

SME Financing in Morocco

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Abstract: *The objective of this work is to contribute to the reflection on an issue which is very topical today in Morocco, namely that of the encouragement of SMEs. After the presentation of the political and economic environment in which Moroccan SMEs operate, and the importance of the means of financing implemented by banking establishments and financial organizations specialized in favor of SMEs, we will analyze the multiple constraints of various kinds that come up against to the development of Moroccan SMEs. Some are due to factors outside the company, are of a financial and legislative, administrative and judicial nature, the others are intrinsic to the SME, and relate to their competitiveness, and which are linked to their ability to compete on the markets, which poses a significant threat to their viability.*

Keywords: Moroccan SME, promotion, mode of financing, constraints

1. Introduction

The SME must take, in its daily management, different types of decisions whose impacts can be decisive for its profitability, even for its survival. With increasingly fierce competition in different sectors, rapid technological change, the globalization of markets, etc. The business environment has become so complex and turbulent that it is now impossible to run a business effectively without calling on increasingly specialized technical knowledge that improves the quality of decisions made. It is therefore essential for the company to equip itself with the best management tools to facilitate decision-making and make the entire process efficient, including that of investing in its production capacities.

Indeed, the SME constitutes the cornerstone of the economy, which obviously plays an important role in the creation of wealth and employment, but today it struggles to develop and increase the potential of which it is capable while the one of the essential brakes to its development and growth is precisely its access to financing.

The empirical results of our survey reveal that these financing problems are considered to be the main current difficulties by the 16 of the SMEs surveyed which responded to the survey. Therefore, recourse to informal financing channels. However, the contribution of these traditional financing methods are often small, while they allow the initiation of small activities, they are not sufficient to carry out the financial package of a productive business and even less of its expansion. Our SMEs are thus trapped in informal practices and remain small craft workshops.

Among the solutions proposed by our respondents, the imposition on banks of a funding quota for starters and SMEs is the most successful measure, nearly (56.30%) would be in favor of this measure, ahead of the strengthening of public guarantee and co-financing tools which received a favorable opinion with 37.50% of responses. Our SMEs therefore seek help from the state and banks to get by.

The decision to choose the method of financing is therefore an essential moment in the life of the company. It is at the

heart of the process of creating value for the company and transforming the capital that finances its activity.

At the heart of this reflection, a few questions seem relevant to us:

What are the main difficulties encountered by SMEs in terms of financing and how do they manage to finance themselves?

Throughout this work we will firstly talk about Moroccan SMEs as a lever for economic and social development and secondly about the issue of access to finance and end with an empirical study carried out by questionnaire with 60 SMEs to illustrate our point. Then the results of the survey will be listed and analyzed.

1.1 Definitions of SMEs

The SME seems to be an object of study, the definition of which is obvious. However, as soon as one wishes to specify the scope covered, one comes up against many difficulties. "Any company managed and / or administered directly by natural persons who are its owners, co-owners or shareholders, and which is not owned more than 25% of the capital or voting rights by a company or jointly by several companies not corresponding to the definition of an SME".

1.2 Characteristics of SMEs in Morocco

Today the SME constitutes 95% of Moroccan companies, creating 50% of employment, 20% of added value, and contributing up to 30% of exports and 40% of industrial production, we can compare these statistics to another country France where SMEs play a cardinal role in the French economy representing more than 99% of the business population, more than 70% of jobs and around 65% of added value. The fact remains that despite their economic weight, SMEs generate only 20% of the added value of our national economy, behind this weakness hides many factors that prevent SMEs to develop, modernize and cope. competition, in which access to finance is central.

Globally in Morocco, a company is qualified as an SME, if it has a workforce of less than 200 employees and achieving

an annual turnover (HT) that does not exceed 75 MDH and / or a total limited to 50 MDH.

For new SMEs, the law stipulates that they must have an initial investment program of less than or equal to 25 million MAD and respect an investment ratio per job of less than 250,000 MAD. Also, this definition remains complex and does not allow us to have a correct estimate of the proportion of businesses that can be qualified as SMEs. In addition, it excludes several companies because the threshold is relatively low and leads to the exclusion of companies that have capital intensive activities.

The new definition of SMEs developed by the National Agency for the Promotion of SMEs (ANPME) takes into account only the criterion of turnover and disregards the workforce of the company.

The latter distinguishes three types of SMEs, VSEs with a turnover of less than 3 MDH, small PE companies whose business volume excluding VAT is between 3 to 10 MDH and medium-sized enterprises with a turnover of 10 to 175 MDH, as for at Bank Al-Maghrib, it qualifies as TPE companies with a turnover of less than 10 MDH and SMEs, those whose annual business volume is between 10 and 175 MDH (HT).

