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SME Financing: Diversity of Sources and Specific Constraints in Morocco

Financement des PME : Diversité des Sources et Contraintes Spécifiques au Maroc

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Abstract

This article explores the financing constraints of small and medium-sized enterprises (SMEs) in Morocco, highlighting the specific challenges they face in accessing financial resources. First, we provide an overview of the financing options available in general, both internal and external, analyzing their characteristics, advantages and limitations. We then turn our attention to the context of Moroccan SMEs, which, although essential to economic growth and employment, face numerous financial constraints. These companies face obstacles that limit their access to bank credit, notably due to high collateral requirements. The aim of this study is to provide an in-depth analysis of the difficulties in accessing financing, while proposing avenues for financial support better adapted to the needs of Moroccan SMEs, in order to strengthen their potential for growth and sustainability.

Keywords: SMEs, sources of financing, banks, financing constraints.

Résumé :

Cet article explore les contraintes de financement des petites et moyennes entreprises (PME) au Maroc, en mettant en évidence les défis spécifiques qu’elles rencontrent dans l’accès aux ressources financières. En premier lieu, nous dressons un panorama des options de financement disponibles en général, tant internes qu'externes, en analysant leurs caractéristiques, avantages et limites. Ensuite, nous nous intéressons au contexte des PME marocaines, qui, bien qu’essentielles pour la croissance économique et l’emploi, sont confrontées à de nombreuses contraintes financières. Ces entreprises font face à des obstacles qui limitent leur accès aux crédits bancaires, notamment en raison des exigences élevées en matière de garanties. Cette étude vise à fournir une analyse approfondie des difficultés d’accès au financement, tout en proposant des pistes pour un soutien financier plus adapté aux besoins des PME marocaines afin de renforcer leur potentiel de croissance et de durabilité.

Mots clés : PME, sources de financement, banques, contraintes de financement.

Introduction

One of the fundamental questions in finance is on what basis a company chooses its financing methods in order to meet its investment needs. Whether it's the launch of a new activity or a new project within an existing business, financing is an essential step in the success and development of SMEs. It helps to create wealth and extend the SME's level of operation by gaining competitive advantages (Distanont & Khongmalai, 2020).

Therefore, the SME first seeks to cover capital needs through internal resources, but generally, the resources generated by the operation of the company are not sufficient to cover all financial needs. The company will therefore need to finance its long- medium- and short-term activities, using external agents in order to find the capital necessary for its survival and development. Generally, a company can only benefit from external support if it is unable to create the wealth itself that is essential to finance its needs.

However, although SMEs remain the foundation of Moroccan economic growth and are often seen as a key factor in promoting employment and wealth sharing (SEDDIK et al., 2024),they face a number of obstacles that limit their growth and financial strength. In this sense, financing is the most important and visible constraint for Moroccan SMEs (Mouad et al., 2024).

Certainly, Moroccan SMEs encounter difficulties in accessing the financial resources necessary for their expansion. Access to bank credits, although preferred as a source of external financing, remains complex. The eligibility criteria imposed by conventional banks are often too strict for these companies, which frequently lack the necessary guarantees. This situation places SMEs in a delicate position, forcing them to turn to limited and sometimes costly financing options, which affects their ability to invest in new projects or to strengthen their operations.

The issue at hand, then, revolves around the challenges faced by SMEs in Morocco in accessing financial resources. Why is access to bank credit so complex for these companies? What factors exacerbate the financial constraints faced by Moroccan SMEs?

Thus, the aim of this article is twofold: on the one hand, to provide an overview of the sources of finance available to SMEs, detailing their characteristics, advantages and disadvantages; and on the other, to highlight the specific obstacles faced by Moroccan SMEs in their search for finance. Consequently, by identifying and analyzing traditional and alternative sources of financing, as well as the particular challenges faced by Moroccan SMEs, this article aims to offer constructive reflection on ways to support the growth and strength of this vital segment of the Moroccan economy.

In this article, we will first examine the main sources of financing available to SMEs in general, distinguishing between internal options and external solutions, and analyzing their advantages and limitations. Next, we will look at the profile of Moroccan SMEs, describing their economic characteristics, and then examine in detail the financing constraints specific to Moroccan SMEs, focusing on the various obstacles that make it difficult for them to access financial resources. The aim of this analysis is to provide an in-depth understanding of financing issues for SMEs in Morocco, in order to identify the adjustments needed to provide financial support that is better adapted to their development needs.

1. SME financing options

Companies can access various types of financing to meet their growth or operating needs. These options vary according to their origin (internal or external), their duration (short or long term) and the risk involved.

1.1. Internal financing instruments

The first source of funding a company may resort to, particularly in its start-up phase, is internal financing. (Daskalakis et al., 2013) report that many small businesses use mainly internal funds to support their initial activity. Only when these internal resources are exhausted do they consider external financing.

All companies can mobilize their own resources, as well as those of their partners or managers, to finance all or part of their equipment or working capital requirements. These resources constitute internal financing, which is mainly based on the following methods.

1.1.1. Self-financing

Self-financing is at the heart of corporate development, and is today the main source of financing for capital expenditure. It enables us to sustain growth and renew assets without relying on third parties, using our own resources and the financial flows generated by the company. Essentially fuelled by current and past profits, after deduction of distributions to associates, self-financing represents the cash surplus retained after dividend payments.

