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*World Bank*



*European Union*

**Kingdom of Morocco**

**PUBLIC FINANCIAL MANAGEMENT  
PERFORMANCE REPORT  
(PEFA)**

Assessment of Public Financial Management Systems,  
Procedures, and Institutions

May 1, 2009

## CURRENCY

Currency Unit = Moroccan Dirham (MAD)

US \$1 = MAD 8.60 (January 2009)

## FISCAL YEAR

January 1 to December 31

## ACRONYMS AND ABBREVIATIONS

AAO : Appel d'offres ouvert/Open competitive bidding	IMF : International Monetary Fund
AREF : Académies régionales de l'éducation et de la formation/Regional academies of education and training	INDH : Initiative nationale pour le développement humain/National initiative for human development
BADR : Base automatisée des douanes en réseau/Automatic customs database network	INTOSAI : International Organisation of Supreme Audit Institutions
BAM : Bank Al-Maghrib/Central bank of Morocco	IPSAS : International Public Sector Accounting Standards
BD: Budget Directorate	IS: Impôt sur les sociétés /Business tax
CCG: Caisse centrale de garantie/Central guarantee Fund	IR: Impôt sur le revenu /Income tax
CDMT: Cadre de dépenses à moyen terme/Medium term expenditure framework	MDA : Ministères, départements et agences/Ministries, departments and agencies
CAS : Comptes d'affectation spéciale/Special accounts	PE : Public Enterprise
COFOG : Classification of Functions Of Government	PEE : Public Enterprises and Public Establishments
DAAG :Direction des affaires administratives et générales/Administrative Directorate	PEFA : Public Expenditure and Financial Accountability
DEPP : Direction des entreprises publiques et de la Privatisation/Public enterprises directorate	PFM : Public Financial Management
DGD : Direction générale des douanes/Customs Directorate	PFM-PR: Public Financial Management Performance Report
DGI : Direction générale des impôts/Tax directorate	PPR : Paierie principale des rémunérations/Public payroll office
DRH : Direction des ressources humaines/Human resources directorate	ROSC : Report on the Observance of Standards and Codes
DTFE : Direction du Trésor et des finances extérieures/Treasury Directorate	SEGMA :Services de l'État gérés de manière autonome/Autonomous public services (mainly hospitals and training institutes)
EU: European Union	SIT : Système intégré de taxation/Integrated tax system
GFS : Government Financial Statistics	SGG : Secrétaire général du Gouvernement/ Secretary General
IFAC : International Federation of Accountants	STA : Special Treasury Account
IFACI : Institut français de l'audit et du contrôle interne/French institute of internal audit and control	TGR : Trésorerie générale du Royaume/Treasury
IFU : Identifiant fiscal unique/Unique fiscal ID	TOFT : Tableau des opérations financières du Trésor/Treasury transactions table
IGF : Inspection générale des finances/Inspector general	VAT : Value Added Tax
IGM : Inspection générale ministérielle/Ministerial inspector general	

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The team also would like to thank the PEFA Secretariat in Washington DC, which provided its views and helpfully clarified the scope of certain PEFA assessment criteria and the relevance of the team's assessment.

## SUMMARY ASSESSMENT

This Public Financial Management Performance Report (PFM-PR) assesses the current performance of financial management in Morocco's public sector. The Public Expenditure and Financial Accountability (PEFA) framework applied for this review uses an assessment tool based on a set of high-level indicators that provide reliable information on the performance of PFM systems, processes and institutions. The purpose of using this tool is to measure performance for five PFM areas in Morocco as compared to international standards. The PEFA framework was developed by PEFA partners, in collaboration with the Organization of Economic Development and Cooperation's Development Assistance Committee (OECD/DAC) Joint Venture on PFM. Since its introduction, the PEFA framework has been applied in over 70 countries. Morocco is the first country in the Maghreb region to make use of it.

The Kingdom of Morocco is a medium-income country with a population of 31 million and per capita income of EU 2,300 (2007). Average life expectancy has significantly improved to 72.4 years in 2007, reflecting a progressive improvement in living standards. Nonetheless, major social challenges remain, in particular the economic insecurity of a large segment of its residents. Despite a considerable improvement in poverty indicators during this century (the incidence of poverty fell from 15.3 percent in 2001 to 9 percent in 2007), more than a quarter of the population in 2007 remained economically vulnerable.

The report covers public expenditure at the central government level, including central government's financial relationships with local and regional governments and with public enterprises (PE). Morocco has a relatively large public sector that accounts for 53 percent of GDP (2007), comparable to that for other Maghreb countries.

### **Integrated assessment of PFM performance**

#### *Credibility of the budget*

Due to measures undertaken since the early 2000s to eliminate payment arrears, and despite rather substantial differences in the composition of actual expenditures as compared to budget appropriations in the approved estimates, the credibility of the budget is rated as good overall. Revenue surpluses have allowed for higher levels of priority spending while staying within the required budget deficit limits.

#### *Comprehensiveness and transparency*

Detailed fiscal and budget information is accessible to the public, including from the websites of the Finance Ministry and of the Parliament. Most funds transfers to regional and local governments are governed and effected through transparent arrangements and following defined rules ; budget risks for other public sector entities are monitored and supervised by the Finance Ministry's Treasury Directorate (Direction du Trésor). However certain gaps need to be closed in the provision of information about programs financed by international donors and the consolidation of administrative budget data, and there are lags in the financial reporting on public enterprises.

#### *Policy-based budgeting*

The process of preparing the annual budget is orderly and well established and gives the technical ministries adequate time to participate in the drafting of the budget estimates within the timeframe required for Government's submission of the budget to Parliament. In many respects, a multi-annual perspective has been adopted in recent years for estimating current funding requirements

allocations and mapping future spending, both in terms of priority sectoral policies and in the programming of major investments. Initiatives have been undertaken to extend and formalize such an approach, for the overall budget and by sector, in order to better track investment cost estimates and related operating costs.

#### *Predictability and control in budget execution*

Substantial progress has been made in recent years in the regulation, administration, and management of taxes and customs duties. Fiscal obligations have been clearly codified and explained ; exceptions, formerly abundant, have been simplified and restricted. Since 2005, management of the tax base and collections management for the three main central government taxes has been assigned to the Tax Directorate (Direction générale des impôts). Tax revenue results available at the end of 2007 were good. However what remains to be done is to strengthen computer capability in the tax offices and at customs so that their files can be linked, and to update hardware in order to facilitate monitoring and control.

Predictability of budget execution is satisfactory and arrangements for monitoring flow of funds are ensured. Government ministries, departments and agencies (MDA) are fully capable of planning their expenditures, even though major in-year adjustments to budget allocations are frequently made due to changes in revenue available for supplementary appropriations (fonds de concours).

Control and audit were found to be good overall for procurement and payroll, especially given plans to systematically increase scheduling of joint audit work by ministerial audit departments and Finance Ministry's Inspector General teams in order to better detect any flaws in control systems. Significant improvements were realized between 2005 and 2007 in the implementation, frequency and methods for internal audit ; the quality of the final results will become known with the help of a centralized monitoring mechanism that has yet to become operational.

#### *Accounting, recording and reporting*

Complete, good quality budget execution reports are regularly produced. Daily reconciliation of bank balances is perfectly ensured ; adjustment of suspense (attente) and imprest (avances) accounts takes longer. The PEFA score for these indicators is lowered by delays in the preparation of annual financial statements that were being reduced in 2008, and by the absence from the Chart of Accounts of accounting data categories for recording State assets and liabilities.

#### *External scrutiny and audit*

The Court of Accounts (Cour des comptes) is fully engaged in its role as external auditor of the management and use of public funds. The frequency and scope of its audits, which are steadily increasing, are rated average, as is follow-up of its recommendations. The review of the budget act (loi de finances) by the two houses of Parliament is clearly defined in the Constitution and Government follows these procedures. Many detailed reports are annexed to the budget act and supplemented as required, by written responses from the technical ministries to questions posed by members of Parliament and by the parliamentary finance commissions.

#### *Donor practices*

During the period under review, direct donor support was not a major source of budget revenue. Morocco manages at least 75 percent of international aid funds under national PFM and procurement procedures. In most cases, implementation of projects included in the budgets of Morocco's ministries, departments and agencies does not depend on aid provided by the main international donors and various bilateral and private sector donors. Detailed and regular monitoring of expected aid funds and their

disbursement is therefore usually reported centrally, ex post, in the budget execution reports produced by the Budget Directorate (Direction du budget).

### **Assessment of impact of weaknesses and prospects for reform**

The findings of this report on which the PEFA assessment is based also point to a number of areas that deserve more decisive intervention by Moroccan authorities.

- *Budget classification.* While current budget classification is detailed, stable and reliable, and even includes sub-functional classification, it does not yet provide sufficient information for direct tracking of program-related spending items that are funded under Government's priority programs, as is possible for expenditures classified by economic category. For this reason, modifications to the budget and accounting classification systems that would allow monitoring of policy-related spending are included among the topics intended for preparation in 2008 of draft amendments to the Organic Finance Law.
- *Multi-annual budgeting.* Moroccan authorities fully understand the need and the importance of adopting a multi-annual approach. They have already adopted several measures that should bear fruit in the medium term: a Treasury transactions table (Tableau des opérations financières du Trésor or TOFT) for 2008-10; designation of 12 ministries to pilot the use of medium-term expenditure frameworks (Cadres de dépenses à moyen terme or CDMT); addition of financial information both ex ante and ex post in budget documents for certain investment programs for basic infrastructure, such as highway construction and the City Without Slums Program (Ville sans bidonvilles), and for educational and social programs. However these efforts were not sufficient to support preparation by 2007 of multi-annual rolling budget estimates, either for total spending—based on alternate macroeconomic scenarios—or at the program or mission level, with related impacts on recurrent costs. During the period under review, none of the budget summary documents presented a breakdown of multi-annual budgets for investment and recurrent costs for the many Government programs launched in response to priority sectoral objectives, for economic, social and infrastructure development.
- *Procurement.* Systematic recording of procurement complaints and follow-up of their resolution are not common practice, except at the Administrative Directorate (DAAG) within the Finance Ministry, which has recorded only a very limited number of complaints. It would appear that, apart from certain large contracts, very few complaints in the form of formal appeals are made; instead a direct and amicable approach to handling complaints is rather more the practice.
- *Internal audit.* The main difficulty lies in the scattered or even inaccessible nature of the required sources of information, such as the reports of the Inspector General (IGF) and the ministerial inspectors general (IGM) and the minutes of bodies responsible for audit follow-up. As for audit follow-up, one is driven to the conclusion that, while engagement letters (lettres de mission) sent to ICF do set deadlines for the audits themselves, they do not include any arrangements for follow-up of the auditors' recommendations. However several activity reports of ministries, departments and agencies and of certain autonomous state entities (Services de l'État gérés de manière autonome or SEGMA, mostly public hospitals and training institutes) mention IGF interventions and actual or expected follow-up.
- *External audit.* The Court of Accounts' external audit reports for Government spending for fiscal years 2004, 2005 and 2006 were submitted by the Secretary General more than 18 months after the end of these years. A credible effort to close this gap in the timely submission of audit reports is underway. As for activity reports for the Court of Accounts, apparently neither the Prime Minister or the Finance Minister prepares a summary document covering follow-up measures, accompanied by justification of the decision to include some and exclude other measures, nor any schedule for their implementation. As of 2007, none of the Court's observations in its activity reports or in the audit reports attached to the draft budget seems to have led to any investigative



hearings (auditions approfondies) before Parliament to question the ministers or administrators concerned.

- *Monitoring of donor funds.* Under the framework for aid agreements with donors (Paris Declaration), it is possible neither to find reference to, much less to manage, either quarterly or annual funding (mobilisation) schedules—whether ex ante or ex post—for either loans or grants. Recently launched discussions between the Finance Ministry and the European Commission concerning multi-annual disbursement schedules, by trimester, provide a good model to pursue with other donors.

### Assessment of impact of weaknesses and prospects for reform

The PEFA assessment by indicator is summarized below; the indicator and component scores and summary justifications are presented in **Annex 1**.

	<b>Budget credibility</b>	
PI-1	Aggregate expenditure out-turn compared to original approved budget	A
PI-2	Composition of expenditure out-turn compared to original approved budget	C
PI-3	Aggregate revenue out-turn compared to original approved budget	A
PI-4	Stock and monitoring of expenditure payment arrears	C+
	<b>Comprehensiveness and transparency</b>	
PI-5	Classification of the budget	A
PI-6	Comprehensiveness of information included in budget documentation	B
PI-7	Extent of unreported government operations	C+
PI-8	Transparency of inter-governmental fiscal relations	C
PI-9	Oversight of aggregate fiscal risk from other public sector entities	B
PI-10	Public access to key fiscal information	A
	<b>Policy-based budgeting</b>	
PI-11	Orderliness and participation in the annual budget process	A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+
	<b>Predictability and control in budget execution</b>	
PI-13	Transparency of taxpayer obligations and liabilities	A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B+
PI-15	Effectiveness in collection of tax payments	B+
PI-16	Predictability in the availability of funds for commitment of expenditures	C+
PI-17	Recording and management of cash balances, debt and guarantees	A
PI-18	Effectiveness of payroll controls	B+
PI-19	Competition, value for money and controls in procurement	B
PI-20	Effectiveness of internal controls for non-salary expenditures	C+
PI-21	Effectiveness of internal audit	C+
	<b>Accounting, recording and reporting</b>	
PI-22	Timeliness and regularity of accounts reconciliation	A
PI-23	Availability of information on resources received by service delivery unit	B
PI-24	Quality and timeliness of in-year budget reports	B+
PI-25	Quality and timeliness of annual financial statements	D+
	<b>External scrutiny and audit</b>	
PI-26	Scope, nature and follow-up of external audit	D+
PI-27	Legislative scrutiny of the annual budget law	B+
PI-28	Legislative scrutiny of external audit reports	D+
	<b>Donor practices</b>	
D-1	Completeness and timeliness of budget estimates by donors for project support	Not applicable
D-2	Financial information provided by donors for budgeting and reporting on project and	D+
D-3	Proportion of aid that is managed by use of national procedures	B

# SECTION 1: INTRODUCTION

## 1.1 CONTEXT AND PROCESS OF PREPARING THE PFM PERFORMANCE REPORT

The Public Expenditure and Financial Accountability (PEFA) framework was developed by a group of PEFA partners, in collaboration with the OECD/DAC Joint Venture on PFM.<sup>1</sup> The framework uses an assessment tool based on indicators that provide reliable information on the performance of Public Financial Management (PFM) systems, processes and institutions. Since its introduction, the PEFA framework has been applied in over 70 countries. Morocco is the first country in the Maghreb region to prepare a PFM Performance Report.

The decision to prepare a PFM-PR was taken by the Government of Morocco in 2008. Work began in May 2008 during a workshop designed to define the methodology to be followed, the scope of work, and the mechanisms for the report's distribution.

The PFM-PR was prepared by a joint mission of the World Bank (WB) and the European Commission (EC) working with a team of local counterparts who coordinated and harmonized participation by Moroccan authorities. The mission took place in July 2008, and included EC mission participants George Corm (consultant) and Simona Negoitia (consultant), and WB participants Pierre Messali (MNACS), Khalid el Massnaoui (MNESD) and Lucien Méadel (consultant). The mission and its work were directed by Fabrice Ferrandes (EC) and José Lopez-Calix (WB-MNACS Task Team Leader). The document was drafted mainly by Lucien Méadel, with the support of all team members. Mr. Lopez-Calix directed the work and reviewed the assessments, in direct liaison with the Moroccan counterparts and the PEFA Secretary, Franck Bessette. WB-MNACS Consultant Suzanne Snell translated the report into English.

The work was planned to take place over a period of no more than nine months starting from the mission's visit to Morocco to the completion of a final report during the first quarter of calendar 2009. An initial draft was submitted to the Moroccan authorities for discussion and comment at the end of January 2009 and a second mission to finalize the work took place in February 2009.

From the outset of its work in May 2008, the team clearly stated that the PFM-PR could not be considered a comprehensive assessment of the country's public finance system, but rather as a snapshot of its performance during the period under review (2005-06-07), assessed with respect to good practice and recognized international standards.

An assessment of the overall risks regarding Morocco's budget, accounting and auditing systems had already been made, in 2003 and again in 2006, in the Country Financial Accountability Assessment reports, prepared by the WB in order to better target its financial and technical assistance. The International Monetary Fund (IMF) had also prepared its Report on the Observance of Standards and Codes (ROSC) in 2006 covering the transparency aspects of public finance with respect to the IMF's good practice codes.

Without in any way seeking to draw conclusions on the measures to be taken and supported to improve the current system, this PFM-PR assessment seeks to record as accurately as possible the scores for the 28 PEFA indicators and their 74 components that are supported by the mission's findings, in order to provide an objective measure of Morocco's PFM performance. To this end, a documented normative score is provided for each indicator using a four-level scoring system from A to D, with A being the best score. Two different scoring methods may be used for computing the score for an indicator based on the scores for its components: M1, based on the lowest score, and M2, based on an average for all components.

## 1.2 Report Objective

The PFM-PR is designed as a review of current performance in financial management in Morocco's public sector. The purpose of using the PEFA tool is to measure Morocco's performance against international standards in five

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<sup>1</sup> The PEFA program is an institutional collaboration by the the European Commission, the UK's Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign Affairs, and the International Monetary Fund ([www.pefa.org](http://www.pefa.org)).

PFM areas: budget credibility, budget comprehensiveness and transparency, predictability and control in budget execution, accounting recording and reporting, external scrutiny and audit; and also, donor practices regarding the predictability of international aid funds and use of national procurement procedures to manage them.

### 1.3 Scope of the Assessment

The subject of the report is public expenditure in Morocco at the central government level, including central government's financial relationships with local and regional governments and with public enterprises (PEs). Morocco has a relatively large public sector that accounts for 53 percent of GDP (2007), comparable to that for other Maghreb countries.

More than 90 percent of public spending is estimated to be covered by this report (apart from social security entities). In 2007, public expenditure by central government entities (administration centrale) represented 48 percent of total state spending, with public enterprises accounting for 47 percent and local governments 5 percent. There are 35 ministries and other central government institutions, and a significant number of autonomous state entities or SEGMA (161)—and of Special Treasury Accounts or STAs (82).<sup>2</sup> Table 1.1 presents the composition of public spending in 2007 by type of public body.

**Table 1.1. Morocco: Total public expenditure, 2007 (in DH millions )**

Institutions	Expenditure	% of total
<b>Central government (a)</b>	<b>157,520.01</b>	<b>47.84%</b>
of which:		
Ministries and institutions (b)	122,788.09	37.29%
Parastatals (SEGMA)	1,689.06	0.51%
Special Treasury Accounts	33,042.86	10.04%
<b>Public enterprises &amp; establishments (c)</b>	<b>153,933.86</b>	<b>46.75%</b>
<b>Local governments (d)</b>	<b>17,805.00</b>	<b>5.41%</b>
<b>Total public expenditure</b>	<b>329,258.87</b>	<b>100.00%</b>

Source : Finance Ministry

(a) Excluding debt.

(b) Excluding transfers to SEGMA (457.43), STAs (5,188.65) and PEEs (11,034.45)

(c) Investment and operating costs (excluding subsidies)

(d) Operating and investment expenditures

<sup>2</sup> The SEGMA (mostly public hospitals and training institutes) enjoy a relative degree of autonomy: their operating budget is funded by their own income and a central government subsidy, while their investment budget forms part of the budget for the regional body (delegation regional) to which they belong. In contrast, public enterprises and establishments (PEEs) enjoy a greater degree of financial and management autonomy. Their operating budgets and investment budgets are set and executed independently and they are also responsible for their own purchasing and setting fee rates for their services. For both SEGMA and PEEs, however, personnel management of their staff, all civil servants, falls under the national statute for civil servants.

## **SECTION 2: COUNTRY BACKGROUND INFORMATION**

### **2.1 COUNTRY ECONOMIC SITUATION**

#### ***2.1.1. Country context***

Morocco is a constitutional monarchy with a bicameral parliamentary system. The King is the head of state and appoints the prime minister and the ministers and other top officials (membres du gouvernement) on the basis of legislative elections held every five years. Morocco has strengthened its fledgling democracy since the 1997 elections, which are considered the first fully free and transparent elections organized since independence in 1956. The 1997 elections saw the emergence of a government headed by an opposition party formed as a coalition of five traditional political parties called the Koutla. Though it lost its majority following the defection of one of the five, the Koutla continues to head the current government following the September 2007 elections, thanks to the support of a new party, the Party of Authenticity and Modernity (PAM). PAM was created in September 2008 from the merging of a new parliamentary group with five small existing parties of the center-right.

At the end of 2007, Morocco's population was estimated at 31 million with annual per capita income of nearly US\$2,300, placing it among the lower tier of middle-income countries. The last three decades have seen a very rapid demographic transition. Currently, the population is growing at 1 percent per annum with an increasing share of urban residents, 56 percent in 2007.

Life expectancy has significantly improved, reflecting a progressive improvement in living standards. Nonetheless, major social challenges remain, in particular the economic insecurity of a large segment of its residents. Despite a considerable improvement in poverty indicators during this century (the incidence of poverty fell from 15.3 percent in 2001 to 9 percent in 2007), more than a quarter of the 2007 population remained economically vulnerable. Rural residents are the most affected by economic insecurity and more than half of rural residents remain economically vulnerable.

#### ***2.1.2. Economic situation***

Since 2001, economic growth rates have been increasing, driven by non-agricultural investment and higher levels of household consumption. Relaunch of structural and sectoral reforms at a steadier pace has led to the strong performance of private investment from both domestic and foreign sources. Among the most important reforms implemented are those designed to improve public sector efficiency and stimulate the industry, tourism, telecommunications and financial sectors. As a result, GDP has grown at 5 percent annually on average since 2001, compared to the 2.5 percent growth rates seen during the 1990s.

The 2008 growth rate is projected to be around 6-6.5 percent, led by internal demand forces along with investment and private consumption. At the sectoral level, public works and construction, high value-added industry and services, especially telecommunications and financial services, will be major contributors to this growth. Strong growth in 2008 follows the lackluster 2.7 percent seen in 2007, due to mediocre agricultural production caused by the worst drought in ten years.

Overall, growth still falls short of the country's potential and below the levels required to significantly improve social indicators, in particular poverty and unemployment. Moreover, growth performance is volatile because of the economy's still considerable though diminishing dependence on the vagaries of agricultural production.

The economy's steady growth since 2001 had reduced unemployment below 10 percent by the end of 2007, one of the lowest levels seen in recent decades. But the urban population still suffers from high unemployment (15.4 percent), especially young people (31.5 percent) and graduates (diplomés) (21 percent). Unemployment among graduates is basically due to a poor match between what the education and training systems offer and the increasing demand in the labor market for technical and specialized skills.

Inflation in Morocco's economy was low during the last decade, below 2 percent on average, 2.1 percent during 2005-07. But in 2008, the low inflation cycle was reversed and major rampant inflation took over, especially for food and petroleum products, exacerbated by the low supply of domestic food products. Internal inflation accelerated to 3.5-4 percent on average. The high increase in the cost of food (6-7 percent) was the main driver of

inflation. In fact the situation might have been worse, had Government not decided to maintain price supports for food and petroleum products through the Compensation Fund (Caisse de compensation), and to lift import duties on grain and sugar while launching price control and anti-speculation efforts. These measures came at a high cost to the state budget.

On the external side, the 2008 balance of payments deficit on current account is expected to reach 1 percent of GDP, another reversal of the situation in 2001-06, when surpluses were the norm, and the quasi-even balance of 2007. The main source of the current deficit is the ballooning of the commercial deficit following the poor performance of exports and price increases for the country's main import goods, in particular grain and petroleum products. Nonetheless, the balance of payments should turn positive in 2008, which will allow for foreign exchange reserves to be rebuilt (about eight months of imports), thanks to good performance in remittances from Moroccan workers abroad and in tourism sector earnings, along with strengthening of direct foreign investment.

## **2.2 GOVERNMENT REFORM PROGRAM & BUDGETARY OUTCOMES**

### ***2.2.1 Budget reform***

Since 2002, Morocco has implemented an ambitious reform program to improve efficiency of public financial management. These reforms have three objectives: (a) put in place a modern administrative system capable of strengthening the competitiveness of the national economy, strengthening sustainable country development, and promoting investment within the framework of new sectoral strategies; (b) improve the quality of public sector staff performance through efficient personnel management, and facilitate the ongoing process of government deconcentration and administrative decentralization while controlling cost and ensuring good performance; and (c) simplify administrative procedures, lighten the hand of control, and develop electronic and digital tools for administration that will improve public service delivery and the transparency of interaction with users and consumers.

On the revenue side, since 2005, Morocco has undertaken fiscal reforms designed to modernize and simplify revenue systems. Fiscal reform measures have sought to consolidate revenue sources and improve fiscal administrative efficiency by simplifying procedures and increasing the equity (tax incidence) and transparency of fiscal systems. In particular, since 2007, the tax rate on salary income has been reduced by two percentage points for each income level while also widening the band of untaxed salary. Other reductions are planned through 2010. The tax on benefits has also been reduced by 5 percentage points. The number of rate bands for value added tax (VAT) has been reduced from four (7, 10, 14, and 20 percent) to two (10 and 20 percent). Several exemptions known to be non-productive, especially from VAT, have been suspended in order to reduce tax administration costs. To improve budget transparency, since 2006, the annual budget act has included an annex on the costs of tax administration; in 2007, a new Tax Code was published. A new and more modern Tax Directorate (DGI) is now renovating the tax office space and upgrading computer equipment.

