Morocco

Type of state	Unitary
State / regional government level *(number)*	Regions (12)[1]
Local general government levels *(number)*	Prefectures (13) Provinces (62) Municipalities (1,538)
Total subnational liabilities, 2021 (state/regional + local)	MAD 24.4 billion, (USD 2.57 billion eq.)
Local government outstanding liabilities, *% of total subnational 2021*	Not reported
Total subnational liabilities growth, *CPI adjusted[2], 2018 to 2021*	60%
Local government *liabilities growth, CPI adjusted[3], period 2016-2021*	Not reported

Legal & regulatory environment	• Subnational governments are allowed to borrow from domestic and foreign lenders using a variety of instruments • The Ministry of Interior and Ministry of Finance must approve all subnational government debt issuances • No legally based borrowing limits for subnational governments[4]
Borrowing readiness	• Subnational governments carried out almost 20% of the country's public capital investments in 2021, but both expenditure assignments and capacity to raise revenue remain low[5] • Intergovernmental transfers follow a transparent formula and are a predictable source of revenue • Some subnational governments have low levels of transparency[6]
Macro credit conditions	• Currency peg of the dirham to a "currency basket" of the euro and US dollar[7] • IMF rates Morocco as having a low level of financial development[8]

Highlights

- Limited autonomy of local governments regarding revenue mobilization and expenditure assignments are obstacles to both borrowing and lending[9]
- In Morocco, local government borrowings have been mostly limited to loans from the Communal Equipment Fund (FEC), although there are no legal restrictions that prevent local governments borrowing from other financial institutions
- The subnational government organic laws ensure the registration of the debt service payments as a compulsory expenditure.

Borrowing legal & regulatory environment

Overview: The Kingdom of Morocco is divided into regions, prefectures and provinces, and municipalities. The 2011 Constitution and the 2015 Organic Laws for each government level give regions a prominent role in economic and social development.

While several responsibilities have been transferred to local governments, the Ministry of Interior and the Ministry of Finance retain some control over decisions taken by the local councils through the *tutelle*[10] (constitutional oversight of the Ministry of Interior) on a series of measures. For example, the preparation and execution of sub-national budgets remains under the supervision of the central government. All sub-national budgets need to be submitted to and approved by the central government before they can be approved by the local assemblies. The *tutelle* also requires the use of budget surpluses generated during capital budget implementation to be pre-approved.

In addition to own revenue and central government transfers, the Communal Equipment Fund (FEC) (a financial institution fully owned and managed by the Government to support regional development) has been set up by the central government to partially fill investment gaps at the local level.

Transfers and shared taxes represented over 80% of total subnational revenue in 2021 and subnational governments carried out almost 20% of total public investment (a share that is expected to increase in the coming years as part of ongoing decentralization).[11] Subnational expenditures represent only 11.6% of public expenditure and 3.4% of GDP in 2021. Subnational revenue grew by 13% 2020-2021, ordinary expenditures rose by 2% and investment by 1.5%.

Soon after the adoption of the Constitution of 2011, three organic laws, for each subnational government level, were adopted in June 2015. These are organic law No. 111-14 relating to the Regions, organic law No. 112-14 concerning the Prefectures and Provinces and Organic Law No. 113-14 for Municipalities. The organic laws defined more precisely the territorial organization and the division of powers and established a distinction between three categories of revenues: own revenues, shared revenues and transferred revenues.

Borrowing framework & process: Subnational governments in Morocco can borrow through a variety of instruments including bonds and from both domestic and foreign lenders and in domestic and foreign currency. However, every loan is tied to a specific project[12] and needs to be approved by both the Ministry of Finance and the Ministry of Interior.

Subnational government borrowing at all levels of government is regulated by Law No. 78-00 on the municipal charter,[13] by Law No. 45-08 on the organization of local authorities' finances and their associations and by the organic laws. Under Law No. 78-00 (Article 47), the Chairman of the council of the borrowing entity approves all loans contracted by local authorities and Law No. 45-08 provides in its article 33 that local authorities' borrowing operations are subject to the joint approval of the Minister of the Interior and the Minister of Finance.

