



ClosingTheGap MENA

Country Report

MOROCCO

Entrepreneurial Ecosystem Assessment

Commissioned on behalf of:

Dutch Good Growth Fund (DGGF) / Investment Funds: Local SMEs

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Ministerie van Buitenlandse Zaken

ClosingTheGap MENA

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Entrepreneurial Ecosystem Assessment

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The Dutch Good Growth Fund, part Investment funds for local Small and Medium Enterprises (SMEs), is a « fund-of-funds » investment initiative from the Dutch Ministry of Foreign Affairs. The initiative aims at improving financing for the « missing middle » - i.e. entrepreneurs who have outgrown micro-finance but are not yet eligible to funding from conventional capital markets.

The Seed Capital and Business Development (SCBD) program was established to increase the impact of the DGGF by providing technical assistance, seed capital and business support services to intermediary investment funds and local SMEs. The program incorporates a knowledge development and sharing component that supports research, tests assumptions and shares insights into financing SMEs in developing countries and emerging markets – fostering industry wide knowledge exchange.

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Acronyms

ADS	Development Agency (Kingdom of Morocco)
AFDB	Africa Development Bank
AECID	Spanish Agency for International Development
ANAPEC	National Agency for Employment (Kingdom of Morocco)
BAM	Bank Al Maghrib, Moroccan central bank
BEI	European Investment Bank
BIT	International Labour Office
BTI	Bertelsmann Stiftung Foundation
CCG	Central Guarantee Fund (Kingdom of Morocco)
CGEM	General Confederation of Moroccan Enterprises
EBRD	European Bank for Reconstruction and Development
FMI	World Monetary Fund
HCP	High Commission for Planning (Kingdom of Morocco)
INDH	National Initiative for Human Development (Kingdom of Morocco)
IPEMED	Institut de Prospective Economique du Monde Méditerranéen (Institute for Economic Prospects of the Mediterranean World)
MCC	Millennium Challenge Corporation
MCE	Delegate Ministry in Charge of Foreign Trade (Kingdom of Morocco)
MCINET	Ministry of Industry, Investment, Trade and Digital Economy (Kingdom of Morocco)
MSEC	Moroccan Start-up Ecosystem Catalysts
OC	Currency Exchange Office (Kingdom of Morocco)
OCDE	OECD (Organization for Economic Co-operation and Development)
OPPPT	Office for Vocational Training and Work (Kingdom of Morocco)
OMPIC	Moroccan Office for Industrial and Commercial Property (Kingdom of Morocco)
SME	Small and Medium Enterprises
TIC	Information and Communication Technologies
VSE	Very Small Enterprises
UE	European Union
WB	World Bank
WEF	World Economic Forum

Executive Summary

Morocco stands as an exception in a region plagued by political instability and economic hardship. The kingdom faces complex social issues but has made the choice of a market economy open to international competition.

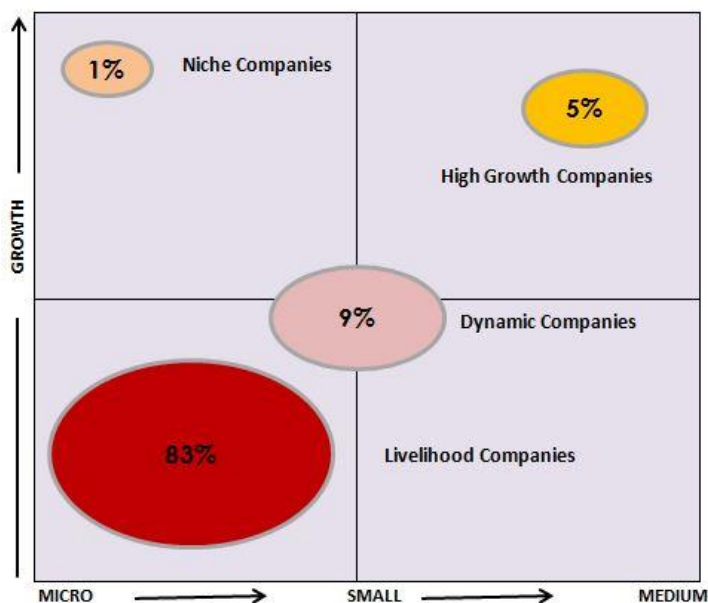
There is a clear political will to modernize the country, but growth remains limited, industrialization weak and the private sector sluggish. The performance of the economy is weighed down by a low-skilled workforce and a mismatch with the labor market. The low job creation is insufficient to absorb the growth of the working age population.

Private enterprise is struggling to thrive, due to a weak entrepreneurial culture and an unfavorable business environment. Despite the progress made by Morocco in the Doing Business ranking, very specific points continue to be perceived as obstacles and reflect a general lack of confidence between the various market operators. Payment terms are a major cause of failure for Moroccan companies, generally fragile and undercapitalized.

SME sub-segments developed for this study logically shows that:

- The vast majority of them are Livelihood Companies with a slow growth and a weak technical and financial support;
- Niche Companies are still very limited in number but have a potential for innovation and growth that can attract investors. Therefore, they have easier access to support;
- Dynamic Companies and High Growth Companies constitute a small group but are able to generate growth and perform in the fields of export or innovation. Regardless of their size, companies remain family businesses. Moroccan entrepreneurs are reluctant to open their capital to other investors and succession remains a major obstacle.

Graph 1 - SMEs sub-segments by size and growth rate



Elaboration MIDAgrou POMPIC data 2018

The Moroccan entrepreneurial ecosystem is characterized by relatively developed but conservative financial institutions, which finance companies by debt versus guarantees. The presence of Venture Capital remains weak, as do alternative means of financing.

Technical and financial support systems exist but they lack coherence and effectiveness. In terms of business support, emphasis needs to be put on technical solutions first, then on access to finance. Morocco continues to seek efficient business support models as a Start-up Act is still in preparation.

Graph 2 – SWOT analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> Morocco's strong commitment in favor of market economy Legal incentives for investments and development of Direct Foreign Investments Developed financial Ecosystem at the continental level Human Capital: educated elites Substantial offer of guarantee products 	<ul style="list-style-type: none"> Presence of an important informal sector. Corruption (in particular petty bribery). Administrative structure: heavy with limited efficiency. Employment offer limited in number and quality. Market unable to absorb newcomers. Difficult access to funding. Low entrepreneurial spirit. Structural weakness of support structures. Difficult access to land/property for Small and Medium Enterprises.
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> Economic and industrial boom. Strong urban development. Co-development policy Morocco-Africa Initiative Nationale du Développement Humain (INDH) to reduce social inequalities. 	<ul style="list-style-type: none"> Important regional differences. Risk of social and economic unrest. Emigration of educated labour force. Weakness of the entrepreneurial ecosystem (SMEs). Limited access to technical innovation. Important social differences.

The current study has identified a number of recommendations in order to contribute to the emergence of an entrepreneurial ecosystem likely to generate sustainable economic development.

Resize the ecosystem to support more niche companies in a sustainable way

1. Adopt a Start-up Act in order to provide Niche Companies with a legal framework stressing their innovative character.
2. Resize financial support systems through:
 - the creation of a fund to support Niche Companies at the Seed and Early Stage (capital, guarantees, interest free loans); This fund would turn the CCG Innov Invest initiative into a sustainable framework and provide more companies with funding;
 - the creation of new venture capital funds to support the Moroccan innovation ecosystem in terms of fundraising at the Development Stage.
3. Develop world-class support structures with technical (support programs), human (high-level expertise) and financial resources so that they can attract, support and fund innovative Niche Companies beyond the Rabat-Casablanca region, including through digitalization.
4. Promote Research & Development through:
 - the establishment of new structures;
 - the interconnection between support structures, venture capital institutions, academic research structures and large companies;
 - the development of open innovation initiatives between large companies, support structures and niche companies.

Livelihood Companies: Strengthen technical support structures and create dedicated financial solutions

1. Develop an incentive tax system for Livelihood Companies (investment, working capital, payment facilities) and support them with accounting services.
2. Develop, through long-term investor and guarantee solutions (CCG type), a fund dedicated to Livelihood Companies: financial equilibrium objective, longer return on investment, job creation, regional development.
3. Launch an SME observatory in order to identify potential, needs and performance by area in support of regional development policies.
4. Develop technical and financial support over 3 years (creation and first 3 years) by promoting targeted training (pre and post creation), mentoring and partnerships with large companies (ecosystems).
5. Develop the efficiency of support models (Business Support Structures) and create a single entry digital platform for the identification of support needs.

Support growth-generating businesses (Dynamic Businesses and High-Growth Businesses) to access new markets

1. Increase the use of market capitalization as well as the use of venture capital through investment in new companies, in particular on tickets from 20 to 50 MMDH (1.8 to 4.6 million Euros).
2. Facilitate the recapitalization of companies through mezzanine finance to support their growth and competitiveness.
3. Support businesses access international markets through export promotion incentives.
4. Identify business needs on a regional basis.

1 A step by step approach

The Entrepreneurial Ecosystem Diagnostic Toolkit¹ developed by the Aspen Network of Development Entrepreneurs (ANDE) serves as the baseline methodology adopted for the analysis of the ecosystem. ANDE methodology analyses the entrepreneurial context of a given country as a unique entity to understand its peculiar dynamics and its performances better. Ecosystem evaluation focuses on eight domains that determine dynamics and performances.

Graph 3 – The ANDE model



For each ANDE domain, specific research questions have been identified.

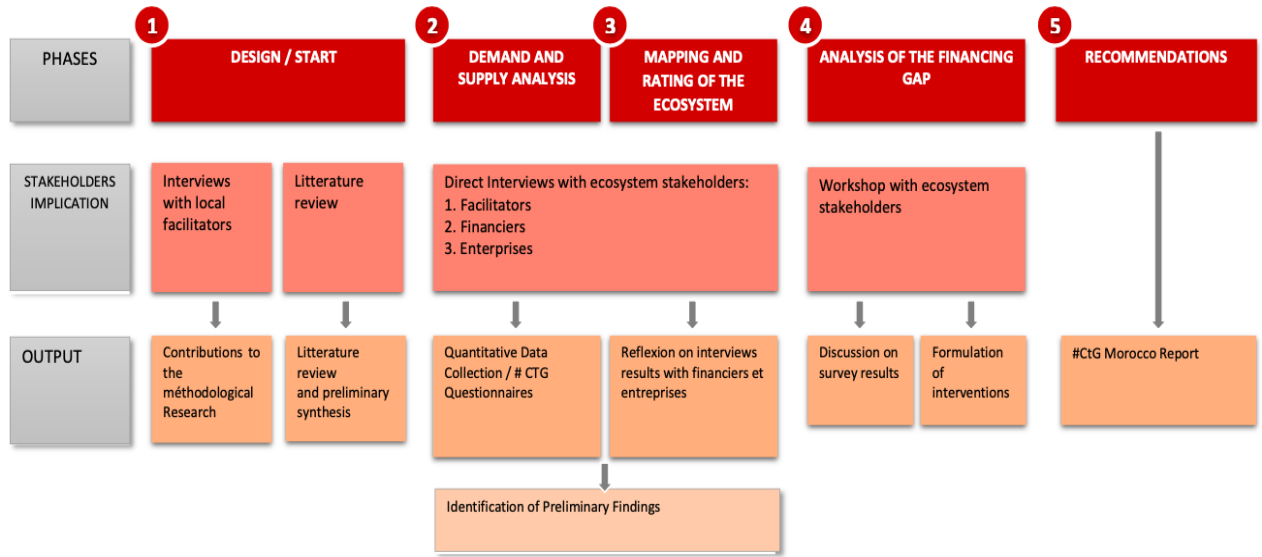
Table 1 – Research questions for each domain identified by the ANDE model

DOMAINS	QUESTIONS FOR RESEARCH
Policy	Are national policies and legislation supportive of entrepreneurship?
Markets	Does the market structure provide profitable business opportunities and maintain fair competition rules?
Infrastructure	Does the country have an infrastructural network adequate to local industrial and trade system?
Human Capital	Are qualified human resources available?
Culture	Is the local culture supportive of the development of entrepreneurship?
Innovation/R&D	Are mechanisms for encouraging innovation and protecting its results available and operational?
Support	Do entrepreneurs dispose of adequate support and assistance facilities?
Finance	Do entrepreneurs have access to financial instruments to establish and develop their businesses?

¹ Entrepreneurial Ecosystem Diagnostic Toolkit – Aspen Network of Development Entrepreneurs, 2013

The research process is made up of 5 phases:

Graph 4 - The research methodology: phases, actors and products



2 A general overview of Morocco

Table 2 - Morocco: Basic data

Area	710 850 Km ² (Ministry of Foreign Affairs and International Cooperation 2019).	
Population	35 562 918 (HCP, 2019).	
Main Cities	Rabat (Capital), Casablanca, Fes, Tangier, Marrakech, Meknes, Oujda.	
Official Languages	Arabic, French.	
Currency	Moroccan Dirham – MAD.	
GNP per capita	2860 USD (World Bank 2017).	
Doing Business Index	60/190.	
Global Competitiveness Index	58,49/140.	

2.1 An important economy in the regional context...

Morocco has negotiated free trade agreements with many countries in the world, in particular with its main economic partners such as the European Union, the United States, Turkey and other economic ensembles in Africa and the Arab World. In 2008, Morocco has signed an Advanced Status with the EU. To this date, Morocco's foreign trade remains highly dependent on the EU with 78% of its imports and 82% of its exports achieved through free trade agreements².

Over the past decade, Morocco has attempted to increase trade by developing relations with African countries and economic ensembles such as ECOWAS (Economic Community of States of West Africa). According to the Moroccan Exchange Office, exports from Morocco to West Africa have tripled since 2008, while Africa absorbed 53% of Moroccan foreign direct investment³.

Although Morocco has gradually opened its economy, the country does not take full advantage of its political stability and geographic proximity to Europe. Exports of manufactured products have increased but the export basket does not grow and remains concentrated on a limited number of industries (textiles, electronics, phosphates and derivatives, fresh fruits and vegetables, fishing products)⁴. Despite the completion of the Tanger Med port facilities and better customs management, the Moroccan supply of exportable goods remains too limited and clearly reflects the country's

² Source: www.douane.gov.ma/web/guest/notre-institution-a-l-international

³ Source: www.douane.gov.ma/web/guest/notre-institution-a-l-international

⁴ WB 2018: Governing towards efficiency, equity, education and endurance p.70.

competitiveness problems. Access to new markets is difficult due to rigid domestic prices, high cost of inputs, infrastructure and logistics⁵.

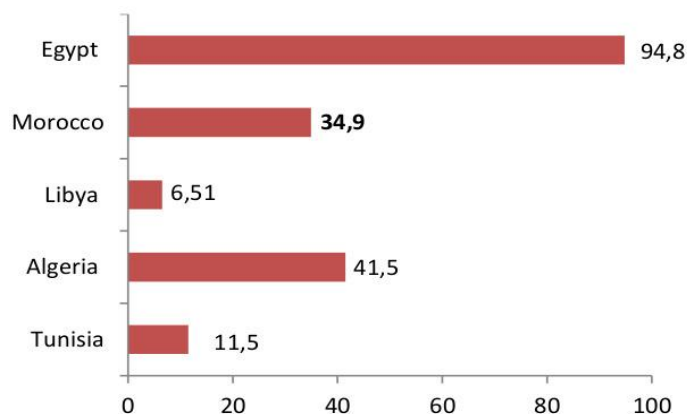
Tourism remained an important sector for the Moroccan economy with 11.35 million tourists in 2017, most tourists coming from the European Union⁶. Transfers made by Moroccans living abroad (MRE) recorded a slight decrease of 1.6% (59.69 billion Dirhams at the end of November 2018 against 60.68 billion Dirhams a year earlier)⁷.

In this context, in 2018, Morocco is the third country in terms of population and GDP per capita in North Africa. It is classified by the World Bank as a lower middle income country⁸.

According to the Global Competitiveness Index which measures the performance of 140 countries using 11 indicators, the performance of the North Africa region shows that Morocco ranks first (75th), followed by Tunisia (87th), Algeria (92nd) and Egypt (94th).