On the expenditure side, Morocco has adopted and begun implementing a new system called "globalization" that restructures budget allocations in order to give funds managers greater autonomy while promoting pursuit of better performance and improved accounting. Government has also introduced medium-term expenditure/spending frameworks in order to achieve better visibility of policy-oriented spending and its translation into budgetary terms in the medium term, and to facilitate budget allocation decisions with a multi-annual perspective. Work has also begun on restructuring its budget in results- and performance-based program terms. The objective is to give greater responsibility and autonomy in budget programming and execution to both the ministries and to their deconcentrated regional offices. Improvement of ministry performance is to be based on the introduction of internal audit and ensured by performance monitoring and evaluation.

In order to consolidate these achievements, Morocco has undertaken to revise the Organic Finance Law (Loi Organique de Finances). The reform process also encompasses tighter control over government payroll. Several measures have been taken to this end, in particular strengthening forecasting capacity, faster processing of personnel recruitment and promotion, and limiting of recruitment to the strict minimum required to consolidate the impact of the 2005 voluntary retirement program, taken advantage of by more than 39,000 civil servants.

## 2.2.2. Budget Outcomes

The budget reforms undertaken in recent years have led to a significant consolidation in public finance. Revenue has increased by 3.5 percentage points in GDP terms between 2005 and 2007, from 23.8 to 27.3 percent (see Table 2.1 below). Fiscal revenue increased by nearly 3.2 percentage points, of which 1.6 from direct taxes and 1.6 from indirect taxes. In particular, the VAT gained 2 percentage points, mostly compensating for the loss of 1.5 points in customs duties, following the dismantling of tariffs that took place within the framework of free trade agreements signed with the EU, the USA, and Arab countries.

In GDP terms, total public expenditure fell 1.5 percentage points over the same period (29.9 to 28.5 percent of GDP), despite an increase of 0.6 points in investment spending and a 0.5 point increase each in subsidies and transfers to local governments. Success in controlling government payroll, which fell from 11.7 of GDP to 10.6 percent, accounts for a large part of the fall in overall spending. In any case, this outcome should be seen in light of exceptional expenditures associated with the 2005 voluntary civil service retirement program (2.1 percent of GDP). Taking this into account, overall spending increased by 0.7 point, an acceptable result in light of increased investment efforts and the impact of increased world food and energy prices on the Compensation Fund.

The budget deficits resulting from these developments have substantially diminished during the 2005-07 period. In effect, public sector finances showed a deficit equivalent to only 0.6 percent of GDP in 2007, very much reduced compared to the 5.7 percent deficit of 2005. The consolidation of public finances also resulted in a steadily decreasing Treasury debt, down to 53.6 percent of GDP in 2007 compared to 62.1 percent in 2005.

**Table 2.1. Morocco : Public revenue and expenditure categories as percentage of GDP, 2005-07.**

Categories	2005	2006	2007
<b>Total revenue</b>	<b>23.8</b>	<b>25.1</b>	<b>27.3</b>
Fiscal revenue	21.7	22.2	24.9
Direct tax	8.2	8.8	9.8
Business tax	3.7	4.2	4.9
Income tax	4.3	4.2	4.5
Indirect tax	13.4	13.4	15
Customs duty	2.8	2.3	2.3
VAT	6.2	6.8	8.1
Consumption tax (Taxes internes de consommation)	2.9	2.8	2.8
Non-fiscal revenue	2.1	2.9	2.4
<b>Total expenditure</b>	<b>29.9</b>	<b>27.6</b>	<b>28.5</b>
Recurrent costs	24.1	21.5	21.6
Payroll	11.7	10.9	10.6
Subsidies	2.1	2.3	2.6
Interest on debt	3.3	3.2	3.1
Transfers to local gov'ts	1.9	2	2.4
Investment (including Hassan Fund II)	4.4	4.6	5
<b>Total deficit (a)</b>	<b>-5.7</b>	<b>-2.5</b>	<b>-0.6</b>
Primary deficit	-2.4	0.8	2.5
<b>Financing requirement</b>	<b>5.7</b>	<b>2.5</b>	<b>0.6</b>
External	-0.2	0	0.6
Domestic	5.8	2.5	0
<b>Treasury debt</b>	<b>62.1</b>	<b>57.2</b>	<b>53.6</b>
External	13.1	11.2	10.7
Domestic	49	46	42.9
[For reference : GDP in DH billion	527.7	577.3	615.4]

Source : Finance Ministry, percentages calculated by authors.

(a) Including the Hassan Fund II and excluding revenue from privatization.

### 2.2.3 Sectoral resource allocation

Table 2 presents budget allocations for the 12 main sectors. It shows that more than half of the budget goes to just two sectors: finance and education. The dominance of the Finance Ministry is due to their centralized handling of common costs (charges communes), basically the Compensation Fund and contributions to the civil service retirement fund. The Education Ministry's budget amounts to more than a quarter of the budget. Its importance is due to the size of its workforce—nearly half of civil servants work for this ministry—and its physical facilities. National defense comes in third place with a relatively stable share of around 14.5 percent. The share of budget allocated to health remains insufficient to respond to Moroccans' health needs and improve social indicators, and the sector is woefully lacking in infrastructure and medical personnel and shows major regional imbalances in service delivery, in particular between the urban and rural areas.

**Table 2.2. Morocco: Budget allocations for investment and recurrent costs by sector, as percentage of total expenditure.**

Sector	2005	2006	2007
Finance (including common costs)	27.2	26.2	27.2
Education	23.7	27.8	26.6
National defense	14.3	14.3	14.5
Interior	8.3	7.9	8.1
Health	5.1	5.3	5.5
Agriculture	4	2.8	2.8
Infrastructure and transport	3.3	2.5	2.4
Justice	1.9	1.8	1.9
Tourism and artisanal production	0.6	0.7	0.6
Labor and professional training	0.6	0.8	0.6
Energy and mining	0.4	0.4	0.4
Industry and commerce	0.3	0.2	0.2
Other	10.3	9.4	9.4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source : Finance Ministry, percentages calculated by authors.

## 2.3 LEGAL AND INSTITUTIONAL FRAMEWORK FOR PFM

### 2.3.1 Government's role

The Constitution of the Kingdom of Morocco provides in Art. 50 for “a budget act voted on by Parliament under conditions indicated by an organic law.” The Organic Law No. 7-98 defines quite precisely the content of the budget act, its scope, and how it is to be prepared and voted on, along the lines of arrangements adopted by other parliamentary governments in OECD countries.

The schedule for the phases of budget preparation is set each year. The prime minister's office distributes the budget guidelines, which set budget ceilings and priority activities for the ministries, based on that year's macroeconomic assumptions and Government's policy priorities. The guidelines are sent out by the end of July, allowing a month for the technical ministries to present their proposed budgets. Following its scrutiny and discussion with the ministries, the Budget Directorate finalizes the draft budget act, which the Finance Ministry then submits to the Government (Conseil du Gouvernement).

The annual draft budget act is accompanied by a cover letter and an economic and financial report that presents “the main elements of economic and financial equilibrium, current revenue and expenditure status and forecasts along with changes in revenue and expenditure (modifications apportées).”

Several other reports support the expenditure and revenue figures in the draft budget with information on special treasury account operations and on autonomous entities and SEGMA's. Since 2006, a special report on the cost of fiscal administration is also included.

All government resources are taken into account in the budget act, not only taxes but also fees and service charges, grants and subsidies, and revenue from asset sales and state purchase of investment shares, along with the flow of borrowed funds. Any measure that authorizes collection of public funds or initiates a loan obligation, and any measure that creates, modifies or eliminates public resources, must be covered in the budget act.

Under the Constitution, the Court of accounts (Cour des comptes) oversees budget execution from the top, with the Regional Courts of accounts overseeing local government budgets. The Code of Financial Jurisdictions of June 13, 2002, expanded the responsibility of auditors (juges des comptes) to include management audit (contrôle de gestion).

In 2006, the Court had a staff of 219 of which 99 were auditors (magistrats); the regional Courts had 153 staff of which 99 auditors. The Court also prepares an annual activity report that is submitted to the King and then made public. Since they were created in 2003, the nine regional Courts have carried out audits in all of the country's regions.

### ***2.3.2 Institutional relations and the role of Parliament in the budget process***

The Parliament routinely receives the Executive's budget proposal 70 days prior to the start of the new fiscal year. Several public sessions are held with the two houses of Parliament at which the macroeconomic framework and the budget framework are explained, along with the projects selected for inclusion in the sectoral budgets. The debate is widely broadcast by the media and via the Internet. The Parliament's Finance Commission prepares two reports: a preliminary one that presents its analysis of the proposed budget, and a supplement written after the debate that reflects the recommendations made by members of Parliament during the debate. The Commission's reports are not made public. Following the approval of the budget, the Executive responds to specific requests from Parliament during a series of public sessions.

Parliament may not modify the budget once it is approved, however, the Executive may both modify estimates for personnel and debt and strike out an allocation already approved by Parliament should exceptional economic conditions require it. The Organic Law also provides for Government to present a supplementary budget act; during the period under review, it has never done so.

### ***2.3.3 Assignment of responsibilities for PFM***

As soon as the act is promulgated, budget funds in the 106 chapters of the general budget are available for spending (executoires) by the 35 ministries and institutions who have direct budget authority for their own funds and delegated authority for spending by the SEGMA and for funds earmarked for by special accounts (comptes d'affectation spéciale or CAS).

The Finance Ministry plays a key role in the financial oversight and monitoring of the legality (régularité) of the ministries' management of their budgets, through its Budget Directorate (BD) and the Treasury of the Kingdom (Trésorerie générale du Royaume or TGR), which since 2006 must directly authorize commitment of funds (contrôle des engagements). TGR's network of public sector accountants authorizes and books the accounting transactions for all payments and all revenues of the central and local governments. Moreover, the Treasury handles payroll for all 650,000 civil servants at its central offices.

In-year modifications affected more than a quarter of appropriations in the budget act in 2006 and 2007; they are proposed (instruites) by the BD and approved or disapproved by the Finance Minister or the Prime Minister. Apart from funds transfers (virements de crédit), such modifications include postponing investment payments and forwarding new income earmarked (rattachements) for SEGMA and CAS. The BD also chairs bid opening and evaluation sessions for government contracts valued at DH 30 billion or more before the main interministerial bodies.

The Treasury Directorate manages state funds, including day-to-day management of the Government's account with the Bank Al-Maghrib (central bank) and oversight of internal and external debt management. TD also oversees public enterprises (PEs) and represents the Finance Minister on the boards of the most important public establishments and companies.



Prior to and during the period under review, Government implemented measures to make PFM oversight less formal, closer to the ground, and more effective. In the same spirit, restructuring of budget authority to facilitate reallocation of funds as needed (globalization), and the deconcentration of decision-making and investigative (instruction) authority, have become priority action programs.

Introduction of internal audit will however need to accompany these reforms in order for authorities to manage the risks inherent in the new PFM arrangements. For central government, a decree of December 2, 2005, directs all ministries to establish a ministerial inspection office (inspection générale ministérielle or IGM) and a new organizational unit for internal financial and management audit ; in 2007, the main ministries had done so.

Until the ministerial IGMs have fully developed their authority, the central IGF's 95 auditors are acting as mentors for the ministerial staff in order to inculcate good audit practices and assess any need for additional support.

### ***2.3.4 Local government budgets***

Under Title IX of the Constitution, the local governments in the Kingdom—regions, prefectures, provinces, and communes (equivalent to rural and urban counties)—“elect councils (assemblées) responsible for managing their affairs democratically,” but apart from the communes, it is in fact the governors or Walis (central government representatives) who carry out the local government councils’ decisions.

The governors approve the budgets of the 1,290 rural communes ; those of the 199 urban communes, 61 provinces and prefectures, and 16 regions are approved by the Interior and Finance Ministries that are their guardians or trustees (ministères de tutelle).

Local government budgets approved by the ministries amounted to DH 15 billion in 2006, or about 10 percent of the central government budget. Their financing is covered by transfers from central government revenue (funded essentially from the VAT) of DH 11 billion and DH 4 billion in local taxes and fees.

Loans may be used only to finance investments that have been submitted to and approved by the guardian ministries; the largest loans have been used to finance rural water supply and electrification, and new urban infrastructure, infrastructure upgrading, and commercial facilities in the urban communes.

## **SECTION 3: ASSESSMENT OF PFM SYSTEMS, PROCESSES AND INSTITUTIONS**

PFM performance is captured by 28 indicators in the measurement framework covering six categories:

1. Budget credibility ; how realistic is the budget ?
2. Comprehensiveness and transparency : how comprehensive is the budget, what is the extent of non-recorded transactions, and how are off-budget funds risks monitored?
3. Policy-based budgeting ; how well does the budget reflect public policy goals?
4. Predictability and control in budget execution : Is the budget executed in an orderly and predictable way and are there effective PFM control arrangements?
5. Accounting, recording and reporting : Are accounting documents and budget execution reports prepared and distributed on a regular basis ?
6. External scrutiny and audit : Are there functioning mechanisms for external audit of public expenditure?

The framework also assesses donor practices, which have a bearing on the performance of PFM systems at the country level.

Each of the indicators is defined and assessed individually and separately. The score calculated for each indicator is based on the assessment of each of its components. The score for the indicator is obtained by combining the scores for its components through one of two methods; the score D is considered the residual score for both methods, to be applied if the requirements for any higher score are not met.

Method 1 (M1) is used for all indicators where poor performance on one component of the indicator is likely to undermine the impact of good performance on other components of the same indicator; the indicator receives the same score as the “weakest link”.

Method 2 (M2) is based on averaging the scores for an indicator’s components, when a low score on one component does not necessarily undermine the impact of a high score for another component. Method 2 (M2) makes use of a conversion table where the score for certain specific indicators may be looked up once the component scores are determined. The conversion table may not be used for indicators using M1, as that would result in an incorrect score. In general, the performance indicator set has not been designed for aggregation and therefore no aggregation methodology has been developed. Detailed guidelines for the scoring process, “PEFA – PFM Performance Measurement Framework,” may be found on the PEFA website ([www.pefa.org](http://www.pefa.org)).

In the rest of this section, the results of the detailed assessment for Morocco’s PFM systems are presented by PEFA component and indicator. A summary table at the end of each indicator sub-section presents the indicator score; these summary tables are displayed together in the summary assessment preceding the main text. **Annex 1** brings together all the indicator and component scores and the justifications.

### **3.1 BUDGET CREDIBILITY**

#### **PI-1 Aggregate expenditure out-turn compared to original approved budget**

Morocco’s Finance Law is quite comprehensive and defines a budget structure with four main budget accounts : the general budget, the SEGMA, the special treasury accounts (STAs), and the budget annexes (which are being phased out). Each is to be presented under a system of headings and subheadings that is provided in the 1998 Organic Law. Otherwise, the key procedures for creating supplementary appropriations (ouverture de crédits supplémentaires) during the course of the fiscal year are through surplus funds from earmarked sources use to fund supplementary appropriations (fonds de concours), carrying forward of investment allocations (reports de crédits d’investissement), and other special procedures (procédures d’ouverture supplémentaire exceptionnelle).

**Table PI-1. Total budget appropriations and expenditure out-turn (excluding debt service)**  
(in million DH)

	2005	2006	2007
<b>Budget act</b>	<b>147,236.5</b>	<b>153,029.2</b>	<b>168,864.1</b>
In-year changes, approved by order or decree	30,919.0	40,829.3	45,780.6
Total appropriations ( crédits ouverts)	178,155.5	193,858.5	214,644.7
<i>Changes as % Budget act</i>	<i>21.0 %</i>	<i>26.7 %</i>	<i>27.1 %</i>
<b>Total out-turn</b>	<b>159,545.9</b>	<b>156,717.9</b>	<b>174,200.6</b>
<i>Total out-turn as % Budget act</i>	<i>108.36 %</i>	<i>102.41 %</i>	<i>103.16 %</i>
[For reference : % out-turn as % total appropriations	89.55%	80.84%	81.16%]

Source : Budget Directorate, calculated on basis of draft budget review acts for 2005, 2006, 2007.

During the period under review, the total of final out-turns exceeded the total of fund allocations initially voted in the budget act by less than 5 percent, except in 2005, when the overrun was 8.36 percent. The 2005 overrun, compared to those of 2.4 percent and 3.1 percent in 2006 and 2007, is explained by the DH 10.7 billion, or 7.28 percent of funds initially voted, required to pay for civil servant buyouts as part of special arrangements to encourage voluntary retirement: 39,000 civil servants took advantage of the offer, or 7 percent of total civil service staff.

Total out-turns considered here exclude debt service. Expenditures under donor-financed projects were covered by supplementary in-year appropriations based on surplus funds (fonds de concours) received during the course of the year, in the amounts actually received from donors for projects already included in the budget act. These donor funding deposits arrive in highly variable amounts; they should also be omitted from expenditures shown in Table PI-1. The definition of expenditures used here would then be consistent with that used for indicator PI-2. However,

- It is not possible to identify in the ministries' budget act appropriations, the small project-related expenditures corresponding to donor grants recorded as revenue in the Finance Ministry's budget (amounting in 2005 to DH 0.7 billion, in 2006 to DH 1.36 billion, and in 2007, DH 2.46 billion (see also discussion for indicators PI-7(ii) and D1).
- In the general budget, funds shortfalls are covered by administrative decree (abondés en cas « d'insuffisance » par décret soumis à ratification), under a provision for their authorization (habilitation) that has been repeated each year in the budget acts for 2005, 2006, and 2007.
- In-year allocation adjustments for the STAs and SEGMA are made as revenue is received, by simple order of the Finance Ministry, as per Decree No. 2-98-401 of April 26, 1999, on the preparation and execution of the budget act.

<b>A</b>	<i>i) In only one of the last three fiscal years has budget out-turn exceeded budgeted expenditures by an amount equivalent to more than 5 percent of the amount initially budgeted.</i>
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## **PI-2 Composition of expenditure out-turn compared to original approved budget**

This indicator complements PI-1 and must therefore logically be calculated on the same basis. The changes in overall level of expenditure assessed by PI-1 will translate into changes in spending for administrative budget lines. Indicator PI-2 measures the extent to which reallocations between budget lines have contributed to variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditure. Measurement against this indicator requires an empirical assessment of expenditure out-turns against the original budget at a sub-aggregate level. Variance is calculated for the main budgetary heads of the ministries and other entities included in the approved budget. The total variance in expenditure composition is calculated and compared

to the overall deviation in primary expenditure for each of the last three years. The score resulting indicates the extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure as defined in PI-1 during the last three years.

**Table PI-2. Variance in expenditure composition in the budget allocation vs out-turn  
(excluding debt service)**  
(in million DH)

	2005	2006	2007
Total expenditure approved	147,236.5	153,029.2	168,864.1
Total expenditure out-turn	159,545.9	156,717.9	174,200.6
Absolute difference	12,309.4	3,688.7	5,336.5
<b><u>% difference between approved &amp; actual</u></b>	<b>8.4%</b>	<b>2.4%</b>	<b>3.2%</b>
Sum of differences for all expenditure components (absolute value)	21,647	13,823	15,691
<b><u>Variance as % of approved expenditure</u></b>	<b>14.7%</b>	<b>9%</b>	<b>9.3%</b>
<b><u>Variance exceeding overall deviation between approved and actual</u></b>	<b>+6.3%</b>	<b>+6.6%</b>	<b>+6.1%</b>
<i>Source : Budget Directorate, calculated on basis of draft budget review acts for 2005, 2006, 2007.</i>			

Consistent with the figures obtained for indicator PI-1—which do not take into account modifications in budget lines due to transfers—the variances in the composition of expenditures exceed 10 percent only for 2005. The gap is explained by funds raised that year to pay for civil servant buyouts for 39,000 civil servants who opted for early retirement (Operation INTILIKA).

The detailed calculations for this indicator and for PI-1 are presented in **Annex 2**. Note that the changes in spending take into account the fact that a large part of the approved budget is in effect voted by Parliament as an undistributed total allocation (dotation globale non répartie) that is then apportioned throughout the year (répartition en cours d'année).

Overall, the variance of primary budget components as percent of approved expenditure exceeded 5 percent for each of the three years under review, which means that a score of B may not be assigned; however, they did not exceed 10 percent and their average was 3.2 percent.

<b>C</b>	<i>i) For only one of the last three year did the variance of the composition of expenditure turn-out, compared to the % difference between approved &amp; actual, exceed ten percent.</i>
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### **PI-3 Aggregate revenue out-turn compared to original approved budget**

On the basis of information found in the budget review acts and data centralized by the TGR and presented by the Budget Directorate in its annual reports, revenue out-turns exceeded revenue forecasts by an increasing percent during the period under review : 11.6 percent in 2005 to 22.8 percent in 2007.

**Table PI-3. Actual total revenue out-turn compared to original approved budget.**  
(in million DH)

	2005	2006	2007
<b><u>GENERAL BUDGET REVENUE</u></b>			
Total budget (budget act)	110,434	119,283	130,396
Out-turn (actual)	119,588	134,155	154,661
<b><u>REVENUE from BUDGET ANNEX (a)</u></b>			
Total budget	721	0	0
Out-turn	544	0	0
<b><u>SEGMA REVENUE</u></b>			
Total budget	1,449	1,582	1,595
Out-turn	3,020	2,906	3,401
<b><u>TSA REVENUE</u></b>			
Total budget	24,309	28,285	31,924
Out-turn	29,687	35,364	43,223
<b>TOTAL revenue excluding borrowing</b>	<b>136,913</b>	<b>149,150</b>	<b>163,915</b>
Out-turn	<b>152,838</b>	<b>172,425</b>	<b>201,285</b>
<i>As % of revenue in initial budget act</i>	<i>111.63 %</i>	<i>115.60 %</i>	<i>122.80 %</i>

Source : Budget Directorate statistics.

(a) Budget annexes were dropped in 2006.

This spectacular growth in revenue may be explained by several factors:

- The Tax Directorate (DGI) and the Forecasting Directorate produced a conservative revenue forecast because they refrained from taking into account the impact of a number of fiscal measures that had not yet actually been approved by Parliament.
- Many legislative and administrative fiscal measures were implemented during 2005-07 in these areas :
  - broadening of the tax base,
  - reducing the tax rates, which motivated taxpayers to actually start paying taxes,
  - increasing the number of tax audits and actions to recover back taxes (redressements),
  - favorable economic conditions during these three years, and
  - a high level of profitability for some public enterprises which led to increases in their contribution to fiscal revenue.

<b>A</b>	<i>i) During only one of the three years under review was aggregate internal revenue out-turn less than 97 percent of internal revenue forecast in the original approved budget.</i>
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#### **PI-4 Stock and monitoring of expenditure payment arrears**

##### **i. Stock of expenditure payment arrears.**

Expenditure payment arrears in the sense of expenditures that were processed (ordonnancées) and verified (liquidées) but not paid (payées) because funds ran out for lack of cash in suspense funds (trésorerie disponible en attente) or because funds ran out while lengthy payment procedures were underway, no longer occur or are rare (marginale).

Unpaid [utility] bills (instances de paiement) were a major problem in Morocco for a long time during the 1980s and 1990s. Cross-payment arrears arising between the central government, the PEs and the local governments reached a high level in the mid-1980s ; many of these were due to expenditures made by certain

entities that exceeded budget allocations especially for operating costs for water, electricity and transport. The discharge (apurement) of these arrears has occurred gradually, especially since the early 2000s. The general improvement in Morocco's public finance situation, along with extra revenue from privatization, led to a degree of comfort in cash flow (aisance de trésorerie) that reduced the significance of this type of arrears to a level that was marginal relative to total spending.

In the early 2000s, Moroccan authorities took some rather drastic steps to discharge arrears in overdue water, electricity and telephone bills. New procedures for managing purchase of supplies (fournitures) and their billing were adopted by the utility operators, which were gradually being privatized, such as payment receipt stickers or cards (vignettes) for water, electricity and telephone. These procedures led to a steep reduction in this type of arrears beginning in 2005.

Another important measure designed to avoid arrears was the creation of interest penalties on arrears (intérêts moratoires) for payment delays exceeding 90 days on invoices under public contracts to supply goods and services to the public sector, under Decree no. 2-03-703 of November 13, 2003. Public sector accounting officers (comptables publics) appear to be systematically enforcing these penalties, even though the total amounts thus collected are very low (in 2007, amounting to 0.003 percent of the value of the contracts).