Up to 2015, subnational governments were only allowed to borrow from the FEC. The 2015 organic laws have opened other borrowing channels and subnational governments are now allowed to borrow from both domestic and foreign sources including in foreign currency.[14] In addition, the organic laws ensured the registration of debt service as a compulsory expenditure. Furthermore, the subnational organic laws require multiannual expenditure frameworks, quarterly reporting, harmonized budget classification, and program and performance budgeting that will allow for targeted monitoring.[15]

In June 2017, the national government issued three decrees (one per subnational government level) setting the rules governing borrowing transactions at the three levels of subnational government. These three Decrees,[16] have set for the three levels of subnational governments the terms and conditions for borrowing and the rules for drawing up loan contracts.[17]

Borrowing restrictions: There are very few constitutional limits and regulations on borrowing, but the FEC imposes several limits and restrictions for lending. Since most borrowing is still done through the FEC, its restrictions apply to most subnational borrowing.

<u>General restrictions:</u>
Government restrictions:

- Golden Rule: borrowing is restricted to the financing of investment projects
- In accordance with the organic laws, the operating budget of a local authority can only be balanced or in surplus.
- Approval of both Ministry of Finance and Ministry of Interior required for all investment loans

FEC restrictions (from FEC General Policy Statement):

- All lending to subnational governments is tied to a specific project
- The proposed project must maintain a ratio of operating revenue to operating cost (not including depreciation) higher than 60%
- Subnational governments must contribute 20% of the project capital cost
- Project revenue must be sufficient to cover debt service
- Subnational governments must demonstrate capacity to implement the project.

<u>Debt limits:</u>
The Government of Morocco does not impose debt limits *per se* on subnational governments, but since virtually all borrowing is contracted with the FEC, subnational governments must follow its borrowing limits:

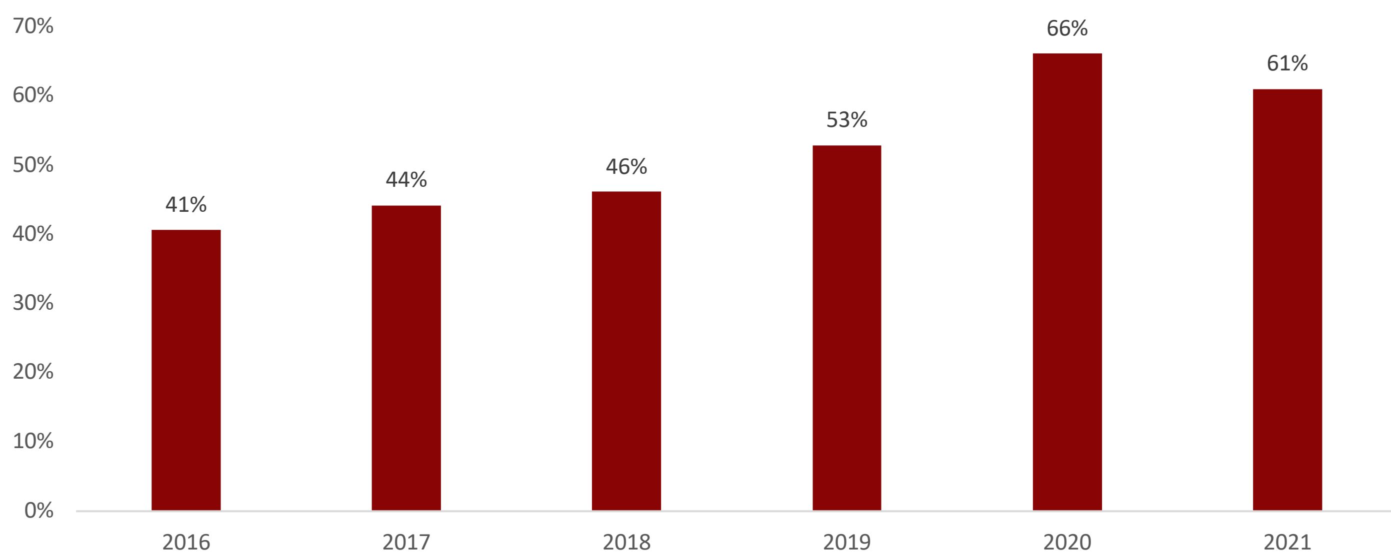
- The ratio of total debt service to operating revenue should be less than 40%[18]

Borrowing incentives / credit enhancements: Debt service payments associated with subnational government borrowing must be treated as mandatory expenditures. There are no regulations concerning Central government revenue intercepts for subnational governments debt repayment, but the Ministry of Interior must approve the budget, and debt service is a priority expenditure. Although this oversight of budgetary commitment does not guarantee against default—since expenditures related to debt service still need to be authorized at the local level—it does make default less likely.