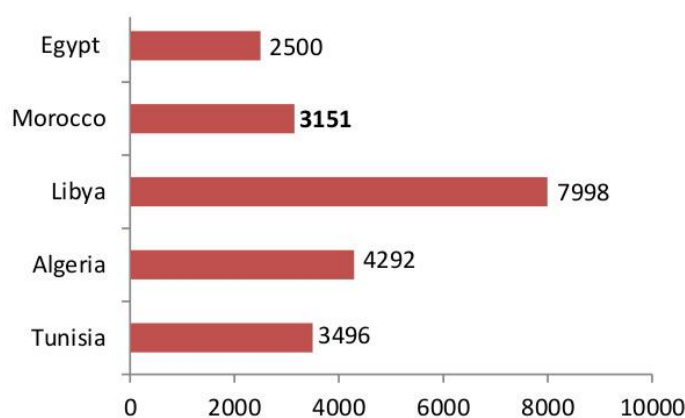
Regarding the business environment, several elements should be noted in Morocco's performance compared to the North Africa region:

Graph 5 - Population 2018 - North African region (in millions)



Elaboration of MidaGroup from the Global Competitiveness Index 4.0 2018

Graph 6 - GNP per capita 2018 - North African region (in US dollars)



Elaboration of MidaGroup from the Global Competitiveness Index 4.0 2018

Morocco is the only country in the region that has not been affected by the "Arab Spring". The kingdom is subject to strong social tensions but could avoid the political unrest which impacted whole the area. In addition, the country maintains the best performances among these four countries, particularly in terms of macroeconomic stability, financial system and infrastructure.

5 WB 2018: Governing towards efficiency, equity, education and endurance p.71.

6 Ministère du Tourisme 2018 – Chiffres Clés.

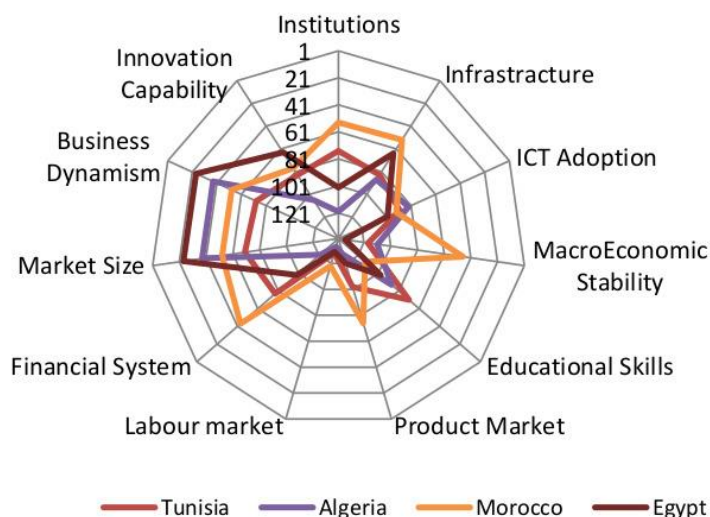
7 OC Indicateur des Echanges Extérieurs – November 2018.

8 WB 2018 – Data World Bank (2017 figures).

Further analysis of the financial system shows that, apart from venture capital, other indicators such as domestic credit to the private sector and market capitalization do confirm that the Moroccan financial system is fairly developed.

Egypt has shown remarkable dynamism in the business environment, driven by a sizeable market in terms of population and a certain capacity for innovation. With good universities, a market of 100 million inhabitants and low labor costs, Egypt remains the leader in 3 indicators (business environment, market size, capacity for innovation). Algeria's performance is quite similar to that of Egypt, but to a lesser extent. Tunisia is showing decent performance. Tunisian indicators tend to follow

Graph 7 - Positioning of North African countries 2018



Elaboration of MidaGroup from the Global Competitiveness Index 4.0 2018

those of Morocco on a more modest scale, with nevertheless a notable superiority on the level of education which remains a black point for Morocco. Regarding the labor market indicator, Morocco comes first but the 4 countries remain close to each other in terms of ranking. The participation of women in the working population of the North Africa region remains low⁹.

These elements must be put in the context of the performance of the MENA region which remains weak compared to the rest of the world. The four countries analyzed overall occupy unfavorable positions, thus confirming their difficulties in facing competition on international markets.

2.2 ...But vulnerable due to a limited growth and a sluggish private sector

Located in North-West Africa, Morocco is one of the 10 largest economies on the continent¹⁰. Over the past two decades, strategic plans have been developed for different sectors of the economy, such as “Plan Maroc Vert” for agriculture¹¹ and the Industrial Acceleration Plan¹². Besides the extraction of phosphate and chemical industries, industrial activities have developed considerably with the development of various sectors such as the automobile, aerospace, agri-food, tourism and textiles¹³.

Since the late 1990s, Morocco has engaged in an open economy and in an important reform process in order to transform its economic and social model¹⁴. The aim is to reduce the country's dependence

9 World Bank Open Data 2019: Participation Rate to Active Population, Women (% of female pop - 15 years and more).

10 World Economic Outlook Database, April 2018.

11 Ministère de l'Agriculture, de la Pêche Maritime, du Développement Rural et des Eaux et Forêts 2018.

12 Ministère de l'Industrie, de l'Investissement, du Commerce et de l'Economie Numérique 2018.

13 Office des Changes: IPEE Novembre 2018.

14 MCC-BAD: Morocco's growth diagnostic p.28.

on agriculture and on extractive resources such as phosphates. This reform process has led to economic growth and a significant drop in indicators of absolute poverty and unemployment: the poverty rate has fell from 15.3% in 2001 to 9% in 2007 and the unemployment rate from 13.4% in 2000 to 10.2% in 2017¹⁵.

The government plans to implement accelerated tax reforms to control the budget deficit and broaden the tax base. The objective is to make the tax system fair, more decentralized and sustain competitiveness¹⁶. Furthermore, in order to help the economy absorb external shocks and preserve price competitiveness, Morocco is gradually moving towards a more flexible exchange rate regime¹⁷.

The growth rate of Moroccan GNP has reached 4.1% in 2017 and 3.1% in 2018¹⁸, mainly due to the improvement in agricultural productivity (good rainy season and implementation of the "Plan Maroc Vert")¹⁹. However, Morocco is not getting a fair return on these investments and the growth of its GNP is lagging behind that of emerging countries (5.1% in Egypt, 6.3% in China and 7.5% in India)²⁰. Although benefiting from very high investment rates and among the most important foreign direct investments in the MENA region, several problems continue to slow down the Moroccan economy²¹:

- a growth rate below expectations;
- low pace of industrialization;
- a private sector that is not dynamic enough and that lacks small and medium-sized innovative and profitable businesses.

Economic vulnerability remains a concern for most of the population with problems such as health, education and unemployment, due to an insufficiently educated workforce²².

15 HCP: https://www.hcp.ma/Taux-de-chomage-national-selon-le-diplome_a267.html

16 IMF – Morocco Report 75-2018, p.15.

17 IMF – Morocco Report 75-2018, p.16.

18 AFDB: <https://www.afdb.org/en/countries/north-africa/morocco/morocco-economic-outlook>

19 AFDB - North Africa Economic Outlook 2018, p.6.

20 Source: www.focus-economics.com/countries

21 MCC-BAD: Morocco's growth diagnostic p.28-29.

22 MCC-BAD: Morocco's growth diagnostic p.29.

3 A private sector with uneven development

3.1 A defined framework for companies

A definition of Small and Medium Enterprises exists in Morocco since the adoption of Law 53-00 on July 23, 2002. Article 1 of the 2002 Charter defines an SME as "any enterprise managed or administered directly by its owners, co-owners or shareholders, and which is not held at more than 25% of its capital by an entity which does not fall under of the definition of SMEs.

Table 3 - Moroccan definition of SMEs

TYPE	TURNOVER (million MAD)
Very Small Enterprises	Turnover ≤ 3 M MAD (275 000 Euros)
Small Enterprises	3 M MAD (275 000 Euros) ≤ Turnover ≤ 10 M MAD (900 000 Euros)
Medium Enterprises	10 M MAD (900 000 Euros) ≤ Turnover ≤ 175 M MAD (16 000 000 Euros)

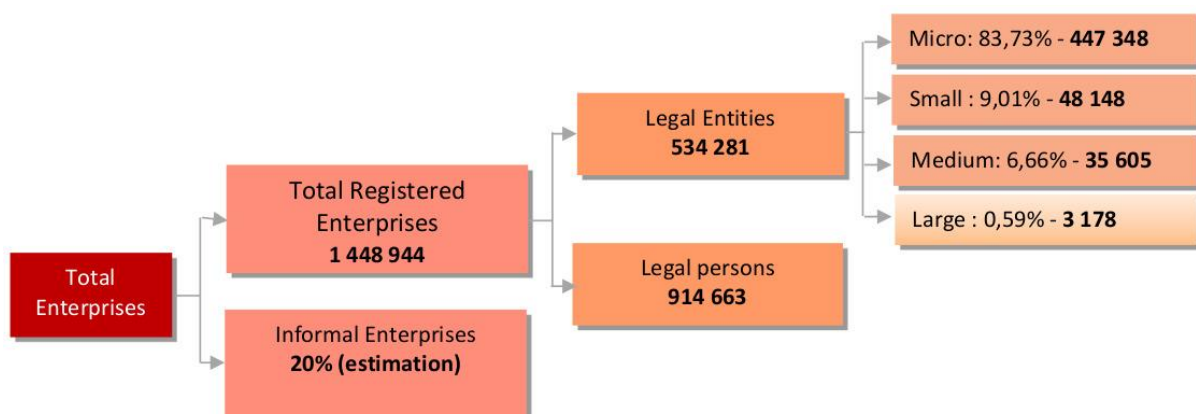
Source: HCP

It is important to note that many sub-categories coexist within companies: Dynamic and High-Growth Companies can be similar in size or turnover but face different problems and solutions.

The Moroccan Industrial and Commercial Property Office (OMPIC) is the public body in charge of the protection of industrial property (trademarks, patents, industrial designs) and the Central Business Register (RCC) in Morocco. Under the supervision of the MCINET, OMPIC's Central Business Register gathers the data of all legally registered companies or entities having commercial activities on the Moroccan territory.

Graph 8 - Estimated number of companies in Morocco

According to OMPIC data, the total number of businesses in Morocco includes 534,281 active businesses, mainly made up of micro-businesses, with a very large presence of family-owned businesses²³. They operate mainly in the construction, trade and services sectors, with a predominance of limited liability companies (LLC) for more than 90% of them, including those with a sole shareholder.

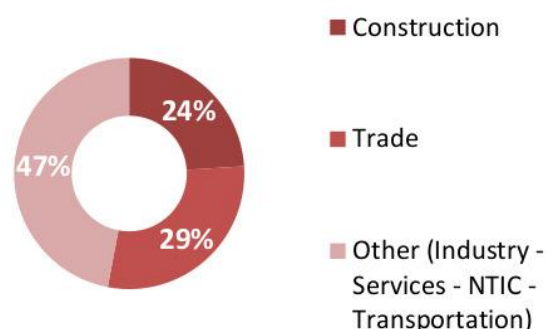


23 Baromètre de l'OMPIC 2019.

SMEs by sector

Sectors may be grouped into three main categories: trade comes first followed by construction; the last category is made up of industry (7%), transport (7%) and hotels/restaurants (5%).

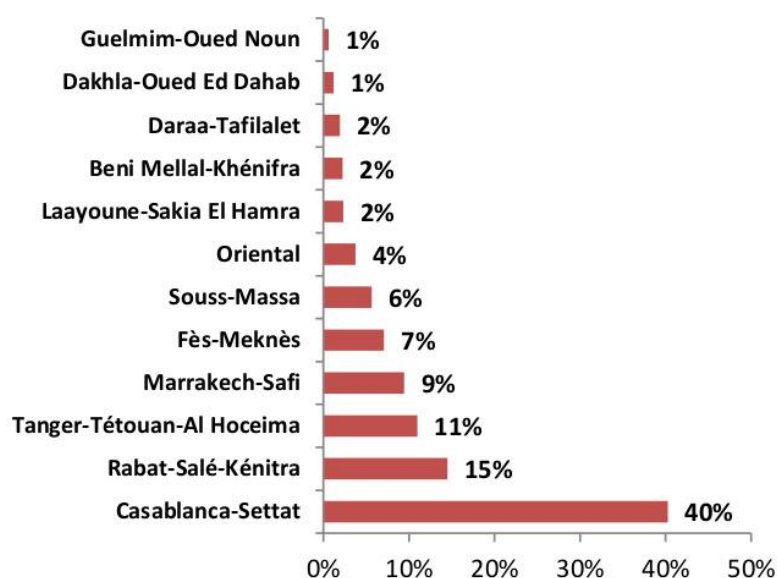
Graph 9 - SMEs by sector (consolidated)



3.2 Companies concentrated mainly in the Central and Northern regions

In terms of economic activity, Morocco is characterized by a significant difference between the central coastal region and the rest of the country. After a long post-colonial period (from 1956 to the mid-90s), Morocco began to develop economic infrastructures in other regions for a more balanced growth. In addition, in 2015, a new territorial division came into force in order to support the project of “Advanced Regionalization” and promote a better integration between the 12 regions of the kingdom²⁴.

Graph 10 - Concentration of businesses by region



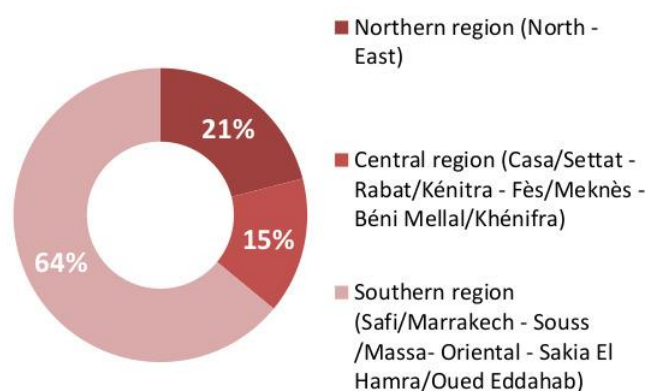
The figures show that there are still large differences between the north-central coast and the inland regions (population and skilled workforce have a similar geographic distribution). The large southern regions still have low economic returns.

²⁴ Decree n°2.15.10 – February 20, 2015.

The Center and the North, the country's industrial locomotives

Over the past two decades, the North zone - more specifically the city of Tangier - has emerged thanks to the automotive sector (Renault factory and its subcontractors) and to the industrial facilities of the port of Tanger Med. The textile industry has also developed in the Tangier region. Several projects are under development in the eastern region (Oujda-Nador), although they are not yet operational: port of Nador West Med and Mar Chica tourist hub.

Graph 11 - Center and North zones, industrial locomotives of the country



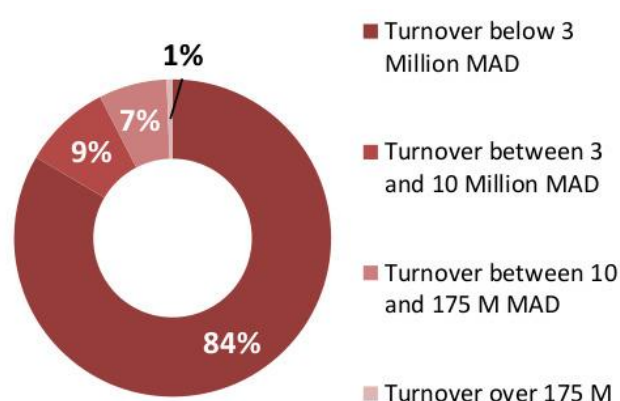
The Central zone as a whole remains the driving force of the country: the Greater Casablanca region constitutes a major concentration of industries and businesses. Casablanca is undeniably the city with the highest entrepreneurial spirit in the country. Rabat, the capital of the kingdom, is an important center for the tertiary industry. Regarding Kenitra, PSA-Citroën is currently developing a large car installation and the city should follow a development comparable to that of Tangier.