It is another story for arrears defined by PEFA as "arrears arising from a legal obligation or a specific contractual commitment entered into by public sector authorities." Such obligations, which are slow to be taken into account and formalized in the budget, and therefore slow to be processed, involve especially :

- Civil service payroll and pension payments: the lag between the date the funds were owed and actual payment (dates d'exigibilité et règlements effectifs) have mostly affected the newly hired and newly retired ; they were gradually reduced during the 2005-07 (cf. PI-8). Discharge of back payments owed for contributions to the Morocco Retirement Fund was also completed during the 2005-07 period, through the inclusion in the budget acts of the funds required under the Finance Ministry's heading for overhead costs (charges communes), reaching a level of DH 11.08 billion in 2005 and DH 1.6 million in 2007.
- Amounts outstanding at the end of the fiscal year to cover payment of compensation for grain and energy products, which rose sharply between 2005 and 2007, as occurred in many countries due to price increases for petroleum and food commodities: These overruns were then covered by inclusion of the amounts required in the next year's budgets, in the amounts of DH 6.45 billion in 2006 and DH 4.79 billion in 2007. However the technical mechanisms for processing (liquidation) of such aid amounts in the last months of the fiscal year are rather complicated, because of the large number of beneficiaries and the wide variations in the prices for energy and food products. Because payments must follow the regular budgetary procedures along with agreements between the Compensation Fund and its payment agencies (distributeurs), several weeks may pass between the date when the payments are due and when they are received; but by the same token, they do not constitute arrears as defined by PEFA, even though they have been so classified in the statistical estimates of the Treasury Directorate (DTFE) (see also below).

Therefore, from estimates based on the information received, it does not appear that the actual amount of arrears represents more than 2 percent of the total expenditure out-turns, even in 2005.

<b>A</b>	<i>i) The stock of arrears is insignificant (less than 2 percent of total expenditure out-turn).</i>
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## **ii. Availability of data for monitoring the stock of expenditure payment arrears**

The Treasury Directorate's estimates of the status of arrears during the period under review are presented in Table PI-4.

**Table PI-4. Payment arrears.**  
(in million DH)

	2005	2006	2007
Overdue payments (a)	1,621	1,559	724
Compensation arrears (b)	6,450	5,813	6,891
<b>Total payment arrears</b>	<b>8,071</b>	<b>7,372</b>	<b>7,615</b>
<i>Variance</i>	<i>-7,805</i>	<i>-699</i>	<i>243</i>

Source : DTFE. (a) Data from accounting documentation. (b) Difference between amounts owed and paid during that budget year.

However, DTFE's definition of arrears does not meet PEFA criteria (see above), especially regarding Compensation Fund back payments. The public sector accounting system in Morocco uses both a cash basis approach to payments and also a commitment basis; its reliability and clarity are therefore dependent on rigorous adherence to charging expenditure during the year it was disbursed. Only approved (visés par le contrôle) expenditures covered by legal commitments may be paid out during the short supplementary period of the following year. Expenditures not effected by the year's end may be carried over only if they involve investment commitments. Therefore, only arrears that could have arisen from invoices for supplies or services rendered or being rendered, but not yet booked by the end of the year, would qualify as arrears. According to the findings of the mission, such carryover practices should not recur, especially given the diligence applied in suppressing them (see above).

In addition, changes in arrears, both in stock and flow terms, are reported in public finance publications in the same way as revenue, expenditure and financing. The monthly statistical bulletin for public finance, which appears on the Finance Ministry's website ([www.tgr.gov.ma](http://www.tgr.gov.ma)), gives the monthly figure for arrears and its variation since the beginning of the fiscal year.

It is true that the identification and monitoring of public sector payment arrears in PEFA terms has not been carried systematically during the 2005-07 period. Scoring for this indicator should also take into account the recognized impact of ongoing efforts to clear arrears that began in the early 2000s, following the proper funding of the civil service retirement fund in 2005.

<b>C</b>	<i>ii) Data required on the stock of arrears have been generated by at least one comprehensive ad hoc exercise within the last two years of the period under review.</i>
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**Using Method M1, the overall score for indicator PI-4 is C+ (A, C).**

### **SUMMARY OF ASSESSMENT OF BUDGET CREDIBILITY**

PI-1	Aggregate expenditure out-turn compared to original approved budget	A
PI-2	Composition of expenditure out-turn compared to original approved budget	C
PI-3	Aggregate revenue out-turn compared to original approved budget	A
PI-4	Stock and monitoring of expenditure payment arrears	C+

## **3.2 COMPREHENSIVENESS AND TRANSPARENCY**

### **PI-5 Classification of the budget**

The classification system for expenditures is designed in accordance with provisions in Art. 29 of the Organic Finance Law of November 26, 1998: under the three main type headings of the general budget (operating costs, investment, and public debt,) spending is presented by chapters that are subdivided into articles, paragraphs and lines according to their purpose (destination, objet ou nature), breaking out payroll and supply costs, miscellaneous spending, and investment spending.

Expenditure monitoring is supplemented by an economic and functional classification system presented in **Annex 3** that includes :<sup>3</sup>

- a 10-digit administrative code (main budget type heading, chapter, head, subhead, TSA category, department and TSA/SEGMA order number,
- a 10-digit economic code (staff, tax, goods) following COFOG standards,
- a functional code (with 100 sub-classes), comprised of the economic code plus 10 additional digits indicating function (example : education would be class 3 and primary education would be sub-class 3-32). This is a larger number of categories than the 69 in the GFS-COFOG standard.
- A 10-digit code for booking public sector accounting transactions for each functional sector and detailed control of budget execution.

This classification system is both detailed, stable and viable, including the sub-functional classification. Certain changes in the budget and accounting classification systems are planned in order to facilitate direct monitoring of priority program implementation, in the framework of amendments that may be made to the Organic Finance Law.

<b>A</b>	<i>i) Budget preparation and execution are based on administrative, economic, and sub-functional classification, using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards.</i>
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#### **PI-6 Comprehensiveness of information included in budget documentation**

Budget documentation submitted to Parliament must be comprehensive. To be comprehensive, documentation must meet the nine following criteria :

1. Annual budget documentation includes macro-economic assumptions, in particular the rate of inflation, dollar and euro exchange rates for the DH, and GDP growth. Since 2006 the price of a barrel of oil and a quintal (100 kg) of grain are also included in the basic assumptions presented to Parliament and discussed by the Finance Commissions.
2. The budget deficit as calculated according to international standards is presented along with the underlying calculations.
3. Deficit financing and its composition are forecast in light of anticipated market conditions.
4. Debt stock and its most recent movements are the subject of a detailed report by the Treasury Directorate and the central bank, generally at mid-fiscal year, addressed to the Parliamentary Finance Commissions.
5. Under the current accounting system and accounting rules, ministry/department/agency financial assets (avoirs financiers) are not required to be valued or tracked and therefore do not appear in budget documentation, though some ministries/departments/agencies have inventoried their fixed assets in order to better plan for their maintenance.
6. Prior year's budget out-turn (revenue and expenditure) are presented in the cover letter (note de présentation) for the budget act, and summarized in the economic and financial report.
  - Monthly statistical bulletins for public finance that are regularly published by TGR covering the year-to-date figures for total costs (charges globales) and treasury resources include data for both the current and previous year. The same is not always the case for the draft budget annexes, especially the report on special treasury accounts.
  - However, in-year information for the current year is not always presented in the same format as the budget proposal. There are, nonetheless, reports on the previous year's budget—quite detailed for

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<sup>3</sup> The international standard for classification systems in the Government Finance Statistics (DFS) which provides the framework for economic and functional classification of transactions. Under the UN-supported Classification of Functions of Government (COFOG), which is the functional classification applied in GFS, there are ten main functions at the highest level and 69 functions at the second (sub-functional) level. PEFA Guidelines, p. 17.



revenue, more summarized for expenditures—are included in the budget annexes and in the replies to the questions of the Finance Commissions.

7. Although no supplementary budget acts were presented to Parliament during the 2005-07 period, information on the forecast out-turns for the current year are provided at the time of presenting the draft budget act for the coming year ; however they are not presented in the same format as the budget proposal.
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (cf. PI-5), for the current and previous years are presented in the budget documents attached to the draft budget act submitted to Parliament.
9. The main new policy and program initiatives proposed in the draft budget act, both expenditures and revenues, are explained and assessed in the Finance Minister’s report presenting the act, as well as in his address at the opening of the joint budget session of the two houses of Parliament.

The required information has been issued for the criteria numbers 1-4, 8 and 9; the same is not the case for criteria 5-7.

<b>B</b>	<i>i) Recent budget documents satisfy five to six of the nine information criteria.</i>
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### **PI-7 Extent of unreported government operations**

#### *i) Extra-budgetary expenditure*

The Budget Directorate’s activity reports, available on the Finance Ministry website, provide clear information on the movements of totals for expenditure by purpose category, and compared to allocations and forecasts for revenue and expenditure in the previous fiscal year.

Detailed information for central government support of activities of the PEs that manage public services ( services d’interet general) and carry out public investment programs is provided in the PE reports annexed to the budget acts. Subsidies and capital grants are clearly presented.

The same is done for activities of the Hassan II Fund, which by law receives 50 percent of income from privatization and reallocates these funds to development projects. This Fund was created in 2003 as an autonomous public entity and is subject to the same controls as the PEs (cf. PI-9). It issues an annual report describing its activities.

<b>A</b>	<i>i) The level of unreported extra-budgetary expenditure (other than donor-funded projects) is insignificant (less than 1 percent of total expenditure).</i>
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#### *ii) Income/expenditure information on donor-funded projects included in fiscal reports*

Morocco treats information for donor-funded projects differently from most other countries : the funding shown in the budget combines national or counterpart funding with that provided by donors. Donor financing is thus highly integrated into the budget for Morocco’s public sector, in direct contrast to countries where donor funding is not shown in the national budget even though it may constitute most of the investment budget. As a result, however, it is not always possible to clearly distinguish and track the use and evolution of donor funds in the information provided on the budget.

- The revenue side of the budget act and its annexes shows only donor funds that have been confirmed or are confidently anticipated (prévisibles);
- In the budget booklets called “morasses,” detailed listings by article and paragraph of appropriations, state investments corresponding to projects financed with donor aide are listed at the paragraph level, with an indication of total appropriations or anticipated supplemental appropriations (en attente de rattachement de fonds de concours). In effect, it is not until donor funds are actually deposited (verses) that the amount received is allocated by administrative order for supplementary appropriations (rattachés pour leur montant effectivement encaissé par arrêtés de fonds de concours), and that the loan disbursements appear in the cash flow for the general budget, whether in special accounts or in the accounts for the PEEs involved.

The economic and financial report does not present nor provide any breakdown for anticipated donor support, apart from a few references—in the analysis of ministerial programs—to donor participation but with no figures. On the other hand, Budget Directorate activity reports record the total donor commitments and drawdowns made (cf. D-1). They also mention the purpose of support and the investment programs being supported, along with any changes in support coming from major donors.

The score for this indicator reflects, in spirit if not the letter of the PEFA criteria, the Moroccan practice that certainly tracks the receipt and use of donor funds, but does not comprehensively document them in the budget reports.

<b>C</b>	<i>ii) Complete income/expenditure information for all loan-financed projects is included in fiscal reports.</i>
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**Using Method M1, the score for indicator P-7 is C+ (A, C).**

## **PI-8 Transparency of inter-governmental fiscal relations**

### **i) Transparency and rules-based systems in transfers from central to local governments**

Under Title IX of the Constitution, local governments in the Kingdom—regions, prefectures, provinces and communes—“elect councils responsible for democratically managing their affairs,” but except for the communes, it is the Walis, who represent the state, and the governors who carry out the councils’ decisions. Financial relations between the central government, thus represented at the local level, and the local governments are organized under a 1976 law and a Charter revised in 2002 that submits all council decisions having a financial impact for approval by the double guardianship of the Ministries of Interior and Finance. The local government treasurer, a public sector accounting officer who is a TGR staff member, handles accounting/does the books, approves commitments, and controls and executes payment orders.

**Table PI-8. Local government in-year budget changes**  
(in million DH)

	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b><u>(1) Operating Revenue</u></b>	<b><u>15,052</u></b>	<b><u>15,864</u></b>	<b><u>12,788</u></b>
- Revenue sharing from central government	11,486	12,198	9,868
- Locally collected revenue	3,566	3,666	2,920
<b><u>(2) Operating Expenditures</u></b>	<b><u>12,733</u></b>	<b><u>13,262</u></b>	<b><u>11,687</u></b>
- Personnel	7,127	7,492	5,944
- Equipment & other	4,446	4,659	4,742
- Debt service	1,160	1,111	1,001
<b>(3) Surplus = (1) – (2)</b>	<b>2,319</b>	<b>2,602</b>	<b>1,101</b>
<b><u>(4) Investment income</u></b>	<b><u>6,618</u></b>	<b><u>6,166</u></b>	<b><u>6,365</u></b>
Surplus	2,319	2,602	1,101
Previous year’s surplus (carried over ?)	2,463	1,490	2,243
<b>Investment revenue (VAT share + borrowing + other)</b>	<b>1,836</b>	<b>2,074</b>	<b>3,021</b>
• Investment share of VAT	1,305	1,275	1,825
• Borrowing	370	677	799
• Other investment revenue	161	122	397
<b><u>(5) Investment expenditure</u></b>	<b><u>4,481</u></b>	<b><u>4,921</u></b>	<b><u>5,637</u></b>
- Additions to furniture & fixture (acquisitions mobilières)	312	246	281
- Major infrastructure repairs and new construction	3,551	3,967	5,217
- Additions to capital assets (acquisitions immobilières)	109	143	139
<b><u>TOTAL INCOME (1) + (4) - (3)</u></b>	<b><u>19,351</u></b>	<b><u>19,428</u></b>	<b><u>18,052</u></b>
<b><u>TOTAL EXPENDITURE (2) + (5)</u></b>	<b><u>17,214</u></b>	<b><u>18,183</u></b>	<b><u>17,234</u></b>
UNALLOCATED FUNDS (CRÉDITS NON – PROGRAMMÉS)	2,137	1,245	728

Source : Budget Directorate activity reports for 2006 budget and preliminary report for 2007.

The horizontal allocation of central government support, through the relations between central authorities and locally elected officials, follows set rules for the most part, but more flexible (contingents) ones in the case of interventions that can only be decided at the central level on the basis of state priorities, in particular for investments. Three fiscal sources—VAT, business tax (Impôt sur les Sociétés or IS), and income tax (Impôt sur le Revenu or IR)—provide funds for central transfers to local governments, passing through special treasury accounts.

- In the case of the largest of these financing sources, as much as 30 percent of VAT revenue is used for intergovernmental transfers, precise revenue-sharing criteria are set in a circular prepared in consultation with Parliament, for two portions ( “masses”), the larger (69 percent of the total in 2005 and 68 percent in 2006) is allocated to overall grants (dotations globales), and the smaller (31 and 32 percent) allocated as a function of common costs (charges communes) billed to the local governments (shared communal infrastructure, electrification, water supply, deficits (conjoncturels) due to fluctuations in the economy). The rules for calculating the grant shares—used mostly to pay for operating expenditures—are set for each category of local government on the basis of population governed; a cross-subsidy arrangement inversely related to fiscal base allows for topping up of grants for the poorest local governments.
- Regional governments receive 1 percent of total revenue from IR and IS through a special earmarked account ; since 2007, they also receive 15 percent of revenue from the insurance tax ; the total is distributed among the regions on the basis of population and area.

Investment transfers, which amounted to 25-31 percent of total expenditures during 2005-07, it would not be feasible to design such a fixed set of rules for distributing central government aid, in particular for nationally managed urban and rural infrastructure programs that are financed by the Ministries of Infrastructure and Agriculture either under their own budgets or through special accounts or eve grants to the PEs that are implementing the programs.

<b>B</b>	i) <i>The horizontal allocation of most transfers from central government (at least 50 percent of transfers) is determined by transparent and rules-based systems.</i>
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**ii) Timeliness of reliable information to sub-national governments on their allocations from central government**

In general, central government notifies the Walis and local government authorities about their allocations of shared revenue funds from the VAT, IS and IR beginning in September of the previous fiscal year. Budget funds that have been thus set (arrêtés) and voted upon are approved in a timely fashion to become effective (exécutoires) from the January 1 of the new fiscal year. Central funds in the appropriate amounts are deposited (versées) in four tranches between January and August at the latest.

However, while the amounts initially budgeted comprise the largest source of funding and spending for most communes, the same is not true for many local governments with large ongoing investment programs or those that are receiving state support for economic, social and water and sanitation programs. Such investment and support programs are part of Government’s priority initiatives and are therefore presented (exposées) in the draft budget presentation report that is submitted to Parliament at the end of October : they are broken down, for the most important ones even by geographical area, in this report and the report on special accounts. Even if the technical and financial framework for major local government investments comes into play in principle from the time these programs are launched, budgeting for funds to support them during a given year must be approved by the guardian authorities as a function of the funds budgeted for their annual spending.

Therefore, in practice, budget changes are required for the amounts initially provided for local governments: during each of the three years under review (2005-07), more than 1,300 such change authorizations were made by the Ministries of Interior and Finance (Budget Directorate), accompanied by specific sectoral allocations (affectations). A significant proportion of local government budgets are so modified following the adoption of the initial budget act, which includes the overall initial amounts of revenue shared: 40 percent on average (39 percent in 2005, 35 percent in 2006, and 50 percent in 2007).

<b>C</b>	<i>ii) Reliable information to sub-national governments is issued before the start of their fiscal year, but too late for significant budget changes to be made.</i>
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**iii) Extent to which consolidated fiscal data is collected and reported for general government according to sectoral categories**

In the strictest sense of the accounting concept of consolidation, until 2007 there was no systematic and comprehensive process of centralizing or processing (traitement) ex ante or ex post budget data for local governments or local public sector establishments.

The most detailed information is given in the activity reports for the final quarter of the following fiscal year from the Finance Ministry's Budget Directorate, which along with the Interior Ministry plays an essential role in the approval of the initial budgets and of major changes during the course of the year. However, there is no way to track the execution of these modified budgets.

The TGR did undertake in 2007 the preparation of consolidated financial statements on the basis of centralized monthly accounting data from its network. The Treasury Directorate also prepared a "preliminary consolidated public sector financial statement" (situation consolidée des opérations financières des administrations publiques) that included local government revenue and expenditure, after eliminating double counting (doubles comptes).

A more orthodox form of consolidated local government expenditures would usefully contribute to improving transparency and effectiveness of central government intervention.

<b>D</b>	<i>iii) Fiscal information that is consistent with central government fiscal reporting is collected and consolidated for less than 60 percent (by value) of sub-national government expenditure OR if a higher proportion is covered, consolidation into annual reports takes place with more than 24 months delay, if at all.</i>
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**Using method M2, the score for indicator PI-8 is C (B, C, D).**

**PI-9 Oversight of aggregate fiscal risk from other public sector entities**

**(i) Extent of central government monitoring of autonomous government agencies and PEs**

The Directorate of Public Enterprises and Privatization (DEPP) within the Finance Ministry has considerably improved methods of oversight and control for public sector entities, while at the same time proceeding with the privatization and reorganization (assainissement) of public enterprises. A large number of public institutions and enterprises present semiannual budget reports to their guardian ministries and to DEPP, only a few do not. All accounts for all of these entities, without exception, are audited every year.

These accounts are consolidated in the DEPP annual report annexed to the draft budget act. This report also contains detailed information on the portfolio of public enterprises and the main financial data on the 257 public establishments. However the data is a year old: the 2005 and 2006 data were annexed to the draft budget for 2008. While some non-commercial PEs tend to be late in presenting their accounts and holding board meetings, this is not the case for the largest commercial public enterprises, social organizations, and public finance institutions overseen by monetary authorities. The report also looks at changes in shares held by the Treasury (88 state companies, 131 public subsidiaries, 197 joint public-private entities). It presents the trend in budget transfers to PEs, restructuring and stabilization activities, privatizations, and management delegation and partnerships. The PEs' financial performance is analyzed by type: (a) commercial (for-profit) enterprises, (b) non-profit (non-marchandes) enterprises, (c) social organizations, and (d) public finance institutions.

**Table PI-9. Financial data for public enterprises and establishments (PEEs).**  
(in million DH)

	For-profit enterprises		Non-profit enterprises		Social organizations		Public financial institutions		Total	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Own funds	86.2	122.0	3.0	3.1	26.2	30.4	2.9	9.9	118.3	165.4
Debt	59.1	64.4	1.1	1.4	0.0	0.0	6.4	9.4	66.6	75.2
Self-financing	9.6	7.2	0.0	0.0	7.6	8.5	-2.2	2.7	15.0	18.4
Financial charges	7.1	7.3	0.0	0.0	0.2	0.1	3.9	4.7	11.2	12.1
Assets	265.5	322.7	6.3	9.5	87.9	96.8	106.4	129.9	466.1	558.9
Annual turnover (chiffre d'affaire)	74.8	82.9	3.1	1.4	23.7	27.5	7.6	9.5	109.2	121.3

Source : Draft budget act for 2008, report on the public enterprise sector.

For several years, the Government of Morocco has been carrying out a program to gradually stabilize the PEEs, in particular public finance institutions that had suffered heavy losses from real estate and agricultural debt. The data shows that there was no financial risk to the Treasury from these losses. All debt held by PEEs represents no more than 13.5 percent of total assets, although financial charges are equivalent to 10 percent of annual turnover for all EEPs. Nonetheless, certain EEPs are slow to file their accounts, though this is obviously not the case for the main financial institutions, social organizations and for-profit enterprises that account for the largest share of total EEP turnover.

Treasury guarantees for internal financial operations or mechanisms (promotional activities for small and medium sized enterprises, low-income housing, rural development, innovation incentives) are carried out through the Central Guarantee Fund (CCG), a public financial institution under DEPP guardianship. The CCG produces very detailed annual reports presenting central government's commitments through guarantees granted through this fund.

<b>B</b>	<i>i) All major autonomous government agencies and public enterprises submit fiscal reports including audited accounts to central governments at least annually, and central government consolidates overall fiscal risk issues into a report.</i>
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**(ii) Extent of central government monitoring of sub-national governments' fiscal position**

The financial risk to central government of sub-national governments is well in hand (bien encadré). The TGR exercises continuous oversight of their spending and revenue collection, carried out through the network of TGR's communal and regional collections offices (réseau de recettes communales et régionales). Local finances are subject to the rules of the budget law. Sub-national budgets are submitted for approval to the Interior and Finance Ministries and any deviation in commitments brings obligations for the state; in other words it is a priori impossible for local governments to go into debt. Any borrowing by local governments is financed by the Local Government Infrastructure Fund, itself under the guardianship of the Finance and Interior Ministries. This fund publishes a very detailed annual report on financing operations for local governments.

The state's aggregate fiscal risk is analyzed by both the Budget Directorate and the Treasury Directorate. The Budget Directorate's annual report, in addition to covering sub-national governments, presents the out-turn/bilan of budget execution for the previous year, the measures taken to mobilize external financing, progress in the reform of retirement and pension system, management supervision (l'encadrement de la gestion) and of upgrading of local governments to a standard level (mise à niveau). The Treasury Directorate produces detailed monthly status reports with income and expenditure statements for all public sector components: central government, the PEs, Hassan II Fund, civil service retirement and insurance entities, sub-national governments. This monthly statement is called the "consolidated statement of public sector financial operations." The statement also breaks out the balance of expenditures outstanding (le solde des variations de dépenses en instance de paiement), Compensation Fund payments that have yet to be disbursed, and upcoming discharge payments (apurements). These are not payment arrears but figures resulting from the changeover to the Government Financial Statistics (GFS) system, which requires accrual-based accounting statements.

There is also a document called Budget Statistics attached to the budget act that breaks out expenditure for infrastructure and operating subsidies for the PEs, as planned for the current year, along with public debt service. It includes several detailed tables (its pp. 102-121) showing transfers from the state to the EP, the SEGMA, and the special treasury accounts; these transfers are classified by purpose (reorganization, capitalization (augmentation de capital), operations, and investment).

<b>B</b>	<i>ii) The net fiscal position is monitored at least annually for the most important level of sub-national government, and central government consolidates overall fiscal risk into a report.</i>
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**Using method M1, the score for indicator PI-9 is B (B, B).**

### **PI-10 Public access to key fiscal information**

Elements of information to which public access is essential include :

- i) Annual budget documentation: A complete set of documents may be obtained by the general public through appropriate channels when it is submitted to the legislature.
- ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate channels within one month of their completion.
- iii) Year-end financial statements: The statements are made available to the public through appropriate channels within six months of completed audit.
- iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate channels within six months of completed audit.
- v) Contract awards: Award of all contracts with value above USD 100,000 equivalent. are published at least quarterly through appropriate channels.
- vi) Resources available to basic service units: Information is publicized through appropriate channels at least annually, or made available upon request, for basic service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).

The Finance Ministry regularly satisfies at least criteria (i), (ii), (v) and (vi). Over the last four years, the ministry has undertaken a major effort to increase transparency and open communications with the public and members of Parliament. The various websites of the ministry's directorates contain a remarkably rich supply of documentation and statistics, for both spending and revenue.

Thus, information is regularly published covering:

- i) the budget act ; the Budget Directorate prepares and widely distributes a very clear brochure on budget expenditures and revenue;
- ii) statement of current budget income and expenditure, with a delay of at most two months;
- iii) end-of-year cash flow, which is published;
- iv) reports of the Court of Accounts, the most recent of which was for fiscal year 2007, submitted to the King on July 10, 2008 and published in October 2008;
- v) the e-procurement website where all public sector contracts awarded by central government are published on a regular basis, including those exceeding US\$100,000 (DH 860,000) since January 2007;
- vi) funds made available to hospitals and major training institutes, detailed in the SEGMA annual report attached to the draft budget act. Information for primary schools is provided at an aggregated level for groups of schools by the regional academies of education and training (AREF) of the Education Ministry.