As a result, self-financing provides independence from external sources (banks, credit institutions, suppliers) and offers a degree of strategic flexibility, notably by maintaining a safety margin. However, as (Harb et al., 2014) point out, SMEs use self-financing to a limited extent, often for small investments or as a complement to bank financing. This type of financing is generally insufficient to cover all cash requirements. Without external financing, the company may have to spread out its expenditure or limit itself to modest investments, thus compromising their efficiency (Conso & Hemici, 2005).

What's more, by drawing on its own resources to finance an investment, the company reduces its cash position, which can make it vulnerable to unforeseen events (such as unpaid customer bills) if its liquidity becomes insufficient to cope. What's more, in times of economic crisis, access to bank credit becomes more restricted, and a company that has not negotiated a line of credit or loan in advance may find it more difficult to obtain one (Le Beuze, 2016).

1.1.2. Disposal of fixed assets:

The company may, on an ad hoc basis, use another internal financing tool by selling off part of its fixed assets. In this case, resources are derived from the after-tax capital gain realized on the sale. This type of divestment generates the cash needed to finance the company or, in the case of a heavily indebted company, to repay part of its borrowings.

Asset disposals are used to finance investments and R&D (Borisova & Brown, 2013), to strengthen capitalization (as many banks did after the financial crisis) and to meet one-off cash needs. However, these disposals cannot constitute a recurring source of financing without raising questions about the company's sustainability, particularly the risk of liquidation (Cabane, 2013).

1.1.3. Lease-backs

Sale and leaseback is a more recent procedure whereby a company that owns an asset sells it to a leasing company. The latter then leases it back to the company under the terms of a finance lease, i.e. with an option to purchase (Legros, 2014).

This transaction involves a seller-lessee (the company), who initially owns the asset and leases it back, and a buyer-lessor, who buys the asset, finances it and then makes it available to the company in return for rent. At the end of the transaction, the parties are bound by an operating or finance lease.

The choice of a sale and leaseback implies that the company is looking for the economic advantage associated with this form of indebtedness and its characteristics. This economic advantage is the lower borrowing cost of a sale and leaseback, compared with the cost of any other form of debt, whether a bond or a bank loan (Sarremejeanne, 2011).

By raising funds, this operation enables the transferring company to obtain resources that can be used to finance and initiate investment projects, the profitability of which is higher than the cost of the leasing contract.

1.1.4. Capital increase

A capital increase can be justified, on the one hand, by the desire to strengthen shareholders' equity and cash flow, to recapitalize if the company is making losses in order to clear them, and to finance new investments, particularly new projects that prove more profitable, and on the other hand, to reduce debt if the company is paralyzed by too much debt, and to strengthen the confidence of third parties, so that financial creditors agree to grant new loans.

The terms of capital increases vary according to whether they involve new contributions (in cash or in kind) or, conversely, the incorporation of sums already held by the company into the share capital.

The company can call on its shareholders to finance a major investment program, by carrying out a capital increase to provide the funds needed to finance its projects.

According to (Cabane, 2014), capital increases can take four forms:

- Cash contributions: existing or new shareholders buy shares created by the company, the sale of which, at a fixed price, brings new liquidity to the company.

-Contribution in kind: this operation generally takes place in the case of company mergers or takeovers, and concerns the contribution of assets in the form of intangible assets, property, plant and equipment, and so on.

-Capitalization of reserves: Capital can be increased by capitalizing reserves. This operation does not alter the financial balance, since it only changes the structure of shareholders' equity, not the amount.

-Conversion of receivables into shares: this capital increase results from the conversion of debts (receivables held by a third party) into shares.

Through its various forms, the capital increase is intended to improve the company's financial independence and increase its debt capacity, by reducing the company's debt in order to reduce the risk borne by financial creditors, as well as recapitalizing the company's equity.

On the other hand, former shareholders who do not participate in the capital increase undergo a loss of power (dilution of power) (Casteras, 2019).This can lead to a loss of independence for the company, and may cause dilution of performance indicators such as dilution of capital, earnings per share or dividends per share, resulting in a loss of control over the company. To prevent this from happening, former shareholders must participate in the increase in proportion to their shareholding prior to the operation.

1.1.5. Contributions to partners' current accounts

A capital contribution has a number of disadvantages. The partner's commitment is virtually irreversible, and if the company's shares are not listed on the stock exchange, it will be difficult or impossible to sell them. This is why, especially in the case of small and medium-sized businesses, shareholders have for a long time been making use of current account advances to help finance the company. These advances are very often provided for and regulated by the articles of association (Conso & Hemici, 2005).

As a result, these contributions in shareholders' current accounts are more flexible than financing through capital increases, and have the advantage of being rapidly mobilized. In effect, they are advances and loans granted by shareholders, in addition to their equity stake.

However, this is only a short-term debt and does not improve the presentation of the balance sheet. Current account advances do not increase shareholders' equity. As such, they do not constitute genuine sustainable and stable resources, as the withdrawal of sums advanced by shareholders remains possible. According to (Le Beuze, 2016), recourse to this type of financing can only last for a limited time, since the resources of existing associates are not unlimited and cannot eternally finance the structure's cash requirements, nor fund its growth on a sustainable basis.

Thus, despite the importance of this source of financing, it is nevertheless limited and often insufficient, so SMEs have to resort to external financing in search of the funding they need to develop their business.