The southern zone has traditionally been driven by the growth of Marrakech and Agadir, two cities that are essential for the Moroccan tourism industry. The Souss region, around Agadir is also an important center of production for agriculture and agro-industry.

3.3 Companies with limited turnover

Based on the definition of SMEs in Morocco, Livelihood Companies constitute the bulk of registered businesses. Due to their structure and their inability to access financing, they are unable to sustain a solid economic growth and have a limited annual turnover: 84% of them are below 3 M MAD (275,000 Euros). Small (9%) and medium-sized enterprises (7%) are capable of generating a sustainable growth if they can overcome obstacles such as under-capitalization (lack of funding) and access to new markets. They are included for the Small Enterprise between 3 and 10 M MAD (between 275,000 and 900,000 Euros) and for the Medium Enterprise between 10 and 175 M MAD (between 900,000 and 16 million Euros).

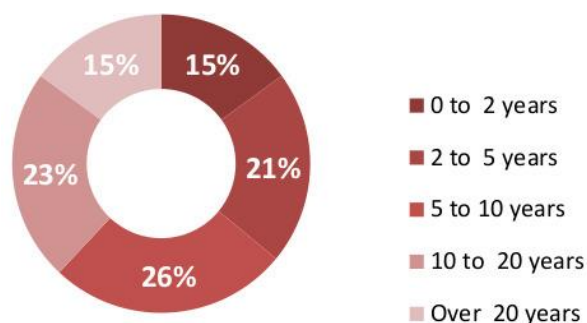
Graph 12 - Distribution of companies by turnover



3.4 Low survival rate for new businesses

Companies from 0 to 5 years old constitute 36% of registered companies. This category of companies is the most exposed to the risk of failure: a quarter of these companies never even started their activity and a third of them never reached the age of 3 years. These elements cast a doubt on the ability of the entrepreneurial environment to generate viable businesses.

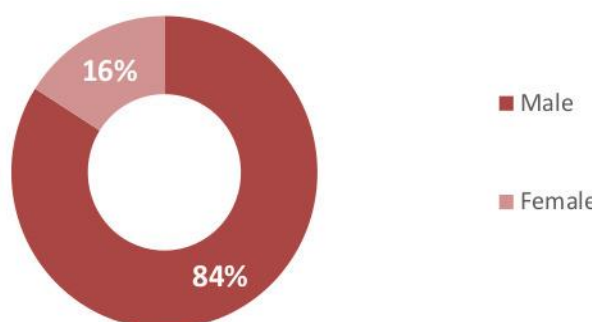
Graph 13 - Business lifespan



3.5 Entrepreneurs' profile: mostly men

OMPIC sources show that businesses are run mainly by men. Women entrepreneurs are concentrated in the Casablanca-Rabat region particularly in the sectors of trade, services and certain forms of self-employment²⁵.

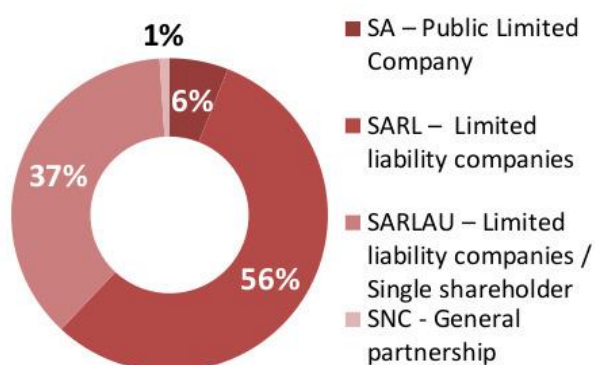
Graph 14 - Profile of entrepreneurs by gender



3.6 An overwhelming majority of Limited Liability Companies

Limited liability companies - including those with a "single shareholder" - represent 93% of the total of registered companies. Limited liability companies, in particular those with a single shareholder, often reflect "low growth" companies owned by small entrepreneurs engaged in a solitary high-risk adventure. No minimum capital is required for the creation of an LLC.

Graph 15 - Legal form of the company



25 HCP/ WB study 2017: « Le marché du travail au Maroc : défis et opportunités ».

3.7 Businesses that are struggling to grow

SMEs represent 95% of the Moroccan economy, 50% of employment, 20% of added value, 40% of production, 50% of investments and 30% of exports²⁶. 6000 companies are involved in export transactions, including 1200 from the textile sector.

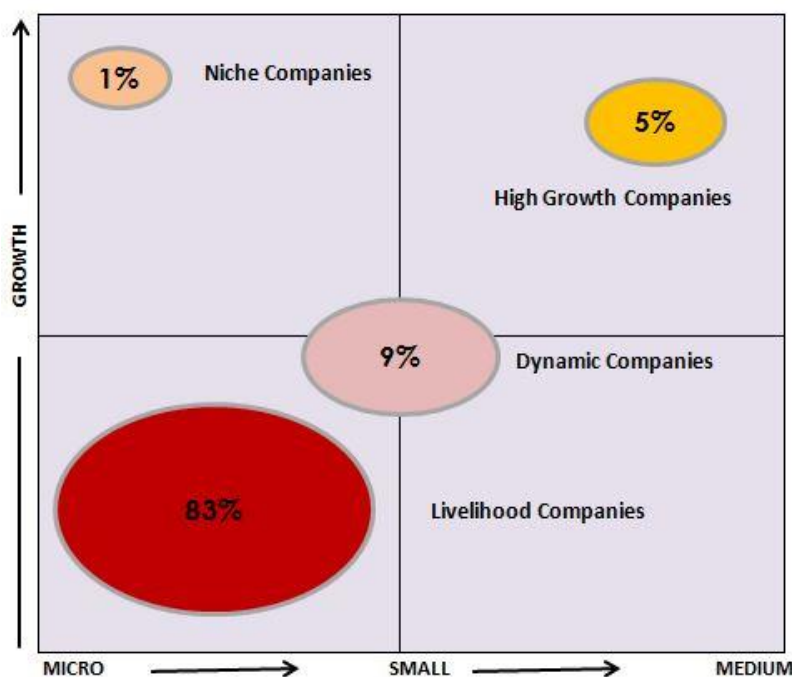
Even if small and medium-sized enterprises represent at least 95% of the Moroccan economy, they still constitute a weak link in the national economy: The rate of business creation went from 11% in 2007 to 8% in 2015. OMPIC records indicate that 41,104 companies were registered in 2017 (compared to 40,131 in 2016), while 5,726 companies were removed from the RCC (10% more than in 2016)²⁷.

At the regional level, new registrations are mainly concentrated in the Casablanca-Settat region (36.5%), followed by Rabat-Salé-Kénitra (15.3%), Tanger-Tétouan-Al Hoceima (10.8%) and Marrakech-Safi 10.41%)²⁸.

3.8 A "missing link" characterized by small businesses with limited growth

The processing of OMPIC data shows several types of companies within the Moroccan entrepreneurial ecosystem.

Graph 16 - SMEs sub-segments by size and growth rate




Elaboration MIDAGroup OMPIC data 2018²⁹

26 IPEMED 2018 - Le financement des TPE/PME et la sécurisation des investissements p.8.


27 OMPIC – 2017 Annual Report p.32-33.


28 OMPIC – 2017 Annual Report p.32-33.

29 Segmentation based on 2018 OMPIC data according to Collaborative Dalberg / CFF for Frontier Finance «Segmentation to better understand the financial needs of enterprises », 2018.


-  **Livelihood Companies (85%)** constitute the largest group in the formal private sector. They generate low annual turnovers and returns on investment. They generally produce for the local market and face strong competition from the informal sector and international brands.

A law introducing the auto-entrepreneurs status was adopted in January 2015 with the aim of strengthening formal businesses and better integrating women and young people. Potential auto-entrepreneurs are estimated at 3.5 million people.

-  **Dynamic Companies (9%)** are made up of small and medium-sized companies capable of generating sufficient growth through profitable activity. They operate in the traditional manufacturing sectors (building materials, leather / shoes, food and clothing) but also in services, ICT, transport and telecommunications. They include companies that are active in exporting to the main foreign markets of Morocco (European Union, Sub-Saharan Africa, MENA region).

-  **Niche Companies (1%)** are mainly emerging companies with a specific market and significant growth potential. Often starting in incubators or co-working spaces, they focus on innovative activities such as ICT, telecommunications, finance. Women and young entrepreneurs play an important role in this segment.

Niche Companies constitute a growing category, estimated by various incubators between 600 and 1,200 entities, although no official statistics are available. A law on Moroccan start-ups ("Start-up Act") is being prepared in order to facilitate their development. They benefit from a positive trend due to their activity (ICT, green industry), but also suffer from problems of access to finance³⁰.

-  **The High Growth Companies (5%)** are large enough and fast-growing companies. Their business model allows them to target high potential markets. They focus on services such as ICT, telecommunications and logistics. These companies are likely to interest Venture Capital but their number is not growing fast enough.

30 WB 2017 – Igniting Climate Entrepreneurship in Morocco p.49.

4 Entrepreneurial ecosystem: structural constraints to growth

Morocco has improved in its Doing Business ranking, which went from 130 in 2009 to 60 in 2019. Significant progress has been achieved but the business environment remains marked by specific constraints.

Table 4 - Perception of obstacles to entrepreneurship in Morocco

BUSINESS CONSTRAINT/CHALLENGE	RANK
Market Practices	****
Employment/Labour Market	***
Informal economy	***
Access to finance	**
Regulations and taxes	**
Political and social instability	**
Regulatory framework	**
Infrastructure	*

(Ranking: **** Impact important - *Impact limité)

World Bank Group – Enterprise Survey 2013/ Obstacles for Business.

4.1 A weak entrepreneurial culture

Entrepreneurship is not a recent phenomenon in Morocco. Certain social groups are renowned for their ability to manage businesses. However, this must be put into perspective in the light of the situation in post-independence Morocco after 1956: decline and stagnation of investment, powerful public sector, small private sector, agriculture as the main driver of the Moroccan economy. Even the big processing industries have benefitted from state investments.

By the 1980s, tensions and social transformations worsened with an increasing demography and the exodus from the countryside to the cities. The IMF's Structural Adjustment Program and state reforms were imposed and the country committed to austerity. Today, these changes have enabled Morocco to reposition its economy, develop its private sector and consolidate its financial ecosystem. However, the effects of the economic development of the last 60 years in Morocco are still being felt in terms of mentalities:

- Upstream of the job market, the educational system does not provide the youth with tools to understand the entrepreneurial world. Nor does it stress enough the importance of the free enterprise to the economy.
- For many people, especially for the elderly, wage-earning represents a secure way of life while entrepreneurship constitutes an important risk.
- Entrepreneurship is an individual venture and a lonely initiative. An entrepreneur evolves at his own risk: being left out of the job market, contract a personal debt (family and friends, consumer credit, savings, equity).
- There are practically no bridges between salaried work and entrepreneurship (time-offs, grants). If he is a former employee, an entrepreneur is forced to cut himself off from his professional environment and will find it all the more difficult to return to the workforce if his business ends with a failure. Likewise, many experienced employees give up trying to get into entrepreneurship because of the professional risk they take.

4.2 Companies struggling to catch market opportunities

Morocco has deliberately chosen a market economy open to the world as shown by its numerous free trade agreements³¹. The kingdom has also managed to capture 33.5 billion Dirhams of Foreign Direct Investment (more than 3 billion Euros), which is a performance in the region³². Free trade agreements constitute an opportunity to trade with large economic ensembles, yet they are criticized for having negative consequences on a poorly performing economy. In the global context, Moroccan offer of export products and services remains limited with a predominance of low-tech products. Morocco's trade deficits with Turkey and the USA have almost tripled between 2006 and 2017 and the trade deficit with the EU is structural³³.

In this context, Morocco is actively trying to diversify its international trade with breakthroughs in Africa. This has resulted in the development of the presence of Moroccan banks and companies in sectors such as construction, phosphates and telecommunications. According to the Moroccan Exchange Office, exports from Morocco to West Africa have tripled since 2008, while Africa absorbed 53% of Moroccan foreign direct investment (2008-2015)³⁴.

4.3 A mismatch between education and the labor market

The labor market is impacted by the following factors:

- Lack of inclusion (young people and women are not sufficiently integrated into the labor market);
- Low job creation (insufficient to absorb the growth of the working age population);
- Poor quality of employment (informal jobs, low productivity services).

Small and medium-sized enterprises face many constraints: corruption, low-skilled labor, low competitiveness, high wage costs and competition from the informal sector which hamper their growth and reduce their capacity to create jobs³⁵.

Out of a total population of 35.5 million, almost 12 million (47.4%) constitute the active population with an unemployment rate of 9.7% (1.1 million). Of the employed labor force (10.6 million), more than 32% are self-employed and more than 46% are employees (including 59% in the informal sector). The 40.8% of employed labor force in the formal sector are divided between the public and private sectors (respectively 42% and 58%).

The labor market is expected to experience a significant growth in the coming years, with 46% of the population under 25 years old, despite a declining population growth rate. Unfortunately, the educational level of the population constitutes a major obstacle and prevents Morocco from taking full advantage of this demographic advantage.

31 AMDIE: www.invest.gov.ma

32 MCINET 2019: www.mcinet.gov.ma/fr/content/investissement-1

33 OC: www.oc.gov.ma Indicateurs des échanges extérieurs 2019

34 OC 2017: Etude Echanges Maroc-Afrique-Subsaharienne p.4 – 25.

35 HCP/ WB study 2017: « Le marché du travail au Maroc : défis et opportunités », p.8.

The distribution of jobs by sector should be relatively stable in the long term³⁶:

- Primary sector: the share of agriculture is decreasing slowly but gradually (40% of jobs);
- Secondary sector: industry and crafts remain marginal in terms of jobs (around 20%) and fails to inject real momentum into the labor market as a whole;
- Tertiary sector: the service sector is characterized by a low level of development and technicality. It represents around 40% of jobs and seems to be growing but the majority of jobs are concentrated in low-skilled traditional services (retail trade, wholesale, transport).

Graduates are often disconnected from the needs of the labor market. In 2017, the unemployment rate affected 3.8% of people with no diploma, 15% of graduates of medium level and 23.30% of graduates of higher level while the overall rate was 10.2%³⁷. In the same year, these rates impacted the female population even more severely: 3.7% among people with no diploma, 25.8% of graduates of medium level and 33% of graduates of higher level while the overall rate was 14.7%³⁸. These rates reflect the shortcomings of the education system and its inadequacy with the labor market.

In addition, no less than 600 engineers leave their country each year to pursue careers abroad³⁹. This emigration, sometimes described as a "brain drain" constitutes a net loss for the Moroccan economy as well as for the intellectual elite. However, this emigration must be put into perspective with the limited opportunities offered by the labor market in Morocco.

On the vocational training side, the public body OFPPT, Office de la Formation Professionnelle et de la Promotion du Travail, has been subject to reforms in 2018-2019. The purpose of these reforms is for apprenticeship training.

36 HCP/ WB study 2017: « Le marché du travail au Maroc : défis et opportunités », p.19.

37 HCP: www.hcp.ma/Taux-de-chomage-national-selon-le-diplome_a267.html

38 HCP: www.hcp.ma/Taux-de-chomage-de-la-population-feminine-selon-le-diplome_a266.html

39 CFCIM: www.cfcim.org/magazine/57430

VULNERABLE CATEGORIES: THE WOMEN AND THE YOUTH

The position of young people and women in the labor market remains difficult and has evolved very slowly. In its 2017 study, the HCP has clearly established that women and young people - including graduates - are vulnerable categories: in general, the "entrepreneur profile" is that of a man (90%) who manages a small business (98.2%) and has no more than 5 employees. The "average entrepreneur" tends to be concentrated in the main urban centers (5 out of 12 regions) and has no diploma (69.5%).

Under these conditions, it seems logical that a growing feeling of job related insecurity has developed among young people. Two thirds of those who are employed do not have formal employment contracts or medical care. Among young people, 58.6% have no diploma and work in sectors such as agriculture, construction and services. In addition, vocational training is a serious problem due to the mismatch between the supply of training and the needs of employers. In general, 27.9% of young people aged 15 to 24 are neither in training nor at work and lack medical care because of their professional status.

