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Advancements in the Moroccan SMEs' Financing Ecosystem

Catalysing SME Development through Funding strategic Investment.

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Abstract

This study provides a comprehensive contextual analysis of the Moroccan SME financing landscape, with a particular focus on addressing the undercapitalization issue as a significant barrier to their growth and sustainability. The research fills a gap in understanding how the structural limitations and unique characteristics of Moroccan SMEs hinder their ability to access and effectively utilize financial resources, particularly within the traditional banking system. The primary goal of the study is to critically evaluate the predominant reliance on bank credit for SME financing, identifying the challenges posed by risk perceptions, information asymmetries, and the constraints imposed by monetary policy and banks' regulation. The study utilizes a rigorous evaluation of both traditional and alternative financing mechanisms, such as participatory banks, the stock market, and private equity. It also includes an overview of the increasing role of public actors and the forms and intensity of government support provided to Moroccan SMEs. The findings offer actionable policy recommendations aimed at enhancing the effectiveness of the SME financing ecosystem. Our study emphasizes the need for targeted government interventions and institutional reforms while proposing future research directions to build on the insights gained from this analysis.

Keywords: SMEs financing; Bank credit, alternative financing; Public support; subsidies and direct aids; Public guarantee schemes

1. Introduction

A key feature of SMEs worldwide is the significant part they hold in the fabric of economies, and Morocco is certainly not an exception, with them accounting for more than 93% of businesses in the country, employing a large proportion of the population, dominating all sectors and regions, and playing a vital role in the development of activities and ecosystems. In this context, Moroccan policymakers lunched a variety of support and assistance policies for SMEs, aiming primarily to enhance the contribution of these companies, recognized for their significant yet unexploited potential, to achieve the strategic objectives outlined in the New Development Model[1], which constitute the country's strategic roadmap since its introduction (Koura et al, 2022; Cardarelli and Koranchelian, 2023). However, Moroccan SMEs are characterized by a number of flaws that threaten their long-term survival and counteract them from reaching high levels of growth and development (Nouna and Ait Soudane, 2019; Benyetho, Dinedine and Missaoui, 2020; Hefnaoui and Ben Darkawi, 2020; Oudgou, 2020).

These challenges encompass, among others, undercapitalization, intense competition from well-established large corporations, and a lack of transparency and credibility in the eyes of external stakeholders, particularly those capable of providing the financial resources necessary for SMEs to develop and enhance their resilience. As a result, SMEs suffer from a sever undercapitalization, that stop them from reaching higher growth levels, and menacing their survival in a dynamic environment.

Understandably, every business needs to modernize, renew, and increase its production capacity, making investment a vital necessity (Radas et al., 2015; Chokey Wangmo, 2016; Koura, Boudhar and Oudgou, 2022; Van Song et al., 2022; OECD, 2024). However, the financing deficit is one of the main reasons why SMEs do not invest and develop in Morocco (Diamane and Koubaa, 2014; Mouhallab and Jianguo, 2016; Hefnaoui and Ben Darkawi, 2020). In a study conducted by the High Commission for Planning, more than two-thirds of Moroccan company managers identified access to finance as a significant barrier to their business development. This issue is particularly acute for SMEs, with 69% of them reporting difficulties in securing financial resources (HCP, 2019). Furthermore, based on a detailed analysis of the Moroccan financing ecosystem, we attest the presence of a variety of instruments available for SME managers to finance their investment projects (Koura, Boudhar and Oudgou, 2022;

[1]The New Development Model is a document, that sets out a national ambition by 2035, and charts a realistic and achievable path for change. This ambition would allow the country to reach a new level of inclusive and sustainable growth.

OMTPME, 2023). The primary financing instruments in Morocco are internal funding and bank credit, while other mechanisms, which significantly contribute to SME development in other countries, play only a limited role.

This article aims to provide a comprehensive analysis of the Moroccan SME financing landscape. It seeks to elucidate the current state of SMEs concerning their financing practices and identify the key stakeholders intervening to provide the proper financing to this population of enterprises. Furthermore, it aims to explore the financial instruments designed to facilitate the growth and development of the Moroccan SME population. The remainder of this paper is organized as follows; Section 2 provides a comprehensive overview of Moroccan SMEs in relation to financing. Subsequently, section 3 offers an in-depth analysis of the banking system and the challenges SMEs face in accessing bank credit. Afterward, section 4 discusses the alternatives to traditional credit provided by the financing ecosystem, including participatory financing, the stock market, and private equity. Finally, Section 5 presents an overview of the policy mix designed to support SMEs, detailing the various stakeholders involved and the programs they have implemented.

1. The Financial Standing of SMEs: Current Challenges and Opportunities

Access to financing significantly impacts firms' growth, affecting different indicators in various ways. Well-capitalized SMEs often see substantial increases in staff numbers because they can afford to hire and retain employees (Beck and Demirguc-Kunt, 2006). Moreover, access to external financing can boost sales growth by enabling market expansion and product development (Beck, Demirgüç-Kunt and Maksimovic, 2008). A balanced capital structure also enhances net operating profit growth by reducing financing costs, reflecting the insights of Modigliani and Miller's theory, which highlights the tax advantages of debt (Nunes, Gonçalves and Serrasqueiro, 1958). Furthermore, a strong financial foundation supports added value growth through increased investment in innovation and efficiency improvements (Hall and Lerner, 2010). Moreover, (Nunes, Gonçalves and Serrasqueiro, 2013) assert that external financing, particularly debt, plays a crucial role in achieving high growth levels, especially for young SMEs.