1.2. External financing instruments

In some capital-intensive fields, self-financing is impossible. In many sectors (software, telecoms, etc.), self-financing capacity may be insufficient for certain projects, and internal resources are not always able to cover all the company's needs, especially when they are growing rapidly.

In order to meet the growing needs of SMEs, recourse to external financing becomes a necessity. As a result, the company has to turn to external agents and have recourse to many sources of financing.

1.2.1. Bank credit

Bank credit is the best-known and most widespread form of financial debt, and remains the main resource for SMEs seeking external financing. This debt is not intended to finance risky projects that could jeopardize savers' deposits. It generally finances the acquisition of fixed assets that enable the company to increase its profitability.

Admittedly, bank financing is the most widely used source of debt financing for SMEs, especially when it comes to short-term credit; SMEs turn more to banks to top up the sums they lack and bring their projects to fruition (Lhomme, 2001).

This preponderance of bank financing should be seen as the result of greater information asymmetry for these companies. A conventional loan, private and non-negotiable, enables the bank to appropriate all the information rent it has accumulated on the firms. This information production makes lending a profitable business.

In this section we look at the different types of financing granted by the bank to SMEs, in order to meet their financing needs.

1.2.1.1. Short-term credit

The financing needs generated by the operating cycle can be met by various types of short-term credit, offering a range of loans designed to remedy temporary capital shortages, and to alleviate temporary cash-flow problems encountered by the company in ensuring the smooth running of its operating cycle. In principle, these loans should in no way contribute to financing permanent needs.

In fact, this type of financing is mainly linked to operations in the operating cycle, and is a means of financing in line with the needs expressed, with extremely short maturities.

Of course, there are many forms of short-term financing. For presentation purposes, the most frequently used have been grouped into three categories: loans obtained by mobilizing trade receivables, loans obtained in the form of cash flow loans, and other forms of short-term credit.

1.2.1.1.1. Financing by mobilizing trade receivables

Financing by mobilizing trade receivables can take several forms:

- **Commercial discounting**

Discounting is the oldest form of credit based on the mobilization of short-term commercial receivables, most often in the form of commercial bills: bills of exchange and promissory bills. This is an operation whereby a company raises unmatured commercial paper from a bank. The discounting bank credits the company's account with the current value of the bills, i.e. their face value after deduction of interest accruing to maturity, commissions and fees. Two operations are therefore involved: a credit operation followed by a receivables collection operation.

The advantage of discounting for the company lies in its low cost, rapidity and ease of obtaining funds, since it represents a reduced and limited risk for the banker, insofar as it is based on a commercial transaction which normally ensures its settlement at maturity.

What's more, this technique entails significant processing costs for banks, which is why they have tried to implement solutions to remedy traditional discounting, such as Trade receivables mobilization credit and Statement of account.

- **Trade receivables mobilization credit**

The Trade receivables mobilization credit is based on the discounting of a promissory bill representing the receivables held by the company, subscribed to the order of the bank. The bill groups together all or part of the receivables arising within a 10-day period and maturing on adjacent dates spread over the same ten-day period. The term of the bill is a maximum of 90 days. The bank discounts the bill and repays itself through the settlement of the receivables (Amelon, 2004).

This technique enables a company to present a promissory bill to its bank for discounting. The promissory note is representative of the nominal value of receivables with an almost identical maturity (10 days difference at most); the receivables are not assigned to the bank, and it is therefore the company that has to collect them.

Unlike discounting, the bank does not have to wait for customers' bills of exchange to be returned before it can mobilize funds, since the discounting medium is the promissory bill it underwrites. It is therefore a riskier form of credit, which the bank reserves for its quality customers. To reduce the risk of double financing, the company must undertake not to use discounting at the same time.

- **Statement of account**

The bill of exchange statement is a new form of financing, which was created by seeking new means of processing in order to avoid the numerous paper manipulations, generating increasingly heavy management costs (LUC BERNET, 2008).

In fact, the Statement of account is the automated form or the dematerialized version of the bill of exchange. It constitutes a less restrictive alternative and is based on the idea that the recovery of debts can be carried out without physically circulating the effects. Proof of payment is made without the effect being delivered to the debtor.

The interest of the Statement of account lies for banks in the reduction of the cost of processing the recovery of debts thanks to the computerization of operations. For companies, it is less expensive than the discount, it also offers, in terms of cash flow, the advantage of constituting a form of credit instrument because it is payable on maturity, within a period determined by the Statement of account.

- **The DAILLY procedure discount**

The Dailly law allows a company to submit to its bank a representative statement of receivables that it wishes to mobilize and against which it obtains a global credit. Compared to the CMCC, the Dailly statement can concern receivables of a broader nature and can be the subject of an assignment of the receivables to the bank (it is then the bank which is responsible for recovery) (Chambost& Cuyaubère, 2011).

In fact, it is a new process for transferring professional receivables intended to facilitate credit to businesses. The scope of receivables that can be mobilized is considerably broadened since receivables are eligible even if not materialized by effects, export receivables, and those held on the administration.

The assignment, or possibly the pledge, is carried out by submitting to the bank a slip called a "Dailly slip", which clearly indicates whether it is an assignment or a pledge. Banks favour the assignment which transfers ownership of the receivables to them, whereas with the pledge they are simply secured creditors.

The advantage of this technique is that it allows, on the one hand, companies to mobilize a wider range of receivables, under favourable conditions, and on the other hand, banks which see their security reinforced by the transfer of ownership of the receivables, and the possibility of taking action against the transferor in the event of non-payment.