Women are another category which remains vulnerable: although Moroccan women have benefited from several institutional and social reforms promoting more rights and emancipation, their contribution to the country's economy remains low. The presence of women in the labor market has hardly benefited from these reforms. The increasing number of women in schools and in the workplace is clouded by significant gender disparities: women are under-represented among workers, business leaders and managers. Women entrepreneurs represent 10 to 12% of the total number of entrepreneurs at the national level and are focused on the Casablanca-Rabat region, in the sectors of trade, services and certain forms of self-employment. In terms of access to employment, there is a marked difference: only 22.4% of women have a job, compared to 71.6% of men.

Graph 17 - Entrepreneurship of women and young people in Morocco

WOMEN	YOUTH
- Lack of female role models	- Low job creation
- Unemployed female graduates on the rise	- Unemployment on the rise including graduates
- Innovation: weak women representation	- Entrepreneurship is seen as a backup option
- Cultural mindset (men versus women)	- Too few bridges between work and entrepreneurship
- Work/family life burden: Lack of support structures	
- Less bank guarantees in the hand of women	

4.4 Entrepreneurial support shows a limited impact...

Business support in Morocco is the result of several public and private institutions, associative actors and cross-cutting initiatives. The simple understanding of the missions of the various stakeholders is difficult to read and requires a more coherent “single entry” platforms⁴⁰ (digital platform or through reformed Regional Investment Centers). The first step is to help companies diagnose their specific needs in terms of technical support, funding and grants.

The entrepreneurial ecosystem of the past thirty years has been marked by failed support programs (Credit Jeunes Promoteurs and Moukawalati). Lessons drawn from these failures show that:

- pre and post creation support must above all be technical first and then only financial. The supporting role could have been carried out by chambers of commerce and professional associations, but their performance varies from a region to the other.
- Regardless of the reforms planned, it is essential that the support structures be equipped with the skills and expertise necessary for adequate business support services.

Reforms have been initiated by MCINET so that the National Agency for the Promotion of Small and Medium-sized Enterprises (Maroc PME) constitutes the cornerstone of business support. Other entities involved (CRI, AMDIE, CCIS among others) have all undergone reform processes in recent years. As a result, Maroc PME would certainly benefit from having a greater territorial representation and proximity to businesses in the long term.

This supporting role could have been carried out by chambers of commerce (CCIS) and professional associations, but it is clear that they are not empowered for that mission. The performance of CCIS varies from a region to another. Even if reforms are planned, it is essential that the support structures be equipped with the human skills and expertise necessary for targeted support actions.

MANAGEMENT AND ACCOUNTING: CECOGEC

Created in early 2000 by some Chambers of Commerce, the “Centres Agréés de Gestion et de Comptabilité” (CECOGEC) had the objective of providing appropriate accounting services to Livelihood Companies and supporting them in structuring their activities. They were also expected to help bring about better tax fairness for this category of businesses. Two decades later, this has been a failure: 3 chambers of commerce only have deployed these services.

In fact, the success of such a project could have helped to structure the environment and management of Livelihood Companies. It would have given them more credit in the eyes of banking institutions. The other consequence is that it would have been extremely useful to use the data collected as part of an “observatory” for Livelihood Companies (management standards, business expertise, mapping of companies by area. That service could have been a vector for business support, but carried by the chambers of commerce and out of reach for its potential users, it never took shape.

⁴⁰ Site web: www.tamwil.info

Maroc PME



Maroc PME is at the heart of the Moroccan business support system and is responsible for financial and technical support. Maroc PME supports the competitiveness of ecosystems and businesses through operational performance, investment and access to markets. Maroc PME's approach to Livelihood Companies is relatively recent as well as the status of auto-entrepreneur (created in 2015).

Services include financial and technical support systems subcontracted through private experts (referenced or approved by Maroc PME). This support is intended for existing companies rather than for business creation and is done through a skills transfer platform (400 firms / 1000 experts) in order to improve their competitiveness (ISO certification, audit energy, human resources management, etc.). The support by Maroc PME covers up to 80% of the cost of the expertise.

Table 5 - Maroc PME support programs (Non exhaustive list)

PROGRAM	BUSINESS CATEGORY	SUPPORT
ISTITMAR	TPE (Turnover below 10 million MAD)*	Investment project 30% up to 2 million MAD
IMTIAZ	PME (Turnover between 10 million and 200 million MAD)**	Investment project 20% up to 10 million MAD

* Turnover : below 900 000 Euros.

** Turnover : 900 000 to 18 million Euros.

Upstream of the market, the Caisse Centrale de Garantie (CCG) acts as a trusted third party with guarantee solutions designed to remove market obstacles. CCG is not in direct contact with businesses: its guarantee solutions are implemented by the banks which make the final decision to grant loans. As a result, many entrepreneurs find it difficult to access CGC solutions.

CAISSE DE GARANTIES ET DE GESTION (CCG)

Founded in 1949, the CCG is a public financial institution, which helps private initiative by encouraging business creation and development. The CCG intervention is carried out through guarantees, co-financing and balance sheet financing. Partners include commercial banks, venture capital firms, investment funds, leasing companies, management companies, and senior lending associations.

The CCG's strategy aims at improving access to finance for small and medium-sized businesses, seed funding and innovation with products adapted to the life cycle of companies (investment, operation, innovation and transmission). The CGC is not in direct contact with businesses and its guarantee solutions are implemented by the banks, which make the final decision to grant credit or payment facilities. As a result, many entrepreneurs find it difficult to access CGC solutions.

CGC intervention and the instruments it has deployed have had a beneficial effect both for SMEs, in particular for niche companies. The system put in place by CCG for niche companies constitutes a foundation and has helped to structure support services and financial resource through 16 labelled actors such as incubators and accelerators. Launched in 2016, the Innov Invest Fund, financed by the World Bank and managed by the CCG, is endowed with 700 million Dirhams.

Labelled structures:

Each of these structures is now able to finance 10 niche companies on an annual basis (total of 160 start-ups), provided that they can meet the criteria of innovation and return on investment, which is still complicated in the Moroccan context. Once the fund has been exhausted, it is essential to perpetuate the funding dedicated to innovation and above all to scale it up to the scale of Morocco's potential within a national and regional framework, the Kingdom representing only 8% of companies from the MENA region (Magnitt – The Start-up Ecosystem in the Arab World).



In direct contact with businesses, banks are involved in various ways in supporting entrepreneurship and some of them have developed genuine knowledge of the business. However, the situation remains rigid as banks keep a prudential approach.

Foundations such as the INDH and the Mohamed V Foundation for Solidarity are involved in pilot initiatives such as Ben Msik's "Centre des TPE solidaires", with banks and entities such as Anapec, OFPPT and councils representing the Region and the City of Casablanca⁴¹. This type of initiative will have to be duplicated in other regions of Morocco.

Programs such as "Maroc Moubadarate" are implemented by the Social Development Agency (ADS) in coordination with other institutional actors⁴². Associations⁴³ are developing support based on mentoring while large industrial groups are developing support on their own value chain based on partnership and subcontracting⁴⁴.

The impact of the existing business support can be measured through the four categories of companies identified:

- Dynamic and High-Growth Companies are by their size the most resilient and the first to benefit from the existing support systems, regardless of their effectiveness.
- Livelihood Companies are the most disadvantaged due to the constraints of access to property, technical and financial support.
- Niche companies have dedicated support structures (co-working spaces, incubators and accelerators) which offer them a positive business environment and a financial support adapted to their specificities. The main challenge for niche businesses is rather to increase the support in size and quality.

There is a bit of confusion as to available support services. The entrepreneurial ecosystem is awaiting a "Start-up Act" and a tax system adapted to the different categories of companies.

41 Initiatives for VSE : "Dar Al Muqawil" or « Centre des TPE Solidaires » (Attijari WafaBank, Banque Populaire, BMCE Bank and Crédit Agricole Maroc).

42 Source : Ms Amal Cherif Haouat, President of the «Forum International de la TPE»

43 Réseau Entreprendre Maroc or Ceed Maroc.

44 OCP and Cosumar ecosystem structuring initiatives.

4.5 Expanding infrastructure

Infrastructure is a key factor in the country's development process and has been greatly improved both in volume and quality. Over the past two decades, Morocco has invested massively in major infrastructure projects with a large impact on the economy: ports, airports, renewable energy, rail lines, urban development. The country has even succeeded in acquiring an expertise which is now being exported to several African markets.

Regional disparities are important between the west-central and northern regions -more densely populated- and the hinterland (East and South). Electricity and access to the water distribution network have been considerably extended in urban and rural areas, but connection costs remain high (including for businesses). Electricity prices remain high not so much in absolute terms but above all in relation to purchasing power⁴⁵.

The level of infrastructure (air, road and rail transport) is not a fundamental constraint to growth in Morocco, but its cost of access can be quite high for businesses, as well as logistics services⁴⁶. Morocco's total logistics costs⁴⁷ are around 20% of GDP (compared to 10 to 16% for European Union countries, or 15 to 17% for emerging countries⁴⁸. The national target is 15%. There are many industrial & logistics zones, tourist zones, offshoring zones⁴⁹. Some have continued to suffer from problems related to their design, their roads or their access by public transport. The price of land also remains high.

4.6 Innovation and Niche Companies: a new and still limited ecosystem...

A collaborative approach but results short of expectations

Morocco has demonstrated a genuine political willingness to modernize its economy with the launch of specific partnerships between public structures, universities, associations and private actors. However, these initiatives are limited due to implementation procedures which are complex, slow and unsuited to the specificities of research. In practice, flexibility, responsiveness and patent protection are needed.

Morocco has doubled the share of its GDP devoted to research and development (R&D) from 0.34% in 2016 to 0.8% of GDP in 2017⁵⁰. However, the country is lagging behind according to the 2018 World Innovation Index (GII) which places it in 76th place out of 126 economies evaluated⁵¹. This last decade has seen the launch of the Maroc Innovation Initiative, with the aim of increasing the creation of technologies with ambitious annual objectives of 1000 patents and 200 start-ups supported. Today, it is clear that the achievements only reach one third for patents⁵² and the Niche Companies support system is sized for 160 niche companies.

45 Source: <https://client.lydec.ma/site/fr/web/guest/tranches-de-facturation-et-tarifs>

46 Ministry of Equipment, transportation, Logistics and Water: www.equipement.gov.ma/logistique/chiffres-cles/Pages/Chiffres-cle-dans-le-secteur-de-la-logistique.aspx

47 Transportation costs for consumer goods.

48 World Bank Study on the performance of trade logistics in Morocco.

49 Source: www.zonesindustrielles.ma

50 Source: Ministry of National Education.

51 Source: www.wipo.int/edocs/plnkdocs/en/wipo_pub_gii_2018_ma.pdf

52 Source: www.wipo.int/ipstats/en/statistics/country_profile/profile.jsp?code=MA

In this perspective, the Moroccan Center for Innovation (CMI) was created in 2011, designed as a one-stop shop for innovation projects and R&D funding instruments (Intilak / start-ups, Tatwir / R & D, PTR / Companies). The CMI acts in collaboration with the National Center for Scientific and Technical Research (CNRST) and Maroc PME, and covers the entire process from the idea to the launch of the product, including development and validation. In recent years, the CGC's Innov Invest system has taken over in order to fill the gap in the funding chain (Early Stage and the funding of support structures).

Specializing support structures

Support structures are an essential element of the value chain. They are overwhelmingly concentrated in the Casablanca – Rabat area and to a lesser extent in the regions. They have different characteristics and not all projects they support are innovative:

- structures with a specific focus (social entrepreneurship, young people, female entrepreneurship);
- scientific development structures that support research projects (research foundations, schools, institutes and universities);
- clusters (sometimes labelled and funded by the MCINET⁵³) which are not incubators or accelerators.

With around forty entities⁵⁴, the growing number of Moroccan incubators is likely to give interesting results over time, provided that:

- it is run as a network in order to avoid duplication and waste of resource;
- off-site digital support is developed;
- quality of their support programs is ensured;
- it is equipped with pools of highly qualified experts;
- it is provided with substantial funding.

The emergence of these new structures creates favorable conditions for the development of local businesses, niche businesses in particular. Today, it is essential that these support structures obtain the financial resources that allow them to deploy expertise and quality support programs which may vary from one structure to another.

An initiative, which is not the first, is underway in order to structure and federate support structures through the creation of the Moroccan Start-up Ecosystem Catalysts Association (MSEC). MSEC defends the interests of support structures promotes standards within the innovation ecosystem.

Focus Early Stage

Seed and Early Stage characterize the phase in which a company may disappear due to a lack of resource. This obstacle was overcome up to a certain point by the CCG which launched in 2016 the Innov Invest program, a turning point for Niche Companies. Funded by the World Bank, this program aims to increase access to finance for innovative Niche Companies during their initial development phase. In order to facilitate access to funding, CCG has labelled several support structures.

53 Ministère de l'Industrie, de l'Investissement, du Commerce et de l'Economie Numérique (Royaume du Maroc).

54 Non exhaustive list.

Table 6 - CCG labelled Structures

STRUCTURE	TYPE	LOCATION	PARTNERS	SUPPORT PROGRAM	CREATION
La Factory / APP Editor www.lafactory.co	Incubator / Reverse Engineering	Casablanca	CCG	40 projects supported (24 Open Innovation projects).	2017
Cluster Solaire www.clustersolaire.ma	Association / Solar industry development.	Casablanca	CCG - World Bank - GIZ	Solar industry development.	2014
Impact Lab / NUMA www.impactlab.africa	Incubator/ Accelerator	Casablanca	CCG - Fondation OCP - Banque Populaire	94 start-ups supported 9 innovation programs, 17 innovation clients, 6 African countries covered. 12 months Incubation program.	2014
Réseau Entreprendre www.reseau-entreprendre.org	Association / entrepreneurial support	Casablanca, Marrakech, Rabat, Agadir, El Jadida, Khouribga Ben Guérir, Tanger.	CCG - European Union - BMCE Bank - Attijari Wafabank	40 to 80 projects supported (28 financed in 2018). The goal is to create and support businesses through trust loans over 5 years. Mentorship is provided as well.	2005
StartUp Maroc www.startupmaroc.org	Incubator/ Accelerator	Rabat (present in 15 cities)	CCG – Diafrik Invest - The Next Society - European Union	20 start-ups selected for the «StartUp Maroc Booster2018» program (funding, mentoring acceleration, access to international markets).	2014
CE3M www.ce3m.ma	Industrial Cluster	Mohamedia	CCG - IRESEN - Maroc PME	Innovation in Electronic, Micro electronic, Mecatronic	2010
CEED www.ceed-morocco.org	Incubator (US NGO) / Entrepreneurship development	Casablanca	SEAF - USAID - Maroc PME	"CEED Go to market" 3 months program for 20 entrepreneurs selected. Program based on training, networking and mentoring.	2013
Cluster Menara www.clustermenara.com	Cluster / Agro-industry, luxury	Marrakech	CCG - Maroc PME	Agro-industry start-ups.	2012
Enactus www.enactus-morocco.org	International NGO / social entrepreneurship, Sustainable development	Presence in 28 cities	CCG - Fondation OCP - CITI Foundation - US Department of State - OXFAM - BMCE Bank	35 entrepreneurs supported since 2015. Enactus acts mainly at the ideation stage / entrepreneurship for students.	2003
Endeavor www.endeavor.org	International NGO / Incubator	Casablanca	CCG - USAID	700 entrepreneurs supported since 2013.	2013

Espace Bidaya www.bidaya.io	Incubator / social entrepreneurship - Green tech	Casablanca	CCG - Groupe SOS Pulse - Drosos Foundation - OCP Fondation – AFP	15 startups selected each year, 10 of them access to funding loans up to 200 000 MAD, or trust loans up to 500 000 MAD.	2015
Hseven www.hseven.co	Incubator/ Accelerator	Casablanca	CCG - Dutch Good Growth Fund (DGGF) - Azur Partners	Selection program for 10 startups for 3 to 6 months support. Initial investment: 150 000 € at the start of program for 5/7% of capital, may be followed by a 500 000 € to 1,500 000 € investment by end of program.	2017
Happy Venture www.happyventures.ma	Incubator/ Open Innovation	Casablanca	CCG	n.a.	2015
Kluster CFCIM www.cfcim.org/kluster	Incubator	Casablanca	CCG - CFCIM - BMCI – Orange	Support, mentoring and access to CFCIM Business Angels Club for 5 start-ups on 18 months.	2017
Moroccan CISE www.mcise.org	Incubator / social entrepreneurship	Rabat (national programs)	CCG - Drosos Foundation - NED (National Endowment for Democracy) - Orange Corners.	24 months Incubation. Since 2015, 8 to 10 start-ups per promotion. 55 projects incubated, 36 start-ups created. Orange Corners Program (with the support of the Kingdom of Netherlands).	2012
R&D Maroc (Moroccan Association for Research& Development) www.rdmoroc.com	Incubator	Casablanca	CCG	n.a.	n.a.

