is expenditures saving".

But all of this depends on moving from quantity to quality in spending and sorting out the actions of public sector players in order to foster strong, inclusive and solidary growth.

With regard to this issue, Emile Durkheim said: "If the division of labor does not produce solidarity, it is because the relationships between the organs are not regulated, it is because they are in a state of anomy"¹².

Aware of the need for a cohesive society, the need to raise household incomes and to reduce the inequalities holding back economic growth, Morocco has laid the pillars of the welfare state, specifically the strategic projects of generalized social protection and direct social assistance to families (Unified Social Register).

However, as Ben S. Bernanke Chairman of the US Federal Reserve from 2006 to 2014 said, "If there was one thing I learned in Washington, it was that no economic program can succeed, no matter how pure and powerful the academic arguments on which it is based, if it turns out to be politically unacceptable"¹³.

¹² Emile Durkheim, *De la division du travail social*, Paris, PUF, 2007, p.360.

¹³ Ben S. Bernanke, *Mémoires de crise*, Paris, Seuil, 2015, 631p., p.321.