Some of this information is reproduced in the media coverage of the economy, more rarely by the daily or weekly newspapers. In order to assess the overall impact of these public access efforts, it would be helpful to know about the level of traffic on the Finance Ministry websites.

<b>A</b>	<i>i) The Government makes available to the public, five to six of the six listed types of information.</i>
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## SUMMARY OF ASSESSMENT OF COMPREHENSIVENESS AND TRANSPARENCY

PI-5	Classification of the budget	A
PI-6	Comprehensiveness of information included in budget documentation	B
PI-7	Extent of unreported government operations	C+
PI-8	Transparency of inter-governmental fiscal relations	C
PI-9	Oversight of aggregate fiscal risk from other public sector entities	B
PI-10	Public access to key fiscal information	A

### 3.3 POLICY-BASED BUDGETING

#### PI-11 Orderliness and participation in the annual budget process

##### i. Existence of and adherence to a fixed budget

A budget calendar is set every year. The Prime Minister issues the budget circular, which sets priorities and ceilings for the ministries' budgets, before the end of July (the dates were July 21 in 2006 and June 27 in 2007), except in 2005 (August 18). The ministers thus had four weeks to respond in 2006 and 32 days in 2007, with 2005 again being the exception (five days).

**Table PI-11. The budget cycle.**

	Usual date	FY 2005	FY 2006	FY 2007	
1	First Government meeting on draft budget act (Conseil du Gouvernement)	June-July	10-June-04	14-July-05	<i>13-July-06</i>
2	Prime Minister's budget circular	August-July	18-Aug-04	21-July-05	<i>27-July-06</i>
3	Budgets submitted by spending entities	August	23-Aug-04	15-Aug-05	<i>28-Aug-06</i>
4	First budget commission meetings	September 1	01-Sept-04	01-Sept-05	<i>04-Sept-06</i>
5	Government approval (Conseil du Gouvernement)	Until October 22	20-Oct-04	13-Oct-05	<i>10-Oct-06</i>
6	Cabinet approval (Conseil des ministres)	Until October 22	21-Oct-04	17-Oct-05	<i>12-Oct-06</i>
7	Submission to Parliament	Until October 22	22-Oct-04	20-Oct-05	<i>18-Oct-06</i>
8	Parliament votes on budget act	7 weeks later	28-Dec-04	22-Dec-05	<i>27-Dec-06</i>
9	Promulgation		29-Dec-04	26-Dec-05	<i>31-Dec-06</i>
10	Publication in Official Bulletin	The following day	30-Dec-04	29-Dec-05	<i>01-Jan-07</i>

*Source* : Budget Directorate.

The main technical ministries consider these intervals too short. In effect, the ministerial budget departments start work their budget outlines as soon as the first Cabinet meeting conclusions are known, in mid-July at the latest. However, their work is facilitated by the stability of the budget structure, the detailed budget booklet (morasse) listings for the ministerial budgets having been regularly updated (reconduites) at the beginning of the year

<b>B</b>	<i>i) A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows ministries, departments and agencies reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time.</i>
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##### ii. Guidance on the preparation of budget submissions

<b>A</b>	<i>ii) A comprehensive and clear budget circular is issued to ministries, departments and agencies, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to the ministries, departments and agencies.</i>
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### iii. Timely budget approval by the legislature

The timetable in the Organic Law for the submission of the draft budget act to one of the two houses of Parliament has been scrupulously respected, at the latest 70 days before the end of the current budget year. Parliament has therefore been able to debate and vote on the year's budget act before the end of the previous fiscal year.

<b>A</b>	<i>iii) The legislature has, during the last three years, approved the budget before the start of the fiscal year.</i>
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Using method M2, the score for indicator PI-11 is A (B, A, B).

## PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

### i. Multi-year fiscal forecasts and functional allocations

During the preparation of draft budget acts, multi-annual projects for three years have been gradually introduced by Treasury Directorate (DTFE) as a way of assessing the impact of budgetary choices on macro-economic equilibrium and on the domestic/internal and external debt ratios. These projections began at the end of 2007 with the preparation of the first table of consolidated revenue fund transactions or TOFT (Tableau des opérations financières du Trésor) for 2008-10, related to an overall macro-economic framework. During that fiscal year, annual budget projections also began being regularly updated as new financial data became available.

In this way, the need and importance of a more detailed and more comprehensive multi-year approach for budget income and expenditure have become fully understood by the Moroccan authorities, who since 2005 have also been involved in setting up a Medium-term Expenditure Framework (CDMT or Cadre de dépenses à moyen terme) with support from the WB and EU. Other positive recent initiatives that will bear fruit in the future include:

- A February 8, 2007, circular from the Prime Minister, accompanied by a methodology handbook, inviting all ministerial departments to prepare their own CDMT for the 2008 draft budget act.
- In 2007, 12 ministerial departments, including Health, Fisheries, Infrastructure and Transport, Water, Education, Higher Education, Housing, and Urban Affairs, did set out to prepare such CDMT. While they were reportedly completed, they were of a pilot nature and have yet to be approved (restent à valider).

However it is not clear that these efforts actually resulted in usable rolling multi-year forecasts, even from 2007 (and much less during the 2005-07 period under review) covering at least two years at a time, whether at an overall level based on alternate macro-economic scenarios or at the detailed level by category or budget mission/program.

Nonetheless, ex ante and ex post financial data in the budget documents for those years do show progress towards a multi-year perspective for certain investment and basic infrastructure programs (such as highways and the City Without Slums program) and some educational and social interventions (see iii) below). In effect, the investment programming system in Morocco is de facto moving towards a sophisticated system of multi-year budgeting for investment spending (commitment authorization and commitment funding) that should lay the groundwork for introduction of a multi-year forecasting component.

<b>D</b>	<i>i) No forward estimates of fiscal aggregates are undertaken.</i>
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### ii. Scope and frequency of debt sustainability analysis

Debt sustainability is regularly taken into account in the preparation of the budget act (see i) above – DTFE's multi-year projections). For example, in the framework of its consultations under Article IV, on July 14, 2005, the IMF along with the Finance Ministry and the Bank Al-Maghrib (central bank) prepared the first report on public finance trends and medium-term projections for 2005-10 (report No. 05/418), in order to assess the viability of Morocco's external debt situation in light of Government resources and expenses under several scenarios based on different macro-economic and financial assumptions. This analysis favored a rapid growth scenario, presented as both indispensable and doable but not without risk. An additional sustainability



diagnostic was done with IMF support under Article IV starting in August 2007. It took into account 2007's good economic outcomes along with the impact of international price increases for energy and grains on inflation and on the level of compensation subsidies in the budget. Thus, debt sustainability analysis following IMF criteria have been carried out regularly with the support of the Government of Morocco during the three years under review.

<b>A</b>	<i>ii) Debt sustainability analysis for external and domestic debt is undertaken annually.</i>
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### **iii. Existence of costed sector strategies**

The statement of budget spending allocated to sector strategies developed by the DB (see **Annex 4**) indicates that monitoring of these funds is assured under the budget classification system by ministry. For some ministries, such as Education, spending in support of sector strategies accounts for nearly the entire budget. The total of such spending represents 59 percent of the primary public sector budget in 2005, 58 percent in 2006, and 57 percent in 2007. Likewise, the share of primary budget expenditures going to Education Ministry averaged 21 percent for the 2005-07 period. The economic and financial reports annexed to the draft budget acts, along with the Budget Directorate's activity reports, provide details for some of these programs on new budget allocations (dotations) and funds spent since their launch, in comparison to the overall program funding initially pledged. The most notable of these are programs supporting the National Initiative for Human Development (Initiative nationale pour le développement humain or INDH), launched on May 18, 2005, with a series of quantified goals for the year 2025 including employment, literacy, education and training, research and development, infrastructure and housing. Another series of sector programs addresses employment creation (Idmaj, Taahil and Moukawalati), water and energy sector reform, reduction (résorption) of urban slum housing, infrastructure, education, and tourism.

However, until 2007, there was no single overview document that brought together all the many sectoral programs launched in response to Government's economic, social, infrastructure and housing priorities, including their planned and actual cost, multi-year investment and recurrent costs, their framework/evolution and actual achievements. Until 2007, reviewing the often incomplete sequence of information provided on the monitoring and financing of these many programs, it remains somewhat problematic to find precise, consolidated and consistent figures on their total cost, status of completion for works or activities, and on the actual receipt of program funds from the financing entity (la mobilisation effective des contributions de ceux qui les financent). Only beginning in 2008 when strategies became more structured—the action plan for infrastructure and transport, the health action plan, the emergency education program, the Green Morocco agriculture plan, the Second Emerging Industry plan—began to provide the basis for better linking of sector strategies with their recurrent and investment costs.

<b>C</b>	<i>iii) Statements of sector strategies exist for several major sectors but are only substantially costed for sectors representing up to 25 percent of primary expenditure.</i>
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### **iv. Linkages between investment budgets and forward expenditure estimates**

Each year, the financing of most sector programs linked to government priorities is analyzed in terms of resources and spending in the usual budget documents, including reference for certain priority programs of their estimated total cost at the time of the document's publication. However no comparison of actual medium-term costs and those initially estimated at the time of program launch is published.

Annual allocations to sector investment pools (groupements sectoriels) for major programs programs are included in the investment budgets of the ministries involved as appropriated funds (crédits de paiement) for a given year and as committed funds (crédits d'engagement) for the following years. But overall financing required for major investment programs expected to take more than two years, even when they are known and tracked by the technical ministries, is neither regularly documented nor integrated into annual approved funding commitments (allocations de crédits d'engagement votées).

The Finance Ministry has a good handle on recurrent costs linked to public investment spending and is in a good position to include proper estimates in the draft budget and, with the technical ministries, to manage these costs during budget execution.

However it would appear that such a multi-year approach for investment programs was never systematically formalized during 2005-7, even though it appears to have been carried out for the most important programs beginning in 2008.

<b>C</b>	<i>iv) Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.</i>
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**Using method M2, the score for indicator PI-12 is C+ (D, A, C, C).**

### **SUMMARY OF ASSESSMENT OF POLICY-BASED BUDGETING**

PI-11	Orderliness and participation in the annual budget process	A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+

## **3.4. PREDICTABILITY AND CONTROL IN BUDGET EXECUTION**

### **PI-13 Transparency of taxpayer obligations and liabilities**

#### **i. Clarity and comprehensiveness of tax liabilities**

For at least the past five years, Morocco's fiscal administration has sustained much-appreciated efforts to both clarify and simplify taxpayer obligations. A series of laws and regulations has spelled out in detail what taxpayers must declare, a process consolidated (couronne) and stabilized in 2007 with the preparation of a General Tax Code including an essential Procedural Guidelines (Livre des procédures).

From the first of January, 2004, modernization of the fiscal system and its management entered a significant new phase with the decision for DGI to gradually take over recovery of the business tax (impôt sur les sociétés or IS), the VAT, and income tax (l'impôt sur le revenu or IR). By the end of 2007, DGI had opened 65 tax offices (Recettes de l'administration fiscale), covering the whole of the country. All that remained at the end of 2007 was to extend this accounting network to provide full service at a convenient distance to all users. Nonetheless, the main goals of this reorganization of tax recovery appear to have been largely achieved (see also the rapid growth of fiscal revenue under PI-3 above).

Last but not least, there were measures to halt the growth of overly complicated or overly specific tax exemptions and to promote a small number of simplified exemptions that would encourage, for example, new business startups during the first five years (patente or professional license fee) and new artisanal enterprises (a 50 percent reduction in income or business tax). Such changes also put limits on the discretionary powers of tax officials. They have also contributed to increasing tax collection rates and reducing the administrative costs of tax collection, which since 2006 have been broken out and analyzed in a special report attached to the draft budget act (cf. PI-3 and PI-15).

<b>A</b>	<i>i) Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved.</i>
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#### **ii. Taxpayer access to information on tax liabilities and administrative procedures**

Revision (mise à niveau) of tax-related legal texts undertaken since 2000, reform of registration fees (droits d'enregistrement) in 2004, preparation of guidelines for fiscal procedures in 2005, and of guidelines for the tax base and recovery procedures in 2006 were topped off (couronne) in 2007 by the publication of the first edition of the General Tax Code. This code, both methodical and practical, reorganizes all the rules on the definition of the tax bases, recovery procedures, and penalties for non-payment of the IS, IR, VAT and registration rights, along with fiscal procedures and rules for audit and dispute resolution (contentieux).

Information and education campaigns are regularly organized by the DGI, as in 2006 and 2007, in order to publicize the reforms being paid for under the Government's budget. Handbooks and brochures in both Arabic and

French have been published and widely distributed, for example, the income tax handbook and the guide for Moroccans living abroad. All the laws, regulations, and brochures are available on DGI's website. At the same time, information and training for regional accounting and finance staff are also delivered via internal website.

The Customs Directorate (Direction générale des douanes or DGD) has prepared and begun installing an automatic customs database network (base automatisée des Douanes en réseau or BADR), a system for clearing customs for both imports and exports covering every phase of the process, from the submission of customs declarations through the entry or dispatch of merchandise, while ensuring payment of all applicable fees and taxes and providing a basis for gauging fraud risk and better targeting customs inspections (contrôles). With the new system, it is or will be possible for enterprises to carry out customs procedures from their offices, from declaration through payment, and even to track the progress of their goods clearing customs. All that remained in 2007 was to roll out the system, in particular at the port of Casablanca, through which flow 40 percent of Morocco's merchandise exports. DGD also launched publicity campaigns directed at customs brokers (transitaires), small and medium-sized import companies, and travelers, especially in order to explain the scope of measures during and preceding the period under review to disarm customs officers (désarmement douanier).

<b>A</b>	<i>ii) Taxpayers have easy access to comprehensive, user-friendly and up-to-date information on tax liabilities and administrative procedures for all major taxes, and the revenue administration supplements this with active taxpayer education campaigns.</i>
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### **iii. Existence and functioning of a tax appeals mechanism**

The General Tax Code carefully defines the appeals routes open to taxpayers to obtain revisions to their tax bills. Should the taxpayer not be satisfied by the pre-payment appeals process, which may be sought during the six months following receipt of his tax bill, or if he receives no response for six months, the taxpayer may during the next 30 days, or 60 in cases of tax audit (verification), to appeal to the appropriate court. Disputes (litiges) concerning fiscal control may be heard by Tax Commissions which include representatives of the same professional category of taxpayer, or referred to a court if necessary; these commissions must rule within 24 months at a departmental level and within 12 months at a national level.

Recourse may also be sought, though generally with shorter decision periods, for customs disputes regarding the assessment or tariff classification applied for customs duties and/or VAT.

Appeals mechanisms for taxpayers provided under current regulations are fully functional. The evolution and tracking of appeals recorded by DGI indicates that taxpayers usually prefer to negotiate rather than appeal.

**Table PI-13a. Number of tax appeals cases (2005-2007).**

	<b>2005</b>	<b>2006</b>	<b>2007</b>
- Appeals filed and pending	68,658	64,507	67,893
- Appeals heard (examinés)	60,635	50,136	56,008

The number of appeals heard by arbitration commissions has fallen at the local level (2,904 in 2005 compared to 2,698 in 2007) and at the national level (960 in 2005 vs 523 in 2007), indicating an increase in the resolution of disputes through an alternative dispute resolution process (par voie d'accords à l'amiable). The proportion of cases heard by the national tax appeals commission went from 55.9 percent of those filed in 2005 to 91.96 percent in 2007, resulting in a significant reduction in the stock of pending disputes.

**Table PI-13b. Number of tax appeals filed and heard by local tax commissions (2005-07).**

	2005	2006	2007
- Appeals filed and pending	2,904	2,812	2,698
- Appeals heard (examinés)	906	987	1,018
- Percent heard	31.19	35.09	37.73

**Table PI-13c. Number of tax appeals filed and heard by the national tax commission (2005-07).**

	2005	2006	2007
- Appeals filed and pending	960	594	523
- Appeals heard (examinés)	537	271	481
- Percent heard	55.9	45.62	91.96

The status of appeals before the courts indicates that the share of these compared to the total number of disputes went from 2.6 in 2005 to 4.7 in 2006 and 3.9 in 2007, with about 35 percent of rulings being in favor of the taxpayer ; the remaining disputes were resolved out of court (recours gracieux).

**Table PI-13d. Number of tax cases in court (2005-2007).**

Year	Tax cases in court
2005	1,620
2006	2,361
2007	2,192

Source : DGI.

<b>A</b>	<i>iii) A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon.</i>
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Using method M2, the score for indicator PI-13 is A (A, A, A).

## **PI-14 Effectiveness of measures for taxpayer registration and tax assessment**

### **i. Controls in the taxpayer registration system**

Under the framework of the Integrated PFM Project, a cross-cutting (Projet transverse) Finance Ministry project, the main objective of broadening the fiscal base is being accomplished by the creation of a unique fiscal identifier (identifiant fiscal unique) or IFU. Implementation of this project for DGI, Customs and TGR occurred over the 2005-07 period. DGI created an IFU for the IS and IR for each taxpayer, corresponding to their tax article number (numéro d'article d'imposition) for each of these taxes. This benchmark database was communicated to TGR and Customs and is now being regularly updated.

The information technology/ computer systems of these three offices are gradually being adapted to use the IFU. A link established by DGI between the fiscal identifier and the Commerce Register number that has been in use until now by Customs should help facilitate the changeover. DGI and Customs have begun cross-checking (recoupement) and cross-controls (contrôles croisés) of purchases imported with suspended VAT (achats en suspension de VAT à l'importation). Since 2005, the DGI's identification base has been regularly communicated to DGI and Customs, with bimonthly updates.

Field staff have been registering taxpayers through the period under review as part of their active processing of declarations of fiscal identity for the IR, or of fiscal existence for the IS, IR and VAT, along with data searches and analysis of legally accessible internal and external information sources.

These fiscal census and control coordination efforts have certainly had an impact on the very rapid growth of fiscal revenue during the 2005-07 period.

**Table PI-14. Growth in number of taxpayers, 2005-07.**

<b>Tax</b>	<b>2005</b>	<b>2006</b>	<b>2007 preliminary</b>	<b>Growth 2007 / 2005</b>
<b>IS</b>	85,797	94,745	107,035	+ 24.75 %
<b>VAT</b>	169,419	186,576	211,431	+ 24.80 %
<b>IR</b>	2,977,748	3,194,877	3,449,795(a)	+ 15.85 %

(a) Takes into account the 2007 change in the IR tax schedule (285,000 taxpayers exempted).

Source : DGI statistics.

<b>B</b>	<i>i) Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations.</i>
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**ii. Effectiveness of penalties for non-compliance with registration and declaration obligations**

The rather low level of penalty for failure to register one’s tax identity as per Art. 201 of the General Tax Code—a fine of DH 500—seems to have provided little deterrent to those who do not register, whether out of negligence or for purposes of fraud, as required within 30 days of starting a business or acquiring a new source of earned or unearned income from salary, rental or investment sources.

On the other hand, enforcement of surcharges on 15 types of fees owed for non-declaration or late declaration for IS, IR, VAT and business registration fees (droits d’enregistrement), along with automatic or peremptory taxation (taxation d’office) of delinquent taxpayers, have both certainly contributed to the rapid growth in the number of registered taxpayers (cf. i) above) and of fiscal revenue between 2005 and 2008 (38 percent increase for IS and IR).

By these means, DGI collected DH 1,588 M in surcharges and penalties in 2006 and DH 1,805 M in 2007.

<b>A</b>	<i>ii) Penalties for all areas of non-compliance are set sufficiently high to act as deterrence and are consistently administered.</i>
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**iii. Planning and monitoring of tax audit and fraud investigation programs**

Regional DGI offices establish action plans for tax audit every year, with revenue collection goals based on the number of taxpayers and on the expected impact of both pursuit of delinquent taxpayers and of publicity activities and opening of new tax offices. DGI’s annual tax audit program is organized according to procedures and general selection criteria set by central government. Tax audits to be expedited are selected in cooperation with regional and local offices, and then assigned on the basis of their size to national, regional or local work programs. Until a new integrated information system (Integrated Taxation System or SIT) becomes operational, weaknesses in the linkages among data files (cf. i) above), the lack of a shared mechanism for accessing bank account information via computer, and other gaps now being addressed through the digitization of tax schedules, have however not made it any easier to select files to be audited and carry out the audit.

In any case, DGI collection figures for the IS, IR, and VAT from 2005 to 2007 following the tax audits indicate the stability of these three tax sources—totalling DH 2.9 billion in 2007—and the growth of 53 percent in charges and penalties, which amounted to DH 4.3 billion in 2007. The dominance of the largest companies in terms of both the tax base and collections for IS and VAT justifies and makes worthwhile both the collections and audit effort invested in this category of taxpayer. In effect, half the IS and VAT collected is paid by about 50 companies, and

78 percent of collections recovered in 2007 after tax audits resulted from interventions by the National Tax Audit Office and the Large Enterprises Office (Services des vérifications nationales et des Services des grandes entreprises).

The Customs Office is faced with a double challenge—rapid growth in import volume since the tariff dismantling agreements of March 2000, and increased contraband activities—and their anti-fraud work program is organized through contracts with each of their six regional offices and two districts (circonscriptions) that stipulate goals and resources. Anti-fraud work favors an automatic selection option that targets a (random) selection of 10 percent of imports and 14 percent of exports, until such time as the new automatic customs database network (Base automatisé des douanes en réseau or BADR) becomes operational. The BADR will provide easy Internet access to tax declaration for enterprises, shipping services, and customs officials seeking to set up customs guarantees, clear motor vehicles through customs, and track individual files. This new system is also being linked with the tax office in the Finance Ministry's Tax Directorate. Launched in 2003, by the end of 2007 BADR had not completed coverage of the port of Casablanca (80 percent of Morocco's trade volume). At the same time, Customs must still manage the inspection selection process through its SADOc developed in COBOL. During the period under review, the maximum volume of customs inspections was 29,616, the value of goods confiscated was DH 1.3 billion, and penalties collected DH 0.17 M.

<b>B</b>	<i>iii) Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one major tax area that applies self-assessment.</i>
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**Using method M2, the score for indicator PI-14 is B + (B, A, B).**

## **PI-15 Effectiveness in collection of tax payments**

### **i. Collection ratio for gross tax arrears**

Precise analysis of collections by the Finance Ministry's various revenue offices for the 2005-07 period is not easy because their accounting methods differ and also because of the gradual shifting of collection responsibilities for the three main taxes from TGR to DGI starting in January 2004. This transfer was completed by the end of 2005 for the VAT and by the end of 2006 for the IS; the transfer of IR collections started in October 2006 and had not yet been completed by the end of 2007.

Moreover, tax billings are booked (prises en compte) by TGR and DGI in the year they are declared or sent out, while collections are booked in the year they are received by Treasury, with no link between billing and receipt—in the current revenue accounting system—whether both occur in the same tax year or not.

For the purposes of this PEFA assessment, TCR and DGI prepared a reconciled statement (état intégré) for tax billings (prises en charge) and collections for the years 2005 to 2007, showing amounts outstanding (see **Annex 5**). The total outstanding amounts rolled over into amounts due/billed in the next tax year amount to 18.5 percent of total billings in 2005, 17.8 percent in 2006, and 15.98 percent in 2007; outstanding amounts recovered amounted to between 14 and 16 percent of billings. The collections ratio for current billings amounts to 95 percent in 2005 and 96 percent for 2006 and 2007. The gap is explained by the inherent difficulty of collecting taxes that are disputed, since registering the dispute legally suspends further collections action. Therefore the average collections ratio is between 80 and 83 percent, showing steady growth by one or two points between 2005 and 2007.

The very rapid growth in the yield of the main taxes, which has greatly exceeded initial forecasts in the budget act, has therefore had little impact on the management of arrears, which are being reduced at a slower pace.

**Table PI-15. General budget revenue: Budget act forecast and actual collections.**  
(in million DH)

	Budget act forecast			Actual			Difference (percent)		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
<b>Total tax revenue, of which :</b>	<b>86.46</b>	<b>95.64</b>	<b>108.48</b>	<b>97.45</b>	<b>110.04</b>	<b>131.70</b>	<b>12.71 %</b>	<b>15.06 %</b>	<b>21.40 %</b>
IS (corporate tax)	15.77	18.56	25.58	18.80	24.05	30.02	19.21 %	29.58 %	17.36 %
IR (income tax)	20.42	20.90	21.64	22.85	24.37	27.95	11.90 %	16.60 %	29.16 %
VAT (central gov't share)	20.93	24.86	28.02	22.76	27.24	34.79	8.74 %	9.57 %	24.16 %
Import duties	10.05	10.85	10.95	12.38	12.31	13.37	23.18 %	13.46 %	22.10 %
Tax on energy products	8.12	8.87	9.10	9.00	9.20	10.16	10.84 %	3.72 %	11.65 %
Tax on tobacco products	5.83	5.55	5.92	5.34	5.61	6.13	-8.4 %	1.08 %	3.55 %
Business registration fees, stamp tax	5.34	6.05	7.27	6.32	7.26	9.28	18.35 %	20.00 %	27.65 %

Source : 2005, 2006, 2007 budget acts.