Innovation at the heart of the problem

Defined by an innovative concept, a rapid growth and a significant return on investment, Niche Companies remain insufficient in number to fuel the innovation ecosystem. This situation has two direct consequences:

- a lack of interest from both business accelerators and the Venture Capital;
- Morocco’s weak capacity to produce new “champions” of technological innovation and economic growth.

With 140 established start-ups⁵⁵ and 25 support structures⁵⁶, the Moroccan innovation ecosystem is limited and lacks efficiency. Many support structures open up to Niche Companies beyond the limited Moroccan market and have to face a stiff competition from Tunis, Cairo, Dakar or Lagos among others. Today, Morocco is dangerously lagging behind the African continent in terms of fundraising.

⁵⁵ Supported entities not included in this number.

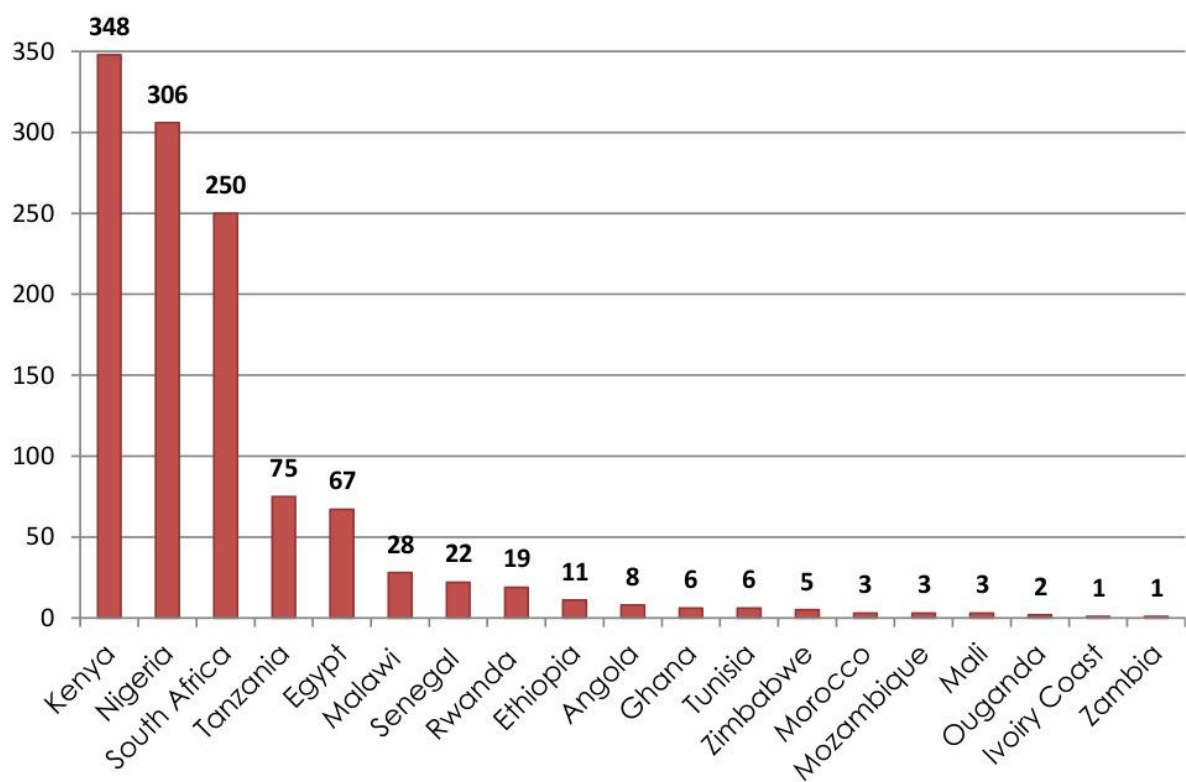
⁵⁶ MSEC/ Briter Bridges mapping 2019 not taking into account scientific / academic structures.

Innov Invest has made it possible to structure an emerging ecosystem, but there is an urgent need to resize the innovation system and make it sustainable.

Overall, Morocco is facing a lack of viable and exportable innovations and needs to focus on:

- Developing solutions such as open innovation and by building up bridges between academic research, support structures and the business world.
- Developing favorable conditions for retaining Niche Businesses in Morocco: support structures capacity building, world-class support programs and expertise.

Graph 18 - Total fundraising by country - 2018 (in Millions of US Dollars)



Source : Partech Analysis

4.7 A relatively developed financial ecosystem

Morocco's financial ecosystem is one of the most developed on the African continent. It has several supervisory authorities, namely:

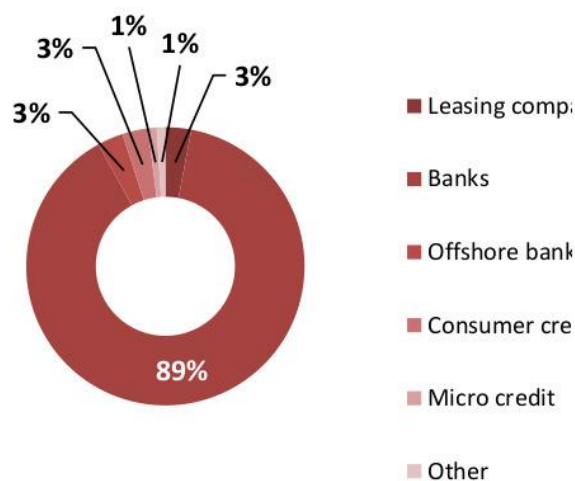
- Bank Al-Maghrib, the central bank, responsible for financial stability;
- The Moroccan Market Authority (AMMC), more independent than the former CDVM, in charge of the stock market management, brokerage companies and savings; The Insurance and Social Affairs Supervisory Authority (ACAPS), responsible for the regulation and supervision of the insurance sector.

The Casablanca Stock Exchange is one of the oldest and most important in Africa. The Casablanca Stock Exchange is regulated by an independent supervisory commission⁵⁷.

Since the 2000s, Morocco has made significant progress in modernizing its financial sector. The Moroccan banking sector is one of the most developed in Africa and is striving to become a continental leader, with three of its largest banks established in more than 20 African countries⁵⁸.

The size of the Moroccan financial system (measured by total assets) is dominated by the banking sector which focuses on trade financial intermediation. Companies must be registered in Morocco to be able to open an account. Morocco remains characterized by a low rate of banking use of its population (28.6% against 36.9% in Tunisia and 42.8% in Algeria)⁵⁹.

Graph 19 - Composition of the Moroccan banking sector



Source: BAM 2017 Financial Stability Report.

57 Casablanca Stock Exchange 2018.

58 BAD – Strategy Document per country 2017-2021, p.21.

59 World Bank, Global Findex Data base 2017, p.160.

Funding structures

Besides foreign banks, the number of national institutions does not vary much (from 15 to 20 banks over the last two decades):

Table 7 - Funding structures

TYPE	NAME	WEBSITE
COMMERCIAL BANKS	Arab Bank	www.arabbank.ma/
	Attijariwafa Bank	www.attijariwafabank.com/fr
	BMCE Bank	www.bmcebank.ma/
	BMCI	www.bmci.ma/
	Société Générale	www.sgmaroc.com/
	Groupe Crédit Agricole du Maroc	www.creditagricole.ma/
	Banque Populaire	www.bpnet.gbp.ma/
	CFG Bank	www.cfgbank.com
	Crédit du Maroc	www.creditdumaroc.ma
	CIH Bank	www.cihbank.ma
	Al Barid Bank	www.albaridbank.ma
ASSET MANAGEMENT COMPANIES	Azur Partners	http://www.azurpartners.ma
	SEAF	https://www.seaf.com
	Maroc Numeric Fund (MNF)	http://mnf.ma
CAPITAL RISK	CCG-DAYAM	http://www.ccg.ma
	MITC Capital	http://mnf.ma
	AFOULKI INVEST	www.azurpartners.ma
INVESTMENT FUNDS	CCG-3P FUND	http://www.ccg.ma
	CCG-Croissance PME	http://www.ccg.ma
LEASING COMPANIES	BMCI Leasing	https://www.bmci.ma
	Crédit du Maroc Leasing	https://www.creditdumaroc.ma/entreprise
	Maghrebail	https://www.maghrebail.ma
	Maroc Leasing	http://www.marocleasing.ma
	Sogelease	http://www.sogelease.ma/
	Wafabail	https://www.wafabail.ma
ASSOCIATIONS / TRUST LOANS	Réseau Entreprendre	www.reseau-entreprendre.org/maroc/
	Initiative Souss-Massa	http://www.smdinitiative.com/
COOPERATION FOUNDATIONS / PROJECTS	Fondation Mohamed V pour la Solidarité	http://www.fm5.ma/
	INDH - Initiative Nationale pour le Développement Humain	http://www.indh.ma/
	Fondation OCP	http://www.ocpfoundation.org/
	Organismes de coopération internationale.	
CREDIT / LOANS	Wafasalaf	www.wafasalaf.ma/fr
	Eqdom	www.eqdom.ma
	Sofac	www.sofac.ma
	Cetelem	http://creditconso.bmci.ma/fr/
	Dar Salaf	www.darsalaf.ma
	Salafin	www.salafin.com/
	Axa Credit	www.axacredit.ma/
	Vivalis	www.vivalis.ma/
	Assalaf Al Akhdar	www.creditagricole.ma/
BUSINESS BANKS	Capital Trust	https://www.capitaltrust.ma/fr/
	Upline Group	http://www.uplinegroup.gbp.ma
	CDG Capital	https://www.cdgcapital.ma/fr
	Holdagro	https://www.creditagricole.ma/fr/holdagro
	Attijari Finances Corp	https://www.attijariwafabank.com/fr/

Debt financing for Dynamic and High-Growth Companies

The structural reforms which enabled the modernization of the Moroccan financial system were preceded by measures facilitating access to the credit market for businesses and households in the 1990s. The law on the 1993 banking sector reform strengthened the power of Bank Al-Maghrib, the Moroccan Central Bank, to regulate and control the activities of credit institutions⁶⁰. Since then, credit is freely allocated and Bank Al-Maghrib uses indirect methods to control the interest rates and the volume of credit. The capital market is broadly stable and the process of tax adjustment continues. In addition, the banking system resisted well to the shocks linked to international banking crises with a reduced inflation and a controlled budget deficit (3.8%)⁶¹. Bank Al Maghrib reports that for 2017, businesses could be affected by the decrease in bank credit for non-financial companies, combined with a substantial level of outstanding credit and high inter-company payment terms⁶².

In addition, the government has implemented a series of measures and initiatives aimed at facilitating the financing of SMEs through substantial external credit lines with favorable financial conditions. Guarantee funds have also been created to support loans granted to SMEs by the banking system. The CGC has played an important role in developing guarantee products over the past few years to cover the entire business lifecycle. However, the CCG does not intervene directly but upstream from the commercial banks. Between 2000 and 2012, the spectacular growth in bank credit made it possible to meet the needs of the private sector, but this situation concerns Large Businesses and SMEs, which are able to provide guarantees and collaterals. In this restrictive environment, Livelihood Companies constitutes the most vulnerable category of companies generally unable to access debt financing due to a lack of guarantees. The cost of financing private sector investments remains high in Morocco, even compared to other countries in the MENA region⁶³. Moreover, the value of the loan guarantee is among the highest in middle-income countries. The cost of financing could become a major obstacle to growth if it does not cover the expected return on investment and therefore prevent investors from funding new projects. The stable number of players in the financial sector allows banks to maintain significant margins when cash transactions are low on the interbank market⁶⁴.

Few financial solutions for Livelihood Companies

Livelihood Companies are a fairly problematic category, unattractive to the Venture Capital due to their low return on investment, low growth, and high risk of failure. Ignored for a long time by financial institutions and support structures, Livelihood Companies are now at the forefront of the economy because they constitute a large number of companies with problems that are emblematic of the Moroccan entrepreneurial ecosystem. Lately, Livelihood Companies are raising awareness with some commercial banks – such as Attijariwafa Bank, BMCE Bank and Banque Populaire - communicating on this business segment.

In terms of financial support, the main constraint lies in the fact that besides access to cash advance, Livelihood Companies do not have financial tools specially designed to meet their needs. Livelihood Companies have specific needs such as access to property, taxation, late payments, access to finance,

60 BAM institutional website / History

61 HCP - Budget économique exploratoire 2018 - Les perspectives économiques nationales en 2017 et 2018

62 BAM – Rapport sur la stabilité financière 2017 p.9

63 WB – What's holding back the private sector in MENA p.37

64 BAM – Rapport sur la stabilité financière 2017, p.78.

public procurement and employment legal framework. To date, Livelihood Companies have not benefited from a dedicated strategy in spite of CGC's efforts to provide guarantee solutions (Damane Express). Their demands include the creation of a Very Small Businesses monitoring structure and public fund, a percentage of public procurement, more flexible adjustments to the tax legislation and the Labor Code⁶⁵. Among the specificities of Livelihood Companies, some elements should be noted:

- Their reluctance to resort to bank credit, due to three factors:
 - The requirement for guarantees which constitutes a substantial obstacle to access bank loans. Despite the guarantees of the CCG, the banks can demand guarantees for the balance not covered by the guarantee of the CCG;
 - Cost of interest rates deemed high;
 - Religious considerations (assimilation to usury). This factor remains considerable for young entrepreneurs as well as for older ones.
- Preference for self-financing, "Love money" and grants: Entrepreneurs prefer to use equity, borrowing from family members or friends (Love money) and public or private subsidies. They tend to reduce their ambitions rather than relying on bank loans.

MICRO-FINANCE

The microcredit sector mission is to provide low-income people with access to formal financial services to fund Income Generating Activities (IGAs) and improve their living conditions. Micro-entrepreneurs are excluded from the traditional banking system and develop Income Generating Activities.

For the past two decades, governments have encouraged a microcredit policy aimed at providing the rural and urban poor with access to finance for small income-generating projects. Since the mid-1990s, microcredit and micro-finance institutions have developed in Morocco. Today there are 13 foundations which coordinate their work within the framework of the National Federation of Microcredit Associations.

Microcredit targets specific sections of the population - like women - who are unbanked, often poor and generally confined to low profit activities. It is characterized by very high interest rates. At the end of 2016, the micro-credit sector, established in all regions of the country, provided more than 7,100 direct jobs, serving an active clientele of more than 922,000 people out of a potential client estimated at 3.2 million.

Microcredit institutions are waiting for legal framework reforms in order to develop their activities and the increase loan ceilings, which would enable them to target Livelihood Companies.



⁶⁵ Abdellah El Fergui, president on the TPE-PME Confederation (February 15, 2019 interview).

Venture Capital: a limited growth

in the early 90s, Morocco was among Venture Capital pioneers in Africa, along with Nigeria and South Africa. Today, the country lags at the 14th place⁶⁶ on the continent in terms of fundraising⁶⁶. In 2017, this industry represented only 0.04% of Moroccan GDP against 0.16% on average for the continent, and 0.03% for the MENA region⁶⁷. This poor performance is the result of different causes⁶⁸:

- Industry is dominated by family businesses which find it difficult to open up their capital. Even if it is perceived as an opportunity to create profit and jobs, Venture Capital is seen by a large number of Moroccan entrepreneurs as a risk of losing control of their business;
- Prices and valuations remain high, due to the country's attractiveness;
- Working capital requirements are high due to very long payment terms.

