

## CONSTRAINTS OF SMES: THE EXAMPLE OF ACCESS TO FINANCE IN MOROCCAN CONTEXT

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### ABSTRACT

The aim of this paper is to present an overview of constraints of SMEs and specifically the access to finance. SMEs Suffer of many difficulties that hinder their upgrade despite its important roles in the process of industrialization and economic growth. The evaluation of financial mechanisms shows a lack of access for SMEs. However, for the development and sustainability of SMEs, the access to funds has become a major predicament in many developing countries, including Morocco

### Keywords:

SMEs, constraint, access to finance

### INTRODUCTION

Small and medium enterprises account for a great share of enterprises and a huge share of overall employment in the private sector over the economies.

For both developing and developed countries, small and medium scale firms play important roles in the process of economic growth. SMEs create employment opportunities, enhance regional economic balance through industrial dispersal and generally promote effective resource utilization. However, the role played by SMEs notwithstanding its development is everywhere constrained by inadequate funding and poor style of management.

Small and medium-sized enterprises face various constraints. Governments have increasingly attributed key economic roles to such firms and to their enhancement of competitive forces.

Around the world, SMEs face several constraints. However, access to finance is seen as the most visible constraint

The Moroccan financial system has provided several financing products, but the problem of access to finance remains a complex and topical phenomenon.

### The definition of SME

Until now, there is no consensus among researchers. Each country has its own definition. A standard definition of SMEs has been the subject of many attempts but was quickly abandoned. In order to describe Small and Medium Enterprises, the number of workers is less than 500. In developing countries, where market size and firm size are both much smaller, this number is between 100 and 150.

For example, in Europe, SME is an independent enterprise with less than 500 employees whose fixed assets (net of depreciation) are less than 75 million ECUs (European Currency Units) and in whose capital structure a large enterprise holds no more than a one-third participation (Dyson, 2005).

SMEs are always a heterogeneous group ranging from small manufacturing workshops to medium-sized manufacturers of machinery and service providers, such as restaurants. Some are traditional, "subsistence" enterprises that are satisfied to remain small who do not intend to grow but others are "focused on growth and innovation». The behavioural characteristics of SMEs are largely related to the form of ownership, the degree of informational opacity, the power of leaders and the level of technological sophistication (Biggs, 2002).

Nevertheless, several approaches have tried to find the essential characteristics that could differentiate SMEs from those of large sizes. It emerges that two families of criteria are used to describe SMEs, quantitative criteria and qualitative criteria.

On the one hand, the quantitative approach refers to the representative aspects of the size of the enterprise. These are generally quantitative indicators relating to the permanent total workforce, turnover, indebtedness, total balance sheet, value added, social capital and market share.

On the other hand, the human aspect is the fundamental element of this approach. The latter is based on theoretical and analytical tools that highlight certain aspects of the company such as leadership style, delegation of authority and division of labour.

#### **The definition of SME in Morocco**

There are several definitions of SMEs in Morocco. Three criteria are taken into account in the official definition of SME according to “the SME Charter”. The first relates to the management of the company, which must be directly by natural persons (owners or shareholders). The second criteria relates to ownership of capital or voting rights, which can not be more than 25% owned by a company or a group of companies. The third criteria is the size, with a distinction between existing enterprises (more than two years) and those that are newly created. To be qualified as SMEs, companies must have a workforce of less than 200 permanent employees, have an annual sales excluding tax of not more than 75 million MAD<sup>1</sup>, and / or a total balance sheet limited to 50 million MAD.

#### **Role of SMEs over the world**

SMEs are the backbone of socio-economic growth and job creation both in developed and developing economies. The considerable role that SMEs plays in the economy cannot be under-estimated. Around the world, promoting SME development appears to be a crucial priority, as far SMEs confront many obstacles, which obstruct their development.

According to World Bank (IFC World bank, 2010), formal SMEs contribute up to 33 percent of GDP in developing economies and up to 45 percent of employment; these numbers are significantly higher when taking in consideration the contributions of the informal SMEs. In emerging markets, there are 365-400 million micro, small, and medium enterprises of which 25-30 million are formal SMEs and 55-70 million are formal micro enterprises, the rest (285-345 million) are informal enterprises.

Academic research on small firms has been carried out in a variety of disciplines; Economists were perhaps the slowest to get off a contribution to the understanding of small business. In fact, up to the late 1960s to 1980s, the preoccupation of industrial economists was the existence and benefits of economies of large scale, in both production and technology, and little attention to the benefits those small firms (Johnson, 2007).

Since the 1950s, the idea formed at the end of the 19th century that large firms are the greatest support for the economy has been changed.

The debate is the relationship between characteristics of firms and barriers to their growth. A particularly interesting part of the debate concerns the role of different types of ownership of firms as factors of growth. For example,

In Morocco, SMEs account for more than 93% of enterprises, create 50% of jobs, contribute 20% to GDP, 30% to exports and 40% to production.