- **Factoring**

Factoring is a financing method based on the transfer of receivables by their holder "the company" to a specialized company called "a factor", which immediately pays the amount to the company. This operation allows the company to quickly have access to the money from its receivables, without waiting for them to fall due, it benefits from financing that complements or replaces traditional bank loans.

This technique has several advantages: The company that transfers its receivables benefits from a credit for mobilizing its commercial assets and a guarantee from the company against the risk of non-recovery, as well as not bearing the organizational cost of managing receivables (recovery and unpaid costs). Factoring companies can accept all of a company's receivables, but in practice, they most often refuse receivables for which the risk of non-payment is too high (Chambost & Cuyaubère, 2011).

1.2.1.1.2. Cash credits

The mobilization of trade receivables held by the company is not always sufficient to finance the shortfall between expenditure and income. Banks therefore grant companies credit authorizations, generally referred to as “cash flow loans”, based on criteria such as the company's financial situation, working capital and financing requirements...

These highly flexible loans can be used for periods ranging from a few days to several months. They can be used to meet both operational financing needs and specific business requirements. Classifying the various categories of cash credit is a tricky business. In what follows, we present the most common forms (Amelon, 2004, p. 178):

- **Overdraft facilities**

Overdraft facilities are a form of cash credit financing that rarely exceeds one month's sales. This type of financing is only possible in the case of one-off shifts between expenditure and income, and for limited amounts falling within the normal cash flow cycle (Le Beuze, 2016).

However, this type of financing will be difficult to obtain if the company does not have several years of positive earnings or a long-term relationship with its banker.

The major disadvantage of this type of financing is that the SME must repay it in full, on one or more occasions during the year. Banks impose this rule to ensure that the use of overdraft facilities, intended for one-off needs, has not been “diverted” to finance longer-term investments.

- **Overdrafts**

Overdrafts are loans designed to finance ongoing requirements over a longer period than overdraft facilities. They can be used to supplement a company's temporarily insufficient working capital. In principle, banks grant cash credit authorizations on a renewable annual basis, depending on the financial situation and needs of their customers.

These credits are either in the form of a debit account subject to a ceiling, or in the form of promissory bills drawn in favor of the bank.

The dividing line between the various categories of cash credit is sometimes blurred, and not always well-founded. Moreover, banks sometimes grant their customers a global ceiling, which can be used in various ways within this authorization: overdraft, spot credit, credit usable by banknotes, foreign currency advances, opening of documentary credit….

The most commonly used forms of overdraft are : Campaign credit, spot credit and cash credit.

1.2.1.1.3. Treasury bills

A commercial paper is an interest-bearing negotiable debt security issued to the bearer, for a minimum amount and for a fixed term. Interest is calculated on the basis of a fixed rate determined on the day of issue. Interest is paid in advance on the basis of the exact number of days divided by 360. Bill maturities are fixed, ranging from 1 day to 10 days.
The treasury bill represents a method of financing with favorable and very flexible conditions both for the amounts and for the maturities. However, these non-bank financings mainly reserved for large companies, directly put companies with financing needs in contact with companies with surplus to invest.

1.2.1.2. Medium- and long-term bank financing

Medium- or long-term bank loans are another way for SMEs to meet their financing needs. They are intended to finance the bulk of the company's fixed assets (i.e., the balance sheet), in particular buildings, land, works, machinery, equipment, goodwill, etc.
Indeed, under no circumstances can these loans be used to finance cash flow or R&D. They are intended solely for the acquisition of tangible durable goods (Le Beuze, 2016).
With this type of financing, the company's sole contact is the lending bank, or the banking pool if the financing is granted by several banks. This financing can be used immediately and in full, or it can be made available to the SME, which uses the funds as and when it needs them.
SMEs can opt for medium- and long-term debt financing, since the main advantage of this type of debt is the deductibility of interest; however, the disadvantage is of course the heavier financial structure and the creation of fixed interest charges.

1.2.2. Bond issues

Bonds are another alternative form of financing to bank debt. A company may decide to raise funds on the financial market, and call on public savings by issuing bonds, in particular negotiable debt securities, which are subscribed to by a large number of investors. In effect, this is a credit transaction concluded with third parties. The bondholder, who is a creditor of the company, lends capital to the latter under certain interest and repayment conditions. When the loan matures, the lenders are repaid the capital equal to the value of the bond acquired.
Of course, there are many different types of bonds: fixed-rate bonds convertible into shares, variable-rate bonds, etc. Each bond has a face value representing the capital borrowed, an issue price and a redemption price. Each bond is characterized by a nominal value representing the capital borrowed, its issue price and its redemption price (Harb et al., 2014).

The advantage of this type of financing is that it does not entail any loss of power for management. What's more, the bond can be converted into shares if the terms of the contract so stipulate, and the interest paid to bondholders is tax-deductible.
However, this technique is only available to listed stock companies, and many SMEs find it very difficult to benefit from this form of financing, since it's the larger companies that can call on this type of loan thanks to their size.