Venture Capital is a source of funding and a managerial tool for businesses but there are two important constraints in the current context⁶⁹:

- Companies finance their growth with debt due to relatively low bank rates (5% compared to 10% at continental level).
- There are still too few investment funds on the market and confidence in the governance of Moroccan companies remains low.

Lower interest rates on traditional investment products can help investors choose Venture Capital funds for more attractive returns (10-12% instead of 4%).

Operational in 1993, Moussahama, was the only management company operating on the market, long before the emergence of other funds in the early 2000s. It was at this time that AMIC, the Moroccan Association of Capital Investors was founded with most of Private Equity players. The Moroccan State has actively participated in the development of capital investment through the Caisse de Dépôt et de Gestion (CDG), as fund manager and business catalyst. Banking institutions have also created their own Private Equity funds. At the end of 2016, 21 management companies and 40 management funds are identified in Morocco for a total of 305 MMAD (28 million Euros). The amounts invested are 786 MMAD (73 million Euros) for 183 companies invested with a penetration rate of 0.08% in 2016⁷⁰. For the period 2012-2017, 65% of the invested companies are concentrated in number and value in the Greater Casablanca region (Casablanca-Settat). The Casablanca-Rabat-Tangier axis concentrates 82% of the invested companies in number and value⁷¹. At the end of 2017, the bulk of the investment concerned development (74%) and transmission (18%) with average tickets of 42 million MAD (almost 4 million Euros)⁷².

66 Partech Analysis 2019.

6767 AMIC – Activity Report 2017, p.11.

68 AMIC - Capital Investment annual conference, January 30th 2019. Statement by Mr. Luc Rigouzzo (Améthis Capital Risque Co-founder).

69 AMIC - Capital Investment annual conference, January 30th 2019. Statement by Mr. Adil Rzal (AMIC president).

70 Source: www.amic.org.ma/fr 2019

71 AMIC - Activity Report 2017 p.28.

72 AMIC - Activity Report 2017 p.30.

Table 8 - Venture Capital: management companies and investment funds

AFRICINVEST	AZUR PARTNERS	ENTREPRISES PARTNERS	OCP SA
MPEF I	NÉBÉTOU FUND	3P FUND	OIFFA
MPEF II	BMCI DEVELOPPEMENT	FIROGEST	PRIVATE EQUITY INITIATIVES
MPEF III	BMCI DÉVELOPPEMENT	FIRO	PME CROISSANCE
MPEF IV	BROOKSTONE PARTNERS	GLOBAL NEXUS	SEAF MOROCCO
AFRICINVEST I	EMERALD FUND	GREEN INNOV INVEST	SEAF MOROCCO Growth Fund
AFRICINVEST III	MJT PARK	HOLDAGRO	UPLINE INVESTMENTS
ALMAMED	CDG CAPITAL INFRA	TARGA	UPLINE TECHNOLOGIES
MASSINISSA MAROC	INFRAMED	INFRA INVEST	FONDS MOUSSAHAMA I
MASSINISSA LUXEMBOURG	INFRAMAROC	ARGAN INFRASTRUCTURE FUND	UPLINE INVESTMENT FUND
AMETHIS NORTH AFRICA	CDG CAPITAL PE	MEDITERRANIA CAPITAL PARTNERS	FONDS MOUSSAHAMA II
AMETHIS MAGHREB FUND I	Accès CAPITAL ATLANTIQUE	MEDITERRANIA CAPITAL I	
ATLAMED	SINDIBAD	MEDITERRANIA CAPITAL II	
AM INVEST MOROCCO	CAPMEZZANINE	MEDITERRANIA CAPITAL III	
ATTIJARI INVEST	CAPMEZZANINE II	MITC CAPITAL	
AGRAM INVEST	CFG CAPITAL	MAROC NUMERIC FUND	
IGRANE	CFG DÉVELOPPEMENT	MAROC NUMERIC FUND II	
Moroccan Infrastructure Fund	IDRAJ		

Légende :

- Société de gestion
- Fonds sous gestion
- Nouveau fonds créé en 2018
- Fonds désinvesti ou en phase de désinvestissement

Source AMIC 2019

ALTERNATIVE FINANCING

Crowd Funding

In Morocco, Crowd Funding has been introduced as a new financial product intended to strengthen the financial inclusion of young project leaders and support economic development. Crowd Funding is an alternative way to finance peer-to-peer projects by raising small funds from a large audience. The bill on collaborative funding has been adopted in 2019. It allows funding with contributions of up to DH 250,000 (€ 22,500), especially for Niche Businesses. Operations will be implemented by collaborative funding platforms.

Business Angels

Business Angels put their skills, experience and network to support emerging businesses. Business Angels can be an important component of the innovation ecosystem particularly in the context of post-seed bridge financing. They can also go beyond this ecosystem and provide support for investment of very small and medium-sized businesses. The French Chamber of Commerce and Industry of Morocco (CFCIM) and Maroc Numeric Fund (MNF Angels) are among the few structures that have Business Angels and so far, the development of this concept hampered by several elements:

- The innovation value chain remains weak;
- The legal framework does not provide sufficient protection and incentives;
- The business climate is still unfavorable;
- The relationship between project leaders and Business Angels lacks confidence and support from a trusted third-party.

The Ministry of Economy and Finance (MEF), the CCG and international development organizations are trying to develop new "alternative, inclusive and innovative" funding models for Moroccan businesses.

5 The “missing link”: unequal access to funding depending on business type

Morocco remains a small size market and companies are still limited both in size and number. The analysis of the different categories of businesses gives a better understanding of their problems as well as the extent of their financial needs. Initially based on debt versus collaterals such as land or property, the system has been gradually secured by the CCG in terms of guarantees.

Until the development of the innovation ecosystem and Niche Companies, financial institutions have served mainly Dynamic Companies and High Growth Companies because they are the most creditworthy. Yet, to this date, Livelihood Companies form the most remote category in terms of access to financial solutions even if their situation is now recognized as being critical.

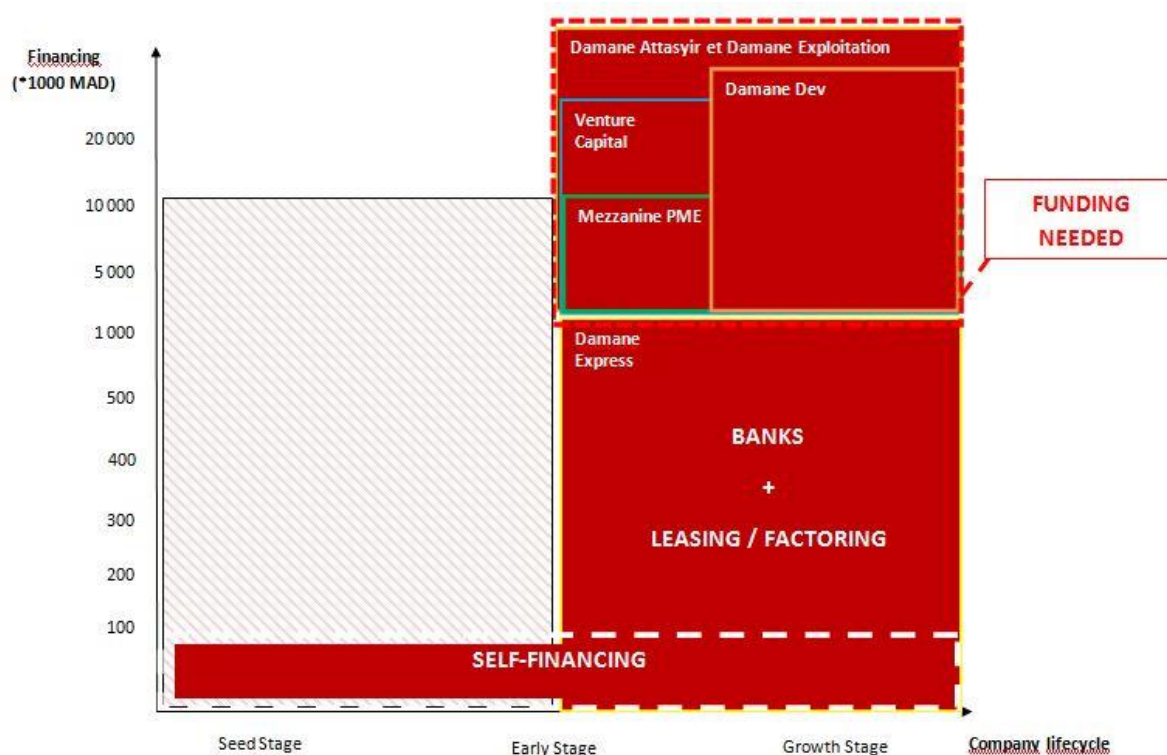
Table 9 - Financial needs by business category

Sub-sector	Main characteristics	Financial obstacles	Financial needs
Livelihood Companies (Annual turnover: less than 3 millions MAD / less than 275 000 Euros).	<ul style="list-style-type: none"> • Repetitive activities in traditional sectors (crafts, industry, agriculture, small trade) • “Multi-task” entrepreneurs and women-entrepreneurs often out of necessity. • Livelihood Companies often respond to a local demand. • Activities that are not very capital-intensive and which have to reach breakeven fairly quickly. • Entrepreneurs have little or no support in their project. 	<ul style="list-style-type: none"> • Access to family loans (“love money”) or to self-financing. • Access to credit is limited by the lack of guarantees. Generally, Livelihood Companies have financing needs beyond micro-credit (often too expensive) and at the base of bank debt (whose products are not well suited for very small businesses). • They evolve in a fragile socio-economic context and are targeting the local market and with limited purchasing power. • Limited sources of funding and lack of guarantees (especially for women). • Companies often caught between payment terms and working capital requirements 	<ul style="list-style-type: none"> • Short-term financing at cheaper rates. • Financial products (plus support products) specifically adapted to Livelihood Companies
Dynamic Companies (Annual turnover: 3 to 10 million MAD / from 275 000 Euros to 900 000 Euros).	<ul style="list-style-type: none"> • Projects in traditional activities with strong growth potential (manufacturing, textiles, tourism, services) or in innovative sectors (ICT). 	<ul style="list-style-type: none"> • Business creation often based on family capital. • Funding available for the growth phase (bank debt and CCG guarantees). 	<ul style="list-style-type: none"> • Funding needs to modernize the production tool and finance long-term investments • Working capital

	<ul style="list-style-type: none"> •Entrepreneurs often having a university higher education. •Very competitive market with strong national and international competition 	<ul style="list-style-type: none"> •CCG guarantees: banks stand as the direct counterpart for companies; they have the decision-making power on granting loans. •Companies are often caught between payment terms and working capital requirements. 	<ul style="list-style-type: none"> •Easier access to state support programs.
<p>Niche Companies (Annual turnover: Less than 3 million MAD / less than 275 000 Euros).</p>	<ul style="list-style-type: none"> •Projects in activities with high added value (R&D, engineering, education.) Generally innovative. •Strong presence of young entrepreneurs and women with higher education training (start-ups' natural pool). •Innovations must be "scalable" to industry and exports (Moroccan market too limited). •New ecosystem. 	<ul style="list-style-type: none"> •Availability of funds and support tools for the start-up phase. Need to develop support for a larger number of Niche Companies. •Difficulty moving from the seed phase to the growth phase. 	<ul style="list-style-type: none"> •Difficulty accessing bank loans due to the absence of guarantees.
<p>High Growth Companies (Annual turnover: from 10 to 175 million MAD /from 900 000 to 16 million Euros).</p>	<ul style="list-style-type: none"> •Projects in activities with high added value (ICT, R&D, Services, etc.). •Strong presence of young promoters and women with university training. •Activities often oriented both towards national and foreign markets. 	<ul style="list-style-type: none"> •Availability of funds and support tools but Financing growth is an issue. •Constant need for R&D and modernization of the production tool in order to maintain market shares. 	<ul style="list-style-type: none"> •Capitalistic activities requiring continuous investments. •Funding through bank debt. Access to CGC guarantees. •Participation in capital by Investment Funds remains marginal.

5.1 High Growth Companies: development and access to new markets

Graph 20 - Funding needs for High Growth Companies



Financing needs for High Growth Companies range from 1 to 20 million MAD mainly to fund their development phase.

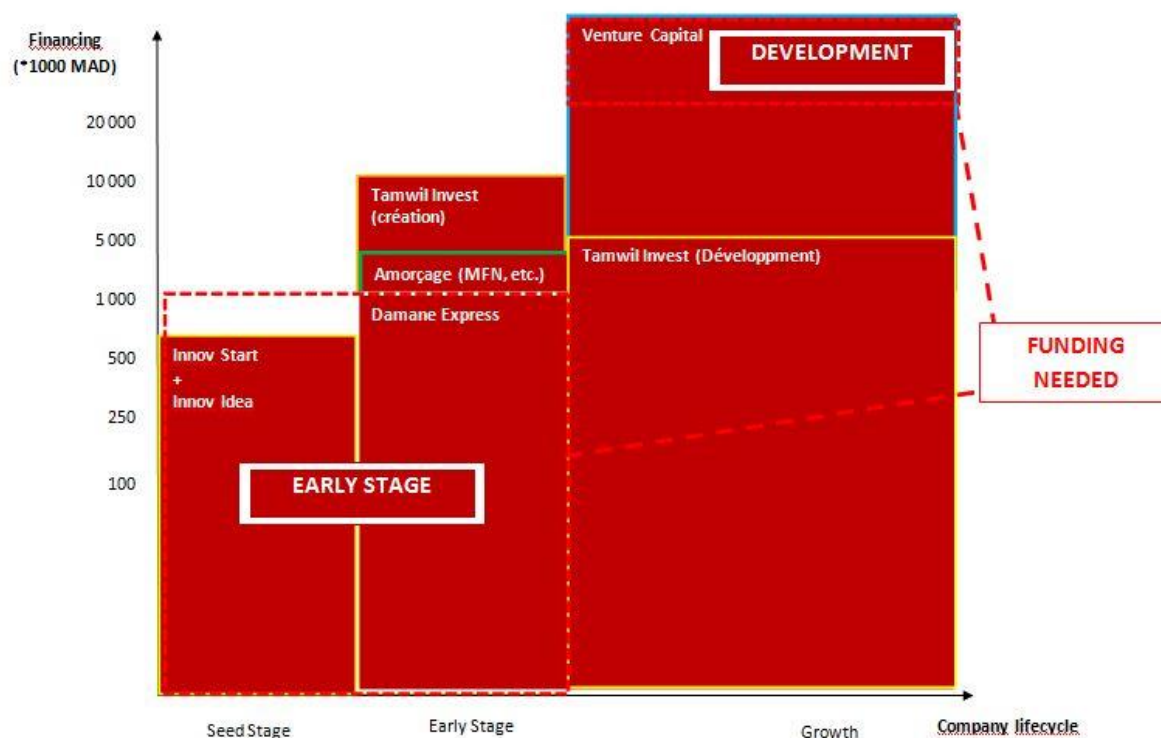
High growth companies are large enough and grow rapidly. They are concentrated in services such as ICT, telecommunications and logistics and their business model allows them to target high potential markets. These companies need funding to support their growth to cover either the entire Moroccan market or new export markets.

These companies have specific funding needs in the sense that they have succeeded in establishing their "business model" and are generally in their development phase. These companies need to scale up their production tool, their processes and their operations. Their governance is an essential element in their development: the challenge for them is to move from a family business and direct management to a more sophisticated governance model.

Market capitalization and Venture Capital remain limited in the Moroccan economy. Moroccan entrepreneurs are reluctant to open up their businesses to external capital and Venture Capital is not seen as a solution from traditional banking institutions. High Growth Companies, continue to operate in a conservative system characterized by the use of bank debt. Their growth rate and their potential for development constitute a considerable appeal on the financial institutions.