According to the ANPME, the SME is present in all sectors of economic activity with a rate of 98%: industry, crafts and construction, shops and finally services which include tourism, communications, transport, financial services.

1.3 Financial constraints

In addition to technical know-how, a reliable network of business partners and a skilled workforce, SMEs also and above all need financing. However, this financing today, in emerging countries, is based almost exclusively on self-financing that was suffered and not chosen for lack of an alternative.

The Moroccan company is no exception to this observation, it appears that the latter encounters many difficulties which hamper its growth, among which access to finance remains central. The problems are also ingrained in the companies themselves: besides the lack of financial information, many business leaders, who would otherwise be eligible for credit, are unaware of banking practices and alternative sources of finance, such as leasing and factoring. This constitutes an obstacle to making an optimal financial decision and hence to access to credit.

This is a problem of information asymmetry and risk factor design between the banker and the entrepreneur. These two economically inseparable actors must be able to establish a common language so that there is a link between the applicants for capital and the providers of capital.

Thus, in consideration of the importance of the issue of financing; the nature, the logic of action, and the behavior of these two actors the SME (mainly family and generally under-capitalized) and the bank (mainly commercial), as

well as the nature of the risk apprehension must be correctly analyzed.

The problem of financing SMEs in Morocco is also linked: The lack of transparency of companies and professionalism in the presentation of credit files.

A the reluctance of banks to grant loans to SMEs, The under-exploitation of the various sources of financing. For example, the French SME / SMI line was only committed to 53%, the Spanish line to 37% and the Italian line to 26%. This low share is attributable to the ignorance of these financing lines by the majority of Moroccan SMEs, on the one hand, and to the ineligibility of SMEs to the financing criteria.

Venture capital is an alternative means of financing for SMEs. However, it only contributed to the financing of 85 companies at the end of 2004 for a disbursement amount of 31 million euros, or 38.3% of the total amount of the risk capital line managed by the European Bank of investment (BEI). Venture capital remains unsuited to the needs of SMEs due to the rigidity of the eligibility criteria for venture capital companies and the lack of technical supervision.

1.4 Administrative and judicial obstacles

1.5 Constraints specific to the management of SMEs:

1.6 Lack of competitive factors

1.7 Constraints on access to markets and to the areas and premises of establishment

1.8 Weakness in marketing

Section 1: The financing needs of SMEs:

SME financing needs:

Funding is of significant importance for the company because it is mainly through its own that it manages to cover its various financial needs. "It is only a question of funding for those who express the need". (Jules Besançon, 1998). The financing needs of SMEs are different, the most important are related to investment, operation and innovation:

- a) The financing needs related to the investment:
- b) Financing needs related to operations
- c) Funding needs related to innovation:

Part 2: Empirical study on the financing of Moroccan SMEs

2. Empirical Study

2.1 Research method

Descriptive study of the behavior of SME managers in terms of evaluating the profitability of projects and the difficulties related to access to finance, this problem that we want to understand, explain and be able to improve by suggesting recommendations.

To achieve the research objectives we carried out physical interviews with the entrepreneurs while explaining the

objective of the study, finally his interviews with the respondents were noted and provide an important base of testimonies. The form was also sent by email via a telephone directory.

To achieve this we used a questionnaire to collect the information to be studied, they were developed from the theoretical framework and research hypotheses retained.

The questionnaire was addressed to managers and sought the following information:

- The general characteristics of the company.
- The type of funding, the purpose, the management, etc.

2.2 Research objectives

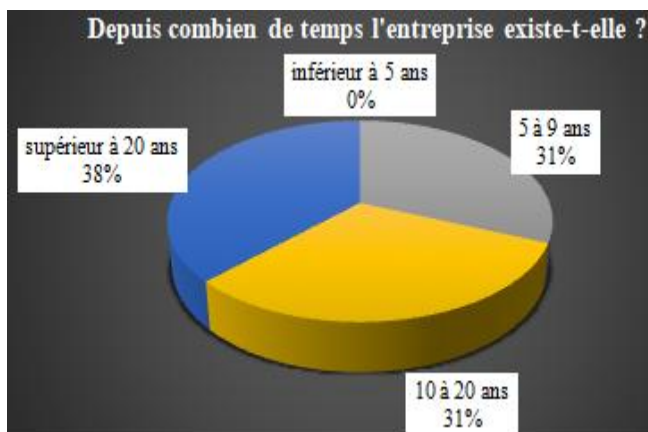
We mainly pursue the objective of identifying the variables that affect the choice of means of financing. Check if the theoretical techniques are applicable in SMEs and if they are used by these companies. Really know what is happening in SMEs and what hinders their development.