Broadly speaking, access to financing depends on several parameters which have been discussed in the financial literature, such as size, age, sector, turnover, tangible assets and ownership (Nunes, Gonçalves and Serrasqueiro, 1958; Rigar and Achy, 2005; Beck, Demirgüç-Kunt and Maksimovic, 2008; Beck, 2013; Chokey Wangmo, 2016; Rahj, 2016; Omoshagba and Zubairu, 2018; Jansen et al., 2023). These variables define the degrees of risk, credibility,

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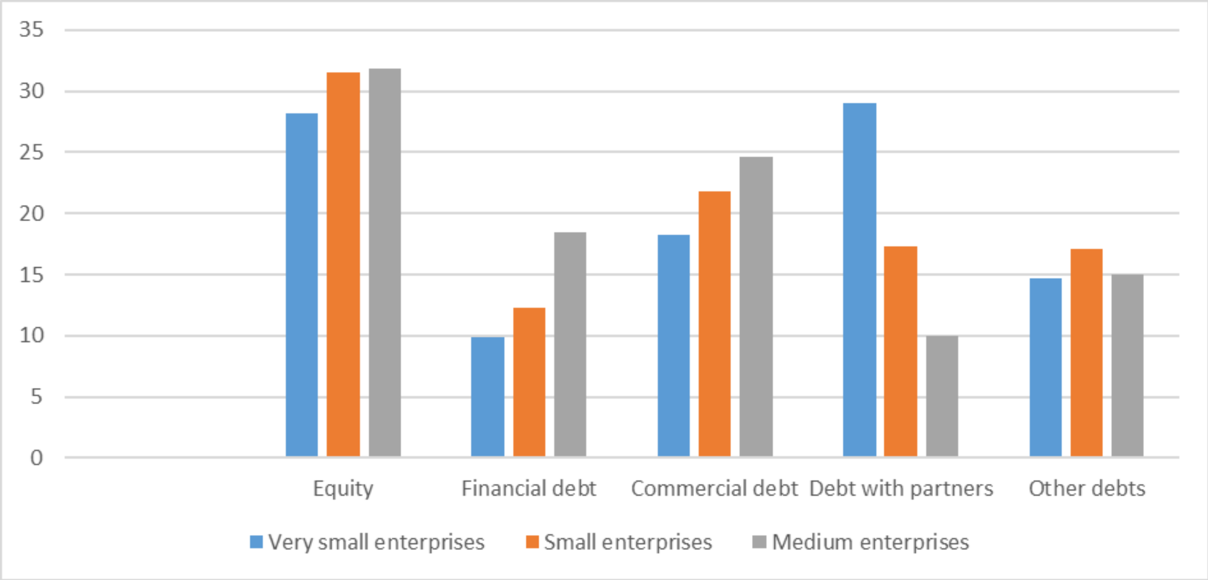
information asymmetry and solvency perceived by lenders towards companies, and determine whether the company will benefit from financing or not, and if so, the cost and conditions for granting it. Information asymmetries, refer to the disparity between the information available to companies seeking credit and the suppliers of funds who are usually assumed to be at an information disadvantage. Information asymmetry can have two origins: it can stem either from one partner having more information than the other, or from the costs of obtaining information and the latter probably lead to the phenomenon of credit rationing(Berger and Udell, 2006; Ngongang, 2017).

In this context, SMEs face significant difficulties in accessing external funds due to their specific characteristics, which set them apart from larger firms in terms of transparency, credibility, reputation, risk, and information asymmetries. This phenomenon, known as *"The liability of smallness",* illustrates the inherent limitations of SMEs, in terms of resources and capacities. Consequently, these vulnerabilities hinder their ability to secure necessary funding, posing a substantial challenge to their growth and sustainability (Chokey Wangmo, 2016; Lefebvre, 2022). These issues significantly impact the financial structure of SMEs, particularly affecting their liabilities. Therefore, equity capital and partner loans, often through partners' current accounts, dominate SME resources and typically compensate for shortfalls in working capital. Figure 1 provides an overview of the Moroccan SMEs' capital structure. Financial debts comprise bank loans, while trade debts are inter-company loans, consisting of payment terms extended by suppliers.

This apparent reliance is partly due to the challenges of accessing formal financial markets and the stringent requirements imposed by Moroccan banks (Hachimi, Salahddine and Housni, 2017; Oudgou and Zeamari, 2019; Zizi, Oudgou and Moudden, 2020; Koura, Boudhar and Oudgou, 2022). In fact, Personal equity allows SMEs' managers to bypass these barriers and retain control over their business. Furthermore, the vast majority of Moroccan SMEs are family businesses, and the literature shows that family businesses, which prioritize maintaining control or aim to pass the company on to the next generation, tend to avoid using external financing (Jabeen et al., 2021; Jansen et al., 2023; Muñoz-Bullón, Sanchez-Bueno and Velasco, 2023).

Figure 1: Components of Financial Structure of Moroccan SMEs (%)



Source: Author's work based on data from the annual report of "l'Observatoire Marocain De La TPME"

2. The Role of the Banking System and Its Challenges in Facilitating SME Financing

2.1. Bank Credit: The Highly Sought-After Yet Often Inaccessible Financing Option for Moroccan SMEs

The most preferred external financing by Moroccan SMEs is bank credit (Mohamed and Alae, 2021). With the right funding in terms of amount and conditions (interest rate and time), these businesses can invest in new technologies, expand their operations, and manage their cash flow more effectively, which has a significant impact on their growth and competitiveness (Ayuba and Zubairu, 2015). However, credit is a double-edged sword, as many SMEs struggle with high collateral requirements, tough lending criteria, and high interest rates (Berger and Udell, 2006; Ngongang, 2017; Le, Nguyen and Vo, 2023).

This preference for bank credit is due to several critical factors. Firstly, the financial market's contribution to SME financing is relatively modest, limiting the availability of alternative funding sources. Secondly, there is a weak involvement of equity investors, which reduces the opportunities for SMEs to secure investment capital. Additionally, governmental financing programs, while potentially advantageous, are not yet widespread or easily accessible, posing another barrier for SMEs. Consequently, bank loans remain the primary and relatively the "most" accessible form of external financing for Moroccan SMEs. However, for banks, granting loans is constrained by several factors, including prudential regulations, capital requirements, the scarcity of resources, and monetary policy. These constraints push banks to rationalize their processes and selectively engage in ventures that promise higher returns with minimal risk. As a result, banks became more cautious and conservative in their lending practices, often favouring larger, more established businesses over SMEs, which are perceived as riskier investments.