5.2 Niche Companies: funding needs at the seed and development stages

Graph 21 - Funding needs for Niche Companies



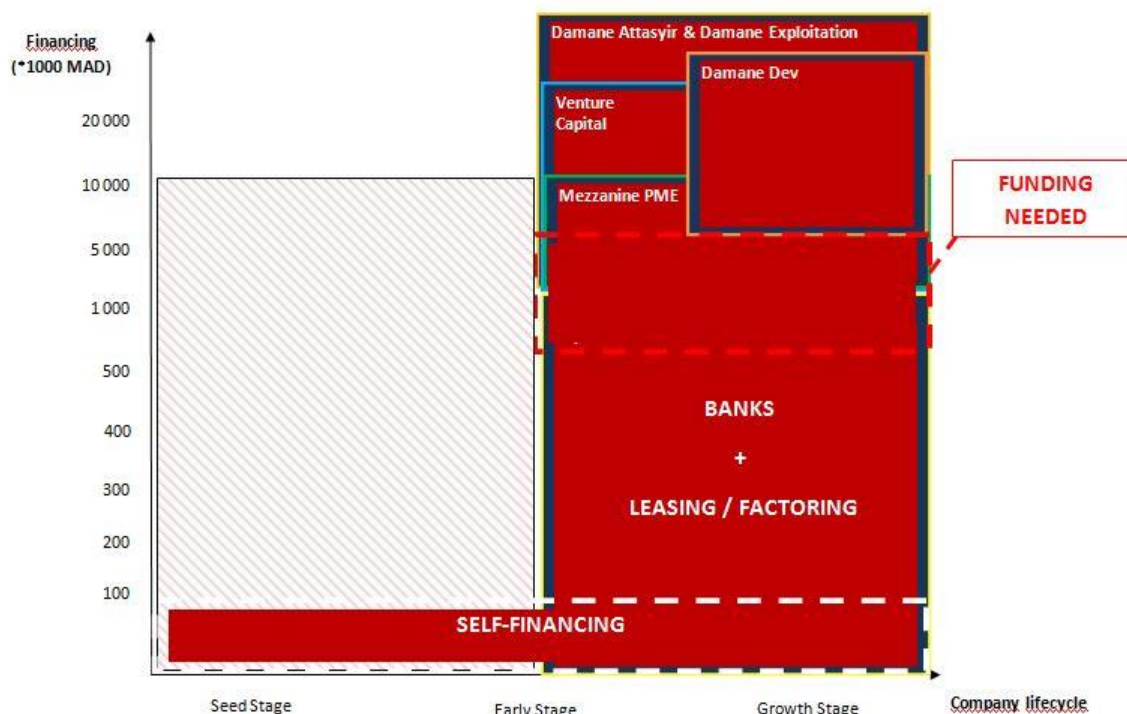
In spite of the fact that CCG's Innov Invest initiative constitutes a landmark for the innovation ecosystem, Niche Companies have significant funding needs at the seed and early stage level of up to 1 million MAD. The other financing need relates to the development stage and range between 20 and 50 million MAD, knowing that less than 20 niche companies can be financed by the Venture Capital.

The evolution of Niche Companies is characterized by a process: idea, incubation, "proof of concept", prototyping, funding and marketing. This process is costly in resource and Niche Companies are subject to a high rate of failure in the initial stages: from incubation to development, Niche Companies have access to funding (CGC, Venture Capital and financial institutions) but that support remains limited in terms of volume and benefitting companies.

The overall size of the innovation ecosystem is at stake: on an annual basis, each of the 16 CCG labelled support structures are able to service 10 Niche Companies. Therefore, a total of 160 Niche Companies can be supported each year, knowing that only a small percentage is innovative and will survive. This ecosystem is characterized by support structures which act as catalysts with Niche Companies. In the last decade, Business Support Services have remarkably developed but they need to build up linkages among themselves and world class support programs. Among those, Open Innovation constitutes a different way of working and an interesting path to explore: several incubators and accelerators collaborate with large companies willing to subcontract innovation projects to Niche Companies, which is a secure way into business.

5.3 Dynamic Companies: working capital to maintain existing competitive advantages

Graph 22 - Funding needs for Dynamic Companies



Funding needs for Dynamic Companies range from 1 to 5 million MAD. Dynamic Companies use it through bank debt.

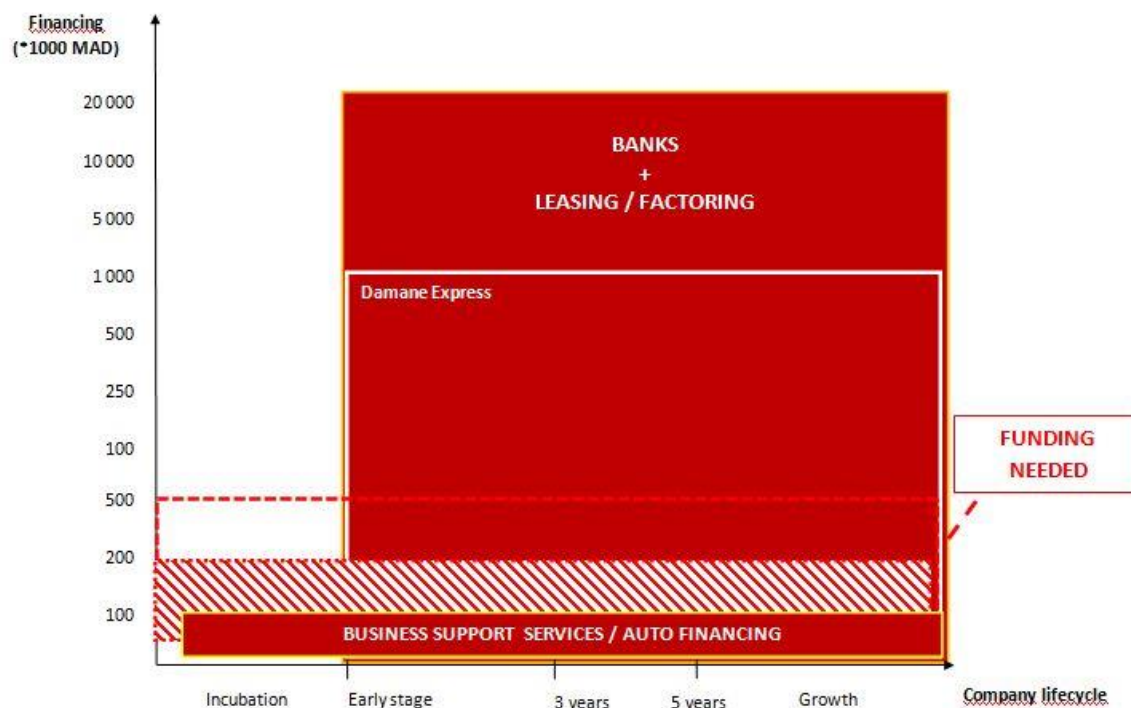
Dynamic companies are made up of small and medium-sized companies capable of generating sufficient growth through profitable activity. They operate in the traditional manufacturing sectors (building materials, leather / shoes, food and clothing) but also in services, ICT, transport and telecommunications. They include companies that are mostly active in exporting to foreign markets (European Union, Sub-Saharan Africa, MENA region).

Dynamic Companies are generally more than three years old. They have therefore survived this initial phase in which companies are vulnerable and may collapse due to lack of working capital or to the collapse of their “business model”.

Dynamic Companies already have a portfolio of regular customers and have an appeal on banking institutions. On the other hand, their profitability can be undermined by very low margins due to the nature of their "business model", as in the case of textile and leather subcontracting companies, where labor costs constitute a competitive advantage. Pressure is strong from international markets which are very demanding in terms of competitiveness, product quality and compliance standards. This constant effort requires investments that will either allow these companies to maintain existing competitive advantages or to scale up production or quality standards. These investments may include the acquisition of new equipment, the modernization or expansion of facilities and the development of new markets.

5.4 Livelihood Companies: finance investment, access to property and working capital

Graph 23 - Funding needs for Livelihood Companies



Funding needs for Livelihood Companies range from 100 000 to 500 000 MAD.

Livelihood Companies constitute the largest group in the formal private sector (85%). It is made up of micro and very small businesses that strive to stay into business. They generally produce for the local market with an annual turnover and a low return on investment and face strong competition from the informal sector and from international brands.

Livelihood Companies are characterized by a small staff (1 to 10 people) and a low rate of return on investment which may explain the lack of attractiveness on financial institutions. Livelihood Companies lack investment, cash flow, market data and expertise. Undercapitalized and often funded through equity, Livelihood Companies have difficulty meeting bank demands and provide guarantees versus loans. Livelihood Companies should evolve within the traditional banking system but currently do not have banking solutions that are genuinely designed to respond to their needs. Those should include cash facilities to overcome payment terms.

6 Closing the Gap in the context of the “missing middle”

6.1 Uneven development that does not benefit the entire entrepreneurial ecosystem

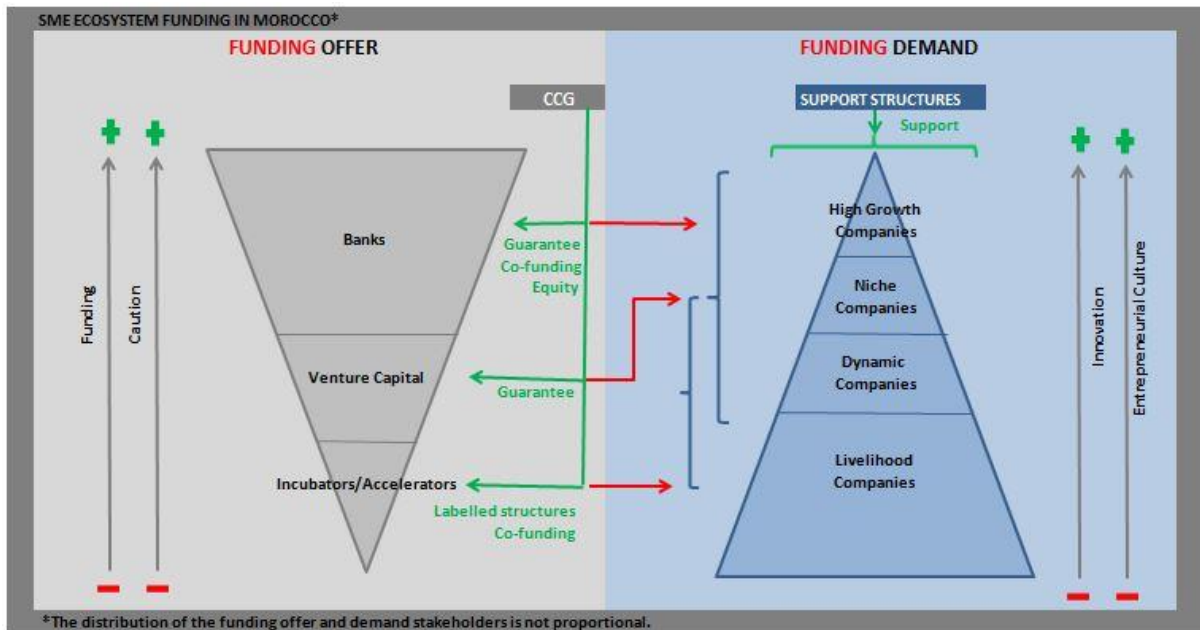
The Moroccan entrepreneurial ecosystem must face various challenges identified as follows;

Graph 24 - SWOT analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Morocco's strong commitment in favor of market economy • Legal incentives for investments and development of Direct Foreign Investments • Developed financial Ecosystem at the continental level • Human Capital: educated elites • Substantial offer of guarantee products 	<ul style="list-style-type: none"> • Presence of an important informal sector. • Corruption (in particular petty bribery). • Administrative structure: heavy with limited efficiency. • Employment offer limited in number and quality. • Market unable to absorb newcomers. • Difficult access to funding. • Low entrepreneurial spirit. • Structural weakness of support structures. • Difficult access to land/property for Small and Medium Enterprises.
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Economic and industrial boom. • Strong urban development. • Co-development policy Morocco-Africa • Initiative Nationale du Développement Humain (INDH) to reduce social inequalities. 	<ul style="list-style-type: none"> • Important regional differences. • Risk of social and economic unrest. • Emigration of educated labour force. • Weakness of the entrepreneurial ecosystem (SMEs). • Limited access to technical innovation. • Important social differences.

In this specific context, the dynamics of funding are based on greater caution as funding increases. Funding is more accessible to most resilient companies with a strong entrepreneurial base and a capacity for innovation.

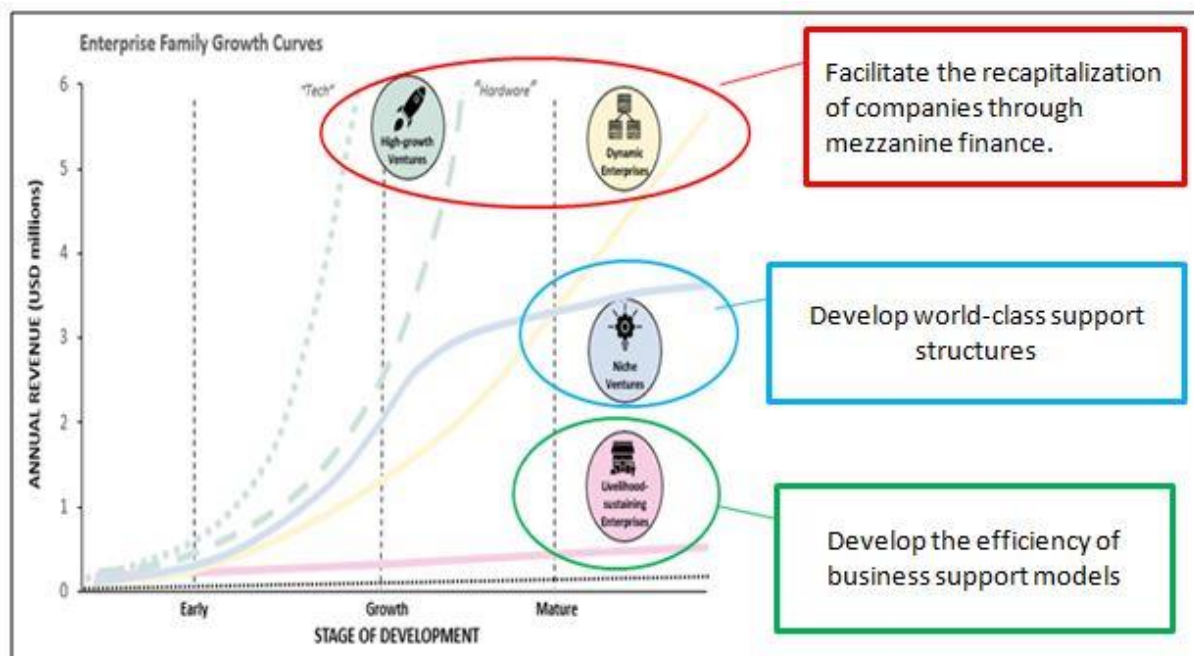
Graph 25 - Dynamics of funding



6.2 Recommendations

Three lists of recommendations can be made for the four business segments studied. These recommendations take into account their specific problems but also their direct business environment.

Graph 26 - Strategies identified to fill out the “missing middle”



Resize the ecosystem to support more niche companies in a sustainable way

1. Adopt a Start-up Act in order to provide Niche Companies with a legal framework stressing their innovative character.
2. Resize financial support systems through:
 - the creation of a fund to support Niche Companies at the Seed and Early Stage (capital, guarantees, interest free loans); This fund would turn the CCG Innov Invest initiative into a sustainable framework and provide more companies with funding;
 - the creation of new venture capital funds to support the Moroccan innovation ecosystem in terms of fundraising at the Development Stage.
3. Develop world-class support structures with technical (support programs), human (high-level expertise) and financial resources so that they can attract, support and fund innovative Niche Companies beyond the Rabat-Casablanca region, including through digitalization.
4. Promote Research & Development through:
 - the establishment of new structures;
 - the interconnection between support structures, venture capital institutions, academic research structures and large companies;
 - the development of open innovation initiatives between large companies, support structures and niche companies.