According to a survey carried out in 2016 by the General Confederation of Moroccan Enterprises (CGEM), based on a sample of 600 companies from different sectors, unfair economic competition is the main concern of managers (36%), followed by access to finance (18%) (CGEM, 2014).

#### **The Constraints of SMEs**

The literature of the constraints to growth of SMEs is very rich. Levy's (1993) interesting research in Sri Lanka and in Tanzania has identified three important constraints; way in finance, access to non-financial inputs, and high financing cost. According tout Levy's, financial constraints were the most important obstacles for firms' growth. In addition, high tax constraint was also an important obstacle for small firms. Many researchers have focused on several industries in order to give more information about the SMEs difficulties.

Pissarides (1999) showed that lack of financing became a barrier to SMEs growth in transitional economies where credit was lending to larger enterprises and due to undeveloped capital markets.

Pissarides, Singer, and Svejnar (2003) used a data from 437 of SMEs in Russia and Bulgaria to identify the biggest obstacles to SMEs growth. He found that the top four constraints were: suppliers unawares to deliver, external finance problems, access to land and other production constraints.

Y.Wang has attempt to evaluate the level of the financing problem for SMEs (Wang, 2016). The most interesting finding is that size and age of SME were negatively correlated with a severe level of the financing

<sup>1</sup> Conversion Rate : MAD/USD is average 10,50

constraint. This implies that, with increasing size and age, the bigger and older SMEs respectively will be less likely to perceive access to finance as a severe problem.

In Morocco, many constraints stand in the way of SMEs. These constraints are classified into two categories.

On the one hand, internal factors that are linked to the company itself, fragility of their structures, undercapitalization almost generalized, lack of technical innovation and human capital lacking supervision and training.

On the other hand, external factors that are linked to the "ecosystem" in which companies operate, administrative burdens, disadvantageous taxation and problems related to financing are often cited among the first challenges facing the development of SMEs in Morocco.

#### **Lending SMEs as the first problem**

Half of the formal SMEs (11-17 million) in the emerging markets do not have access to formal institutional loans or overdrafts. The finance gap is far bigger when considering the micro and informal enterprises 65-72 percent of all MSMEs (240-315 million) in emerging markets lack access to credit.

The mainly common findings in the extant research are that large institutions have comparative advantages in transactions lending to more transparent SMEs, while small institutions have comparative advantages in relationship lending to informationally opaque (Berger & Udell, 2004).

Bougheas & al confirm that small, young and risky firms are more significantly affected by tight monetary conditions than large, old and secure firms (Bougheas, Mizen, & Yalcin, 2006).

The difference between small and large firms is bigger for some of the specific financing obstacles, such as collateral requirements, bank paperwork and interest rate payments and the need for lending resources (Beck & Beck, 2007)

Economic development is significantly linked to the sustainable sector of small and medium enterprises (SMEs). As an economic and financial hub, Morocco by 446,550 km<sup>2</sup> and 34.8 million inhabitants, is seeking to diversify its industry. To achieve this goal, the Moroccan Government launched many National Programs for the Development of Small and Medium Enterprises.

Access to credit is considered particularly difficult in Morocco, as shown by Morocco's ranking on this criterion in the latest Doing Business report in 2014 (109th out of 189 countries). This concerns in particular the small and medium-sized enterprises, which find it more difficult to finance themselves, due to the lack of solid profitability and the ability to meet the requirements of financial institutions.

More than 60% of Moroccan SMEs have a financial structure dominated by short-term debts. This hinders the company that sees its fixed assets financed largely by short-term debts. This situation is mainly due to the difficulty of access to bank loans, in particular, to companies in the creation phase.

In most cases, SMEs have difficulty in finding adequate financing during the early stages of their development. Beyond the initial capital needed to develop and create the business, all SMEs have faced in the early years of their lives a financing need. It is mainly this stage that represents the major challenge for SMEs.

The financing problem is an important factor blocking the growth of Moroccan SMEs. The difficulties faced by SMEs in relation to the supply of financing are due to several factors. Probably, the first is linked to the prudence of banks to finance SMEs in a context of lack of liquidity, especially in the creation or expansion phase. The second factor is related to the ignorance of entrepreneurs and managers of SMEs in the range of financial products. A third factor may be the lack of adaptation of these financial products to the needs of a large SME population. Another factor is linked to the existence of a strong information asymmetry between the investor and the SME and the lack of transparency of the latter.

#### **CONCLUSION**

The Small and Medium Enterprises (SMEs) are important for the development of any country. The importance of SMEs in overall growth and stability of economic is immensely amplified for a developing country like Morocco, where SMEs are the major portion of overall businesses.

Despite the fact that SMEs suffer from several handicaps, solving the financing problem in Morocco will surely contribute to boost the economy of this country.

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