Debt management

Aggregate debt levels: Subnational debt in Morocco are a small share of public debt and an even smaller share of GDP. In 2021, subnational debt stock amounted to 25.4 billion dirham (USD 2.8 billion) and accounted for 2.1% of GDP and 2.8% of public debt. Subnational debt stock as a percentage of total subnational revenues was 61% in 2021 and has been increasing every year since 2016 with a small decrease in 2021 (Figure 1). The Central Bank of Morocco reports total debt stock of subnational governments and the FEC reports outstanding loans from current and previous years per level of government. Total subnational FEC loans issued in 2021 amounted to 3.8 billion dirhams (USD 309 million) which accounted for 18% of total subnational governments investments. Subnational debt stock has grown by 60% in real terms since 2016.

Figure 1: Ratio of subnational governments debt to revenue from 2016 to 2021



Sources: Central Bank (Banque Centrale du Maroc) Bank Al-Maghrib

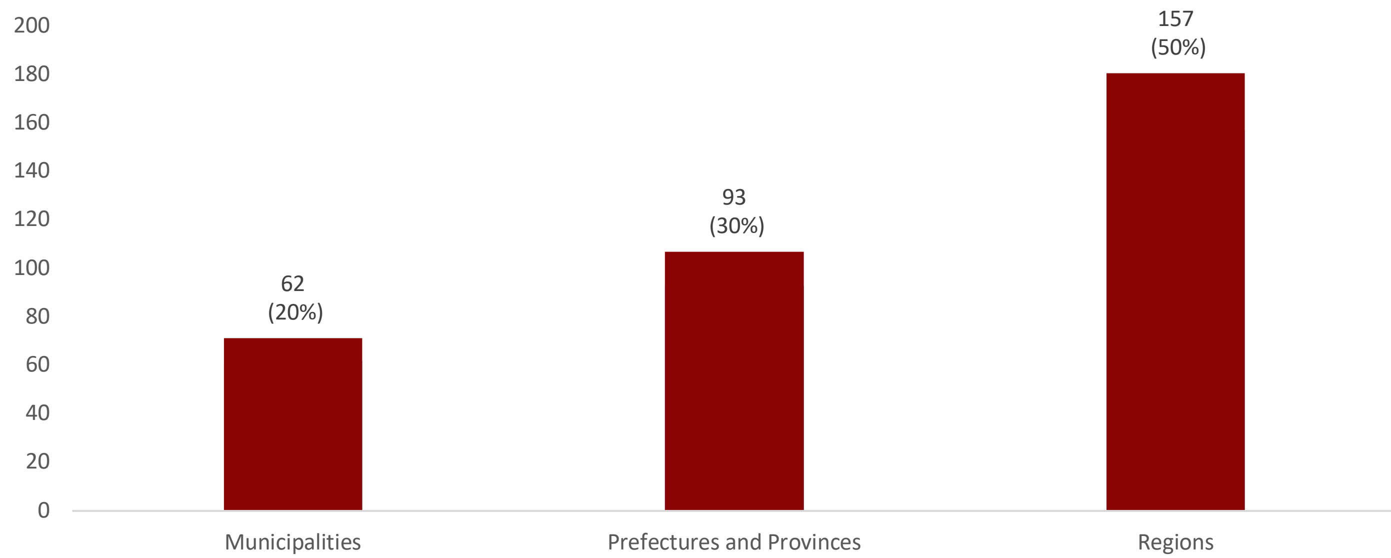
Lenders and types of instruments: The Communal Equipment Fund (FEC) is the subnational governments' main lender. The FEC is a state-owned bank and is the main source of financing for local authorities. It also provides technical assistance and contributes to the strengthening of local expertise and the promotion of local development. The interest rates applied to the FEC loans are either fixed or variable (mostly variable). The loan can be spread over a maximum period of 15 years, depending on the nature of the projects and the capacity of the borrowers. As can be seen from Figure 2, the principal recipients from the FEC loans are the prefectures, provinces, and regions. Municipalities accounted for 20% of new loans in 2021. Most subnational borrowings in Morocco have been earmarked for specific infrastructure investments. Roads and urban improvements accounted for more than 71% of the projects that FEC financed in 2021.