Livelihood Companies: Strengthen technical support structures and create dedicated financial solutions

1. Develop an incentive tax system for Livelihood Companies (investment, working capital, payment facilities) and support them with accounting services.
2. Develop, through long-term investor and guarantee solutions (CCG type), a fund dedicated to Livelihood Companies: financial equilibrium objective, longer return on investment, job creation, regional development.
3. Launch an SME observatory in order to identify potential, needs and performance by area in support of regional development policies.
4. Develop technical and financial support over 3 years (creation and first 3 years) by promoting targeted training (pre and post creation), mentoring and partnerships with large companies (ecosystems).
5. Develop the efficiency of support models (Business Support Structures) and create a single entry digital platform for the identification of support needs.

Support growth-generating businesses (Dynamic Businesses and High-Growth Businesses) to access new markets

1. Increase the use of market capitalization as well as the use of venture capital through investment in new companies, in particular on tickets from 20 to 50 MMDH (1.8 to 4.6 million Euros).
2. Facilitate the recapitalization of companies through mezzanine finance to support their growth and competitiveness.
3. Support businesses access international markets through export promotion incentives.
4. Identify business needs on a regional basis.

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Annexes

Annex 1: SMEs sub-segments

When assessing the « missing middle », the main objective is to identify trends and obstacles through sub-segments by business categories. Seven criteria have been selected: i. Activity sector, ii. Enterprise size by turnover; iii. Legal form, iv. Gender, v. Market orientation, vi. Capital intensity, vii. Geographical area.

ACTIVITY SECTOR	Number	%
Construction	5	24%
Trade	6	29%
Other (Industry – Services – NIT – Transportation)	9	47%
ENTERPRISE SIZE (by turnover)	Number	%
Very Small Enterprises (Turnover ≤ 3 millions MAD)	17	84%
Small Enterprises (3 millions ≤ Turnover ≤ 10 millions MAD)	2	9%
Medium Enterprises (10 millions ≤ Turnover ≤ 175 millions MAD)	1	7%
LEGAL FORM	Number	%
SA – Public Limited Company	1	6%
SARL – Limited liability companies	12	56%
SARLAU – Limited liability companies / Single shareholder	7	37%
MANAGEMENT BY GENDER	Number	%
Female	3	15%
Male	17	85%
MARKET ORIENTATION	Number	%
Local market	14	70%
Export	6	30%
CAPITAL INTENSITY	Number	%
High	1	4%
Medium	3	16%
Low	16	80%
GEOGRAPHICAL AREA	Number	%
NORTH (North - East)	3	15%
CENTER (Casa/Settat - Rabat/Kenitra - Fès/Meknes - Béni Mellal-Khenifra)	13	64%
SOUTH (Safi/Marrakech - Souss/Massa - Sakia El Hamra/Oued Eddahab)	4	21%

MIDAgroup elaboration, OMPIC 2018 data

Annex 2: Financing products

Product	Type	Beneficiary	Stage	Sectors	Financing solutions	Ceiling (MAD)	CCG Guarantee	Conditions
Micro credit	Micro credit	Micro enterprises excluded from bank loans.		Income-generating activities	Investment Working capital requirement	50 K	No	
Damane Créa	Bank loans Leasing	Enterprises	Seed stage	Production	Investment Working capital requirement Leasing	NA	70%	Bank loan : 20% Owner's equity Enterprises <3 years
Innov Idea	Loan (incubators)	Innovative projects	Seed stage Development	Innovation		100 000 200 000	Yes	200 000 (2 persons or more)
Innov Start	Trust loan (incubators)	Innovative projects	Seed stage Development	Innovation		250 000 500 000	Yes	500 000 (2 persons or more)
Damane Express	Bank loan Leasing	Enterprises	Seed stage Development	Cross sector	Investment Working capital requirement Leasing	1 M	70%	
Tamwil invest	Bank-CCG joint funding	Enterprises	Seed stage Development Mature	Industry and services	Investment	5 M 10 M	40% (part CCG)	5 M : Enterprise >3 years 10 M : Enterprise <3 years 20% Owner's equity
Damane Capital Risque	Owner's equity	Enterprises	Seed stage Development Mature	Production	Owner's equity	NA	50% (60% innovative projects)	
FOPEP	Cofunding CCG and Banks	Academic structures	Seed stage Development Mature	Academic structures	Investment	5 M	30%	Owner's equity : 30% FOPEP : 30% Bank : remaining 40%
Ilayki	Bank loan	Enterprises	Seed stage Development Mature	Production	Investment Working capital requirement Leasing	1 M	80%	Enterprises run by women.
Mezzanine PME	Intermediate Financing	Enterprises	Development Mature	Industry and services or 20% of export turnover	Investment Working capital requirement	10 M	Yes	
Damane Attasyir	Bank loan	Enterprises	Development Mature	Production	Working capital requirement > 1 M	20 M 40 M	60%	40 M s industry , export, green economy
Damane Istitmar	Bank loan	Enterprises	Development Mature	Production	Investment	NA	50%	Enterprises >3 years

					Working capital requirement			
Damane Dev.	Bank loan Leasing	Enterprises	Development Mature	Production	Investment Working capital requirement >1 M Leasing	NA	60%	Enterprises >3 years
Damane Exploitation	Bank loan	Enterprises	Development Mature	Production	>1 M Working capital requirement	NA	60%	
Damane transm.	Bank loan	Enterprises	Development Mature		Succession Repurchase of the capital	NA	60%	20% Capital
Mouwakaba	Trust loan (associations)	Enterprises	Seed stage	Production	Investment Working capital requirement	100 000	70%	Enterprises <3 years
Damane Export	Bank loan	Enterprises	Development Mature	Cross sector	Working capital requirement > 1M	NA	70%	20% of export turnover
Mezzanine Export	Participative loans / Bank loan	Enterprises	Development Mature	Cross sector	Investment Working capital requirement	10 M	40% CCG	20% of export turnover
Export markets / security bonds.	Security bonds.	Enterprises	Development Mature	Cross sector	Export markets / security bonds.	NA	70%	

Annex 3: List of Institutions/Enterprises interviewed (February / March 2019)

	INSTITUTION/ENTREPRISE	NAME/SURNAME	FUNCTION
1	Adarissa Confection	M. AbdelJawad Loulidi	Entrepreneur
2	AFEM	Mme Aicha Amrani Laasri	Presidente Nationale
3	AfricInvest	M. Brahim El Jaï	Président & Directeur Général
4	Afrique Stratégie (Tamwil.info)	M. Mohamed Amine Mansouri Idrissi	Directeur Général
5	ANAPEC	M. Tarik Alma	Responsable de formation détaché auprès du Centre Universitaire de l'entrepreneuriat
6	Association Assafaa	M. Ali Bouftass	Président
7	Association Marocaine des Investisseurs en Capital (AMIC)	Mme Françoise De Donder	Déléguée Générale
8	Attijariwafa Bank	Mme Khaddouj Moudrik	Responsable Promotion de l'Entrepreneuriat
9	Attijariwafa Bank	Mme Inass Boubekri	Conseillère Dar Al Moukawil
10	Azur Partners	M. Tarik Haddi	Directeur Général
11	Banque Européenne de Reconstruction et Développement (BERD)	Mme El Ouali Sanae	Principal
12	Banque Européenne d'Investissement (BEI)	M. Reda Tahlaoui	Chargé de projets
13	Banque Populaire	Mme Soumia Alami Ouali	Directrice Banque de la PME
14	BCS Pub Agence publicitaire	Mme Chaima Heraif	Entrepreneur
15	Bio Drive	M. Youssef Ejjoud	Entrepreneur
16	Bio Mouja	Mme Laila Benyahya	Entrepreneur
17	Brossahel	M. Driss Atlassi Douch	Entrepreneur
18	CCG - Caisse Centrale de Garantie	M. Benzina	Directeur des Engagements Entreprises
19	CCG - Caisse Centrale de Garantie	M. Omar Idrissi Amraoui	Chef du Service Fonds d'Investissement
20	CDG Capital Private Equity	M. Hassan Laaziri	Directeur Général
21	CEED Maroc	Mme Sara El Mahi	CEED Networking Manager
22	CESE - Conseil économique, social et environnemental	M. Guédira	Conseiller
23	CGEM	M. Zakaria Fahim	President Commission TPE-PME, GE-PME et AE
24	CGEM	Mme Meryem Zaïri	Presidente Commission Start-up et Entrepreneuriat
25	CGEM / Harvard Consulting	M. Saad Hamoumi	CEO
26	Circus	M. Mohamed Seydina	Entrepreneur
27	CISE Cluster	M. Achraff Alami	Chargé de mission
28	CMTPE - Confédération Marocaine des TPE-PME	M. El Fergui	Président
29	CRI Casablanca	M. Mehdi Ait Berri	Chef de Division Aide aux Investisseurs
30	CRI Casablanca	Mme Fatima Zahra Mokhtari	Chef de Division Promotion et Coopération
31	Déco Béton	Mme Laïla El Aïssaoui	Entrepreneur
32	Dream Print	M. Othman Hajjami	Entrepreneur
33	El Maarij Edition	M. Mehdi Bourragat	Entrepreneur
34	Endeavor	M. Réda Lakhli	Directeur Consultant
35	Energy Creation	M. El Madani Bentaleb	Entrepreneur

36	Espace Bidaya / Impact Network	Mme Sarah Diouri	Directrice
37	Evaptainers	M. Yassine Maghnojj	Entrepreneur
38	FHT Construction	M. Mohamed Fahmi	Entrepreneur
39	Finance in Motion	M. Hamza Louizi	Investment Analyst
40	Fondation Ardi de microcrédit	M. Fatima Zohra Hda	Chargée du Département Suivi & Animation Réseau
41	Fondation Mohamed V pour la Solidarité	M. Helafi	Chef de Projet
42	Forum International de la TPE	Mme Amal Cherif Haouat	Presidente du Forum International de la TPE
43	Green Services	M. Salaheddine El Azzouzi	Entrepreneur
44	H Seven	M. Amine El Hazzaz	Fondateur et CEO
45	Impact Lab	Mme Salma Kabbaj	Co-fondatrice et Directrice Générale
46	Izem Consulting	M. Mohamed El Mourabit	Entrepreneur
47	KLUSTER CFCIM (Chambre Française de Commerce et d'Industrie du Maroc)	Mme Meriem Faris	Chargée de Mission Kluster CFCIM
48	La Factory	M. Mehdi Alaoui	Fondateur
49	Lamamy	Mme Meriem Cheraji	Entrepreneur
50	Luxo Negoce	M. Zakaria Brakech	Entrepreneur
51	Mara Navettes	M. Adnane Belamkadam	Entrepreneur
52	Maroc PME	M. Mounir Zraïdi	Responsable Développement
53	Mediara Argan	M. Mohamed Boulahyara	Entrepreneur
54	Mentor / Accompagnement d'entrepreneurs	M. Ismail Lahsini	Directeur Fondateur
55	MNF Club / Maroc Numeric Fund	M. Omar El Hyani	Directeur d'investissement
56	MNF Club / Maroc Numeric Fund	Mme Dounia Boumehdi	Directrice Générale
57	MOROCCAN CISE	Mme Sara Zakour	Incubator Coordinator
58	ONUUDI	M. Omar Agodim	Projet Cleantech
59	ORKUS Smart Solutions	M. Zakaria Latif	Entrepreneur
60	Outlierz	Mme Kenza Lahlou	Fondatrice et directrice
61	Réseau Entreprendre Maroc	Mme Meryam Zouhri	Directrice Générale
62	Sabri Event	M. Abdelaziz Sabri	Entrepreneur
63	Silvestri Media S.A.R.L. (Food Magazine - CHR Magazine)	M. Adel Amor	Directeur Général
64	Start Up Maroc	Mme. Zineb Rherasse	Directrice
65	Technopark Casablanca	Mme Lamiae Benmakhlouf	Directrice Générale
66	Technopark Rabat	Mme Afaf Bouabid	Single Point of Contact
67	Université Mohamed V - Rabat	Mme Karima Ghazouani	Directrice du Centre Universitaire de l'entrepreneuriat

Annex 4: The workshop (Casablanca, 16 April 2019)-List of participants

	INSTITUTION/ENTREPRISE	NAME/SURNAME	FUNCTION
1	AFEM	Mme Aicha Amrani Laasri	Présidente Nationale
2	Al Amana	Mme Meriem Hachimi	Chef d'Agence
3	Ambassade des Pays-Bas	M. Luc Shillings	Conseiller Economique
4	Ambassade des Pays-Bas	M. Adil Raitab	Conseiller Adjoint - Section Economique
5	Ambassade des Pays-Bas	M. Kalle Solvsteen	Stagiaire EA
6	Azur Partners	M. Tarik Haddi	Directeur Général
7	Banque Européenne de Reconstruction et Développement (BERD)	Mme El Ouali Sanae	Principal
8	Bidaya	Mme Zineb Fakhani	Responsable de Développement
9	Bureau Commercial de l'Ambassade d'Espagne	Mme Helena Lopez	Consultant
10	CCG - Caisse Centrale de Garantie	Mme Oumaima Fathi	Analyste de Projet
11	CGEM	Mme Meryem Zaïri	Presidente Commission Start-up et Entrepreneuriat
12	CGEM	M. Zakaria Fahim	President Commission TPE-PME, GE-PME et AE
13	CGEM / Harvard Consulting	M. Saad Hamoumi	CEO
14	CISE Cluster	M. Achraff Alami	Chargé de mission
15	Crédit du Maroc	M. Abdellatif Lakmane	Chargé de mission Entreprises
16	Délégation de l'Union Européenne	Mme Sandrine Beauchamp	Chargée de Programmes de Coopération
17	Fondation Mohamed V pour la Solidarité	M. Helafi	Chef de Projet
18	Go Consulting	M. Ali Bensouda	Managing Partner
19	H Seven	M. Amine El Hazzaz	Fondateur et CEO
20	Impact Lab	Mme Salma Kabbaj	Co-fondatrice et Directrice Générale
21	La Factory	M. Mehdi Alaoui	Fondateur
22	Mentor / Accompagnement d'entrepreneurs	M. Ismail Lahsini	Directeur Fondateur
23	Mida Group Tunisia	M. Antonino Trimarchi	Directeur Général
24	MNF Club / Maroc Numeric Fund	M. Omar El Hyani	Directeur d'investissement
25	MNF Club / Maroc Numeric Fund	Mme Dounia Boumehdi	Directrice Générale
26	MOROCCAN CISE	Mme Sara Zakour	Incubator Coordinator
27	ONUDI	M. Omar Agodim	Projet Cleantech
28	Outlierz	Mme Kenza Lahlou	Fondatrice et directrice
29	RVO	Mme Qazal Yamali	Advisor
30	RVO	Mme Kim Mulder	Advisor
31	Seaskin Morocco	Mme Allaoui Nawal	Gérante
32	Secrétariat d'Etat chargé du Développement Durable	Mme Fatima-Zohra Belmoubarik	Ingénieur
33	Services du Chef du Gouvernement	M. Mohamed Alami Berrada	Chargé de mission
34	Tidjani Consulting	M. Houcine Boufassi	Consultant
35	Tidjani Consulting	M. Alaedine Tidjani	Consultant
36	Triple Jump	Mme Julia Kho	Knowledge Manager
37	Université Hassan II	M. Khalid El Ouazzani	Directeur Laboratoire de Recherche

The groups and the topics discussed during the workshop by the 3 working groups:

Working Group 1:

- How to address management of Livelihood Companies?
- Which financial products are the most suitable for them?
- What kind of technical support is more adapted to the needs of Livelihood Companies?

Working Group 2:

- How to strengthen the innovation ecosystem?
- Would the ecosystem benefit from specialization? If so, how?
- What is your understanding of support programs and tools implemented to support start-ups?
- At what stage of development of Niche Companies should a financing fund be positioned?

Working Group 3:

- What type of financial support for growth-generating companies?
- What type of financial instrument is best suited to accelerate their growth?
- How to facilitate market access for these companies?
- Would a sector-based approach be more suitable to them?

ClosingTheGap MENA
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MOROCCO

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