Furthermore, researchers have shown that a company's size reflects the degree of information asymmetry it represents. Large listed companies are required to disclose information publicly, while small companies have no obligation to do so. On the other hand, reputation refers to the information accumulated over the company's life cycle, and can be likened to a proxy for morality. These two variables are grouped together to measure the impact of monitoring and information costs on debt structure (Mialocq, 2018). According to the latest OMTPME survey, the rate of access to bank financing for Moroccan businesses shows significant disparities, as, in 2018, large enterprises benefited from 60.5% of the total outstanding loans granted to all companies, with the remaining share divided between Medium Enterprises (MEs), Small Enterprises (SEs), Very Small Enterprises (VSEs) and microenterprises at 14.2%, 12%, 4.1% and 9% respectively.

Besides, many SMEs lack the necessary collateral that banks demand as security for loans. Also, their often-limited credit histories make it difficult for banks to assess their reliability. High transaction costs and strict regulatory requirements add to the burden, making the loan application process complex and time-consuming. Moreover, many SMEs struggle with poor financial management and inadequate record-keeping, which can make it hard to present a solid financing demand to lenders. Additionally, the gap in information between banks and SMEs also plays a role, as banks might not fully understand the potential and operations of these smaller businesses.

Additionally, in order to improve their decision process, banks use credit bureaus and registries, providing relevant information about borrowers. This helps reduce information asymmetries and enhances banking competition by diminishing lenders' monopoly on credit information. Consequently, banks have a comparative advantage over the stock exchange market in financing certain types of borrowers who require detailed information, particularly SMEs. This comparative advantage leads to imperfect substitutability between bank financing and other funding sources for SMEs. It implies that the availability of bank financing itself can influence the real decisions of SMEs, such as investment, expansion, or even hiring (Armstrong et al., 2013; Faiez and Vijayendra, 2019).

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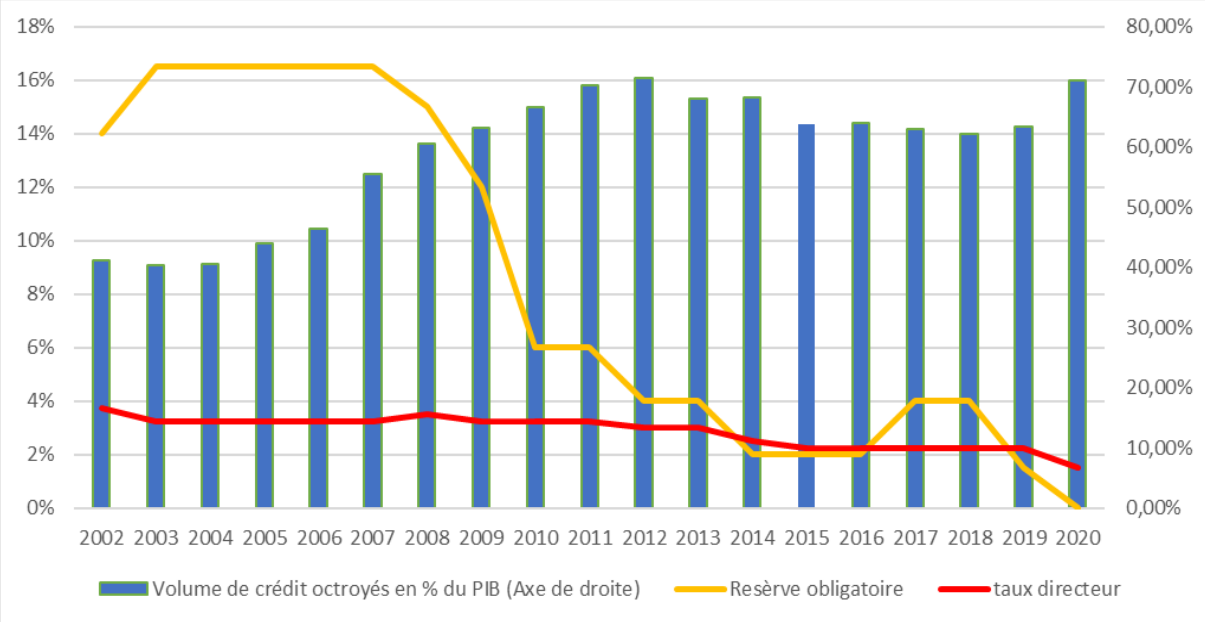
2.2.Adjusting Monetary Policy and Encouraging Banks to Fund SMEs

Broadly speaking, the main objective of all monetary policy tools is to set an optimal interest rate that encourages investment, stimulates economic growth, and reduces unemployment by increasing the volume of credit granted, while simultaneously preserving purchasing power through controlling inflation (Lin, He and Yang, 2021). With such a delicate task, decision-makers tend to choose the right policy by aligning themselves with the government's prioritized objectives, and the national and international macroeconomic context in which the decision is taken. Therefore, governments tend to favour some issues over others. Conventional monetary policies mainly include setting interest rates, adjusting reserve requirements according to the needs of the economy, and conducting open market operations by selling and buying treasury bills from banks in order to increase or reduce the money supply in circulation, depending on the objectives of governments and the situations they face (Lin, He and Yang, 2021). Therefore, when a country adopts an expansionary monetary policy, it tends to encourage the granting of credit by the banking system. However, when a government applies a restrictive monetary policy, banks tend to ration credit more severely, given the scarcity and high cost of financial resources, and consequently limit the granting of credit to various economic agents, especially SMEs because of the risks they display (Giaretta and Paltrinieri, 2017).