In December 2017, the World Bank approved a USD 200 million loan to the Municipality of Casablanca guaranteed by central government to improve the investment capacity, business environment, and availability of basic services in the city. This was the World Bank's first sub-national lending operation in Morocco in two decades and in June 2022, the World Bank approved a USD 100 million loan in additional financing.

Subnational governments have also borrowed from the IFC in recent years to finance infrastructure projects without sovereign guarantee. In 2020, the IFC provided a USD 100 million loan in infrastructure-related financing to Region Casablanca-Settat, most notably for the expansion of Casablanca's tram system. This initiative marked the first time a subnational government raised commercial financing without a sovereign guarantee.

In December of the same year, the IFC approved a USD 30 million loan to support road infrastructure projects as well as COVID-19 response in the Region Fes-Meknes.

Figure 2: Local government borrowing (new loans) from FEC by government level (2021) (USD million and borrowing share)



Sources: FEC, 2020

Use of Special Purpose Entities and Public-Private Partnerships*:* In Morocco, state-owned enterprises (SOEs) realize on average 60% of public investment.[19] In 2003, Act No. 69-00 on State Financial Control of Public Enterprises divided SOEs into public establishments and public companies subject to private law. SOEs are classified as:

- i) state companies fully owned by the government;
- ii) companies of which the government owns more than 50% of equity; and
- iii) semi-public companies of which the government holds no more than 50% of equity.[20]

Out of 241 SOEs in 2012, 119 were local or regional in scope and 34 were wholly or partially owned by local authorities. Act 69-00 also created the Department of Public Enterprises and Privatization (DPEP) to oversee SOEs. The creation of the DPEP allowed for easy auditing of SOE corporate activity and monitoring of contracts the SOEs reward. In 2011, Morocco enacted laws that require regular mandatory disclosure of SOE corporate activity and SOEs now disclose their financial statements and are audited by the Moroccan Court of Accounts for accuracy and compliance.[21] National and subnational infrastructure SOEs benefit from state budget support in at least two ways. Infrastructure SOE loans from external creditors have been supported with guarantees from the national Treasury. Furthermore, reimbursement of SOE loans is assured, at least in part, through the national budget, for example through operating subsidies if the gross operating surplus generated from user fees is insufficient to cover the entire debt service.

In regard to PPPs, Law No 54-05 "Concerning contracts for the delegated management of public services or infrastructure as concluded by municipal authorities or public enterprises" ("Concession Law") was enacted in 2006. The Law governs the contracts between subnational governments and private investors (both domestic and foreign). The main subnational sectors covered by the concession law are waste collection, urban transport and public lightning.[22]

Transparency & open data: Three decrees[23] set the subnational government accounting principles as well as the budget rules and the execution of revenue and expenditure operations. Subnational governments are undergoing a reform of public accounting which provides for a standardization of subnational governments accounts, aligned with the universal standards of IPSAS. It is not clear, however, whether these standards have been adopted uniformly across the financial reporting of subnational governments.

The 2015 organic laws on regional, provincial and municipal governments mandated an annual financial audit of all subnational governments. However, this objective is challenging for municipalities because of the limited capacity of the local auditing institutions that must complete the audit.[24]

The General Treasury of the Kingdom (TGR), as the accounting agent for local governments, has detailed information publicly available on its website. It produces and publishes (in its Monthly Bulletin of local finance statistics) a monthly summary statement of local government transactions.

Subnational debt data, however, is not made public by the TGR or other government institutions. Debt data broken down by level of government is only reported for 2 years at the time (current and previous year) by the FEC for the loans it provides to subnational governments in its annual report. The Central Bank publishes subnational governments aggregate borrowing stock in its annual country level reports.