1.2.3. Leasing

Leasing is another type of financing that has developed considerably in recent years, offering many advantages to companies, particularly newly-established SMEs. It is generally easier to obtain than a conventional loan, and is an important means of financing a company's projects. It can be used in all areas where the company needs to invest, such as the purchase of machinery or vehicles. Of course, the company must resort to this form of financing, which is an alternative to conventional borrowing when bank debt is refused for lack of collateral.
In fact, leasing works like a contract for the rental of an asset by the company, with the particularity, compared with an operating lease, that the contract may provide for or include a purchase option for the “lessee”, leaving the company free to acquire the movable or immovable assets concerned at the end of the contract term, or to return them to the leasing company. During the lease, the company pays royalties (Eglem& Stolowy, 2006).
From an economic point of view, leasing contracts should not be systematically interpreted as rentals, but can also be seen as purchases accompanied by credit financing (Eglem & Stolowy, 2006). What's more, leasing is not an instalment sale, since the bank is the owner of the asset being financed, not the user.
The main advantage of this type of financing for the company, and especially for start-up SMEs, is that you don't have to provide any capital to finance your premises or equipment. Nevertheless, the cost of a lease is always higher than that of a conventional bank loan, and represents an additional cost compared with the conventional credit formulas seen above.

1.2.4. Financing by opening up capital

In this point, which introduces financing by opening up capital, we'll try to focus first on financing via the stock market, and then on financing via venture capital.

1.2.4.1. Stock market financing

The financial market, which has developed considerably over the past fifteen years, is another source of financing to which SMEs with financing needs can turn, by directly approaching economic agents with financing capacities, without having to rely on the costly services of financial intermediaries. This type of financing offers a wide variety of sources for SMEs, capable of meeting both short-term and long-term needs, to foster their growth and development.

Of course, financial institutions charge borrowers for their financial intermediation services, which makes it more expensive for agents with financing deficits to obtain resources. As a result, SMEs are forced to seek alternative financing sources, enabling them to avoid having to use these financial intermediaries. To do this, they turn directly to economic agents with financing capacities, opting for direct financing. Companies will therefore use the financial markets.

The financial market is where supply and demand for financial securities meet. It enables companies to issue marketable securities, in particular stocks and shares, to be purchased by economic agents wishing to make their available savings grow, through public offerings.

Recourse to the financial market gives SMEs access to diversified financing, and provides them with new resources to fund their development and give them greater visibility. According to (Thomas, 2010), an IPO enables a company to raise capital at the time of listing, but also through direct access to the market at a later date, enabling the company to increase its capital or issue hybrid securities with relative flexibility.

What's more, companies that turn to the financial market are generally motivated not only by access to new financial resources, but also by the reputation, credibility and visibility that a presence on the capital market brings (Rameix & Giami, 2011). For innovative, high-potential companies, an IPO enables larger amounts of capital to be raised, while at the same time providing an exit for existing investors and a better valuation. It will also facilitate the implementation of a better governance structure.

However, capital market financing, whether in the form of equity or debt instruments, remains marginal for SMEs. According to (Dietsch & Mahieux, 2014), the situation is less satisfactory in the financial markets. The repeated failures of the various stock markets likely to attract SMEs can only lead us to question the markets' ability to finance this category of company with equity capital on a recurring basis.

1.2.4.2. Venture capital

Another external financing resource available to SMEs, especially start-ups and high-tech SMEs with strong growth potential, is venture capital. Venture capital has been growing considerably and has regained momentum in several industrialized countries in recent years, thanks to its major role in financing the specific needs of SMEs.

Indeed, the majority of SMEs could not rely on traditional banking systems and find themselves severely handicapped in resorting to them for financing, or in order to obtain the appropriate loans and financial resources, especially in the start-up phase and even in the later stages of development, since they are not in a position to provide sufficient guarantees to the bank and do not generate significant sales.

These financial difficulties led to the emergence of venture capital, and encouraged SMEs to turn more and more to this new specialized financing channel, whose role as a financial intermediary continues to grow, as it supports young innovative firms through to their development, and enables them to diversify their sources of financing by finding the capital they need to grow.

Known as “venture capital” in the United States, this financing tool is an American invention that has become an international phenomenon, and differs markedly from bank financing in its nature, organization and, consequently, in the evaluation processes that lead to a transaction, thanks to the specific mechanisms it puts in place. In fact, this activity consists of long- and medium-term capital or equity investments by investors in unlisted companies, particularly SMEs with high growth potential and high return on investment prospects.

Unlike the shareholders usually found in SMEs, venture capitalists don't make long-term commitments, but rather commit themselves for a limited period of between three and seven years, at the end of which, on the one hand, the SMEs want to have the necessary financing to enable them to grow, and on the other hand, the venture capitalists hope to sell their holdings, realizing a substantial capital gain when they exit the company's capital.

According to (Battini, 2000), venture capital is obviously the ideal form of financing for high-tech companies where the risks are very high. According to (Karyotis & Bouteiller, 2018), venture capital not only provides companies with stable financing, but also with knowledge and expertise to complement that already present in the company, in terms of consulting and recruitment of managerial staff. It also lends additional credibility to the business project and its promoters.

However, despite the fact that venture capital is theoretically better suited to the needs of "dynamic" and developing SMEs. Most SMEs have a negative image of venture capital, because they associate it with capital of last resort to "save" them in difficult situations. Under these conditions, it's not surprising that entrepreneurs also associate the arrival of this "savior" with the loss of control over their company, since responsibility for the difficulties is directly attributed to them.