<b>B</b>	<i>i) The average debt collection ratio in the two most recent fiscal years was 75-90 percent and the total amount of tax arrears is significant.</i>
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### ii. Effectiveness of transfer of tax collections to the Treasury by the revenue administration

Tax revenue collected for the main central government taxes is paid into Treasury accounts, which are kept by government accounting officers (comptables publics) and managed by the Bank Al-Maghrib (central bank). Tax collections, carried out mainly by DGI, TGR, and Customs, are pooled (centralisés) by the regional Treasurers and recorded in central government accounts. Delays in the transfer of funds to the Treasury account are very limited and generally occur only with small cash deposits. TGR and the central bank work closely together to track the balance of income collected and credited to the Treasury account on a daily basis.

<b>A</b>	<i>ii) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily.</i>
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### iii. Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury

Reconciliation between tax assessments, collections, and transfers to the Treasury is carried out at regular intervals each day by Treasury, Budget Directorate, and Bank Al-Maghrib teams. A running statement (état cumulé) of the difference between forecast and actual amounts is issued at the end of each week and each month. These statements include a brief analysis of trends and reasons for the differences and a more detailed analysis is carried out at the end of the first quarter and used in the drafting of the budget act for the next fiscal year.

<b>B</b>	<i>iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least quarterly within six weeks of end of quarter.</i>
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Using method M2, the score for indicator PI-15 is B + (B, A, B).

## PI-16 Predictability in the availability of funds for commitment of expenditures

### i. Extent to which cash flows are forecast and monitored

Once the budget act is passed, the ministries, departments and agencies are authorized to commit funds against the appropriations in their budgets starting at the first of the fiscal year, as soon as Parliament has voted on it and it has been promulgated. During the period under review, the budget has been executed without requiring any measures

to regulate expenditures, thanks to a certain degree of comfort in Government's cash flow due to tax revenue surpluses and to respect of the budget ceilings as set.

Even without being able to make direct use of computerized systems to collect information and forecast data from the ministries, departments and agencies, the Treasury Directorate did issue cash flow forecasts that were updated every month during 2005-07. These forecasts, compared (confrontées) on a daily basis with Treasury account balances at the central bank, and with changes in current accounts of local governments and EEPs, are also regularly reconciled with the weekly statements of budget execution issued by the Budget Directorate, in liaison with TGR. Since 2006, it is no longer possible for the Government to overdraw its account and earlier advances to cover previous shortfalls were fully repaid to the central bank in 2007. The forecasting mechanism set up by the Treasury Directorate should also make it possible to manage the four bond auctions (adjudications de bons ou d'obligations), whose amounts and maturities are scheduled each month to meet Treasury's forecast cash needs, with the greatest possible transparency (cf. PI-17 below).

These cash flow forecasts have in fact been updated each month, on the basis of actual cash inflows and outflows. But the recorded differences between forecast and actual flows in 2006 and 2007 have been frequent and large.

- In 2006, seven months with surpluses of 11 to 38 percent and five months with deficits of 7 to 50 percent ; in 2007, four months with surpluses of 11 to 105 percent and eight months with deficits of 4 to 70 percent. It was noted that the surplus cash available in the Treasury account at the central bank was not earning interest during the period under review; an agreement with the Bank Al-Maghrib was under consideration in June 2008 to arrange for investment of surplus funds on the money market.
- In 2007, progress was still required in order to provide more reliable monthly management (fiabiliser le pilotage mensuel) of funds required to finance public expenditure, in particular with the help of closer monitoring of the flow of funds generated by the PEEs, local governments, and special Treasury accounts.

<b>A</b>	<i>i) A cash flow forecast is prepared for the fiscal year, and is updated monthly on the basis of actual cash inflows and outflows.</i>
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**ii. Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment**

Ceilings for expenditure commitment by the ministries, departments and agencies are set by the budget act. Operating allocations and investment commitments allocated in their budgets are authorized and therefore available (utilisables) beginning in January of each year.

During the course of the year, the Budget Directorate closely follows budget execution, in liaison with the ministries, departments and agencies and their financial comptrollers (contrôleurs financiers). The BD is directly involved in preparing and approving transfers of budget allocations from one use to another (cf. iii) below), including decisions to release (déblocage) subsidies, which represent more than a fifth of total budget expenditures (27 percent in 2006 and 29 percent in 2007).

<b>A</b>	<i>ii) MDAs are able to plan and commit expenditure for at least six months in advance in accordance with the budget appropriations.</i>
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**iii. Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs**

Direct adjustments to budget allocations for significant amounts are authorized and carried out during the course of the year through Finance Ministry orders (décrets ou arrêtés). These adjustments came to 24.9 percent of total budget expenditures on average during the 2005-07 period (cf. PI-1). Thus during the period under review the following adjustments were made:



- opening of an allocation, or funds authorization (ouvertures de crédits), by order or by deduction or withdrawal (prélèvements) from the contingency allowance (dépenses imprévues), in the amount of DH 3.3 billion in 2005, DH 2.3 billion in 2006, and DH 3.2 billion in 2007;
- postponement or carrying forward (reports), by order, of investment payment allocations, in the amount of DH 9 billion in 2006 and 2007 ;
- assignment (rattachements) of aid funds, by order, in the amount of DH 0.6 billion in 2005, DH 1.4 billion in 2006, and DH 2.6 billion in 2007;
- raising or upward revision (relèvements), by order, of expenditure ceilings for special accounts and SEGMAAs, up to the level of supplementary revenue collected, in the amounts of DH 20.8 billion in 2005, DH 30.3 billion in 2006, and DH 33.6 billion in 2007.

These adjustments are carried out in a transparent way and in accordance with provisions in the 1998 Organic Law No. 7 (cf. PI-27 below). However the orders for assignment of aid funds and raising the expenditure ceilings are not published in the Official Bulletin; they are signed by the Budget Director, the assistant budget director, or persons designated by them, under authority delegated from the Finance Minister.

All these adjustments are however fully included in regularly published budget execution information and in the mid-term progress report submitted to Parliament’s finance commissions in the second half of the year. It must also be noted that more than a thousand transfers (virements) of funds from one budget line, paragraph or article to another have taken place each year between 2005 and 2007, with the approval of the Finance Minister (and until 2005, the Prime Minister as well, when the amount was more than 10 percent of the chapter total). But on average such transfers only amounted to 2.2 percent of total expenditures.

Overall, the largest adjustments were for raising expenditure ceilings in response to additional revenue collected and carryover revenue from a previous fiscal year, more often during the second half of the year. Increased allocations via transfer from the contingency allowance are made only in response to genuinely urgent or emergency situations.

<b>C</b>	<i>iii) Significant in-year budget adjustments are frequent, but undertaken with some transparency.</i>
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**Using method M1, the score for indicator PI-16 is C+ (A, A, C).**

## **PI-17. Recording and management of cash balances, debt and guarantees**

### **i. Quality of debt data recording and reporting**

External debt is efficiently monitored by the Treasury Directorate, which issues very detailed regular reports on the movement of all components of debt and debt service. The report is called the Statistical Bulletin for External Debt (*Bulletin statistique de la dette extérieure*), available in French, Arabic, and English, and also includes debt forecasts for current debt for 2008-14 and quarterly short-term forecasts for principal and interest charges. The Treasury Directorate also issues a very detailed annual report on debt that includes an analysis of trends in its composition by debtor, borrower, currency type, interest rate, and type of interest charged. It also includes statistical data on drawdowns and new commitments, along with an analysis of active debt management (conversion to investment instruments, repayment of high-cost debt, and repurchase of rescheduled debt).

<b>A</b>	<i>i) Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced at least quarterly.</i>
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### **ii. Extent of consolidation of the Government’s cash balances**

Cash flow management is monitored by the Treasury and External Financing Directorate (Direction du Trésor et des finances extérieures or DTFE) and by the Treasury/public revenue office itself (Trésorerie générale). The

DTFE is in charge of forecasting Government costs and resources and therefore financing needs, and for managing internal and external public debt. The Treasury (TGR) verifies daily accounting entries for the central account for expenditure and revenue collections transactions that are booked by government accounting officers (comptables publics) on behalf of central government, local governments, and EPs, all of whom are required by law to deposit their assets with the Treasury and have their transactions checked by the government accounting officers. The Bank Al-Maghrib acts as central government's agent and keeps a single account where all public sector transactions are booked. As a result, the Treasury does not need to consolidate several bank accounts and the degree of consolidation is as high as it is possible to achieve. These arrangements also mean that the daily cash balance is visible on a daily basis.

<b>A</b>	<i>ii) All cash balances are calculated daily and consolidated.</i>
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**iii. Systems for contracting loans and issuance of guarantees Mécanismes de contraction des prêts et d'octroi des garanties**

Morocco's public sector debt management, both internal and external, is meticulously monitored by the Finance Ministry, sole authority responsible for authorizing and guaranteeing external borrowing. The ministry's DTFE is quite well equipped in human and computer resources to do the job.

Debt held by PEs is monitored by DEPP and taken into account by DTFE for those public establishments lacking financial autonomy and bank accounts other than the main one at the Treasury.

Loans are only taken out to finance investment projects and never to finance a budget deficit. A loan was recently taken out on the international financial market in order to test Morocco's credibility vis a vis international investors. It was well received by the market.

Moreover, Morocco is to be commended for considerably reducing the level of its debt in recent years, thanks to revenue from privatization and from major increases in tax collections; therefore debt sustainability is not an issue. Nonetheless, as mentioned under indicator PI-12, the IMF did carry out a sustainability diagnostic in 2007. It found the level of total debt to be quite reasonable, below the criterion of 60 percent of GDP (see PI-12).

Government guarantees for the external debt of public enterprises may only be granted with the authorization of the Finance Minister. As already mentioned for indicator PI-9, government guarantees for various aid funds in different areas (such as start-up credit for young entrepreneurs, restructurations, innovations, self-employment) are granted through the Central Guarantee Fund (Caisse centrale de garantie), a public financial institution whose annual report is quite comprehensive and also includes forecasts for the current year.

<b>A</b>	<i>iii) Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.</i>
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**Using method M2, the score for indicator PI-17 is A (A, A, A)**

**PI-18 Effectiveness of payroll controls**

The 2006 budget act provided for the creation of 12,000 new government jobs, in addition to more than 3,000 jobs designated to give permanent status to full- and part-time temporary workers (cf Art. 39 and 40 of 2006 Budget Act). The total number of civil service slots was thereby increased to 818,863. The number of slots actually occupied reached 785,836 in 2006 and unfilled slots rose to 33,027 by the end of December 2006, of which 60 percent were in the National Defense Administration and 18 percent in the Interior Ministry.

Payroll expenditures for civil service are committed without prior authorization (ordonnancement préalable) and charged (imputées) to a budget chapter to which funds are allocated on an estimated basis (caractère évaluatif) and topped up as needed at the end of the year. Payroll for all civil servants is deposited by TGR and managed by each ministry. TGR also carries out payroll control and authorization (contrôle et liquidation). However all recruitment,

selection, and promotion decisions are regularly checked, in liaison with the employing entities, for procedural correctness (régularité) and appropriateness compared to the number of employees and the detailed ceilings by budget use.

Centralization of payroll for nearly 650,000 civil servants at the Finance Ministry, and deconcentration of payroll management to the level of the technical ministries does not facilitate the integration of payroll statements (états de paye) with personnel files (fichiers nominatifs du personnel), no matter how effective the civil service payroll software, @jour, and the admirable efforts of coordination invested/ expended by TGR and the ministries' human resource offices (Directions des ressources humaines or DRH).

During the period under review—in parallel with the introduction at TGR and the main technical ministries of accounting software that integrates the entire personnel management cycle—there was definite progress in the ability to take into account changes in staffing and in statutory parameters for personnel processing (paramètres statutaires de leurs traitements).

General adoption of group processing (procédures d'actes collectifs) along with tailoring of the software to reflect statutory measures (paramétrage des mesures statutaires), have led to a gradual automation of payroll management, changes and monitoring. Delays have been reduced; those that remained a concern at the end of 2007 were due more to the complexity of administrative procedures for civil service management than to any technical difficulties in updating payroll statements.

Simplification of administrative procedures by Government in 2007, in particular for recruitment, will reduce delays even further. But their use will require increased vigilance by the TGR and authorizing officers, along with broader use of joint internal audits twice a year, begun in 2007, in order to ensure control for correct procedure in making changes to personnel files and payroll.

#### **i. Degree of integration and reconciliation between personnel records and payroll data**

Direct linkage of individual personnel files (fichiers nominatifs) at the ministries and payroll data that are centralized in TGR's @jour software was not yet consistently functional at the end of 2007. In fact it is not completely clear whether such a linkage can be both functional and efficient in the near term, without at the same time fundamentally reorganizing personnel administration and restructuring the division of responsibility between the ministries and the Finance Ministry.

In the meantime, TGR has taken steps to ensure the best possible conditions for reconciliation between personnel records and payroll data. Under the current organization of procedures and responsibilities, all the steps involved in making and verifying changes to the payroll are well documented on a monthly basis. The changes are prepared by the DRH and the most important ones are submitted to the financial comptroller for regularity control (contrôle de régularité) and then sent to TGR's data entry center for control, verification, and payment .

During this last stage, the data is compared with that for the previous month and additional justification may be required for the most important changes, such as payment of back pay owed, terminations, and reinstatements (rappels, radiations, réintégrations).

<b>B</b>	<i>i) Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data.</i>
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#### **ii. Timeliness of changes to personnel records and the payroll**

During the 2005-07 period, progress was made with the active support of TGR in the updating of changes made following approval by the technical ministries. For terminations following retirement, resignation or death, the time required to process the change was reduced from 4.77 months in 2005 to 2.45 months in 2007. Measures were implemented in the recruitment process to meet the objective of making an initial hiring decision (premier règlement) within two months, an objective set by Government in 2007.

<b>B</b>	<i>ii) Up to three months' delay occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally.</i>
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### **iii. Internal controls of changes to personnel records and the payroll**

Thanks to TGR's diligence, and to the gradual adoption of internal control procedures in the main technical ministries (see below), reconciliation between personnel records and payroll data have been carried out to control the validity of indicators (paramètres) that TGR takes into account on the basis of documentation (pièces justificatives) on the changes in numbers of staff and changes in pay scale and grade (d'échelon et de grade). Since 2007, the principle of making a minimum of five joint audits per year has been adopted.

Statistics communicated by TGR document the rectifications (redressements) and adjustments made in 2007 following the audits, along with the time required for these actions. The outcomes reported are exemplary, even though they appear relatively slow and limited in scope: 22 months and 211 cases amounting to DH 8 M.

Finally, the authority to make changes in personnel records and payroll data is strictly limited to managers in the ministries at a level that gives them due authority, and that have been given access by the IT system administrator to the TGR @jour software and database. The management of the required system passwords and their monitoring is very carefully organized, on the basis of signed authorizations that are kept up to date by the heads of the ministerial HR offices (DRH).

<b>A</b>	<i>iii) Authority to change records and payroll is restricted and results in an audit trail.</i>
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### **iv. Existence of payroll audits to identify control weaknesses and/or ghost workers**

Since 2006, as soon as the annual data become available, a cross-verification exercise is undertaken to compare the personnel records with the payroll data in order to compare the staffing budget (effectifs budgétaires), the corresponding expenditures, and statutory changes made before December 31.

Internal control operations are also launched by the individual technical ministries, in liaison with, or more often at the request of TGR (see above): these operations contribute to uncovering directly or indirectly certain errors (faillies). Information communicated by the Payroll Office (Paierie principale des rémunérations or PPR) also document (faire état de) non-trivial rectifications carried out following PPR-initiated control activities revealing irregular or unapproved absences: the procedure of "mise en numéraire" of staff whose presence does not appear justified has led to 363 terminations and 225 suspensions between 2005 and 2007. This type of intervention, even when the outcomes remain rather modest, sets a strong example and has a powerful dissuasive effect.

What remains is to prepare and update a complete and accurate compilation (bilan) of internal and external payroll audit measures and of who is responsible for carrying them out (habilitations): because detection of improper salary payments (paies indues) and higher than justified pay grade (surclassements indiciaires) also fall within the scope of audit and control missions assigned to IGF, the ministerial IGs, and the Court of Accounts.

<b>B</b>	<i>iv) A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise).</i>
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**Using method M1, the score for indicator PI-18 is B+ (B, B, A, B).**

## **PI-19 Competition, value for money and controls in procurement**

### **i. Evidence on the use of open competition for award of contracts**

Broad use of a competitive procurement method for award of contracts exceeding the national threshold set for low value purchases was incorporated in the complete revision of Morocco's regulations for award of public sector contracts that was issued as a Cabinet decree dated February 5, 2007 and went into effect on October 1 of that year.

The new regulations reflect current international procurement standards, with the exception of a clause for national preference of Moroccan enterprises in Art. 81 of the decree. They also provide for greater flexibility in contract negotiation and to guarantee objectivity in its use, postulate the further development of management audits and internal audit throughout the entire public sector.

Contract awards reviewed for the 2005-07 period were basically governed by a December 30, 1998, decree (No. 2.98.482) that required central government, local governments and public enterprises to use a competitive method for all procurement over DH 200,000. The implementation of the rules and procedures provided in this decree is subject to the conformity control of commitment officers (contrôleurs des engagements), whose approval is required before notification on any contract that was put to bid. Payments are carried out by the Treasury accountants after verifying that contract conditions were fulfilled, including the procedures for calculating price revisions and any penalties incurred.

All contracts over DH 5 M must be checked by IGF and audited by the IGs in the major technical ministries such as infrastructure and agriculture.

- The open competitive bidding process (appel d'offres ouvert or AOO) is used for most contracts but the share of these in the total value of contracts is decreasing (53.9 percent in 2007 compared to 64 percent in 2005).
- The value share of contracts that are negotiated is increasing (35.1 percent in 2005, 45.8 in 2007), while their number is decreasing (8.2 percent of total contracts in 2005 and 3.9 percent in 2007).

**Table PI-19. Value and number of contracts by procurement method, 2005-07**

	Procurement Method				
	Year	AOO	AOR	Negotiated	Concours
<b>Number</b>	2005	88.9 %	2.8 %	8.2 %	0.1 %
	2006	86.6 %	6.3 %	6.9 %	0.2 %
	2007	88.0 %	7.1 %	4.9 %	0.1 %
<b>Value</b>	2005	64.0 %	0.8 %	35.1 %	0.1 %
	2006	44.9 %	2.0 %	53.0 %	0.1 %
	2007	53.9 %	1.1 %	45.8 %	0.0 %

Source : Treasury, Procurement Directorate. AOO: open competitive bidding; AOR: restricted competitive bidding; Concours: contest (another type of competitive bidding)

<b>A</b>	<i>i) Accurate data on the method used to award public contracts exists and shows that more than 75 percent of contracts above the threshold are awarded on the basis of open competition.</i>
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**ii. Extent of justification for use of less competitive procurement methods**

Use of less competitive procurement methods is in principle reserved for Defence Ministry contracts and to works or services requiring a high degree of technological specialization or the use of patent-protected processes. It is also possible to have recourse to a negotiated contract in a case where the request for proposal is ruled unsuccessful because the bids were all found to be unacceptable.

On the basis of information obtained on the effective extent of such exceptions and on the measures in place to prevent the most serious violations of the principle of competition, bidders simply do not attempt to find a way around the procedures set up in the regulations. Any further attempt to track down abuses would require a review of audits carried out in the ministries, departments and agencies for the purpose of detecting irregularities in the choice of procurement methods, in particular for calls for bids that were subsequently unsuccessful (cf. PI 20 below).

<b>B</b>	<i>ii) Other less competitive methods when used are justified in accordance with regulatory requirements.</i>
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### iii. Existence and operation of a procurement complaints mechanism

Current regulations specify the procedures for filing and processing procurement complaints, in particular the time limits and the stages of appeals to higher levels of authority (from the primary client or maître d'ouvrage, to the minister and Prime Minister). Provision is made for the Government's Secretary General to seek counsel from the Contracts Commission for an appeal outside the formal appeals process (recourse gracieux) by a rejected bidder. However no time limit is set for processing a complaint by the Contracts Commission. Moreover, this body is an ad hoc commission composed entirely of central government representatives and therefore cannot be considered a truly independent and efficient appeals body.

Plaintiffs may also file an appeal at the Administrative Tribunal. But this process is said to take a long time, even though the option of recourse to an independent referee may lead to imposition of protective measures (mesures conservatoires). There is no specific provision for timely adjudication of complaints during the contract award period (en cours de passation).

It was not standard practice between 2005 and 2007 to systematically record complaints filed or to monitor their processing, except at DAAG in the Finance Ministry, though even they had only kept track of a very limited number of complaints. The Public Works Federation did not dispute this finding, nor did the secretariat of the Contracts Commission. It also appears that, apart from certain large construction contracts, appeals are few in number and a direct resolution outside the formal appeals process may well be preferred (traitement direct et gracieux).

The creation of a procurement website in 2007 ([www.marchéspublics.gov.ma](http://www.marchéspublics.gov.ma)) and its gradual enrichment since then to cover all aspects of government procurement, from requests for proposal that are planned by the ministries through the contract award stage, along with comprehensive information on current regulations, has created a resource that should facilitate the formulation of complaints and the exercise of the right of appeal by rejected bidders.

<b>C</b>	<i>iii) A process exists for submitting and addressing procurement complaints, but it is poorly designed and does not operate in a manner that provides for timely resolution of complaints.</i>
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**Using method M2, the score for indicator PI-19 is B (A, B, C).**

## **PI-20 Effectiveness of internal controls for non-salary expenditures**

### **i. Effectiveness of expenditure commitment controls**

A priori control of all budget commitments has been carried out over the 2005-2007 period according to the procedures specified in a December 30, 1975, decree as amended in 2002 and 2005: a priori commitment control applies to all purchases of goods and services, subsidies and transfers, capital expenditures, and salaries of non-permanent civil servants (non titulaires) for the purpose of verifying the availability and use (imputation) of funds, the authority (habilitation) of the commitment officer, and the regularity of the entire set of procurement procedures for purchase of goods and infrastructure works.

Furthermore, should an expenditure mistakenly be approved and committed over the limit of the funds ceiling, the accounting officer will not be able to pay it, as this officer is required to make a second verification on receipt of the payment order (ordonnancement).

A number of other measures were also taken starting in 2002 and broadened in 2005-07 in order to suppress certain practices of carrying over to the next budget year, payment adjustments (régularisation) of expenditure commitments for goods and services received at the end of the year (cf. PI-4 on arrears). For facilities and equipment expenditures, the commitment control officer (contrôleur des engagements) would undertake a funds consolidation (consolidation des crédits) at the beginning of the year in order to set aside program funds required to cover commitments made in the previous year under continuing programs that were already underway then. The procedures (diligences) required to ensure that the procurement rules and price revision clauses are properly followed were very carefully spelled out by TGR instructions to control officers and accounting officers. In 2007,

control officers were further reminded to be on the lookout for this kind of payment adjustment contracts (marchés de régularisation) and for [artificial] splitting of contracts (fractionnement des commandes) [in order to stay below the thresholds above which competitive bidding is required].

Commitment controls are applied across the entirety of expenditures, that is, according to the current regulations, to the entirety of expenditures which the administrative entity is obligated to fund for the entire fiscal year, and for any eventual repercussion of these commitments on the entire use of funds for the current and future years. As so defined, expenditures for investment allocations may therefore not exceed the total of program funds available in the current year and committed funds available to cover payments anticipated in the coming years.

Overall, expenditure commitment control procedures appear to have effectively limited the level of commitments to the level of available budget appropriations, that is, to budget allocations authorized (ouvertes) by the budget act and as eventually revised during the course of the year by orders or decrees of the Finance Ministry.

Considered too formalistic and a cause of delays in expenditure authorization, precisely because of its systematic application, a priori commitment control was set to be replaced over a three-year period by results-based budgeting and “globalization,” a broadening of authority to reallocate resources in order to give deconcentrated local ministerial offices greater autonomy in managing their budgets, a decision taken by Government from the end of 2001.

These reforms have been implemented through a series of measures put in place since 2002 to deconcentrate financial authority, with the support of the WB and the EU, measures that favor the gradual adoption of an a posteriori control system tailored to the capacity of the commitment officers to implement it. In this way by the end of the 2005-07 period, several offices in the ministries, departments, and agencies that were assessed to be the best equipped to limit the risks inherent in the implementation of the new system, had prepared to put it into practice; some of these offices who had already piloted the system and also began working with results-based budget management (gestion budgétaire par objectifs).

At the time of this assessment in 2007, it was undoubtedly too early to evaluate whether these new measures have had an impact on the quality and rigor of internal and external expenditure control. The first audit reports carried out for these offices that were submitted to IGF (cf. PI-20 and 21 below) do not seem to have assessed this impact and focus rather on assessing the capacity of budget authorization units (services ordonnateurs) to adopt a posteriori control practices while successfully managing the inherent risks.

In its activity report for 2007 published in October 2008, the Court of Accounts called attention to the impact of these changes on the division of responsibilities between accounting control officers and accounting officers (contrôleurs et comptables publics) on the one hand, and the authorizing officers (ordonnateurs) on the other.