Official, publicly available statistics on liabilities and borrowing

Item	***Total liabilities***	***Total liabilities breakdown by level of government***	***Sources of borrowing breakdown***	***Borrowing instruments breakdown***
Official source(s)	Central Bank (Banque Centrale du Maroc) Bank Al-Maghrib	Not reported[25]	Not reported	Not reported
Latest update; (periodicity)	2021 (annual)	N/A	N/A	N/A

Financial & debt management: Moroccan subnational governments are required to keep a balanced budget. In 2021, the overall surpluses generated by the budgets of local authorities were 3.4 billion dirhams (USD 378 million) and previous years were 44.4 billion dirhams (USD 4.9 billion). These surpluses are pledged to cover planned and committed expenses for the previous years that have not been paid.[26]

In 2021, interest payment on outstanding debt averaged 4% on the balance which represented 2.5% of subnational revenue while total debt stock accounted for 61%. While subnational government debt is below the FEC legal limits, it does not necessarily mean that local authorities are able or willing to borrow more. In its report (2011), the Consultative Committee[27] on the Advanced Regionalization found that subnational governments are unable to use all their revenues.[28]Although decisions to borrow are within the competence of the local councils, their execution is still conditional on the approval of the Ministry of Finance and Interior. The report of the Consultative Committee on the Advanced Regionalization refers, among others, to the high cost of borrowing and the complexity of budgetary procedures as well as insufficient human, technical and financial resources necessary for the design and execution of investment projects as obstacles to borrowing.[29]

Also, low debt levels can possibly be affected by low supply and low demand. On one hand subnational governments' low transparency and limited autonomy in revenue mobilization hamper the interest of lenders; on the other, low implementation capacity, low own revenue, high cost of debt and the prudential rules established by the FEC (debt ratio below 40%, among other criteria) might hinder borrowing demand. Furthermore, subnational governments limited autonomy in revenue mobilization and expenditure pose another obstacle on borrowing demand.

Finally, the local government delinquency rate is less than one per cent and largely corresponds to delays in repayment due to expenditure processes that are generally highly regulated.[30]

Subnational government finances: key ratios (2021)				
Level of government	***Total liabilities, % of total revenue***	***Borrowing (loans & bonds), % of total reported liabilities***	***Debt service, % of total expenditures***	***Operating surplus, % of total revenue***
Local (Prefectures + Provinces + Municipalities)	Not reported	Not reported	2.3%	-1%
All sub-national governments (Regions + Prefectures + Provinces + Municipalities)	61%	100%[31]	2.5%	0.8%

Source: WB CCI-LGBD

Main legal provisions	
Approved lenders:	Domestic, foreign, international financial institutions (Public banks, commercial banks, etc.)
Instruments:	Loans and bonds[32]
Central govt guarantee:	Issuance of guarantees by the Chairman of the Board is done on a case-by-case basis after authorization by the Board council and approval by the Minister of the Interior and the Minister of Finance.
Revenue intercept(pledge) of government transfers:	There are no regulations concerning Central government revenue intercepts, but debt service payments associated with subnational government borrowing must be treated as obligatory and priority expenditures recorded in local budgets.
Insolvency framework:	No insolvency framework currently exists in case of subnational government default.
Accounting basis:	Accrual accounting. The standard relating to financing debts is established in accordance with international accounting standards in force for the public sector, in particular the IPSAS 5 titled “Borrowing costs".
Credit rating requirements for borrowing:	No credit rating is required for borrowing and no municipality has been rated so far.
Debt capacity limit:	No
Debt service limit:	FEC regulation: the ratio of total debt service to total ordinary resources should be less than 40%