On the other hand, companies supported by this method of financing present a high risk, since their future is very uncertain, in fact, the number of projects financed by venture capital remains relatively low compared to the number of applications filed. In the United States, (BATTINI, 1998) reports that out of 1000 applications filed, 100 will receive an interview notice, 50 will move on to the stage of in-depth study and due diligence and only 10 will receive an offer of financing. This behavior of investors shows, on the one hand, their lack of knowledge of the reality, the particularities and the functioning of SMEs, they have little concrete information to motivate the decision to grant or not the financing; on the other hand, the intangible nature of the assets to be financed excludes the possibility of having guarantees.

2. Constraints on access to financing for Moroccan SMEs

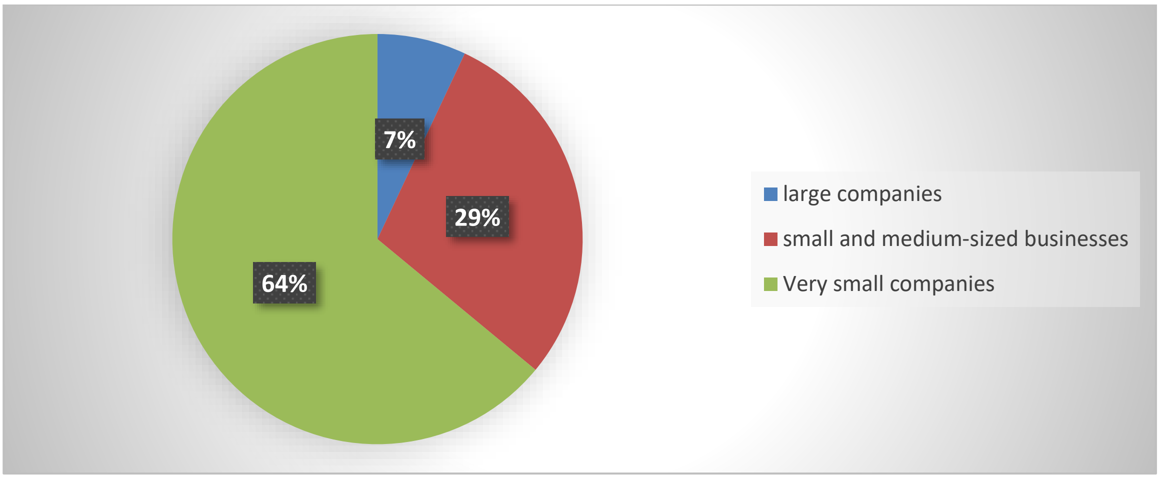
2.1. SME profile in Morocco

The growth of both developed and emerging economies depends on the activities of SMEs. They have a considerable impact on economic and social development, and make a major contribution to the creation of added value.

In Morocco, SMEs are no less important than those in other countries, and this category of company is a lever for economic and social growth. They offer an optimal allocation of productive resources and help combat unemployment and poverty.

SMEs play an important role in the Moroccan economy, as the following graph shows.

Figure 1: Breakdown of companies by category



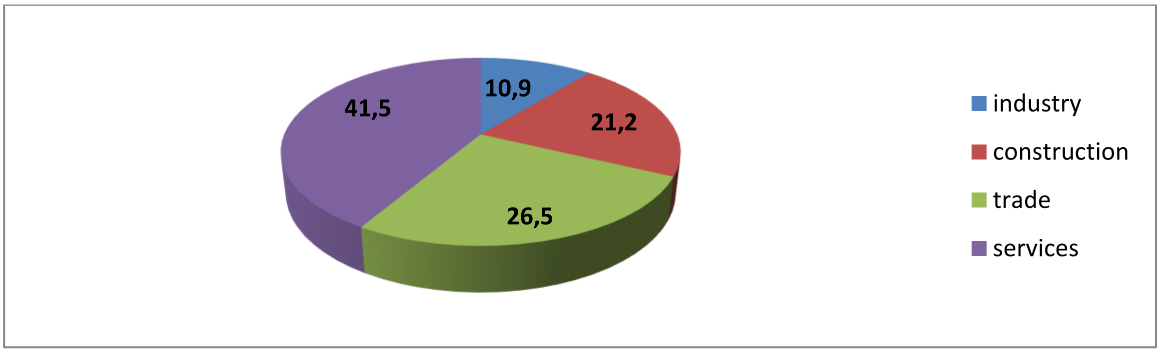
Source: HCP (2019).

According to the results of the national business survey carried out by the Haut-Commissariat au Plan (HCP) in 2019, SMEs account for 93% of all businesses in Morocco. 64% are VSEs, 29% are SMEs and 7% are GEs. This underlines the importance of small and medium-sized businesses, which play a key role in the country's productive fabric.

In terms of sectoral distribution, the latest available statistics from (HCP, 2019), show that SMEs are present in all sectors of the national economy with a significant predominance of the tertiary and trade sectors.

However, despite the presence of SMEs in all regions of the kingdom, SMEs are particularly established in the Casablanca region, which accounts for 50% of them, followed by the regions of Tangier-Tetouan-Al Hoceima, Rabat-Sale-Kenitra and Fez-Meknes. The following figure shows the distribution of Moroccan SMEs by sector of activity.