<b>A</b>	<i>i) Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations (as revised).</i>
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## **ii. Comprehensiveness, relevance and understanding of other internal control rules/procedures**

The underlying conditions of internal control practice appear to have remained fundamentally unchanged by either the organizational change of putting the expenditure commitment control unit within TGR (order of February 13, 2006), nor by various measures taken during the period under review to give deconcentrated local ministerial offices greater autonomy in managing their budgets (globalisation), and to introduce audit methods and arrangements that are better adapted to results-based budgeting.

Risk assessment and adaptation of control procedures in order to better manage risk are both fully incorporated in the Government’s reform action programs and are beginning to be put in place, especially at IGF and in a few ministerial IG offices, which are in charge of demonstrating and then diffusing these new procedures within their ministries.

In the meantime, the rules governing management of budget allocations, in particular those for a priori control of funds commitment and payment authorization are clear, well known, and enforced. There are also rules governing

the management and safeguarding of public assets in the form of many provisions, not only in the accounting and budget codes and orders, but also in the legal texts on public lands and other assets of central and local governments, as well as public road, forest and maritime reserves (domaines routier, forestier, et maritime).

Increasingly, the IGFs' reports on the audit work assigned to them goes beyond the usual verification of accounting and juridical regularity to audit the viability and relevance of the organizational and management procedures of the ministries, departments, and agencies (cf. PI 21).

Lastly, the control of procurement practices (cf. P-I 19) is carried out by TGR at the moment of approving expenditure commitments and by the Budget Directorate, which participates in the Central Contracts Commissions for contracts over DH 30M (cf. PI-9).

However even by 2007 it was not possible to consider that the rules and procedures for internal control in place "incorporate a comprehensive set of controls such as error prevention and timely preparation of financial statements."

<b>C</b>	<i>ii) Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application.</i>
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**iii. Degree of compliance with rules for processing and recording transactions**

Apart from commitment control (cf. i)—since 2006 carried out by TGR), the rules for processing and recording transactions at the level of the disbursement officer (comptable payeur) cover accuracy in the calculation of payment for services rendered or goods delivered; proper identification of the payee; final checking of the entire file for anomalies or omissions regarding, for example, procurement procedures; and certification that the service has in fact been rendered and the goods delivered as contracted.

According to the fairly consistent responses of TGR and IGF during PEFA mission discussions, the basic rules are followed and recourse to simplified or emergency procedures that bypass budget authorization regulations is neither feasible nor necessary. However the mission was not provided with any documentation summarizing the differences recorded in the application of rules for processing and committing transactions; it is not clear whether such a summary was ever prepared during the period under review.

<b>C</b>	<i>iii) Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.</i>
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**Using method M1, the score for indicator PI-20 is C+ (A, C, C)**

**PI-21. Effectiveness of internal audit**

**i. Coverage and quality of the internal audit function**

During the period under review, significant improvements were achieved in internal audit, both in terms of the number of public services and entities covered, administrative organization and audit methods, and in the follow-up of audit report conclusions and recommendations. At the central government level, an order of December 2, 2005, requires all Government ministers to include in the ministry's organizational structure, an Inspector General's office and an audit and management control office: by 2007, this had been done in the most important ministries (Health, Agriculture, Fisheries) but to varying degrees and with varying capabilities.

The Inspector General's office in the Finance Ministry, created by Royal Dahir on April 14, 1960, has a staff of 95 auditors (inspecteurs) and covers the entire public sector.

Its working methods have considerably evolved over five decades, from classic audit practices to those more closely in tune with international standards. Since 2006, the IGF has been using a very comprehensive manual of audit norms that comply with international audit standards applicable to private and public sectors, and with best



practice in public enterprise audit. This manual, financed with WB support, was prepared with the help of the Order of Accounting Experts, the Company of Statutory Auditors (Compagnie des commissaires aux comptes), and of the French Institute of Audit and Internal Control (IFACI): it constitutes an accurate reference work for the increasing number of IGF public sector audit missions, and also a useful teaching tool for training auditors and the inspectors general who are managing this ever-expanding audit intervention work. An internal audit unit for centralized accounting offices (centres comptables) has also been created at TGR.

However it is difficult to assess the extent of audit verification work that has focussed on the systemic aspects of public sector audit reports during the 2005-07 period. It is certainly greater than the 20 percent [PEFA] threshold and has been estimated at more than 50 percent by IGF. In light of the next indicator (ii), the cumulative share of public sector financial and performance audits, both of which include systemic aspects that are however not comprehensive, does in effect exceeds the 50 percent threshold in 2006 and 2007 (60 percent in 2006 and 57 percent in 2007).

<b>B</b>	<i>i) Internal audit is operational for the majority of central government entities (measured by value of revenue/expenditure), and substantially meets professional standards. It is focused on systemic issues (at least 50 percent of staff time).</i>
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## ii. Frequency and distribution of reports

Reports on the internal audits of ministerial departments carried out by the Moroccan Government were prepared by IGF in 2006 and 2007, with greater detail in the 2007 report.

**Table PI-21a. Work program for Inspector General’s Office, Finance Ministry: 2005-07**

<b>2005</b>	<b>No. Audit missions</b>	<b>%</b>
Audit of donor-finance projects	31	36%
Audit of public bodies and financial services	29	34%
Studies and surveys	4	5%
Assessment of public programs	1	1%
INDH performance audits	20	24%
<b>Total</b>	<b>85</b>	<b>100%</b>
<b>2006</b>		
Audit of donor-finance projects	26	30%
Audit of public bodies and financial services	36	41%
Studies and surveys	5	6%
INDH performance audits	20	23%
<b>Total</b>	<b>87</b>	<b>100%</b>
<b>2007</b>		
Performance audit of ministerial departments	11	14%
Audit of donor-finance projects	29	37%
Audit of public bodies and financial services	14	18%
Studies and surveys	4	5%
INDH performance audits	21	26%
<b>Total</b>	<b>79</b>	<b>100%</b>

*Source* : IGF statistics. INDH = Initiative nationale pour le développement humain (National Initiative for Human Development)

Following seven “management capacity commitment audits” (audits des capacités de gestion des ordonnateurs) for seven ministries—Health, Justice, Culture, Finance, Agriculture, Waterways and Forests, Infrastructure—IGF carried out in 2007 eleven “performance audits” in several technical ministries. Some of the reports were prepared in concert with competent ministry IGs—including the sections covering system audit, which appear to be getting longer (don’t la part parait s’être accrue). IGF has prepared more than 200 audit reports between 2005 and 2007 and is carrying out an increasing number of audits of EEPs and CAS (of which 61 for INDH), along with audits of donor-financed projects (86 during the period under review).

<b>B</b>	<i>ii) Reports are issued regularly for most audited entities and distributed to the audited entity, the Finance Ministry and the Supreme Audit Institution.</i>
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### iii. Extent of management response to internal audit findings

The difficulty of objectively evaluating the effectiveness of the new internal audit system stems from the dispersed and sometimes inaccessible nature of the information base that the PEFA mission would have needed, such as IGF and ministerial IG reports, and the reports of bodies responsible for following up audits (interministerial central government bodies, PEs' boards of directors). There is no avoiding the conclusion that the terms of reference (lettres de mission) addressed to IGF, while they clearly specify the deadlines for completing the audits themselves, do not cover how the auditors' recommendations should be followed up. A few activity reports for ministries, departments and agencies and certain SEGMA do however mention IGF interventions and any follow-up actions completed or planned.

IGF is clearly interested in the outcomes of any action taken to implement audit recommendations and intends to give such outcomes a prominent role in its annual audit programs. IGF would do well to better target its own monitoring of measures recommended by auditors. IGF already systematically communicates its own reports to the Court of Accounts and when appropriate to the Minister of Justice, when their findings cast doubt on the conduct of an audited entity's managers or directors. During 2006 and 2007, 27 such reports were forwarded to the Court of Accounts.

**Table PI-21b. IGF reports forwarded to the Court of Accounts, 2006 et 2007**

Year	Number of reports
2006	8
2007	19
<b>Total</b>	<b>27</b>

Source : IGF statistics.

Lastly, beginning in January 2009, IGF implemented a computerized system for audit mission management that provides for automatic follow-up of audit recommendations.

<b>C</b>	<i>iii) A fair degree of action is taken by many managers on major issues but often with delay.</i>
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**Using method M1, the score for indicator PI-21 is C+ (B, B, C).**

### **SUMMARY OF ASSESSMENT OF PREDICTABILITY AND CONTROL IN BUDGET EXECUTION**

PI-13	Transparency of taxpayer obligations and liabilities	A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B+
PI-15	Effectiveness in collection of tax payments	B+
PI-16	Predictability in the availability of funds for commitment of expenditures	C+
PI-17	Recording and management of cash balances, debt and guarantees	A
PI-18	Effectiveness of payroll controls	B+
PI-19	Competition, value for money and controls in procurement	B
PI-20	Effectiveness of internal controls for non-salary expenditures	C+
PI-21	Effectiveness of internal audit	C+

### 3.5. ACCOUNTING, RECORDING AND REPORTING

#### PI-22. Timeliness and regularity of accounts reconciliation

##### i. Regularity of bank reconciliations

Government bank accounts are reconciled daily at the central level of the Treasury account between TGR and the central bank, Bank Al-Maghrib (BAM).

- At the regional level, each treasurer receives from the regional representative of the central bank a daily statement of debit and credit transactions for the Treasury current account. On this basis, the treasurer proceeds to reconcile expenditure transactions initiated by his office on their own account and on behalf of accounting offices down the line; only the treasurer is authorized to debit Treasury's current account. The regional treasurer also verifies (constate) revenue collected and deposited by third parties and reconciles revenue transactions initiated by accounting offices down the line; it will have received the required paperwork for each funds deposit at the BAM's regional branches.
- Each regional treasurer posts a monthly statement file (fichier) with the central TGR that records debit and credit transactions with the regional branch of the BAM.
- The BAM's central office prepares and sends to TGR a daily statement and data file summarizing transactions for each regional treasurer as recorded by its regional branches.

These reconciliations are carried out through two software applications that check and recalculate when necessary the agreement (concordance) between the central government's accounting system and the transactions recorded in Treasury's current account.

<b>A</b>	<i>i) Bank reconciliation for all central government bank accounts takes place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period.</i>
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##### ii. Regularity of reconciliation and clearance of suspense accounts and advances

At the budget chapter and article levels, ministries, departments and agencies reconcile accounts on a monthly basis; the accounts are balanced each month and closed on December 31<sup>st</sup> in order to prepare the central government's general account that forms the basis of the next draft budget act. Current accounting regulations provide for the temporary assignment (imputation) of an expenditure or income item given insufficient information or when the transaction is in suspense (attente de transfert). Such temporary cost or income assignments are usually regularized during the fiscal year and finalized when the general account is closed (bouclage) on December 31<sup>st</sup>. During the fiscal year, payment of advances provided for in contracts for construction works or for consultants' reports that are to be carried out in stages, are booked against appropriations appearing in the current budget. These payments are regularized when the works and reports are delivered and accepted.

In order to facilitate decentralized management (gestion déconcentrée) of running expenses and revenue sharing (redevances affectées), the general accounting regulation (Art. 19 of Order No. 330-66 of April 21, 1967, on delegated collections and disbursement officers (régisseurs et payeurs délégués)) provides for a system of imprest expenditure and collection accounts (régies d'avances et de recettes). Advance payments must be justified at the end of the month, before they are carried forward (renouvellement) and the income received must be promptly deposited as it is collected, thus regularizing the budget assignment of these funds. Accounting officers are vigilant in their oversight of the imprest administrators (régisseurs).

<b>A</b>	<i>ii) Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward.</i>
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**Using method M2, the score for indicator PI-22 is A (A, A).**

## PI-23 Availability of information on resources received by service delivery units

Since the creation in 2000 of the SEGMAAs (cf. section 2 of this report) and the implementation of Organic Law 7.98, it may be considered that the most important public health and education facilities have access to clearly identified resources allocated specifically for their use, even if the amounts are subject to adjustments during the year.

A special report on the SEGMAAs is annexed to the draft budget act submitted to Parliament. In 2005 and 2006—but not in 2007—it gave a detailed breakdown of own income and subsidies as well as of operating and capital expenditures for the 151 SEGMAAs for the two previous years. Fifty-eight of the SEGMAAs are part of the Health Ministry (hospital centers and military and civilian hospitals) and 38 belong to the Education Ministry (institutes and training centers).

The budget booklets (morasses) provide detailed breakdowns of preliminary resources included in the initial budget act for SEGMAAs as well as allocations for their running and investment expenditures.

Supplementary allocations funded by their own income or financial aid received in excess of the ceilings in the initial budget act are summarized at the end of the year but are not systematically reported by the SEGMAAs either during or at the end of the year, until the next budget act is drafted.

- Health centers prepare and distributed an annual report on their activities and funding.
- However, detailed information on education spending that is kept at the central level in the budget execution monitoring reports is not regularly published either for individual educational institutions or for primary schools.
- The central education authorities approve and oversee operating and investment budgets as well as cash flow for the 16 regional academies of education and formation (AREF), which operate under the same statute as public enterprises and manage programs to increase school enrollment, improve the quality of education, and modernize teaching materials.
- At the local level, directors of deconcentrated public services should be prepared to provide on demand, particularly to elected local officials, any information required to monitor, and if necessary make public, the funding made available to primary schools and other local service delivery units.

<b>B</b>	<i>i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across most of the country with information compiled into reports at least annually.</i>
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**Using method M1, the score for indicator PI-23 is B .**

## PI-24 Quality and timeliness of in-year budget reports

### **i. Scope of reports in terms of coverage and compatibility with budget estimates**

The TGR plays an essential role in the monitoring of budget execution, as directed by Art. 124 of the General Accounting Regulation (Order No. 330-66 of April 21, 1967), which stipulates that TGR must “send a monthly report to the Finance Ministry presenting a statement of budget transactions, special account transactions, and cash flow transactions for the month,” accompanied by statements for previous periods. TGR summarizes this data in its “Monthly Statistical Bulletin for Public Finance,” published on its website.

Through TGR’s database (à partir des relevés de la TGR), the central offices of the technical ministries have access to detailed data on the execution of their budgets; the main ministries use this information to prepare a quarterly update of budget execution.

The Budget Directorate prepares a budget execution report for each ministry at the end of the year, and the main ministries’ own financial staff prepare the administrative accounts (compte administratif) by budget chapter, article, paragraph and line. These documents are sent to the Court of Accounts for their report on the budget review act.

Likewise, the Treasury Directorate prepares a consolidated monthly budget execution and funding situation report (note de conjoncture) based on budget and accounting data after certain adjustments (retraitements), also widely distributed.

<b>A</b>	<i>i) Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.</i>
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**ii. Timeliness of the issue of reports**

Budget execution reports prepared by TGR are in fact produced at the end of each month and a summary is distributed a few days later. However at the end of the year, final figures on budget execution may be subject to regularisation transactions at the initiative of the budget authorizing officers (ordonnateurs) and regional treasurers until March 31 of the next budget year (cf. PI-22).

<b>B</b>	<i>ii) Reports are prepared quarterly and issued within 6 weeks of end of quarter.</i>
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**iii. Quality of information**

The quality of information is soundly based on the rigorous practices and rules for centralization of information that are carried out by the network of accountants (comptables publics), under TGR’s supervision. The information produced is also subject to control by TGR’s central level office when required, along with the Budget Directorate and Treasury Directorate, in order to verify its consistency. Lastly, the preparation by September 30 of the final general statement of budget execution for the previous year verifies every detail of expenditure recorded in the books, right down to the last hundredth of a Dirham.

<b>A</b>	<i>iii) There are no material concerns regarding data accuracy.</i>
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**Using method M1, the score for indicator PI-24 is B+ (A, B, A).**

**PI-25 Quality and timeliness of annual financial statements**

**i. Completeness of the financial statements**

The Government’s general accounts (compte générale) are prepared at the end of the year by TGR: they include detailed information on the execution and funding of central government’s budget.

During the period under review, general accounts were kept in accordance with the provision in the general regulations for public accounting that require that “revenue collected is recorded during the budget year when it is received by the public accounting officers,” and “expenditures are recorded during the budget year when the payment orders are signed by the disbursing accounting officer (assignataire) and paid with funds from that year, regardless of the date when the obligation was created (créance).”

Under these conditions and given its current configuration, the public sector chart of accounts does not incorporate all the data required to calculate and monitor changes in the assets and liabilities of Government’s balance sheet. However, from the point of view of Treasury accounting, TGR’s general balances do record the position of assets and liabilities, and budgetary and treasury transactions (retracent en masse et en solde l’état) for all public accounts, including those for loans, securities (titres), and cash assets (disponibilités).

<b>C</b>	<i>i) A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant.</i>
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## ii. Timeliness of submission of the financial statements

The dates of submission of the financial statements to the Court of Accounts exceeded the 15-month limit for this PEFA indicator component for 2004 to 2006.

Beginning in 2005, an effort was launched to close the gap for the outstanding accounts since 2004 and for fiscal years 1999 through 2006. The Court received the accounts for fiscal year 2006 on June 12, 2008, thus reducing the time required for that year to 17 months and 12 days.

**Table PI-25. Dates of budget review act submission to Court of Accounts and publication.**

Budget review act	2000	2001	2002	2003	2004	2005	2006	2007
Date due	End 2002	End 2003	End 2004	End 2005	End 2006	End 2007	End 2008	End 2009
Date sent by PLR to SGG	02/06/2005	12/12/2005	11/09/2006	15/05/2007	27/06/2007	29/11/2007	28/05/2008	05/03/2009
Date sent by Prime Minister to Court of Accounts	June 2005	18/01/2006	25/09/2006	24/05/2007	20/06/2007	13/12/2007	12/06/2008	March 2009
Date approved by Cabinet (Conseil des Ministres)	12/10/2006	12/10/2006	12/10/2006	26/12/2008	26/12/2008	26/12/2008	26/12/2008	
Date submitted to Parliament	19/10/2006	19/10/2006	19/10/2006	30/12/2008	30/12/2008	30/12/2008	30/12/2008	
Date approved by House (Chambre des Représentants)	26/12/2006	26/12/2006	28/06/2007					
Date published in the Official Bulletin	N° 5523 du 07/05/2007	N° 5523 du 07/05/2007	N° 5587 du 17/12/2007					

Also the interval between the dispatch of the draft budget review act by the Prime Minister to the Court of Accounts and its approval by the Cabinet has been considerably shortened, from 15 months for 2000 to six months for 2006. In 2007, the draft budget review act was to be presented to Parliament before the end of the first quarter of 2009, six months earlier than required by law.

<b>D</b>	<i>ii) If annual statements are prepared, they are generally not submitted for external audit within 15 months of the end of the fiscal year.</i>
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## iii. Accounting standards used

Government accounts are not presented according to IPSAS or equivalent national standards. The public sector chart of accounts does nonetheless refer to national standards approved by the National Accounting Council and adopted in 2002 (but not yet implemented).

<b>C</b>	<i>iii) Statements are presented in consistent format over time with some disclosure of accounting standards.</i>
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**Using method M1, the score for indicator PI-25 is D+ (C, D, C)**

## **SUMMARY OF ASSESSMENT OF ACCOUNTING, RECORDING AND REPORTING**

PI-22	Timeliness and regularity of accounts reconciliation	A
PI-23	Availability of information on resources received by service delivery unit	B
PI-24	Quality and timeliness of in-year budget reports	B+
PI-25	Quality and timeliness of annual financial statements	D+

### 3.6. EXTERNAL SCRUTINY AND AUDIT

#### PI-26 Scope, nature and follow-up of external audit

##### i. Scope of audit performed (including adherence to auditing standards)

The Court of Accounts, and the Regional Courts of Account set up in 2004, perform the external audit function for management and use of public funds in the fullest sense.

The scope of their mission was broadened to include management audit by the promulgation of the Code of Financial Jurisdictions on June 13, 2002 (Law. No. 62-99). The Courts' audit officers (magistrats), charged with jurisdictional audit under the 1996 Constitution, also have the requisite prerogatives and independence in the performance of their extra-judicial powers that are specified in INTOSAI and IFAC international standards. Moreover, since 2005, the Regional Courts of Account have been auditing local governments and their public establishments.

The Premier President of the Court of Accounts submitted his annual report for 2005 directly to the King on (Note : date à préciser), the 2006 annual report on (Note : date à préciser) and the 2007 annual report on July 10, 2008.

Under the new approach, these reports—supported by verification of the regularity of transactions and the accuracy of public sector financial statements for Government and for the EEPs—also assess the reliability and relevance of internal control systems of the most important entities.

Except for military expenditures (in 2007, 15 percent of the total public operating budget and 10.7 percent of the investment program funds), all expenditures and revenues of central government entities are audited every year.

<b>B</b>	<i>i) Central government entities representing at least 75 percent of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adhere to auditing standards, focusing on significant and systemic issues.</i>
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##### ii. Timeliness of submission of audit reports to legislature

The Court of Accounts' audit reports on central government's general account, which form the basis for the draft budget review act, may be prepared only after the Secretary General of Government (SGG) has handed over the account details as drawn up by the Finance Minister (TGR). As indicated under PI-25 above, these accounting reports for 2004, 2005, and 2006 were handed over by the SGG more than 18 months after the end of the fiscal years.

The Court of Account also submits an activity report to the King every year in July, and this is then submitted to Parliament and published in October : the report (727 pages long in 2008) also covers the activities of the Regional Courts (408 pages in 2008).

The Court's activity report presents the results of its management audits and the use of public funds (40 audits in 2008), of jurisdictional controls, of budget execution reports, and of general declarations of compliance (based on the audit reports on the general account).

<b>D</b>	<i>ii) Audit reports are submitted to the legislature more than 12 months from the end of the period covered (for audit of financial statements from their receipt by the auditors); audited financial statements are presented to Parliament more than 12 months following the receipt of the statements by the external audit body.</i>
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### iii. Evidence of follow-up on audit recommendations

Every audit report must begin with a statement on follow-up of the recommendations made in the previous audit report. This rule is followed, in particular for the annual activity report of the Court of Accounts, which also incorporates the responses of the audited central government offices to its observations and reminders.

On the other hand, neither the Prime Minister nor the Finance Minister prepares any kind of summary on the follow-up required for these reports, which should also be accompanied by a justification on the corrective measures selected or rejected and a timetable for their implementation.

<b>C</b>	<i>iii) A formal response is made, though delayed or not very thorough, but there is little evidence of any follow-up.</i>
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**Using method M1, the score for indicator PI-26 is D+ (B, D, C).**

### PI-27 Legislative scrutiny of the annual budget law

Morocco's Constitution provides that "a budget act is voted on by the Parliament under conditions set in an Organic Law" (Art. 50). Organic Law No. 7-98 closely defines the content of the budget act and the way in which it is voted on and passed, in line with the arrangements adopted by OECD parliamentary governments.

#### i. Scope of the legislature's scrutiny

The draft budget act is accompanied by a presentation report that provides "an overview of economic and financial equilibrium, the budget results as known and the future prospects, along with any changes made during the year to revenue and expenditure." Other documents are also provided with the draft budget act:

- Several other very detailed reports present transactions of the special treasury accounts and of SEGMA and EEP accounts, in support of the expenditure and revenue figures included in the draft budget, with reference to budget execution results for the current year.
- In 2006, a special report on fiscal expenditures was prepared and produced in order to provide strong evidence in support of proposed legislative changes intended to better restrict and target tax exemptions.
- Medium-term priorities for action programs in light of current achievements and future needs are presented in the presentation report, and in the Finance Minister's remarks when opening the sessions to review the budget in each of Parliament's two chambers. Reports on the special and EEP accounts set forth the achievements and next steps for strategic projects.
- All known central government resources are included in the budget act, not only taxes and duties but also service and license fees, aid funds and grants, income from sale of state property and from the state's investment portfolio, and borrowed funds. It also must record any authorization to collect public revenue and sign loans, and any other action that creates, changes, or abolishes any source of public funds. Government retains the power to create new parafiscal taxes and service fees.

<b>B</b>	<i>i) The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue.</i>
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#### ii. Extent to which the legislature's procedures are well-established and respected

The procedures for Parliament's review and vote on the budget, as set in the Constitution, the Organic Law and the Houses' own internal rules carefully lay out the conduct required for the two chambers' budgetary sessions.

Parliament's Finance Commissions play a key role in the draft budget review. In the House of Representatives, a budget analysis office (Bureau d'analyse budgétaire) was created within the Finance Commission. The advisory reports for these commissions are prepared with the assistance of the Budget Directorate, DGI and the Treasury Directorate in the Finance Ministry. The main technical ministries are also consulted, to provide information and



also reply to the Agriculture and Economic Commissions on the resources mobilized for certain sectoral policy programs in the five-year plans.

The Finance Commissions are also involved in reviewing the draft parliamentary amendments, in particular to vet the amendments according to Art. 51 of the Constitution on the inadmissibility of any amendments intended to diminish public resources or to create or increase any public sector obligation.

<b>A</b>	<i>ii) The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures.</i>
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### iii. Adequacy of time for the legislature to provide a response to budget proposals

The draft budget act must be "filed with office of one of the two chambers no later than 70 days before the end of the current budget year," according to Art. 33 of the Organic Law. This deadline has been met by Government in 2005, 2006, and 2007 (cf. PI-11). As provided in the Organic Law, meeting this milestone allows the first chamber 30 days to review the draft and reach a vote, and 30 days for the other chamber to do the same. Only once in the last ten years, in 2001, was the filing of the draft budget act delayed, due a change of government.