2.3 General characteristics of the companies studied

Global characteristics of the SMEs Studied,
 Date of creation: The SMEs Studied are created between 2003 and 2016
 Turnover: between 15 and 50 million dirhams
 Legal Form: SARL, Anonymous society
 Sector of activity: Manufacturing industry, import export, advertising
 Number of employees: between 15 and 50 employees
 Number of competitors: between 5 and 10 competitors

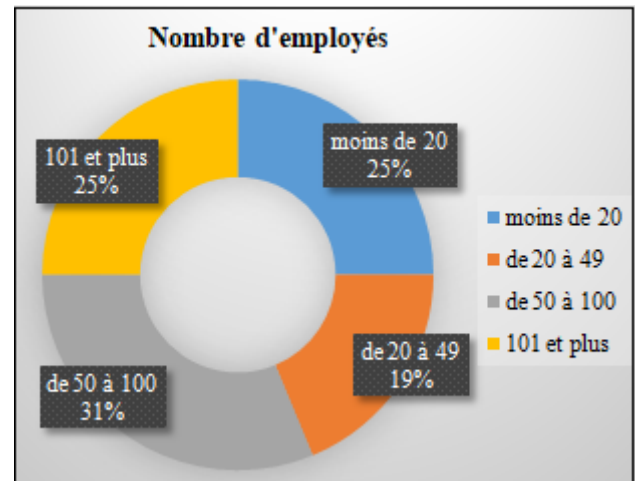
The terms of their financing

In general, the SMEs studied in our project are mainly financed by:
 Self-financing
 Current account of partners
 Bank loans
 State donations
3.2 Présentation et analyse des résultats de l'enquête auprès des pme.



Graph 1
Source: Establish by us

The sample revealed to us that (31.30%; 5 SMEs) have a duration of existence between 5 to 9 years, the same proportion and for companies having between 10 to 20 years of existence, and finally to 37.5% or 6 SMEs among companies that are over 20 years old, however we did not have start-ups with an age under 5 in our sample.

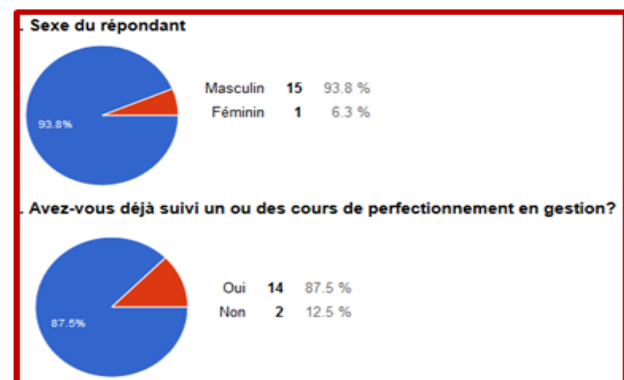


Graph 2
Source: Establish by us

The category of less than 20 employees represents (25% or 4 SMEs), that of 20 to 49 occupies (18.8% with 3 SMEs), while the category of 5 to 100 has been identified (5 SMEs or 31.3%), and finally (25% or 4 SMEs) for the medium-sized enterprises in our sample, ie SMEs with 101 and more employees. This allows us to have a fairly diverse sample representing all sizes, which will allow us later in our questionnaire to analyze whether the size of the company has an impact on its financing or not.

We will then test whether there is a link between the size of the company and rationality, and therefore if the size influences the mode of management and access to financing, however and according to various studies the size of the company. is an important criterion for differentiating difficulties in accessing credit.

However, the large company generally has the financial resources necessary to undertake the investments they desire and to use the formal techniques available, this is not the case for the SME which by its size is limited in the sources of financing.