Figure 2: the distribution of Moroccan SMEs by sector of activity



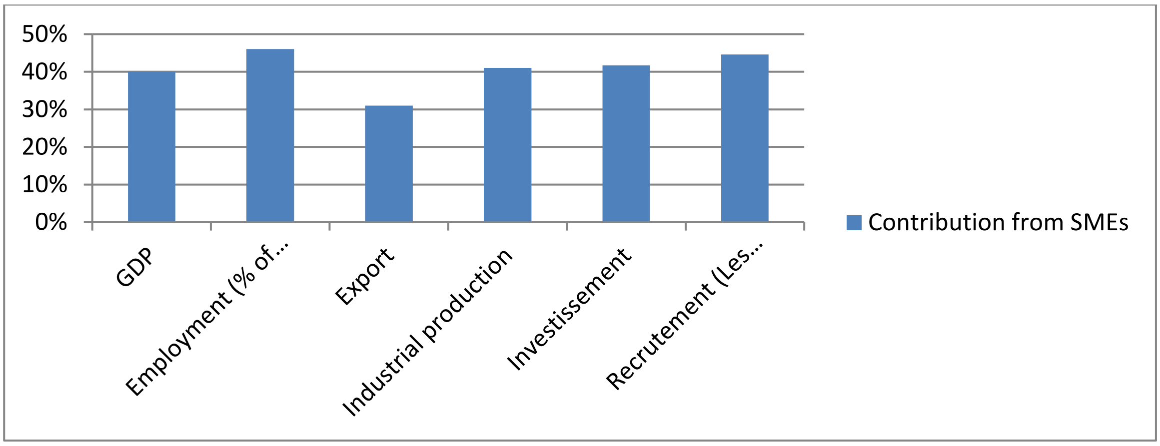
Source: developed by the author based on HCP data (2019).

According to the data in the figure above, over two-thirds (68%) of SMEs in Morocco operate in the tertiary and retail sectors, followed by the construction sector (21.2%), while SMEs operating in the industrial sector account for just 10.9%.

This shows that, as is the case in many developing countries, the tertiary sector in Morocco is an undeniable driver of economic activity, actively contributing to job creation, improving productivity and stimulating kingdom-wide growth.

Furthermore, according to the report (Euromed du Femise, 2019) on “Identifying barriers to integration into global value chains for Moroccan SMEs”, the economic contribution of this category of business to the Moroccan economy can be presented as follows:

Figure 3: Economic contribution of SMEs to the Moroccan economy



Source: Rapport Euromed 2019.

The figure above shows that SMEs make a very significant contribution to the Moroccan economy. However, despite the importance of these small entities in the development of the economy, they make only a small contribution to overall value added, and are less efficient than large companies in terms of margins and returns, given the various obstacles they face. These entities rank first in terms of difficulties, particularly those relating to financing.

2.2. Limited access to external financing for Moroccan SMEs

SMEs are the backbone of Morocco's economic fabric, making a significant contribution to economic growth, job creation and the country's regional and local development. In fact, according to the Ministry of Industry and Trade (2018), Moroccan SMEs employ 46% of the kingdom's salaried workers and account for 40% of GDP and 31% of exports. However, these entities only contribute 20% to Morocco's added value, given that they face several legislative, administrative, judicial and particularly constraints on access to external financing, which prevent them from achieving their objectives.

Of course, the difficulty of financing SMEs can be a threat to their survival. In general, these entities always need start-up capital to get their business off the ground, and then inputs to carry out their production. Similarly, although they are essentially labor-intensive, they need a minimum amount of equipment to run their businesses. In other words, they need the liquidity to finance their operating and investment cycles. In this context, there are several possible sources of financing: internal, through self-financing, or external, through debt or access to the stock market.

Indeed, according to data from (HCP, 2019), Only one company in five has resorted to external financing and this proportion rises to 46% for GEs and 18% among TPMEs. The following table represents the SME financing methods used by sector.

Table 1: SME financing methods by sector in Morocco.

Financing methods by sector				
Sectors of activity	**Self-financing**	**Family financing**	**External financing**	**Total**
Industry	70,8%	2,4%	26,8%	100%
Construction	53,7%	14,8%	31,5%	100%
Trade	55,0%	6,4%	38,6%	100%
Services	74,6%	8,4%	17,0%	100%
set	64,6%	8,5%	26,9%	100%

Source: developed by the author based on HCP data (2019).

The table above shows that self-financing predominates over the other financing methods used by SMEs, with self-financing accounting for 64.6%, family financing for 8.5% and external financing for 26.9%.

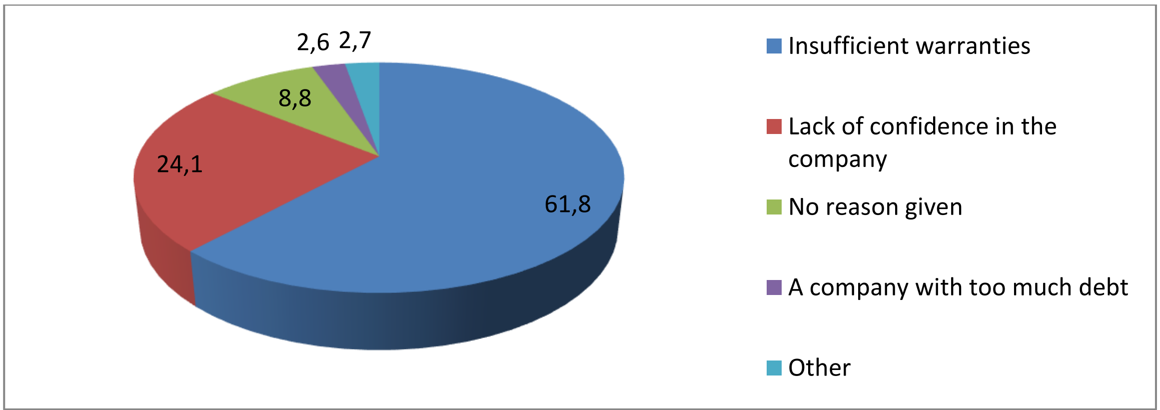
This shows that SMEs generally rely on their internal resources, in particular self-financing, to meet their needs, rather than resorting to external financing. However, internal resources are insufficient to meet the growing needs of this category of company, especially in the growth phase, forcing them to turn to external resources, notably bank credit, as their main source of financing.