In order to prepare their reports, the Finance Commissions may request and obtain information on budget execution progress, in particular on the status of revenue collection and on the largest or most politically sensitive expenditures, such as Compensation Fund subsidies of consumer food and energy expenses.

<b>A</b>	<i>iii) The legislature has at least two months to review the budget proposals.</i>
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### iv. Rules for in-year amendments to the budget without ex-ante approval by the legislature

According to the Organic Law, changes to budget allocations during the current year may be authorized by order or decree in case of "urgent (impérieuse) necessity in the national interest." A provision included in every annual budget act during the period under review allows the Government to augment the allocations above the amounts voted, "for the purpose of ensuring coverage of urgent needs not foreseen at the time the budget was set, when funds are insufficient," provided the Parliament ratifies Government's action.

Such allocation changes were made by decree in each of the years under review, in particular for the carrying forward of investment payment allocations (DH 9 billion in 2006 and 2007) and to release additional funds from the contingency expenditures budget chapter (DH 2.3 billion in 2006 and DH 3.2 billion in 2007).

Moreover, many orders were issued, as also provided in the Organic Law, in order to release (rattacher) supplementary apappropriations (fonds de concours) (DH 1.4 billion in 2006 and DH 2.6 billion in 2007) and especially to raise the ceiling for special accounts and SEGMA expenditure to match additional revenue collected (DH 30.3 billion in 2006 and DH 33.3 in 2007).

**Table PI-27. Amendments to the budget with in-year legislative approval**  
(in DH millions)

	2005	2006	2007
<b>Budget as voted (budget act)</b>	147,236.50	153,029.17	168,864.07
Amendments approved by order or decree :			
* <i>Supplementary appropriation &amp; funding</i>	668.78	1,398.13	2,628.31
* <i>Investment funds carried over</i>	9,467.90	9,157.96	9,499.73
* <i>Increased expenditure ceilings- SEGMA</i>	1,527.49	1,436.18	1,521.51

* Increased expenditure ceilings- CAS	19,254.87	28,837.04	32,131.07
<b>Total modifications</b>	<b>30,919.04</b>	<b>40,829.31</b>	<b>45,780.62</b>
<b>Total appropriations</b>	<b>178,155.53</b>	<b>193,858.48</b>	<b>214,644.69</b>
<i>Amendments as % of budget voted</i>	<i>21.0 %</i>	<i>26.7 %</i>	<i>27.1 %</i>
<i>Source : Budget acts, 2005 – 2007.</i>			

The total amount of such in-year reallocations reached 21 percent of the initial appropriations in 2005 and more than 26 percent in 2006 and 2007. But in all cases, these changes were reflected in the monthly budget execution statements and in central government allocations and expenditures in the current year, as detailed in the documents attached to the draft budget act for the following year.

<b>B</b>	<i>iv) Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations.</i>
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**Using method M1, the score for indicator PI-27 is B+ (B, A, A, B).**

## **PI-28 Legislative scrutiny of external audit reports**

### **i. Timeliness of examination of audit reports by the legislature**

Beginning in 2005, an effort was made to reduce tardy filing of the budget review acts. The draft budget review acts for fiscal years 2000, 2001, 2002, 2003, and 2004 were filed with the House of Representatives, along with the Court of Account's budget execution reports for the general account, with delays decreasing from more than two years to 18 months. There was practically no delay in the filing of the accounts for 2005.

Members of Parliament are understandably not much interested in closely examining these budget review acts, whose presentation is somewhat challenging in the first place, and particularly when they are received so long after the fact. The legislature has thus had no problem quickly reviewing them and voting to accept them, following the positive recommendations of its Finance Commissions, with little delay—in less than three months following their filing.

Nor do the Court of Accounts' activity reports receive much systematic or formal examination by Parliament, nor are hearings held to question their auditors or the government entities to which the Court has called attention in their reports.

<b>B</b>	<i>i) Scrutiny of audit reports is usually completed by the legislature within 6 months from receipt of the reports.</i>
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### **ii. Extent of hearings on key findings undertaken by the legislature**

Apart from the presentation of the draft budget acts by the Finance Minister to the two Houses of Parliament, it does not appear that the Parliament has called any formal hearings for the ministers or department or agency directors to answer for the comments on their performance presented in the activity reports of the Court of Accounts, although the power to call such hearings is clearly one of their prerogatives. On the other hand, the Finance Commissions and their heads have initiated specific discussions (échanges) in 2007.

<b>D</b>	<i>ii) No in-depth hearings are conducted by the legislature.</i>
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### iii. Issuance of recommended actions by the legislature and implementation by the executive

The PEFA team received no documentation containing recommendations from the legislature to Government. What the team gathered from newspaper accounts and from interviews with the presidents of the Finance Commissions was rather opinions (avis) in the form of oral comments and proposed amendments to the draft budget acts submitted to Parliament, in particular during the review of the draft by the two chambers.

<b>D</b>	<i>iii) No recommendations are being issued by the legislature.</i>
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Using method M1, the score for indicator PI-28 is D+ (B, D, D).

### SUMMARY OF ASSESSMENT OF EXTERNAL SCRUTINY AND AUDIT

PI-26	Scope, nature and follow-up of external audit	D+
PI-27	Legislative scrutiny of the annual budget law	B+
PI-28	Legislative scrutiny of external audit reports	D+

## 3.7. DONOR PRACTICES

### D-1. Predictability of direct budget support

In Morocco, budget support has not been an important source of Government income, even though aid and grant funds from international donors are sought after, well integrated into the budget, and their use monitored, both at the commitment phase and the annual drawdown amounts. The recent report by international donors in the Paris Club have also emphasized that “forecasting aid is much less problematic for Morocco, due to its low level of dependence on international assistance,” which amounts to only \$US1,046M or 1.8 percent of GDP.

Aid drawdowns analyzed in budget documentation (loans and grants), mainly in Budget Directorate activity reports under the heading “Increased mobilization of external financing,” amount to 3.2 percent of all income sources in 2005 and 3.8 percent in 2006 and 2007. The budget act presents only the total amount of donor grant funds on the income side.

Figures kept by the Budget Directorate make no reference to forecast grant amounts in the budget act but present annual amounts in the agreements signed and drawdowns made, by donor and purpose, with a breakdown for investment and sectoral adjustment funds. But the drawdowns made are not recorded in the total undisbursed funds for programs underway.

**Table D-1. International budget support.**

(in DH millions)

	2005	2006	2007
<b>Donor agreements</b>	<b>4,864</b>	<b>5,894</b>	<b>3,861</b>
(of which grants)	1,145	768	1,721
<b>Disbursements</b>	<b>4,940</b>	<b>6,517</b>	<b>7,627</b>
(of which grants)	1,613	2,472	2,066
Of which - investment	2,210	3,142	4,809
Of which – sectoral adjustment	2,730	3,375	2,818

Source : Budget Directorate statistics.

It was found that implementation of projects funded with this budget support—even though the largest ones are regularly audited—has not been centrally monitored in sufficient detail to track the difference between the amounts initially indicated in the aid agreements and actual funds received. On the one hand, the Paris Club report assesses aid predictability by comparing transfers programmed by the donors to disbursed funds booked by the Moroccan Treasury. For 2007, donors’ actual outlays were found to be 32 percent lower than the amounts committed in

signed agreements; but on the other hand, the Moroccan authorities reported smaller gaps in their own more realistic analysis, which adjusts their aid forecast as the year unfolds. One exception is the grants (not the loans) under the European Commission aid agreement framework. This aid, disbursed as direct budget support, constitutes a large share of the total grant funds in the budget. Grants for direct budget support amount to roughly 50 percent of all the EC's support to Morocco, and half of the EC's grant money can amount to more than 80 percent (estimated) of all grants received.

For this reason, there is an ongoing dialogue between the EC and the Finance Ministry (national coordinator for European aid) covering annual disbursement forecasts (drawdowns) and multi-annual commitment forecasts (Indicative Program/agreements/aid conventions), in the form of regular meetings, usually quarterly, where forecasts and expected commitments and disbursements are compared, updated, and harmonized by the two parties, thus ensuring more predictable grant figures for the budget (draft budget preparation) and for disbursements. Despite the small impact of budget support on the rhythm and smooth execution of overall public expenditures in Morocco (lack of liquidity or cash management constraints, lack of dependence on foreign assistance), these meetings have improved the predictability of commitments and of annual grant disbursement schedules for budget support (at the same time ensuring that implementation of reforms linked to these aid programs are properly monitored). Moreover, within the framework of sectoral budget support programs, better predictability of commitments should in time ensure a more structured and rationalized budget dialogue between the Finance Ministry and the concerned departments of technical ministries as part of a multi-annual budget exercise. The example of dialogue as a planning tool for the largest grant donor working with national authorities is one worthy of being followed by other donors.

Under these conditions, and taking into account the one exception, the score for the indicator D-1 would be rather simplistic (*réductrice*), were it to be confined to the criteria specified for sub-indicator (i), and would appear to be not well adapted to management practices for international donor assistance now in use by the Finance Ministry, the technical ministries, departments and agencies, and other beneficiaries.

<b>Not applicable</b>	<i>i) Budget support does not affect budget management. The criteria for assessing its predictability do not apply to the situation in Morocco.</i>
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Sub-indicator (ii) involves the timeliness of donor disbursements during the current year in accordance with quarterly forecasts. Given the different donor-specific conditions for the current set of aid agreements with country and international donors, there are no quarterly or annual funding schedules for this aid, not even for reference use and much less for use in managing these funds.

<b>D</b>	<i>ii) Requirements for a score of C are not met.</i>
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**Using method M1, the score for indicator D-1 is Not applicable (Not applicable, D).**

## **D-2. Financial information provided by donors for budgeting and reporting on project and program aid**

Information used for score this indicator are taken from the June 2008 Paris Club donors' report. Morocco has signed the Paris Declaration on the effectiveness of public development assistance but participated only in 2008 in the survey on monitoring indicators, which therefore covers only eleven donors in 2007, representing about 85 percent of such assistance.

### **i) Completeness and timeliness of budget estimates by donors for project support**

The inclusion of financial support in the budget is done under the best possible conditions, since the gap between expected (\$US 1,338 M) and actual (\$US 1,668 M) deposits was +20 in 2007. This difference, while it testifies to the prudence of the Budget Directorate's income forecasts, is also explained by the fact that "transactions take place via direct liaison between donors and certain beneficiaries," without the Finance Ministry being notified in timely fashion.

Looking at the amounts programmed by the eleven donors covered in the survey (\$US 2,159 M total), the gap—in this case, negative—is much greater : actual disbursements recorded in the public sector accounts (\$US 1,474 M)

are 32 percent less than programmed in 2007. In the absence of better coordination, the conservative margin for aid figures included in the budget is therefore well justified.

The interpretation or conversion of funding forecasts from the donors' classification systems to the Moroccan budget funds classification system does not appear to have created any difficulties in the transcription of aid funds for the reports annexed to the budget act, nor for the Budget Directorate's activity reports.

<b>B</b>	<i>i) At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid at stages consistent with the Government's budget calendar and with a breakdown consistent with the Government's budget classification.</i>
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**ii) Frequency and coverage of reporting by donors on actual donor flows for project support**

No indications were found on this topic in reports for the Paris Club nor in any Finance Ministry reports.

<b>D</b>	<i>ii) Donors do not provide quarterly reports within two months of end-of-quarter on the disbursements made for at least 50 percent of the externally financed project estimates in the budget.</i>
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**Using method M1, the score for indicator D-2 is D+ (B, D).**

**D-3. Proportion of aid that is managed by use of national procedures**

According to the June 2008 Paris Club donors' report, on average 75 percent of donor aid to Morocco is managed by use of national procedures.

The procedures and control measures applying to public expenditure are also followed for aid funds, including use of public procurement procedures for 81 percent of aid expenditures.

Audits are also carried out by the IGF and the ministries, and by the Court of Accounts and the Regional Courts of Accounts, for donor-supported projects implemented by local governments or local public enterprises.

A limited number of exceptions involve certain project aid, such as the EU's Green Circle (le circuit vert) and a few other donors, who prefer to direct their own activities following the example of (à l'instar du ) global funds for the fight against AIDS, tuberculosis and malaria.

<b>B</b>	<i>i) Seventy-five percent or more of aid funds to central government are managed through national procedures.</i>
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**Using method M1, the score for indicator D-3 is B.**

**SUMMARY OF ASSESSMENT OF DONOR PRACTICES**

D-1	Completeness and timeliness of budget estimates by donors for project support	Not applicable
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+
D-3	Proportion of aid that is managed by use of national procedures	B

## ANNEX 1 : SUMMARY OF PERFORMANCE INDICATORS

Indicator	Score	Explanation	Method
<b>A. Credibility of the budget</b>			
PI-1. Aggregate expenditure out-turn compared to original approved budget	<b>A</b>	<i>i) In only one of the last three fiscal years has budget out-turn exceeded budgeted expenditures by an amount equivalent to more than 5 percent of the amount initially budgeted. (Score=A)</i>	<b>M1</b>
PI-2. Composition of expenditure out-turn compared to original approved budget	<b>C</b>	<i>i) For only one of the last three year did the variance of the composition of expenditure turn-out, compared to the % difference between approved &amp; actual, exceed ten percent. (Score=C)</i>	<b>M1</b>
PI-3. Aggregate revenue out-turn compared to original approved budget	<b>A</b>	<i>i) During only one of the three years under review was aggregate internal revenue out-turn less than 97 percent of internal revenue forecast in the original approved budget. (Score=A)</i>	<b>M1</b>
PI-4. Stock and monitoring of expenditure payment arrears	<b>C+</b>	<i>i) The stock of arrears is insignificant (less than 2 percent of total expenditure out-turn). (Score=A) ii) Data required on the stock of arrears have been generated by at least one comprehensive ad hoc exercise within the last two years of the period under review. (Score= C)</i>	<b>M1</b>
<b>B. Comprehensiveness and Transparency</b>			
PI-5. Classification of the budget	<b>A</b>	<i>i) Budget preparation and execution are based on administrative, economic, and sub-functional classification, using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards. (Score=A)</i>	<b>M1</b>
PI-6. Comprehensiveness of information included in budget documentation	<b>B</b>	<i>i) Recent budget documents satisfy five to six of the nine information criteria. (Score=B)</i>	<b>M1</b>
PI-7. Extent of unreported government operations	<b>C+</b>	<i>i) The level of unreported extra-budgetary expenditure (other than donor-funded projects) is insignificant (less than 1 percent of total expenditure). (Score=A) ii) Complete income/expenditure information for all loan-financed projects is included in fiscal reports. (Score=C)</i>	<b>M1</b>
PI-8. Transparency of inter-governmental fiscal relations	<b>C</b>	<i>i) The horizontal allocation of most transfers from central government (at least 50 percent of transfers) is determined by transparent and rules-based systems. (Score= B) ii) Reliable information to sub-national governments is issued before the start of their fiscal year, but too late for significant budget changes to be made.. (Score= C) iii) Fiscal information that is consistent with central government fiscal reporting is collected and consolidated for less than 60 percent (by value) of sub-national government expenditure OR if a higher proportion is covered, consolidation into annual reports takes place with more than 24 months delay, if at all. (Score= D)</i>	<b>M2</b>

<b>Indicator</b>	<b>Score</b>	<b>Explanation</b>	<b>Method</b>
PI-9. Oversight of aggregate fiscal risk from other public sector entities	<b>B</b>	<p>i) All major autonomous government agencies and public enterprises submit fiscal reports including audited accounts to central governments at least annually, and central government consolidates overall fiscal risk issues into a report. (Score=B)</p> <p>ii) The net fiscal position is monitored at least annually for the most important level of sub-national government, and central government consolidates overall fiscal risk into a report. (Score= B)</p>	<b>M1</b>
PI-10. Public access to key fiscal information	<b>A</b>	i) The Government makes available to the public, five to six of the six listed types of information. (Score=A).	<b>M1</b>
<b>C (i) Policy-based Budgeting</b>			
PI-11. Orderliness and participation in the annual budget process	<b>A</b>	<p>i) A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows ministries, departments and agencies reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time. (Score=B)</p> <p>ii) A comprehensive and clear budget circular is issued to ministries, departments and agencies, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to the ministries, departments and agencies. (Score= A)</p> <p>iii) The legislature has, during the last three years, approved the budget before the start of the fiscal year. (Score= A)</p>	<b>M2</b>
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	<b>C+</b>	<p>i) No forward estimates of fiscal aggregates are undertaken.(Score=D)</p> <p>ii) Debt sustainability analysis for external and domestic debt is undertaken annually.(Score=A)</p> <p>iii) Statements of sector strategies exist for several major sectors but are only substantially costed for sectors representing up to 25 percent of primary expenditure. (Score=C)</p> <p>iv) Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.(Score=C)</p>	<b>M2</b>

Indicator	Score	Explanation	Method
<b>C (ii) Predictability and Control in Budget Execution</b>			
PI-13. Transparency of taxpayer obligations and liabilities	<b>A</b>	<p>i) Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved. (Score=A)</p> <p>ii) Taxpayers have easy access to comprehensive, user-friendly and up-to-date information on tax liabilities and administrative procedures for all major taxes, and the revenue administration supplements this with active taxpayer education campaigns. (Score=A)</p> <p>iii) A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon. (Score =A)</p>	<b>M2</b>
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	<b>B+</b>	<p>i) Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations. (Score = B)</p> <p>ii) Penalties for all areas of non-compliance are set sufficiently high to act as deterrence and are consistently administered. (Score=A)</p> <p>iii) Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one major tax area that applies self-assessment. (Score = B)</p>	<b>M2</b>
PI-15. Effectiveness in collection of tax payments	<b>B+</b>	<p>i) The average debt collection ratio in the two most recent fiscal years was 75-90 percent and the total amount of tax arrears is significant. (Score = B)</p> <p>ii) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily. (Score =A)</p> <p>iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least quarterly within six weeks of end of quarter. (Score =B)</p>	<b>M1</b>
PI-16. Predictability in the availability of funds for commitment of expenditures	<b>C+</b>	<p>i) A cash flow forecast is prepared for the fiscal year, and is updated monthly on the basis of actual cash inflows and outflows. (Score=A)</p> <p>ii) MDAs are able to plan and commit expenditure for at least six months in advance in accordance with the budget appropriations. (Score = C)</p> <p>iii) Significant in-year budget adjustments are frequent, but undertaken with some transparency</p>	<b>M1</b>



Indicator	Score	Explanation	Method
PI-17. Recording and management of cash balances, debt and guarantees	<b>A</b>	<p><i>i) Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced at least quarterly. (Score = A)</i></p> <p><i>ii) All cash balances are calculated daily and consolidated. (Score = A)</i></p> <p><i>iii) Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity. (Score = A)</i></p>	<b>M2</b>
PI-18. Effectiveness of payroll controls	<b>B+</b>	<p><i>i) Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. (Score = B)</i></p> <p><i>ii) Up to three months' delay occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally. (Score = B)</i></p> <p><i>iii) Authority to change records and payroll is restricted and results in an audit trail. (Score = A)</i></p> <p><i>iv) A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise). (Score = B)</i></p>	<b>M1</b>
PI-19. Competition, value for money and controls in procurement	<b>B</b>	<p><i>i) Accurate data on the method used to award public contracts exists and shows that more than 75 percent of contracts above the threshold are awarded on the basis of open competition. (Score = A)</i></p> <p><i>ii) Other less competitive methods when used are justified in accordance with regulatory requirements. (Score = B)</i></p> <p><i>iii) A process exists for submitting and addressing procurement complaints, but it is poorly designed and does not operate in a manner that provides for timely resolution of complaints. (Score = C)</i></p>	<b>M2</b>
PI-20. Effectiveness of internal controls for non-salary expenditure	<b>C+</b>	<p><i>i) Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations (as revised). (Score=A)</i></p> <p><i>ii) Other internal control rules and procedures consist of a basic set of ruules for processing and recording transactions, which are understood by those directly involved in their application. (Score=C)</i></p> <p><i>iii) Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern. (Score=C)</i></p>	<b>M1</b>

<b>Indicator</b>	<b>Score</b>	<b>Explanation</b>	<b>Method</b>
PI-21. Effectiveness of internal audit	<b>C+</b>	<p><i>i) Internal audit is operational for the majority of central government entities (measured by value of revenue/ expenditure), and substantially meets professional standards. It is focused on systemic issues (at least 50 percent of staff time). (Score=B)</i></p> <p><i>ii) Reports are issued regularly for most audited entities and distributed to the audited entity, the Finance Ministry and the Supreme Audit Institution (SAI). (Score = B)</i></p> <p><i>iii) A fair degree of action is taken by many managers on major issues but often with delay. (Score = C)</i></p>	<b>M1</b>
<b>C (iii) Accounting, Recording and Reporting</b>			
PI-22. Timeliness and regularity of accounts reconciliation	<b>A</b>	<p><i>i) Bank reconciliation for all central government bank accounts takes place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period. (Score=A)</i></p> <p><i>ii) Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward. (Score = A)</i></p>	<b>M2</b>
PI-23. Availability of information on resources received by service delivery units	<b>B</b>	<p><i>i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across most of the country with information compiled into reports at least annually.(Score = B)</i></p>	<b>M1</b>
PI-24. Quality and timeliness of in-year budget reports	<b>B+</b>	<p><i>i) Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages. (Score=A)</i></p> <p><i>ii) Reports are prepared quarterly and issued within 6 weeks of end of quarter. (Score = B)</i></p> <p><i>iii) There are no material concerns regarding data accuracy. (Score = A)</i></p>	<b>M1</b>
PI-25. Quality and timeliness of annual financial statements	<b>D+</b>	<p><i>i) A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant. (Score = C)</i></p> <p><i>ii) If annual statements are prepared, they are generally not submitted for external audit within 15 months of the end of the fiscal year. (Score = D)</i></p> <p><i>iii) Statements are presented in consistent format over time with some disclosure of accounting standards. (Score = C)</i></p>	<b>M1</b>

Indicator	Score	Explanation	Method
<b>C (iv) External Scrutiny and Audit</b>			
PI-26. Scope, nature and follow-up of external audit	<b>D+</b>	<p>i) Central government entities representing at least 75 percent of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adhere to auditing standards, focusing on significant and systemic issues. (Score = B)</p> <p>ii) Audit reports are submitted to the legislature more than 12 months from the end of the period covered (for audit of financial statements from their receipt by the auditors); audited financial statements are presented to Parliament more than 12 months following the receipt of the statements by the external audit body. (Score = D)</p> <p>iii) A formal response is made, though delayed or not very thorough, but there is little evidence of any follow-up. (Score = C)</p>	<b>M1</b>
PI-27. Legislative scrutiny of the annual budget law	<b>B+</b>	<p>i) The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue s. (Score = B)</p> <p>ii) The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures. (Score=A)</p> <p>iii) The legislature has at least two months to review the budget proposals. (Score=A)</p> <p>iv) Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations. (Score=B)</p>	<b>M1</b>
PI-28. Legislative scrutiny of external audit reports	<b>D+</b>	<p>i) Scrutiny of audit reports is usually completed by the legislature within 6 months from receipt of the reports rts. (Score=B)</p> <p>ii) No in-depth hearings are conducted by the legislature. (Score=D)</p> <p>iii) No recommendations are being issued by the legislature. (Score=D)</p>	<b>M1</b>
<b>D. Donor Practices</b>			
D-1. Predictability of Direct Budget Support	<b>Not applicable</b>	<p>i) Budget support does not affect budget management. The criteria for assessing its predictability do not apply to the situation in Morocco. (Score=Not applicable).</p> <p>ii) Requirements for a score of C are not met. (Score=D).</p>	<b>M1</b>
D-2. Financial information provided by donors for budgeting and reporting on project and program aid	<b>D+</b>	<p>i) At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid at stages consistent with the Government's budget calendar and with a breakdown consistent with the Government's budget classification. (Score = B)</p> <p>ii) Donors do not provide quarterly reports within two months of end-of-quarter on the disbursements made for at least 50 percent of the externally financed project estimates in the budget. (Score = D)</p>	<b>M1</b>
D-3. Proportion of aid that is managed by use of national procedures	<b>B</b>	<p>i) Seventy-five percent or more of aid funds to central government are managed through national procedures. (Score=B).</p>	<b>M1</b>

## ANNEX 2: WORKSHEET FOR INDICATORS PI-1 & PI-2: EXPENDITURE OUT-TURN

### PI-1: Aggregate expenditure out-turn compared to original approved budget

The ability to implement the budgeted expenditure is an important factor in supporting the government's ability to deliver the public services for the year as expressed in policy statements, output commitments and work plans. The indicator reflects this by measuring the difference between actual primary expenditure compared to the originally budgeted primary expenditure (as defined in government budget documentation and fiscal reports). The definition of primary expenditure is that it excludes from total expenditure, two categories over which the government will have little control: debt service payments and donor-funded project expenditure.

Score	PI-1: Minimum Requirements (Scoring Method M1)
<b>A</b>	(i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.
<b>B</b>	(i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 % of budgeted expenditure.
<b>C</b>	(i) In no more than one of the last three years has the actual expenditure deviated from budgeted expenditure by more than an amount equivalent to 15% of budgeted expenditure.
<b>D</b>	(i) In two or all of the last three years did the actual expenditure deviate from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure.