In the Moroccan context, since the early 2000s, the country has adopted an expansionary monetary policy aligned with its key socio-economic objectives. These objectives include achieving sustainable economic growth, fostering entrepreneurship and investment, creating jobs, minimizing the trade deficit through import substitution, and enhancing exports. Such strategic foresight aimed to encourage commercial banks to extend more credit by providing them with a variety of financing sources at favourable costs. This was achieved through a reduction in the key interest rate, which decreased from 3.75% in 2002 to 1.50% in 2021, and a drop in the required reserve ratio from 14% in 2002 to 0% in 2020. These measures significantly impacted the lending activities of Moroccan commercial banks, as illustrated in (Figure 2). The impacts of Moroccan monetary policy affect all economic agents. However, SMEs have significantly benefited from these decisions. A study conducted by Bank Al-Maghrib in 2019 examined the impact of the central bank's monetary policy decisions on the indebtedness of non-financial companies, considering their individual characteristics such as age, size, profit, and collateral ((Bennouna, Chmielewski and Doukali, 2019).

Figure 2: Evolution of Key rate, minimum reserve ratio and volume of loans granted as a percentage of GDP



Source: Author's work based on data from the World Bank & Bank Al-Maghrib

Bennouna, et al, (2019) demonstrated through their analysis of the financing sources of Moroccan companies that the financial structure is widely dependent on firm's size. Their findings reveal that the leverage ratio, measured by equity over total liabilities, is quite similar across different groups, averaging between 30% and 40%. However, debt levels vary significantly by company size. Large enterprises and SMEs tend to rely more on formalized financing compared to VSEs, which are more inclined to seek debt from associates. Additionally, it should be noted that trade credits play a significant role across all categories. Bennouna, et al, (2019) assert the existence of a correlation between monetary policy and the debt levels of Moroccan firms. Specifically, a 100-basis point reduction in the interbank rate would lead to a 0.04 percentage point increase in the financial debt ratio. By size, the impact of this reduction is relatively more significant for SMEs compared to large enterprises. However, the results of this study show that companies' responses to monetary policy decisions remain heterogeneous and depend, among other factors, on the company's available collateral available to the company, its profitability, and size. SMEs, in particular, tend to substitute bank credit with trade credit and debt from associates in response to a potential increase in credit costs.

2.3.Banking Regulations and Credit Rationing

The granting of credit and banking regulation are two highly correlated practices. Regulations set by central banks directly impact the ability of commercial banks to extend credit to various

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economic agents. Depending on the stringency of these regulations, banks may become more or less risk-averse, affecting their solvency requirements and the collateral they demand from loan applicants. It should be noted, that these issues relate primarily to the SMEs population (Ngongang, 2017). In Morocco, as in most countries adhering to Basel regulations, the cyclical effect of capital requirements on credit is exacerbated by the introduction of time-varying risk weights, as outlined in Basel II. This has made capital requirements even more procyclical, leading to a reduction in the supply of credit during economic downturns and an oversupply during recoveries. These challenges have been further amplified by the introduction of risk weighting in the calculation of regulatory capital (Armstrong *et al.*, 2013). Impact studies and simulations conducted under the Basel Committee's guidance have all shown that this new framework should enable banks to achieve greater capital savings for equivalent risk compared Basel II (Britel and Khlifa, 2016).

Britel and Khlifa, (2016) further note that the shift of the Moroccan banking system from standard approaches to IRB approaches may lead to discrimination against certain categories of poorly rated companies, even with equivalent risk, compared to the Basel I agreement. Specifically, while the differentiation of credit conditions is desirable under Basel II, a tightening of these conditions may adversely affect a large population of SMEs with what can be termed “normal risk” profile. Moreover, there is empirical evidence of the impact of these risk-weighted capital requirements. In the United States, for example, during the credit tightening period of the early 1990s, small banks reduced their loan portfolios more significantly than large banks, which had a greater effect on the economy. In the context of Basel III discussions on strengthening capital and liquidity requirements, the issue of SME financing constraints has been raised again (Beck, 2013). While it is not certain that higher capital requirements will necessarily lead to a reduction in loans to SMEs, the risk-weighting system under the new Basel regime tends to favour large enterprises over smaller ones. For example, a company rated AAA is assigned a risk weight of 20%, whereas an unrated SME is assigned a weight of 100% or 75%. This results in significantly higher capital charges for loans to SMEs compared to those granted to large, well rated companies.

3. Exploring Alternative Financing Solutions: Beyond Traditional Bank Credit

The current solutions provided by the banking system to SMEs fall short of addressing the specific challenges faced by these enterprises particularly those in the start-up or growth phases. Without an established credit history, SMEs are often deemed less attractive by conventional banks, which perceive them as significant risks. Consequently, the economic environment and the barriers encountered by SMEs when applying for funding from traditional banks have driven these businesses to explore alternative financing methods, such as participatory banking.

3.1.Participatory Financing

Participatory banking, fundamentally, operates as a financial intermediary based on the principle of profit and loss sharing (PLS). This system is referred to as "participatory" because it involves investors entrusting their capital to entrepreneurs and business owners, sharing profits according to a pre-agreed ratio, and collectively assuming any losses. This approach reflects the principle of *“Al Ghonm Bel Ghorm”*, which emphasizes the balance of risk and reward (Mohieldin, 2012; Mourad, 2022). Beyond the services offered by participatory banks to SMEs, these institutions provide tailored financial products designed to address the varying needs of businesses at different stages of their lifecycle. The financing of SMEs by Islamic financial institutions can be evaluated according to three key criteria: investment, profitability, and risk. These criteria highlight the distinct features of participatory banks compared to their conventional counterparts.

Moreover, the principles underlying Islamic finance encourage these banks to invest in small businesses, thereby stimulating economic growth (Iqbal and Mirakhor, 2013). In Morocco, the integration of participatory banking into the financial system is intended to foster competition between conventional and Islamic banks, thereby alleviating the financing challenges faced by SMEs (Mustafa and Maqsoud, 2023). Reflecting this strategic shift, Bank Al-Maghrib recently approved five applications to establish participatory banks and permitted three additional banks to offer participatory products, with operations slated to begin in the second half of 2017. Unlike conventional banks, which often impose rigid conditions on SMEs for credit approval, participatory banks adopt a more flexible approach. They ease financing conditions by offering less stringent collateral requirements, often prioritizing the entrepreneur’s reputation over tangible assets.