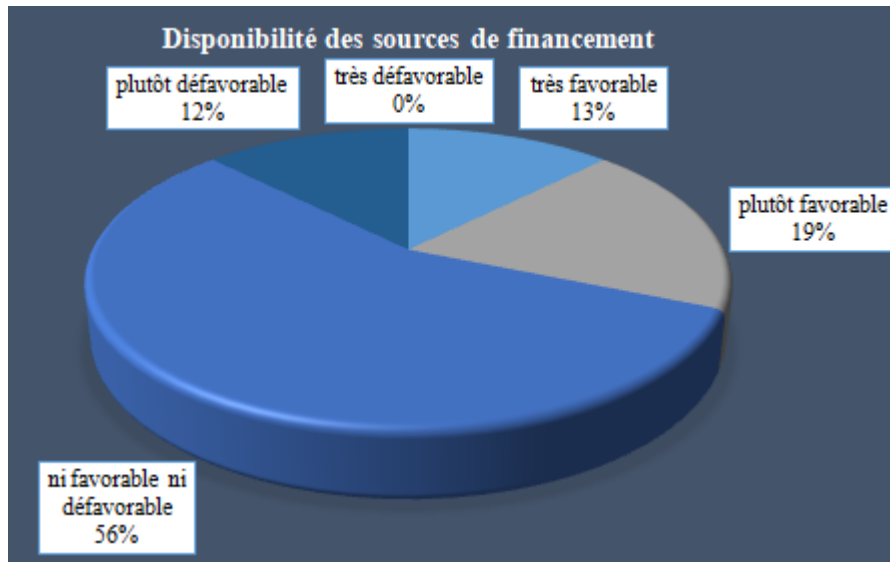


Graph 3
Source: Establish by us

The strong majority of the sample is male (93.8%), there is only one female representative (6.3%). Regarding the management characteristics of the leaders, predominates those who have already taken perfection courses. in management (87.5%) against (12.5%) for those who have not taken these courses and almost in the minority.

Several studies show that SME managers have a lack of training and little management experience, this is not

verified by the results of our study. Indeed, the majority of respondents have taken management courses, this can be mainly explained by the fact that the owners have hired managers to manage their business and therefore, these managers have training and specialization that meet the requirements. of their job. So will this level of training impact the choice of new funding methods? This is what we will see in the rest of the investigation.

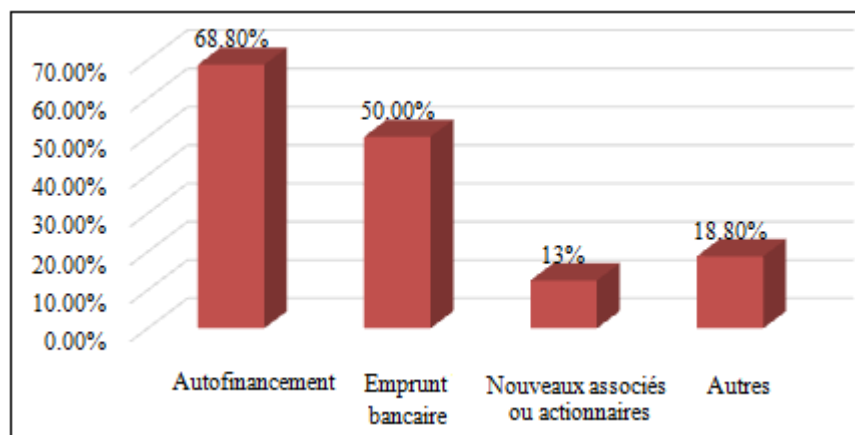


Graph 4

Source: Establish by us

Any feasible investment project must be financed, hence the importance for us to analyze some facet of the financing. So we are interested here in the behavior of the leaders with regard to financing. First graph indicates that the vast majority of executives 56.30% believe that the availability of funding sources is neither favorable nor unfavorable.

Pour le projet réaliser dernièrement, veuillez indiquer la source de financement que vous avez choisi ?



Graph 5

Source: Establish by us

The graph tells us about the most important sources of financing used by the company: self-financing (cited 11 times at 68.80%), ahead of the bank loan (cited 8 times at 50%), then we see that the admitting a new partner is the last decision that the leaders of the 16 SMEs are ready to make (quoted just twice at 12.50%).

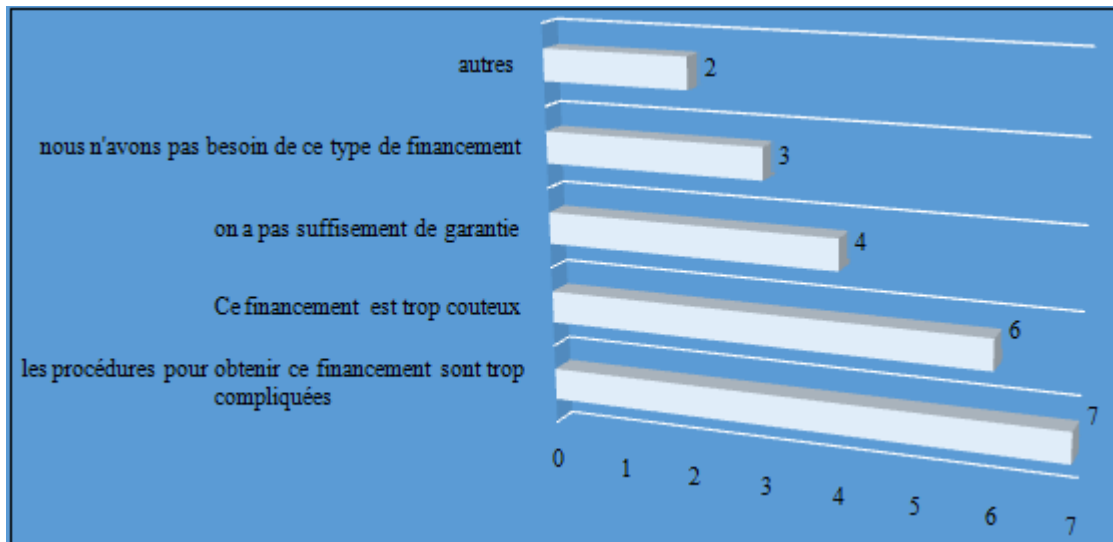
Apparently the derogators choose the sources of funding in ascending order while going from the least risky and less expensive to the riskier and more expensive, self-financing then debt and only finally the increase in capital. Business leaders therefore have a much more rigorous management, with a high priority given to self-financing, in order to reduce the wing. However, the responses presented below show that many leaders either do not express financing