### PI-2: Composition of expenditure out-turn compared to original approved budget

Where the composition of expenditure varies considerably from the original budget, the budget will not be a useful statement of policy intent. Measurement against this indicator requires an empirical assessment of expenditure out-turns against the original budget at a sub-aggregate level, specifically, the extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years. In order to be compatible with the assessment in PI-1, the calculation should exclude debt service and donor funded project expenditure.

Changes in overall level of expenditure (assessed in PI-1) will translate into changes in spending for administrative (and functional) budget lines. This indicator (PI-2) measures the extent to which reallocations between budget lines have contributed to variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditure. To make that assessment requires that the total variance in the expenditure composition is calculated and compared to the overall deviation in primary expenditure for each of the last three years.

Variance is calculated as the weighted average deviation between actual and originally budgeted expenditure calculated as a percent of budgeted expenditure on the basis of administrative or functional classification, using the absolute value of deviation.

As budgets are usually adopted and managed on an administrative (ministry/agency) basis, the administrative basis is preferred for assessment, and this is the basis used for the Morocco PEFA. At administrative level, variance shall be calculated for the main budgetary heads (votes) of ministries, independent departments and agencies, which are included in the approved budget. When the number of main budgetary heads exceed 20, as is the case in Morocco, the deviation should be calculated for the 20 largest heads (by amount) or for the largest heads that represent 75% of budgeted expenditure if the latter number of heads is larger than 20. The deviation for the remaining headlines should be done on an aggregated basis i.e. as if they constituted one budget head only.

The steps in calculation for each year are as follows:

- For each budget head that contributed to primary expenditure, calculate the deviation between actual expenditure and the original budget.

- Add up the absolute value of the deviations for all budget heads (absolute value = the positive difference between the actual and the budget figures).
- Calculate this sum as a percentage of the total budgeted primary expenditure.
- Deduct the percentage of overall primary expenditure deviation for each year (calculated for PI-1) to arrive at the number of percentage points by which expenditure composition variance exceeded overall expenditure deviation.
- Establish in how many years the percentage points exceeded 5 or 10; find the score in the PEFA scoring table:

Score	PI-2: Minimum Requirements (Scoring Method M1)
<b>A</b>	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by no more than 5 percentage points in any of the last three years.
<b>B</b>	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 5 percentage points in no more than one of the last three years.
<b>C</b>	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in no more than one of the last three years.
<b>D</b>	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in at least two out of the last three years.

(Preceding text reproduced from “PFM Performance Measurement Framework,” PEFA Secretariat, World Bank, June 2005, pp. 13-14.)

#### Results for Morocco : Summary table

Year	PI-1: Overall expenditure deviation (actual vs budgeted)	Variation in overall expenditure	PI-2: Points by which expenditure composition variance > overall expenditure deviation
2005	8.4 %	14.7 %	6.3 %
2006	2.4 %	9.0 %	6.6 %
2007	3.2 %	9.3 %	6.1 %

#### Annual Data for 20 main budgetary heads

##### 2005 ; DH millions

Budget head	(1) budget	(2) actual	3=(2)-(1)	(3) as % (1)
Education Ministry	31,077	38,499	7,422	23.9%
Operating overhead(a)	23,423	24,108	685	2.9%
Defence Ministry	22,203	21,156	1,048	4.7%
Interior Ministry	19,959	22,392	2,433	12.2%
Health Ministry	6,900	7,927	1,028	14.9%
Finance Ministry	6,228	7,834	1,606	25.8%
Transport Ministry	6,287	6,112	826	15.6%
Agriculture Ministry	4,655	5,791	1,135	24.4%
Investment overhead (b)	4,422	4,352	70	1.6%
Justice Ministry	2,772	2,900	127	4.6%
Royal Court	2,657	2,847	189	7.1%
Housing & Urban Dev. Ministry	1,938	1,892	46	2.4%
Rural Infrastructure, Water & Environment Ministry	1,898	1,672	227	12.0%
Communication Ministry	1,732	2,060	329	19.0%
Foreign Affairs Ministry	1,604	1,606	2	0.1%
Labor Ministry	984	1,034	51	5.2%
Sports Ministry	861	1,197	336	39.0%

Tourism & Artisans Ministry	812	820	8	1.0%
High Commisariat for Forests & Anti-desertification	745	1,046	301	40.4%
Prime Minister's Office	101	601	500	493.1%
All others	6,978	3,700	3,278	47.0%
<b>Overall expenditure deviation (actual vs budgeted)</b>	<b>147,236</b>	<b>159,546</b>	<b>12,309</b>	<b>8.4%</b>
<b>Variance in expenditure composition</b>	<b>147,236</b>	<b>159,546</b>	<b>21,647</b>	<b>14.7%</b>

| |= absolute value

(a) Finance Ministry : "charges communes, fonctionnement ;" (b) Finance Ministry: "charges communes, investissement."

### 2006 ; DH millions

Ministry	(1) budget	(2) actual	3=(2)-(1)	(3) as % (1)
Education Ministry	31,737	35,303	3,566	11.2%
Operating overhead(a)	23,860	24,667	807	3.4%
Defence Ministry	22,999	22,324	674	2.9%
Interior Ministry	22,139	23,370	1,231	5.6%
Health Ministry	7,069	7,374	306	4.3%
Finance Ministry	5,779	6,214	434	7.5%
Transport Ministry	5,092	5,054	38	0.7%
Agriculture Ministry	4,262	5,053	791	18.6%
Investment overhead (b)	6,071	6,534	464	7.6%
Justice Ministry	2,855	2,732	123	4.3%
Royal Court	2,704	2,818	114	4.2%
Housing & Urban Dev. Ministry	2,023	2,246	223	11.0%
Rural Infrastructure, Water & Environment Ministry	2,106	1,919	187	8.9%
Communication Ministry	1,774	945	830	46.8%
Foreign Affairs Ministry	1,649	1,799	150	9.1%
Labor Ministry	992	1,098	106	10.7%
Sports Ministry	853	979	126	14.7%
Tourism & Artisans Ministry	814	935	121	14.8%
High Commisariat for Forests & Anti-desertification	695	1,013	318	45.7%
Prime Minister's Office	1,819	1,010	809	44.5%
All others	5,739	3,332	2,406	41.9%
<b>Overall expenditure deviation (actual vs budgeted)</b>	<b>153,029</b>	<b>156,718</b>	<b>3,689</b>	<b>2.4%</b>
<b>Variance in expenditure composition</b>	<b>153,029</b>	<b>156,718</b>	<b>13,823</b>	<b>9.0%</b>

| |= absolute value

(a) Finance Ministry : "charges communes, fonctionnement ;" (b) Finance Ministry: "charges communes, investissement."

### 2007 ; DH millions

Ministry	(1) budget	(2) actual	3=(2)-(1)	(3) as % (1)
Education Ministry	34,269	37,095	2,826	8.2%
Operating overhead(a)	26,294	26,928	634	2.4%
Defence Ministry	24,477	25,472	955	4.1%
Interior Ministry	24,457	25,639	1,182	4.8%
Health Ministry	8,372	8,520	148	1.8%
Finance Ministry	5,861	7,653	1,791	30.6%
Transport Ministry	5,915	5,531	384	6.5%
Agriculture Ministry	5,481	5,919	438	8.0%
Investment overhead (b)	7,700	8,868	1,168	15.2%
Justice Ministry	2,901	3,059	158	5.5%
Royal Court	2,861	2,976	115	4.0%
Housing & Urban Dev. Ministry	2,186	1,089	1,097	50.2%
Rural Infrastructure, Water & Environment Ministry	2,440	2,261	179	7.3%

Communication Ministry	972	1,091	119	12.2%
Foreign Affairs Ministry	1,684	1,850	166	9.9%
Labor Ministry	1,015	1,078	63	6.2%
Sports Ministry	925	1,035	111	12.0%
Tourism & Artisans Ministry	932	918	14	1.5%
High Commisariat for Forests & Anti-desertification	772	1,073	300	38.9%
Prime Minister's Office	2,179	2,479	300	13.8%
All others	7,172	3,669	3,503	48.8%
<b>Overall expenditure deviation (actual vs budgeted)</b>	<b>168,864</b>	<b>174,201</b>	<b>5,337</b>	<b>3.2%</b>
<b>Variance in expenditure composition</b>	<b>168,864</b>	<b>174,201</b>	<b>15,691</b>	<b>9.3%</b>

| = absolute value

(a) Finance Ministry : "charges communes, fonctionnement ;" (b) Finance Ministry: "charges communes, investissement."

## **ANNEX 3. BUDGET CLASSIFICATION : ECONOMIC AND FUNCTIONAL STRUCTURE FOR EXPENDITURES**

Morocco's budget classification for expenditures is composed of an administrative classification, an economic classification, and a functional classification.

### **I.- ADMINISTRATIVE CLASSIFICATION :**

The administrative classification is defined in Art. 29 of the Organic Law for public finance which provides for classifying expenditures in the general budget under three headings : (I) operating expenditures, (II) investment expenditures, (III) public debt service.

The same article defines the presentation of general budget expenditures under these headings by chapter, subdivided into articles, paragraphs and lines, according to their purpose or nature.

**An article** corresponds to a service or an area of intervention. The number of codes in Art. 29 were expanded from two to four beginning in 2006 to allow addition of a regional dimension in the budget presentation (regional codes from 01 to 16).

**A paragraph** is reserved for designating the destination of the expenditure and corresponds to a mission, an action, or a project, that is assigned to a service unit or one of its parts.

**A line** indicates the nature of the expenditure within the framework of its mission, action or projet. Each line refers to a single economic nature for expenditure.

### **II.- ECONOMIC CLASSIFICATION :**

The economic classification of expenditures is designed to facilitate expenditure analysis by economic category. Since the economic nature of an expenditure is indicated by the budget line code, the economic code is associated with the line.

The economic code (4 positions and 10 classes) allows for aggregation of budget information within a macroeconomic framework and the analysis of interactions and financial flows of funds between central government and other economic actors. The ten classes in the economic code are:

0. Unassigned (non ventilées)
1. Staff/Personnel
2. Taxes and duties
3. Goods
4. Services
5. Operating subsidies and other current transfers
6. Financial charges
7. Equipment subsidies and other capital transfers
8. Fixed assets
9. Financial transactions

### **III.- FUNCTIONAL CLASSIFICATION :**

The functional classification uses codes based on classification of expenditures according to the areas in which the State is involved and was designed to allow costing of different missions undertaken by the administrative units (services). The functional code (2 positions and 10 classes) is associated with the paragraph level. The ten classes in the functional code are:

0. Unassigned (non réparties et non fonctionnelles)



1. Public authorities (executive, legislative, judicial) and general services
2. National defense
3. Education, professional training, staff training
4. Religion, culture, information and other recreational activities
5. Health
6. Other social activities
7. Agriculture, forestry, fisheries
8. Transport, communication and other economic infrastructure
9. Other economic activities

This functional classification is in accordance with the the UN Classification of the Functions Of Government or COFOG, both in respect to its concepts and definitions and also in its general architecture as illustrated in the table below :

COFOG		FUNCTIONAL CLASSIFICATION : MOROCCO	
<b>1</b>	<b>General Administration</b>	<b>1</b>	<b>Public authorities and general services</b>
1.1	Public authorities	11	Public authorities
1.3	General services	19	Other general services
1.4	Basic research	16	General research and studies
1.7	Public debt	01	Public debt amortisation
		02	Public debt interest payments and commissions
<b>2</b>	<b>Defense</b>	<b>2</b>	<b>National defense</b>
<b>3</b>	<b>Public order and security</b>	<b>13</b>	<b>Security and public order</b>
3.3	Justice	14	Justice
4.1	General affairs	12	General administration
4.2	Agriculture	7	<b>Agriculture, forestry and fisheries</b>
4.3	Energy	92	Energy and mining
4.4	Industry	93	Industry
4.6	Communication	44	Information
5.2	Water	87	Dams and water resources
6.1	Housing	97	Housing and urban affairs
6.2	Urban affairs	97	Housing and urban affairs
<b>7</b>	<b>Health</b>	<b>5</b>	<b>Health</b>
8.2	Cultural services	43	Culture
8.4	Religion	42	Religion
<b>9</b>	<b>Education</b>	<b>3</b>	<b>Education, professional training, and staff training</b>
9.1	Pre-primary and primary	32	Primary education
9.2	Secondary	33	Secondary education (general, technical, specialized)
9.4	Higher	35	Higher education

### ANNEX 4: SECTOR PROGRAMS, 2005-07

Department code	Ministry	Sector strategy	2005			2006			2007		
			Budget ref.	Total expend. (DH millions)	% of total	Budget ref.	Total expend. (DH millions)	% of total	Budget ref.	Total expend. (DH millions)	% of Total
6	Justice	Justice sector reform	1.3.2.2	2,623.49	2.53%	3.1.3.1	2,310.91	2.41%	-	2,633.69	2.54%
11	Education	Development of education and training	1.2.1.2	38,498.91	37.13%	3.1.3.2	35,302.68	36.81%	1.2.1.1.3	37,095.39	35.81%
						2.1.1.2.2 - 2.1.1.2.5					
12	Health	Health sector reform	1.2.1.1	7,208.72	6.95%	2.1.2.1	6,718.73	7.01%	1.2.1.2.1	7,602.61	7.34%
						3.1.3.3					
14	Tourism & Artisans	Tourism, Plan Azur, Artisans	3.6.1	764.64	0.74%	3.6.1	877.29	0.91%	1.1.2.3	865.21	0.84%
			3.6.2			1.3.1.4			1.1.3.2.1		
17	Infrastructure and Transport	Transport sector deregulation (liberalisation)	4.1.2	4,009.16	3.87%	-	3,187.01	3.32%	1.3.3.1	3,377.88	3.26%
20	Agriculture and Maritime Fisheries	Agriculture sector strategy, Rural promotion and equalization (mise a niveau)	1.2.5	4,887.51	4.71%	2.2.2	3,595.41	3.75%	1.2.2.2	3,835.82	3.70%
									1.1.2.4		
46	Rural infrastructure, water & environment	Rural infrastructure, Spatial development and Water sector strategy	1.2.6	1,500.05	1.45%	2.2.1	1,752.39	1.83%	1.2.2.1	2,015.51	1.95%
									1.3.3.2		
27	Energy and mining	Energy sector strategy	-	479.63	0.46%	1.3.1.3	458.95	0.48%	1.1.2.5	498.05	0.48%
28	Industry & Commerce	Plan for Growth (emergence) and textiles & clothing	-	315.53	0.30%	1.3.1.2	246.58	0.26%	1.1.2.1	222.93	0.22%
30	Deputy for Housing & Urban Affairs, Prime Minister's office	Public Housing Reform	1.2.1.3	847.66	0.82%	2.1.2.2	950.94	0.99%	1.2.1.2.2	615.37	0.59%
48	Social Development & Family Life	Quality of life for women and children	1.2.3	476.53	0.46%	-	422.08	0.44%	-	418.81	0.40%
		<b>Subtotal</b>		<b>61,611.83</b>	<b>59.43%</b>		<b>55,822.97</b>	<b>58.21%</b>		<b>59,181.27</b>	<b>57.13%</b>
		<b>TOTAL all expenditures except overhead</b>		<b>103,677.81</b>			<b>95,897.20</b>			<b>103,597.31</b>	

### ANNEX 5: VAT, INCOME & BUSINESS TAXES: ESTIMATED, ACTUAL AND COLLECTION RATES, 2005-07

	Tax	Billings (in DH)			Collections (in DH)			Collection rate		
		OUTSTANDING	CURRENT	TOTAL	Prior years	CURRENT	TOTAL	Prior year collections	Current year collections	Average
<b>2005</b>	<b>VAT</b>	7,500,262,753	36,659,970,323	44,160,233,076	1,040,266,306	35,244,959,996	36,285,226,302	14	95	80
	<b>IR</b>	5,220,386,158	22,406,578,462	27,626,964,620	736,877,834	21,274,862,347	22,011,740,181			
	<b>IS</b>	5,672,824,769	21,924,999,346	27,597,824,115	715,473,508	20,465,335,131	21,180,808,639			
	<b>TOTAL</b>	<b>18,393,473,680</b>	<b>80,991,548,130</b>	<b>99,385,021,811</b>	<b>2,492,617,648</b>	<b>76,985,157,474</b>	<b>79,477,775,121</b>			
<b>2006</b>	<b>VAT</b>	7,875,006,774	42,957,289,930	50,832,296,705	993,545,308	41,386,778,764	42,380,324,072	14	96	81
	<b>IR</b>	5,615,224,439	23,121,357,077	25,736,581,516	981,187,027	22,107,653,505	23,088,840,532			
	<b>IS</b>	6,417,015,476	25,917,634,363	32,334,649,839	846,771,763	24,621,537,848	25,468,309,611			
	<b>TOTAL</b>	<b>19,907,246,689</b>	<b>91,966,281,371</b>	<b>111,903,526,060</b>	<b>2,821,504,097</b>	<b>88,115,970,116</b>	<b>90,937,474,214</b>			
<b>2007</b>	<b>VAT</b>	8,451,972,633	53,204,591,127	61,656,563,760	1,740,745,764	51,489,946,371	53,230,691,134	16	96	83
	<b>IR</b>	5,647,740,984	24,910,208,010	30,557,948,994	949,863,655	23,488,706,522	24,438,570,177			
	<b>IS</b>	6,866,340,229	32,154,743,443	39,021,083,672	731,178,104	31,016,387,011	31,749,565,115			
	<b>TOTAL</b>	<b>20,966,053,846</b>	<b>110,269,542,581</b>	<b>131,235,596,427</b>	<b>3,421,787,523</b>	<b>105,997,038,904</b>	<b>109,418,826,427</b>			

Notes : For the outstanding (reste a recouvrer) and billings (prises en charges), the data apply to the TGR tax collectors (percepteurs) and DGI fiscal administration receveurs. For collections, the data apply to those same collectors and receveurs and also to customs duties receveurs.

## ANNEX 6 : INFORMATION SOURCES

<b>Table number</b>	<b>Source</b>	<b>Unité</b>
Table 2.1. Public finances	Finance Ministry, author calculations	Percentage of GDP
Table 2.2. Budget allocations by sector (operating and investment)	Finance Ministry, author calculations	Percentage of total expenditure
Table PI-1. Total budget allocation and expenditure excluding debt service	Budget Directorate, calculated on basis of draft budget review acts for 2005, 2006, 2007	million Dirhams
Table PI-2. Variance in expenditure in budget allocation vs out-turn excluding debt service	Budget Directorate, calculated on basis of draft budget review acts for 2005, 2006, 2007	million Dirhams
Table PI-3. Actual total revenue out-turn compared to original approved revenue estimates	Budget Directorate statistics	million Dirhams
Table PI-8. Local government budget changes	Budget Directorate activity reports for 2006 and preliminary report for 2007.	million Dirhams
Table PI-9. Financial data for public enterprises and establishments	Draft budget act for 2008, report on the public enterprise sector	million Dirhams
Table PI-11. The budget cycle	Budget Directorate	Calendar dates
Table PI-14. Growth in the number of taxpayers, 2005-2007	Tax Directorate statistics	number
Table PI-15. General budget revenue : budget act forecast and actual collections	Budget acts, 2005, 2006, 2007	million Dirhams
Table PI-19. Value and number of contracts by procurement method, 2005-7	Procurement Directorate, Treasury	Percentage
Table PI-21 (1). Work program for IGF, 2005-07	IGF statistics	Number & percentage
Table PI-21 (2). IGF reports forwarded to Court of Accounts, 2006 et 2007	IGF statistics	Number
Table PI-25. Dates of budget review act submission to Court of Accounts and publication, 2000-06	Budget Directorate, based on budget review acts for 2000 - 2006	Calendar dates
Table PI-27. Amendments to the budget with in-year legislative approval	Budget acts, 2005 - 2007	million Dirhams
Table D-1. International budget support	Budget Directorate statistics	million Dirhams

## ANNEX 7: LIST OF PEFA DISCUSSION PARTICIPANTS

SURNAME, FIRST NAME	ENTITY	TITLE
JOUAHRI ABDELLATIF	BANK AL-MAGHRIB	GOVERNOR
ABOUZAID BRAHIM	SENATE (CHAMBRE DES CONSEILLERS)	FINANCE COMMISSION PRESIDENT
AAMAR CHEIKH	HOUSE (CHAMBRE DES REPRESENTANTS)	PRESIDENT DE LA COMMISSION DES FINANCES
MIDAOUI AHMED	COURT OF ACCOUNTS	PREMIER PRESIDENT
DAHI KHALIL	BENSLIMANE URBAN COMMUNE	COMMUNE PRESIDENT
LOUDIYI ABDELTIFF	GENERAL SECRETARIAT, FINANCE MINISTRY	SECRETARY GENERAL
BENNANI ABDELLATIF	BUDGET DIRECTORATE	DIRECTOR
TAZI MOHAMED SAMIR	BUDGET DIRECTORATE	ASSISTANT TO BUDGET DIRECTOR
KABBAJ MOHAMED	BUDGET DIRECTORATE	ASSISTANT TO BUDGET DIRECTOR
CHAIBI HAMID	BUDGET DIRECTORATE	ASSISTANT TO BUDGET DIRECTOR
SETTI ABDELKRIM	BUDGET DIRECTORATE	DIVISION CHIEF
HADDAD MOHAMED	BUDGET DIRECTORATE	DIVISION CHIEF
BENJELLOUN AMINE	BUDGET DIRECTORATE	DIVISION CHIEF
AMAR HASSAN	BUDGET DIRECTORATE	SERVICE UNIT HEAD
RHAZRI HICHAM	BUDGET DIRECTORATE	SERVICE UNIT HEAD
CHERKAOUI FAROUK	BUDGET DIRECTORATE	SERVICE UNIT HEAD
ARJDAL BRAHIM	BUDGET DIRECTORATE	FINANCE INSPECTOR
CHORFI ZOUHAIR	DIRECTORATE OF TREASURY AND EXTERNAL FINANCE	DIRECTOR
MME ZAABOUL FOUZIA	DIRECTORATE OF TREASURY AND EXTERNAL FINANCE	ASSISTANT DIRECTOR
HAJOUR AHMED	DIRECTORATE OF TREASURY AND EXTERNAL FINANCE	DIVISION CHIEF
BENNANI EL MOSTAFA	DIRECTORATE OF TREASURY AND EXTERNAL FINANCE	SERVICE UNIT HEAD
TAZI AHMED	TAX DIRECTORATE (DGI)	DIRECTOR
MIFDAL SAID	TAX DIRECTORATE (DGI)	DIVISION CHIEF
CHAFIKI MOHAMED	DIRECTORATE OF STUDIES AND	DIRECTOR

FINANCIAL FORECASTING		
EL GHRIB ABDELKADER	DIRECTORATE OF STUDIES AND FINANCIAL FORECASTING	DIVISION CHIEF
BOURIS AHMED	TREASURY	DIRECTOR
CHAGOU ABDELAZIZ	TREASURY	DIRECTOR
GUIRI ABDELKRIM	TREASURY	ASSISTANT TO DIRECTOR
BOUTAKBOUT ABDELMAJID	TREASURY	DIVISION CHIEF
MME TAHRI AMAL	TREASURY	DIVISION CHIEF
MME ALAOUI ABDELLAOUI SAADIA	CUSTOMS ADMINISTRATION	DIRECTOR
GHAZALI MOHAMMED	CUSTOMS ADMINISTRATION	DIVISION CHIEF
TALBI ABDELAZIZ	DIRECTORATE OF PUBLIC ENTERPRISES AND PRIVATIZATION	DIRECTOR
SEMMAR ABDERRAHMANE	DIRECTORATE OF PUBLIC ENTERPRISES AND PRIVATIZATION	DIVISION CHIEF
KHEYYALI ABDELHAMID	DIRECTORATE OF PUBLIC ENTERPRISES AND PRIVATIZATION	DIVISION CHIEF
CHFIRA ABDELKRIM	DIRECTORATE OF PUBLIC ENTERPRISES AND PRIVATIZATION	SERVICE UNIT HEAD
MESLAHI ABDELWAHED	DIRECTORATE OF PUBLIC ENTERPRISES AND PRIVATIZATION	DIVISION CHIEF
YOUSSEFI MEHDI	DIRECTORATE OF PUBLIC ENTERPRISES AND PRIVATIZATION	DIVISION CHIEF
FARAJ OMAR	DIRECTORATE OF ADMINISTRATION	DIRECTOR
EL BARKI THAMI	DIRECTORATE OF INSURANCE AND SOCIAL SECURITY	DIRECTOR
EL BARIE DRISS	MINISTRY OF INFRASTRUCTURE AND TRANSPORT	DIVISION CHIEF
JANANI AHMED	INSPECTOR GENERAL'S OFFICE	FINANCE INSPECTOR
AZEBA CHAFIK	INSPECTOR GENERAL'S OFFICE	FINANCE INSPECTOR
IBOUCH	BENSLIMANE PROVINCIAL HEALTH DELEGATION	PROVINCIAL HEAD (DELEGUE)
WAFIKI	BENSLIMANE PROVINCIAL HOPITAL	DIRECTOR
EL GUEZZAR	DIRECTORATE OF LOCAL GOVERNMENT	DIRECTOR