However, while participatory banks offer significant advantages for SMEs, they are not without its challenges. One of the primary concerns is the relative novelty of participatory banking in Morocco, which leads to a lack of widespread understanding and acceptance among entrepreneurs and the general public. This unfamiliarity can result in hesitancy among SMEs to engage with these financial institutions, thereby limiting their potential impact. Furthermore, the regulatory framework governing participatory banks is still evolving, which can create uncertainties and operational challenges for these institutions. Moreover, the reliance on profit and loss sharing introduces a higher level of risk for both the bank and the SME, which may

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deter some businesses from pursuing this type of financing, especially in a volatile economic environment. These factors highlight the need for continued development and adaptation of participatory banking to better serve the Moroccan SME sector.

3.2.An Inaccessible Stock Market

Globally, stock markets provide companies with necessary resources to finance their development and enhance their growth' metrics, offering access to diversified and advantageous funding. However, Morocco's stock market has a marginal impact on overall firm financing, particularly for SMEs. The Casablanca Stock Exchange has a small number of listed companies compared to most MENA countries, with only 75 adherents versus Iran's 369 and Jordan's 277 (Figure 3). This weakness is primarily due to the dominance of financial intermediation and the family-run nature of Moroccan companies, whose managers are often reluctant to open their capital to the public. Additionally, the structure of the stock market itself does not incentivize smaller companies to list. This creates a cycle where SMEs, which could benefit greatly from stock market financing, are underrepresented, further limiting the market's growth and overall impact on the economy (El Bouazizi, 2021).

In this context, CSE established a dedicated segment for SMEs in 2000, recognizing the unique characteristics of these businesses that necessitate their separation from larger ones, particularly regarding entry conditions, fundraising, and financial reporting obligations. However, the contribution of this segment remains modest to this day, whether in terms of capital openings, bond issues, or fundraising through equity.

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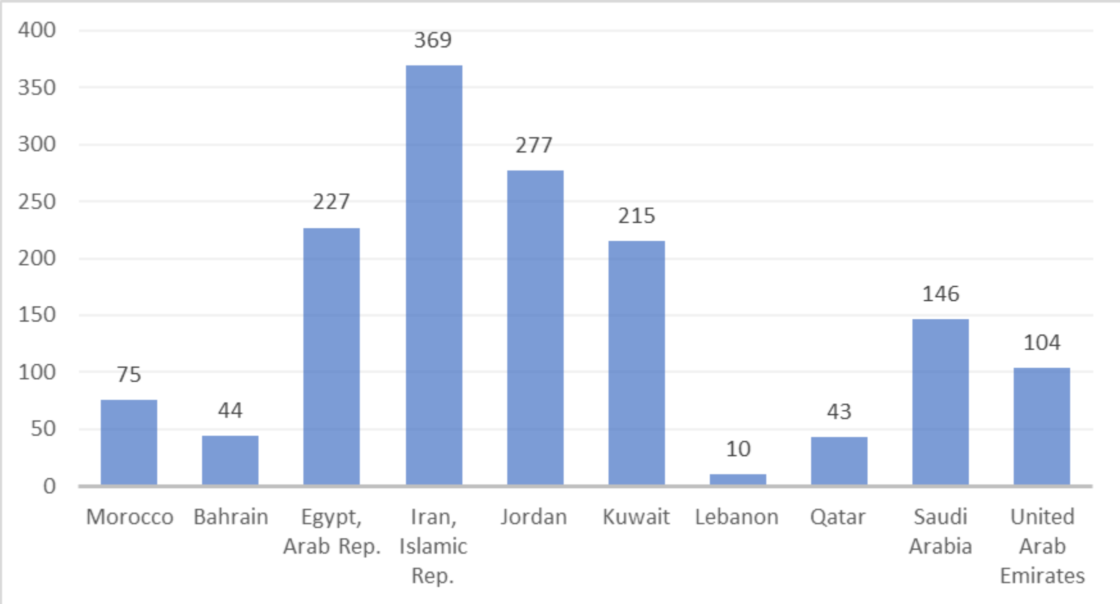
Figure 3: Number of Listed Companies by Country – MENA region[2]



Source: Author's work based on data gathered from the World Bank official site

CSE consists of five markets: three equity markets, a bond market, and a fund market. Each market targets a specific category of enterprises and requires adherence to certain standards for access (Table 1).

Table1: Conditions for admission on the Casablanca Stock Exchange

	Principal market	Development market	Growth market
Minimum amount to be issued	75 MDH	25 MDH	10 MDH
Minimum number of shares to be issued	250 000	100 000	30 000
Number of certified financial years	3	2	1

Source: Official site of Casablanca Stock Exchange

These access conditions, which can be seen as restrictive and discriminatory, are not met by the vast majority of Moroccan companies. The requirements such as minimum fundraising amounts and the certification of financial statements, are only fulfilled by a minority of companies. As a result, SMEs are largely unable to take advantage of the diverse financing sources offered by

[2] Data for Algeria, Iraq, Libya, Syrian Arab Republic and Yemen weren't available in the official site

CSE. In addition to economic reasons that explain the limited contribution CSE in financing SMEs, there are sociocultural, institutional, and technical factors that prevent their managers and owners from going public. One key factor is the family-run nature of these businesses, which significantly influences their financing decisions. These closed enterprises are often reluctant to open their capital to external parties. However, despite the unique characteristics of family-owned businesses, which are often criticized for their strong inclination toward discretion, numerous studies have paradoxically shown that publicly listed family firms tend to outperform non-family businesses financially. This makes them attractive opportunities for investors, offering potential gains, particularly in the long term, and presenting lower risks compared to the broader market (Azzouzi and Haoudi, 2020).

3.3.Private Equity: A Promising and Evolving Financing Alternative

Private equity is a relatively recent practice in Morocco, particularly when it comes to financing SME development. While it presents a promising alternative to traditional banking, and the slowly progressing CSE, the adoption of private equity in the Moroccan SME sector, just like any other financing alternative, faces several constraints. The prospect of ceding equity and control to external investors can be daunting for Moroccan SMEs managers, which may prefer maintaining family ownership over pursuing rapid expansion. Additionally, the profiles of SME managers in Morocco, who may lack experience with complex financial instruments, pose further challenges. These managers might be hesitant to engage with private equity due to concerns about transparency, governance changes, and the long-term implications for their business.