needs due to the strong sluggishness of economic activity, or do not translate them into a request for credit. Thus, some even point out that the financing of their company had gone through the elimination of their own remuneration.

« I do not currently need external financing because I hardly get paid and therefore I finance everything with cash. That being said, I should return to a more normal mode of operation soon and, from a development perspective, I will necessarily need to finance investments ».

« To date, very careful management of my expenses allows me to conserve cash, but at the same time, slows down my development. The main problem is not financing (...) but also the activity and the prospects of the market which are hardening ».

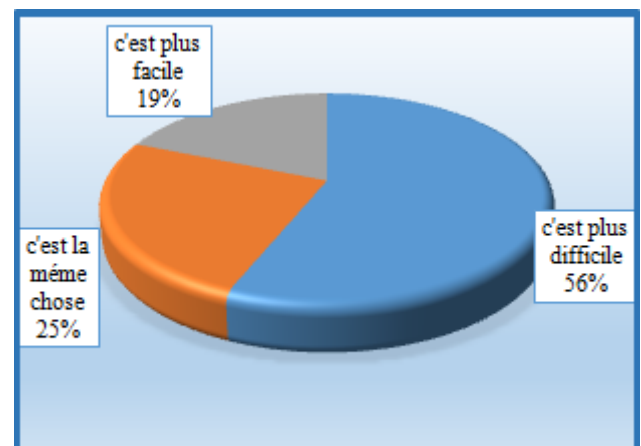
What are the reasons that can hinder your access to bank financing?



Graph 6

Source: Establish by us

The demand for more information from the bank is the claim for which companies reported most of the problems encountered. Indeed (43.8% of respondents) indicated 7 times having encountered problems with the procedures to obtain bank financing which are too complicated, adding that the bank takes a long time to reach its decision, in front of the high cost and costs of credit with a rate of (37.5% or 6 SMEs) claiming that this financing is too expensive because of a high cost price for short and long term credit. Then (4 SMEs or 25%) state that it is the real or personal guarantees that can slow down their access to financing, the companies questioned have problems with the banker's request to provide real guarantees but also the banker's requirement to provide personal guarantees and considered problematic. Finally, only 3 respondents say they do not need this type of financing and this can be explained mainly by the need to maintain the financial independence of the company.



Graph 7

Source: Establish by us

« Pour le moment j'ai une bonne trésorerie et je n'ai pas de problème pour obtenir des crédits, mais jusqu'à quand ? Depuis 3 ans avec la crise, les bilans se détériorent et en conséquence la trésorerie s'effrite ».

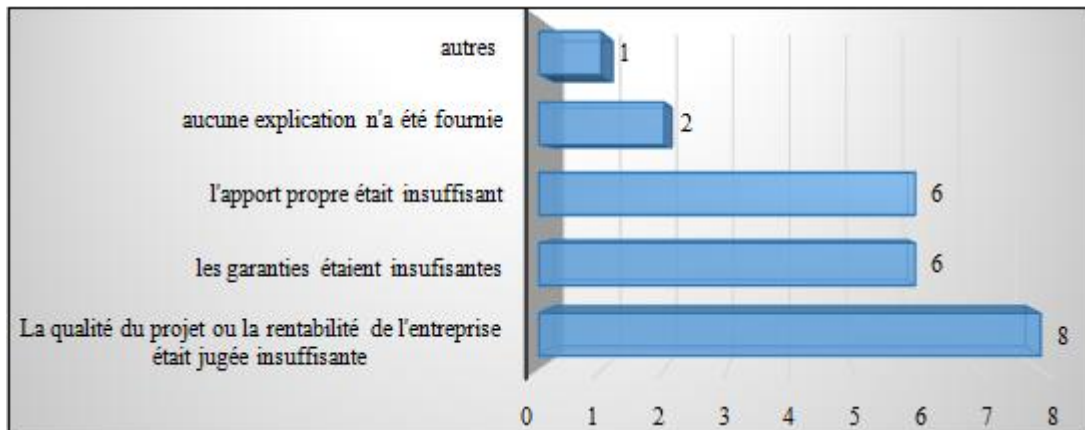
In your opinion, how has access to bank credit evolved over the past 5 years?