Reporting of contingent liabilities:	The measurement and disclosure of contingent liabilities are carried out in accordance with international accounting standards applicable to the public sector, in particular IPSAS 19 entitled "Provisions, Contingent Liabilities and Contingent Assets". A contingent liability is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Significant legal and regulatory instruments	
Constitution (2011)	Lays out the decentralization reforms' key provisions
Laws	
Law n° 45-08 (2009)	Establishes the organization of the finances of local authorities and their groupings
Organic Law n° 111-14 regarding regions (2015)	The regions Organic Law was adopted in June 2015 to define more precisely the territorial organization and the division of powers
Organic Law n°112-14 concerning prefectures and provinces (2015)	The prefectures and regions Organic Law was adopted in June 2015 to define more precisely the territorial organization and the division of powers
Organic Law n°113-14 regarding municipalities (2015)	The municipalities Organic Law was adopted in June 2015 to define more precisely the territorial organization and the division of powers
Decrees	
Decree n° 2.17.294 (2017)	Establishes the rules governing borrowing operations contracted by the regions.
Decree n° 2.17.295 (2017)	Establishes the rules governing borrowing operations contracted by the prefectures and provinces.
Decree n° 2.17.296 (2017)	Establishes the rules governing borrowing operations contracted by the municipalities.

Organizational roles and responsibilities: debt	
National govt. regulatory & process	
Minister of Interior	The Minister of the Interior oversees loan approval applications from local authorities.
General Treasury of the Kingdom (*Trésorerie Générale du Royaume* (TGR))	The TGR is a department of the Ministry of Finance. Through its network of treasurers and collectors, the TGR manages the budgets of 1,590 local authorities, 77 groups and 41 districts. The TGR recovers their debts, settles their expenses and pays their staff. TGR is responsible for the following missions: • Preparation of the draft budget • Presenting a report on the execution of the budget • Assist the Board in establishing income and expenditure forecasts.

Court of Account (Cour des comptes) and Regional Courts of Account (Cours régionales des comptes)	The Court of Account controls the execution of finance laws. The Regional Courts of Accounts audit subnational governments financial accounts.
Main lenders	
Communal Equipment Fund (FEC).	The FEC is a bank subject to the supervision of the central government and is the main source of financing for local authorities. It also provides technical assistance[33] and contributes to the strengthening of the local expertise and the promotion of local development.

Sources

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Notes

[1] CCI-LGBD examines borrowing at the local government level. In most countries, this can be broken up into regional governments and local governments. In Morocco's case, "local governments" includes all 13 Prefectures, 62 Provinces and 1,538 Municipalities.
'I adjusted numbers with 2016 as base year: www.worldbank.org/en/research/brief/inflation-database
[3] CPI adjusted numbers with 2016 as base year: www.worldbank.org/en/research/brief/inflation-database
[4] The FEC imposes its own limits to borrowers
[5] World Bank. 2018
[6] Cour de Comptes. 219

[7] IMF, 2018
[8] IMF, 2018
[9] WB, 2018
[10] Preventive vigilance of the State
[11] IMF, 2018
[12] As required by the FEC
[13] Amended and supplemented by Law No. 01-03 and Law No. 17-08
[14] IMF, 2018
[15] IMF, 2018
[16] (i) Decree No. 2-17-294 setting the rules governing borrowing operations contracted by the Regions, (ii) Decree No. 2-17-295 setting the rules governing borrowing operations contracted by the Prefectures or Provinces and (iii) the decree No. 2-17-296 setting the rules governing borrowing operations contracted by the Municipalities
[17] The decrees were inaccessible during the desk research process.
[18] WB-PEFA, 2016 and FEC, 2020
[19] IMF, 2018
[20] Semar, 2012
[21] Cheung, 2019
[22] OECD, 2010.
[23] Decree No. 2.17.449 dated November 23, 2017 relating to accounting of the regions and their groupings; Decree No. 2.17.450 dated November 23, 2017 relating to the public accounts of the prefectures and provinces and their groupings; Decree No. 2.17.451 in date of November 23, 2017 relating to the public accounting of municipalities and establishments of cooperation between municipalities.
[24] World Bank, 2019
[25] FEC reports the last two years of subnational governments loans
[26] TGR, 2020
[27] Commission consultative de la régionalisation, Rapport sur la régionalisation avancée, Livre III « La Régionalisation avancée au service du développement économique et social », p. 6.
[28] Badri, 2019
[29] Badri, 2019
[30] FEC, 2020
31 Credit allocated by conventional banks and financing from banks and participatory windows
[32] While there is no restriction on subnational bond issuance, no subnational bond has been issued to date.
[33] Mainly for the identification and implementation of urban infrastructure investments in municipalities

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