Despite these challenges, private equity remains a critical tool for driving growth and modernization in sectors where traditional financing is insufficient. As the private equity market continues to develop, it will be essential to address these constraints by building awareness, providing education, and creating tailored solutions that align with the unique needs and cultures of Moroccan SMEs. As seen in the graph below, there has been a noticeable increase in both the number of firms receiving investments and the total invested amounts through private equity schemes, especially in 2023, highlighting a rising trend in private equity engagement with SMEs in Morocco (figure 4).

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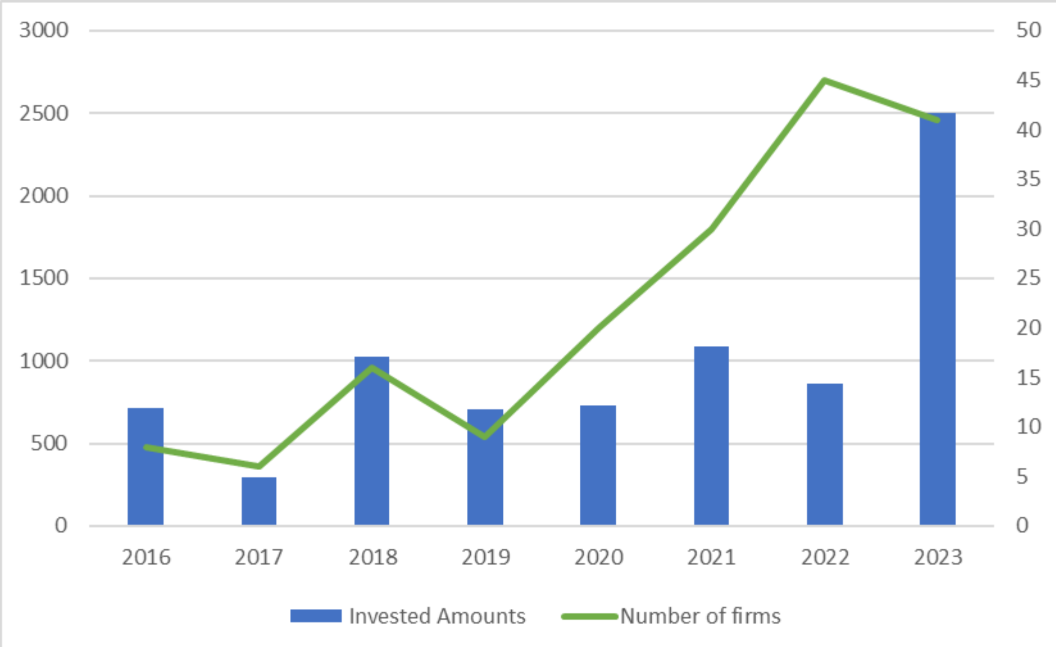
Figure4: The Evolution of the Financing Amounts and Beneficiary Firms of Private Equity Schemes



Source: Author's work based on data from AMIC

4. Public Support

4.1.Mobilization of a Wide Range of Actors

Recent research underscores the positive impact of support and financing policies on SMEs' growth, and highlights the importance of continuous help from governments (Salder *et al.*, 2020; Liu *et al.*, 2022; Musabayana, et al, 2022; Van Song *et al.*, 2022). By implementing effective policies, policymakers can ensure that SMEs play a dynamic and integral part in their economies.

South Korea is a great example of how government's support can significantly influence SMEs growth and, by extension, the entire country's development. Over the years, South Korea went from one of the poorest nations in the 1960s to the world's 12th largest economy by 2012. This noteworthy evolution is largely due to the progressive and significant contribution of SMEs, which represent 99.9% of all businesses in the country and employ 87.7% of its workforce. Since 1979, South Korean policymakers have put their faith on SMEs, and considered them as key drivers of economic growth and have been supporting them accordingly (Laeven, 2002; Doh and Kim, 2014; Hamilton and Beck, 2016). Similar to SMEs globally, Korean SMEs primarily rely on bank loans to finance their diverse operations. To help them out, the Government has been providing financial assistance, both directly through subsidies and aids,

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and indirectly through credit guarantee schemes. On top of financial support, the Government's moral persuasion and accommodations have also played a big role in creating a favorable environment for these businesses to thrive[3].

The policy mix dedicated to Moroccan SMES financing contains a wide range of policies and programs, the main aim of which is to help these firms access the financing they need, to enhance their growth and development. Therefore, the financing ecosystem is characterized by the significant presence of public actors. Ministries as well as entities acting under their supervision, public operational bodies, State investment funds, and many other public and private institutions are mobilizing their efforts, and intervening in different ways, according to their areas of specialization, their targets and their objectives, within the framework of this multisectoral strategy, so that this policy mix, provides concrete solutions to this problem. Table 2 provides a presentation of the actors intervening in the SMEs financing ecosystem.

Table 2: Overview of the Key Actors Implicated in the SMEs Financing Ecosystem

Actor	Date of creation	Legal form	Roles
Ministry of Investment, Convergence, and Policy Evaluation			Improve investment and consolidate the foundations for economic recovery, in line with the Royal Guidelines and the New Development Model.
Ministry of Economic Inclusion, Small Business, Employment, and Skills			Proposing, and monitoring the application of legislation and regulations relating to work, employment, SMEs and self-employed entrepreneurs

[3] For example, in 2009, following the *subprime* crisis, banks were asked to extend loans to viable SMEs. Support for small businesses increased in the wake of this financial crisis, while large groups were forced to restructure. Public opinion is very much in favor of these interventions, as SMEs are seen as being at a disadvantage in competition with the chaebols

Ministry of Industry and Trade			The design and transmission of public policies aimed at supporting SMEs to reach higher levels in terms of: - Sales achieved on the local or export market, job creation, and the creation of added value - Introduction of new technologies, or any type of impact on strategic business lines
National Company for Business Guarantee and Financing (SNGFE)	1949	Public financial institution	Encourage financial backers to finance SMEs, by ensuring to support the losses, in case the SME benefiting from the guarantee fail to honour its obligations to the lender.
General Confederation of Moroccan Enterprises (CGEM)	1947	Employers' organisation	Representing SMEs vis-à-vis third parties, they defend their interests and negotiates with the government on various points including the financing and its cost.
Moroccan Confederation of Micro, Small and Medium Enterprises	2011		
State Secretariat for Foreign Trade			Provides financial and technical support from the State to Moroccan companies with export potential that wish to start exporting and make it a regular activity.