The perception of the evolution of access to bank credit is clearly negative, when we question these leaders in order to measure whether, when access to credit to finance their investments has been more difficult, greater guarantees, a better balance sheet or a higher profitability of the investment envisaged in particular were requested of them, more than half of its entrepreneurs consider that access to bank credit has become much more difficult, while 25% who state that it is the same for them, and finally for only a part (18.80% or 3 SMEs) express that it is easier, their companies are essentially larger than 50 employees in our sample.

“The relationship with the bank has become very difficult, especially in listening to upcoming projects. The gaze is focused on the balance sheets (normal) but which are not famous in recent years. It is mainly a problem of vision and

adequacy between the objectives and the entrepreneur and that of the funder».

What reasons were given to justify the refusal of credit?



Graph 8

Source: Establish by us

Businesses that experienced a denial of credit were then asked what the stated reason for the denial was. The reasons most invoked are successively; the quality of the project or the profitability of the company which is considered insufficient for (8 respondents or 50%), in front of the guarantees and own contributions which were insufficient for (37.5% or 6 respondents for each of the two) this can be explained by the tightening of the conditions for granting loans, and finally no explanation was provided for two respondents with a rate of 12.50%.

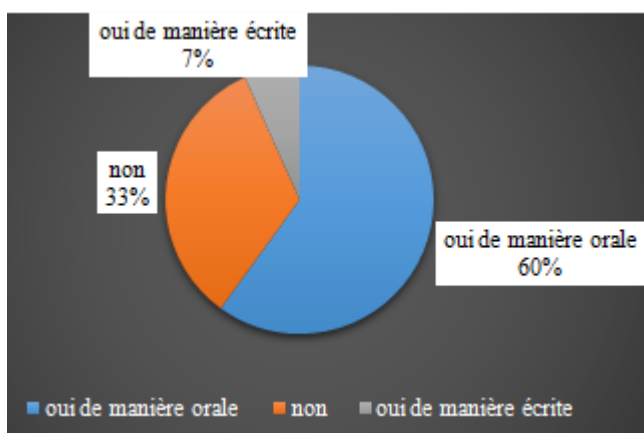
A new legal provision in developed countries stipulates that a refusal of credit must be justified in a transparent manner and in terms understandable to the company, either in writing or orally.

In our case, a minority of credit refusals (6.70%) were motivated in writing. When credit was refused, it was mainly orally (60% of cases), while for (33%) it was not motivated in any way.

This sequence is completely logical insofar as the guarantee only intervenes once the analysis is made on the client's file, so beyond the obstacles of guarantees, it should be noted that rarely a request for financing of an SME meets the minimum conditions in terms of performance, sustainability and solvency. And finally if there is enough equity, the bank follows the case otherwise it cannot commit the deposits of its customers in a project that starts out unbalanced.

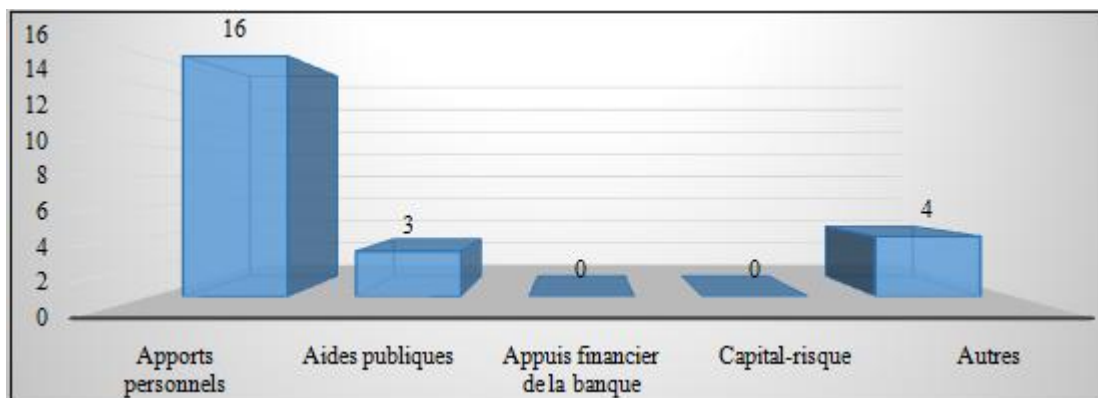
What were the sources of funding for the creation of your business?

Was the refusal of credit motivated by the bank?