Indeed, bank credit, predominates over other sources of external financing for Moroccan SMEs, due to the narrowness of the stock and bond markets. Companies resort to bank loans as a source of external financing in 93% of cases (HCP, 2019). Admittedly, in a situation of lack of liquidity or insufficient equity capital, banks are still the most important sources of external financing and are the first institutions to which SMEs turn to finance their growing needs. However, this type of company still suffers from a number of obstacles that prevent them from accessing bank financing, which in turn represents a real barrier to their development.

According to the same national business survey conducted by L'HCP (2019), a large proportion of SMEs suffer from difficulties in accessing financing, due to a lack of collateral, and don't even apply for credit. The main obstacles to bank credit applications are high interest rates, excessive collateral and religious convictions.

Indeed, on the banking side, the main reason for refusing to grant credit to SMEs remains the insufficient collateral required by banks. The following figure shows the reasons for refusing credit to SMEs.

Figure 4: Reasons for refusing to grant credit to SMEs in %.

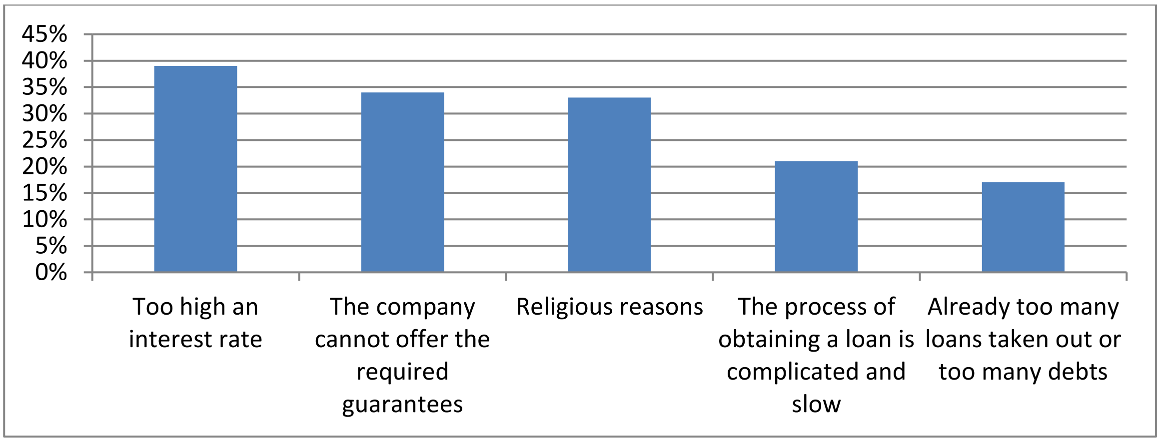


Source: developed by the author based on HCP data (2019).

According to the previous figure, insufficient collateral is the main reason for refusing to grant credit to SMEs, with a percentage of 61.8% of companies, followed by lack of confidence for 24.1% of companies, with 14.1% of companies not receiving favorable responses to their credit requests for other reasons. This shows that conventional banks are cautious about financing this category of business, because of the risk it represents compared with larger companies.

On the SME side, high interest rates, excessive collateral and religious reasons are the main obstacles to applying for bank loans. The following figure shows the reasons why companies do not apply for bank loans.

Figure 5: Reasons why companies do not apply for credit.



Source: developed by the author based on HCP data (2019).

According to the figure above, 39% of SMEs see high interest rates as the biggest obstacle to applying for bank loans. Excessive collateral requirements are the second biggest obstacle for 34% of SMEs, religious reasons for 33%, and the complexity and cumbersomeness of loan application procedures for 21% of SMEs. This shows that the main deterrents to accessing credit are interest rates, guarantees and, to a lesser extent, religious reasons.

Conclusion

In conclusion, although SMEs have a number of financing options, both internal and external, bank borrowing remains an essential source of support for their survival and growth. However, access to bank credit remains difficult, and is a real brake on the development of these businesses. Indeed, although banks offer a variety of loans covering different sectors, they have great difficulty in granting financing loans to SMEs.

Bank financing, crucial though it is, is restricted by a number of factors. On the one hand, banks are reluctant to grant loans to SMEs due to a lack of confidence in these structures and insufficient guarantees offered. On the other hand, this reluctance is accentuated by the reluctance of many SME managers to accept the terms and conditions of bank loans. The cost of credit, deemed excessive by some, high collateral requirements and, in some cases, religious considerations influence their decision not to take out a bank loan.

So, to encourage SME development and boost their access to credit, we need to rethink bank financing conditions by reducing the collateral required, adjusting interest rates and developing alternative financing solutions. These adjustments would optimize SMEs' chances of growth, thereby contributing to a more sustainable Moroccan economy.

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