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Bank Al-Maghrib	1959	Central bank	Influences the volume of credit granted to SMEs through monetary policy instruments, which adjusts interest rates and liquidity conditions in the banking sector. These measures directly affect the availability and cost of financing for SMEs.
Regional Investment Centers (CRI)			Contribute to the implementation of the State's policy on developing, encouraging, promoting and attracting investment at regional level and providing comprehensive support for SMEs.
National Agency for the Promotion of Employment and Skills (ANAPEC)	2000	Public institution	ANAPEC's support for SMEs is twofold: entrepreneurial guidance and assistance with drawing up a business plan and starting up SME. In addition to this, ANAPEC plays an information role with regard to State funding programs, as well as the steps to be taken by project sponsors to benefit from them.

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Maroc PME	2002	Public agency	- Maroc PME is at the heart of the Moroccan business support system, an operational instrument of the public authorities for the development of SMEs, through a wide range of programs. - Developing the competitiveness and growth of SMEs by providing support, advice and technical assistance, as well as targeted, tailor-made investment support to generate added value and employment. - Strengthening the entrepreneurial ecosystem by developing entrepreneurial support mechanisms and enhancing the intervention capacities of local actors. - Developing and implementing partnerships with the public or private sector, or both, to promote support and guidance programs for SMEs and to develop entrepreneurial initiative.
Moroccan Agency for Investment and Export Development[4] (AMDIE)	2017	Public institution with legal personality and financial autonomy	Implementing the State's strategy for the development of domestic and foreign investment and the export of goods and services. Therefore, the institution is playing an important role in designing and implementing financing policies targeting the SMEs population

[4]Designed as part of a merger between the "Agence Marocaine de Développement des Investissements", "Maroc Export" and the "Office des Foires et Expositions Commerciales", AMDIE brings together and strengthens all the pre-existing services of these three entities. Its mission is to implement the State's strategy for developing, encouraging and promoting investment and exports.

Agricultural Development Fund (FDA)	1986	Public investment fund	Promoting private investment in the agricultural sector and directing it, by means of targeted subsidies and incentives, towards activities that make better use of the country's agricultural potential
Industrial and Investment Development Fund (FDII)	2015	Public investment fund	Promoting private investment in industrial sectors and directing it, through targeted subsidies and incentives, towards strategic activities
Hassan II Fund for Economic and Social Development	2002	Public investment fund	Contributing to the creation and development projects with positive impacts on the economic and social levels
Mohammed VI Investment Fund	2021	Public investment fund	Financing and supporting SMEs by investing in companies with projects in industrial restructuring, infrastructure, innovation and new technologies, agriculture and tourism

Source: Author's work based on an in-depth contextual analysis of the actors intervening in the Moroccan SMEs' financing ecosystem

4.2.The Update of the Investment Charter: A Necessity Amid Global and National Economic Changes

It is noteworthy that Morocco has introduced bold measures to modernize the legal framework dedicated to business investment in general, and SMEs in particular. These measures are aligned with the significant transformations experienced by the global and local economy in recent years, which have prompted policymakers to adopt new guidelines, particularly those presented within the framework of the New Development Model. This new roadmap aspires to raise private sector investments to two-thirds of the total investments in Morocco by 2035. However, reaching this goal demands the full and concerted mobilization of efforts from all public and private stakeholders within Morocco's economic and financial ecosystem, with a particular emphasis on SMEs, to tackle the various challenges associated with insufficient investment, which are largely due to difficulties in accessing finance.

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In response, the government has implemented significant reforms to the legal and institutional framework for business investment, particularly for SMEs. This has led to the creation of a new "Investment Charter", which includes modifications that align with the country's strategic priorities and provides a corrective and guiding framework to address various issues within the investment ecosystem. This charter primarily tackles regional disparities, weak exports, and the fragility of the agricultural sector, which is heavily dependent on climatic conditions. To address these challenges, the charter focuses on three essential elements: (1) the creation of investment support mechanisms, (2) the improvement of the business environment, and (3) the promotion of unified and localized investment governance at the business level, particularly for SMEs.

The New Investment Charter is based on the creation of a variety of investment support mechanisms, as well as the updating of previously established mechanisms. It provides, as discussed below, a main framework and three specific support schemes aiming to cover all categories of projects and stakeholders, with a particular focus on SMEs.

4.3.Subsidies and Direct Aids

The impact of subsidies and direct aid programs on SME growth has been extensively examined in various studies, with findings showing a range of outcomes(Hyytinen and Toivanen, 2005; Radas *et al.*, 2015; Žampa and Bojnec, 2017; Banai *et al.*, 2020). For instance, research by Belleau-arsenault et al., (2023) illustrates that financial assistance provided to manufacturing firms significantly contributes to their growth and survival. Similarly, Banai et al. (2020) argue that public funding positively influences growth indicators such as employment, sales, added value, and, in certain cases, operating profit. The European Union's experience further supports these findings, with various programs like the European Structural and Investment Funds demonstrating how subsidies and direct aid can effectively promote SME growth (Pellegrini et al., 2013; Spilioti and Anastasiou, 2024).