Graph 9

Source: Establish by us



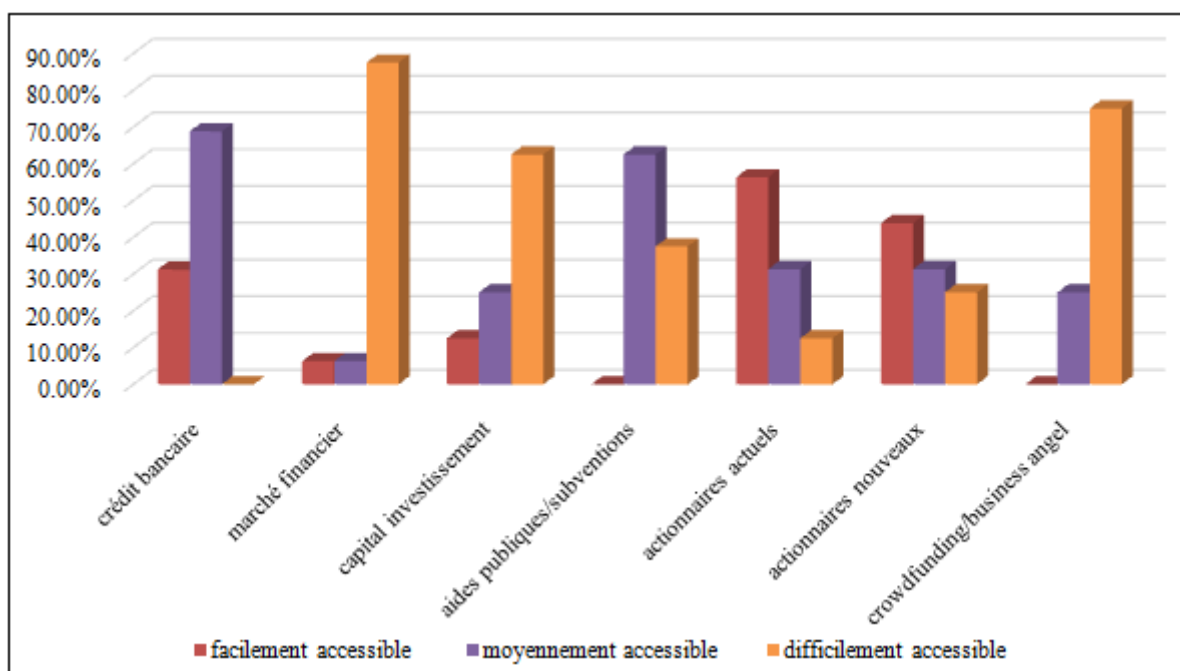
Graph 10

Source: Establish by us

According to the graph all the companies in our sample (100% or 16 sme) were started by personal contributions, only ahead (3 sme at 18.80%) which were created with public aid, then 4 respondents checked the other box. which generally refers to the support of the entrepreneur's social circle made up of friends and family. This is in parallel with concerning the life cycle of the company and its financing, which indicates that in the creation phase of a start-up its financing is mainly carried out by personal contributions, public aid or the trust of friends and relatives of the family,

who support the project in this phase, however the most risky where external financing is almost non-existent since the company does not have the necessary guarantees or a history behind it so it is estimated at this stage as too risky for the market.

Comment qualifieriez-vous l'accessibilité de ces sources de financement mobilisables en cas d'opportunité de développement de votre entreprise ?



Graph 11

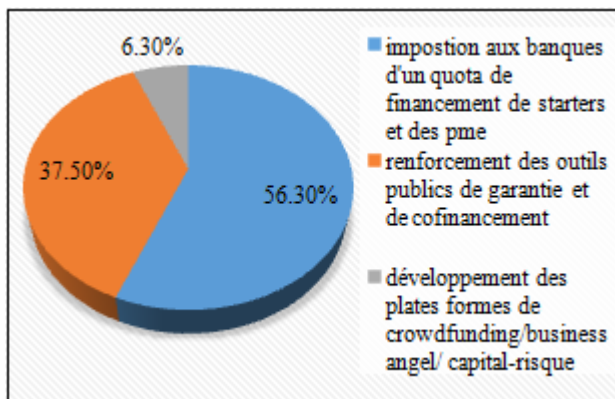
Source: Establish by us

Poor knowledge of new financing tools was observed, bank financing remains predominant while knowledge of new financing tools apparently remains weak and little emphasized.

idea of these forms of credit and to be able to compare them more easily with other banks.

Yet in many developed countries today there are banking laws that require banks to provide the entrepreneur with appropriate explanatory notes of the forms of credit relevant to him no later than the time of applying for credit. This explanatory note should allow the entrepreneur to get an

What measure should be taken as a priority to facilitate access to finance for SMEs ?



Graph 12

Source: Establish by us

Among the solutions proposed, it is a little surprising that the imposition on banks of a funding quota for starters and SMEs is the measure that is most successful, nearly (56.30%) would be in favor of this measure. Then, it is the strengthening of public guarantee and co-financing tools that receives a favorable opinion from the respondents. In third position, we find the development of crowdfunding / BA / venture capital platforms only with a rate of (6.30%).

However, in my personal opinion, facilitating access to financing for SMEs can only be through a collaboration of all parties around the SME, so if the company is deemed at risk by the bank, the latter must inform the company about public measures concerning the financing of SMEs and support when applying for financing.

Add that the relationship with the bank must be based on trust and understanding, and that the bank must inform about all new products and services that meet the needs of the business.

Measures and recommendations promoting access to finance for SMEs

A number of reforms are likely to promote access to finance:

First of all, the banking sector should diversify and develop its financing offers which are not very competitive today. Morocco should also encourage the use of banking services and encourage banks to open branches in areas where the banking rate is still low. Credit information and statistics from credit bureaus should also be made available.

Then, the guarantee system should be better adapted to the needs and capacities of the operators. The requirements of the banks could also be lightened. And in terms of real estate assets, in order to encourage registration in land conservation and therefore provide its assets as collateral, we must continue to simplify the registration system and put land information online.

In addition, market liquidity should be improved through the introduction of new companies and new instruments. To do this, the conditions for new companies to enter the market should be relaxed and a tax exemption could be offered to encourage new companies to be listed on the stock exchange.

To further encourage the private equity industry. The "Damane capital-risk" guarantee system intended to guarantee the contributions of equity or quasi-equity made by private equity companies should be promoted and the establishment of a facilitating regime with incentive measures should be encouraged. Inflow outflow.

The banker in turn must not throw out an unacceptable file but rather see how to make it eligible and bankable, and this by contacting other organizations around the SME with which it is necessary to work in complementarity.¹

The achievement of an international Benchmark can also be of great added value, the objective sought is to explore the good practices observed in the countries, recognized for the efficiency of their guarantee systems in favor of SMEs, in order to broaden the field of strategic thinking. These "best practices" will be taken into account in the configuration of the national guarantee system.

Finally we can conclude by the importance of financial education within SMEs, even in the opinion of representatives of SME associations, financial difficulties are largely explained by a lack of financial training of their managers. Poor anticipation of cash and equity needs is a factor of entrepreneurial failure that should be avoided. In particular, it is important for the SME manager to be aware of the risks of the occurrence of financial stress in the company and of the importance of managing them upstream. At a minimum, training developed in partnership with banks or chambers of commerce would enable the manager to fulfill his need for support on financial matters. The training would cover the basic principles of accounting and cash management, as well as the essential concepts of taxation and labor law, which are an integral part of the calculation of the company's solvency.

While interesting initiatives exist in this area, their spontaneous dissemination is unlikely, in particular because few players have a real interest in them, while entrepreneurs do not necessarily see the usefulness ex ante. Public authorities therefore have a role to play, in addition to support for entrepreneurship.

3. Conclusion

Today, the SME constitutes the cornerstone of the economy and particularly of the industrial fabric, especially in a developing country like Morocco. The SME widely, widespread according to studies and findings, suffers from weaknesses for several reasons either internal, ie specific to the company, or external related to its environment. SMEs have become increasingly dependent on the international economic environment. They are subject to macroeconomic imperatives. The conditions for their survival and development are linked to the country's legislative, financial and social context. In Morocco, the experience of promoting SMEs is very recent. Indeed, it is during the last decades that

¹ Le financement vis-à-vis de la PME en progression, Interview de Tarik El Malki, Professeur universitaire, Analyst et consultant au CMC (centre Marocain de conjoncture).

the Moroccan authorities adopted it to solve socio-economic problems (unemployment-rural exodus ...). For this, SMEs deserve to be supported, however the main obstacle which hinders their development remains the problem of financing, either by the weakness of financing means, or by the complexity of the procedures to be followed for granting loans. Despite the efforts made by national and international organizations to prepare a favorable climate for SMEs, much remains to be done on the part of the State and on the part of donors as long as SMEs demand increased financial assistance. relaxation of procedures and diversification of banking techniques. The new international economic order, marked by the globalization of the economy (production systems, markets, goods and services, capital and labor) imposes stricter management rules (planning and control) on companies, categories, sizes and sectors combined. In such a turbulent and uncertain context, the technical-economic and socio-political boundaries of companies are not clearly defined, and have become more blurred and permeable. What was experienced fails, what was clear becomes confused and what was mastered rebels. The company's action on its environment becomes even more difficult. The SME must face up to multidimensional competitiveness involving all its functions and fields of activity. It must organize itself to act better, rationally exploit its resources, distribute its products on a large scale, anticipate the behavior of the various stakeholders and defend its interests in order to continue to ensure its existence.

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