However, one of the intrinsic characteristics of Moroccan SMEs is their significant heterogeneity. There are numerous points of divergence when observing the various types of businesses that can be classified as "SMEs". These differences can be seen in terms of size, sector of activity, geographic zones, and legal forms. This pronounced heterogeneity complicates the work of policymakers when designing and implementing programs, mechanisms, or any other type of State intervention aimed at this complex population. In fact, it is impossible to create a single program that serves as a suitable and applicable solution for all sub-segments of the SME population. For instance, a financing program offering a grant of

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200,000 Dirhams might seem sufficient from the perspective of a self-employed individual or a very small enterprise, but it would be woefully inadequate for a medium-sized enterprise with large-scale investment projects. Furthermore, a business located in a rural area should not be compared to one situated in a major city, simply because the latter benefits from several advantages.

In the era of the New Development Model, Moroccan Government through its ministries and institutions operating under their authority, put in place a wide range of programs of subsidies and direct aids, targeting specific sub-groups of the SME population. The profiling is primarily based on two segmentation criteria: (1) size, which is generally measured by turnover or number of employees, commonly categorized as micro-enterprises, very small enterprises, or medium-sized enterprises, and (2) sector of activity, which refers to the industry in which the business operates (agriculture, industry, services, etc.).

4.4.Guarantee Schemes

In Morocco, as in other countries, financial institutions, particularly banks, increasingly require stringent guarantees and restrictive conditions to extend loans. This poses significant challenges for SMEs, which, due to such scepticism, struggle to provide the necessary funds to finance their growth and secure their basic needs. It is in this context that the guarantee schemes provided by Government play a crucial role in mitigating these financing constraints and addressing the insufficiency of collateral, particularly for smaller SMEs.

Universally, assessing the effectiveness of public support aimed at resolving SME financing issues presents significant challenges, especially when evaluating public guarantee schemes like those implemented by SNGFE. Impact evaluation is largely dependent on the construction of a counterfactual, which enables a rigorous measurement of whether improvements in SME growth and performance metrics are genuinely attributable to State interventions. Without a proper counterfactual, evaluation can only determine if an SME's growth improved after receiving guaranteed loans, not whether these improvements were directly caused by the guarantees themselves. For instance, comparing investment levels before and after accessing a guarantee scheme, doesn’t necessarily reveal the program’s added value, as other factors, such as firm-specific characteristics or macroeconomic variables, could also drive the observed growth. The effectiveness of guarantee schemes is often assessed through two types of additionality: financial and economic. Financial additionality looks at the extra credit that SMEs receive with the help of the guarantees; loans that likely wouldn’t have been granted without this support. Economic additionality, on the other hand, measures broader impacts on

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businesses, such as job creation, investment, and innovation. Evaluating these impacts requires a mix of qualitative surveys and quantitative data analysis, each offering unique insights.

In Morocco, SNGFE's guarantees are demonstrating a remarkable and significant additionality, on the financial side. For instance, in 2021, approximately 80% of SMEs that received loans through these guarantees, wouldn't get access to the financing in their absence. This highlights the pivotal role SNGFE plays in supporting SMEs, especially during crises like the COVID-19 pandemic, where SNGFE mobilized over 69 billion dirhams in 2020 and 42 billion dirhams in 2021, providing essential financial lifelines to struggling businesses. Despite these efforts, the challenge of underfinancing for Moroccan SMEs persists, indicating a need for additional programs and policies to ensure these businesses have the resources they need to grow and thrive. While SNGFE's guarantee systems have been crucial in facilitating access to bank credit, the ongoing issue of underfinancing suggests that further innovations in policy and support mechanisms are necessary.

Conclusion

The undercapitalization of Moroccan SMEs remains a significant barrier to their growth and sustainability, rooted in their unique characteristics that make accessing adequate financing challenging. This issue not only hinders their ability to achieve higher levels of growth but also threatens their survival in a competitive market. Bank credit is the most common external source of financing for Moroccan SMEs, but it comes with many difficulties. The perceived risk associated with SMEs, along with issues like information asymmetries between banks and borrowers, makes them cautious about extending credit. Additionally, monetary policies and banking regulations often impose strict conditions, making it even harder for SMEs to access funds.

Furthermore, there are alternative financing options available, such as participatory banks, CSE, and private equity, but their impact has been limited. Participatory banks, while aligned with Islamic finance principles, have not yet made a significant influence on the market. The stock market remains out of reach for many SMEs due to its stringent requirements, and private equity, though promising, is still in its early stages in Morocco and hasn't yet had a major influence on the SME population.

Based on the comprehensive findings from the contextual analysis presented in this paper, one undeniable conclusion emerges: The Government’s involvement is crucial to enhance the growth and sustainability of Moroccan SMEs. This necessity is underscored by the significant yet untapped potential of SMEs and their intrinsic vulnerabilities. The public support is also justified by the fact that, SMEs face numerous challenges, particularly restrictive conditions associated with various financing options, which impede their growth and development. Accordingly, the Moroccan government, through various actors, has implemented a wide range of policies aimed at strengthening the financial stability of SMEs and providing them with the necessary resources for growth. Both directly, through subsidies and direct aids programs, and indirectly through public guarantee schemes.

However, like any other multisectoral governmental intervention, several factors can undermine the effects of the combination of policies aimed at enhancing SMEs’ access to financing. This includes lack of coherence in the Government’s action (Dohlman et al., 2021; Evans, 2023; Koura et al., 2023; OECD, 2019), poor coordination between the actors (Gogsadze & Rhein, 2022; Milhorance et al., 2021), and the absence of proper monitoring and evaluation (Cashmore et al., 2010; Meissner & Kergroach, 2021). Corruption and mismanagement can divert needed funds (Kutlu & Mao, 2023). Add to this the economic instability and crisis, lack of awareness among SMEs, miscommunication and strict regulations.

For future research, several avenues can be explored to build on the findings and insights from this in-depth contextual analysis. Future studies should focus on the long-term effects of different financing mechanisms on SME growth, particularly through longitudinal studies. Investigating the role of financial literacy among SME owners in accessing diverse financing options could also provide actionable insights. Additionally, comparative studies across regions or with similar economies could highlight disparities and inform targeted policies. Finally, examining the impact of emerging technologies like fintech on SME financing in Morocco could offer valuable forward-looking perspectives.

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