



# MSME RESILIENCE IN MORROCCO IN THE FACE OF COVID-19

Published by:

**giz** Deutsche Gesellschaft  
für Internationale  
Zusammenarbeit (GIZ) GmbH

November 2021

GIZ commissioned report

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## ABBREVIATIONS

<b>CNSS</b>	Morocco National Social Security Fund (Caisse Nationale de Sécurité Sociale)
<b>COVID-19</b>	Coronavirus Disease 2019
<b>GDP</b>	Gross domestic product
<b>CGEM</b>	General Confederation of Enterprises in Morocco (Confédération Générale des Entreprises Du Maroc)
<b>CCG</b>	The Central Guarantee Fund (Caisse Centrale de Garantie)
<b>HCP</b>	Higher Planning Commission (Haut Commissariat au Plan)
<b>MSMEs</b>	Micro, small and medium enterprises
<b>CNSS</b>	National Social Security Fund (Caisse nationale de sécurité sociale)
<b>CDG</b>	The Deposit and Management Fund (Caisse de dépôt et de gestion)
<b>PCGs</b>	Partial credit guarantees
<b>SMEs</b>	Small and medium enterprises
<b>IDIs</b>	In-depth interviews
<b>FGDs</b>	Focus group discussions
<b>MEFRA</b>	The Ministry of Economy, Finance and Administration Reform (Ministère de l'économie, des finances et de la réforme de l'administration)
<b>MSMEO</b>	The Moroccan Micro, Small and Medium Enterprises Observatory (l'Observatoire Marocain de la TPME)

## EXECUTIVE SUMMARY

**MSMEs, significant driver of employment and GDP in Morocco.** Micro, small and medium enterprises (MSMEs) are vital to the Moroccan economy, accounting for more than 30% of gross domestic product (GDP) and representing more than 70% of jobs (African Development Bank Group, 2021).

**However, challenges precede the COVID-19 pandemic.** Despite the significant contribution of MSMEs to economic growth and livelihoods in Morocco, their development has been constrained by challenges that precede the advent of the COVID-19 pandemic. These challenges include inadequate access to credit and a lack of business, financial and innovation knowledge, skills, and capacity to manage and grow their enterprises. Stringent administrative, regulatory and tax requirements and related barriers, such as competition, may also disincentivise MSMEs from joining the formal sector.

**Project objective.** COVID-19 has and continues to increase MSMEs' vulnerability to the risks that they were facing before the outbreak of the pandemic – and to a range of new ones. This study was commissioned by the global project on “Developing Risk Management Approaches for Climate and Health Risks”, in partnership with Allianz. The aim of this research is to analyse and identify a) the risks (perceived and experienced) faced by Moroccan MSMEs, b) the different mechanisms that they used to face these risks and c) potential opportunities to enhance MSMEs' resilience and risk management abilities. GIZ will use these research results to inform the targeting of its capacity development activities and Allianz, as well as the Moroccan insurance industry more broadly, will gain a better understanding of MSMEs' resilience needs.

**Project methodology.** This report is based on a combination of sources of information<sup>1</sup> that will determine the key opportunities to improve the resilience of MSMEs in Morocco, namely, desktop research, key informant interviews, qualitative research (in-depth interviews as well as focus group discussions) and a quantitative survey. It focuses on three key sectors: the agribusiness industry, the automotive industry and the tourism industry. The rationale for the selection of these sectors is detailed in subsequent sections of this report and the key findings and opportunities described at the next page.

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<sup>1</sup> Further details on the methodology can be found in Appendix A.

## KEY FINDINGS AND OPPORTUNITIES

The State will have to play a big role in the recovery, but we also have our share of responsibility. We must work on our state of mind, and put in place good practices, and by networking and finding mutual solutions to our problems.

- Agribusiness sector

**MSMEs sought to directly combat challenges faced.** Instead of simply shutting their doors permanently in response to the crisis, the qualitative research conducted indicates that MSMEs in Morocco have tried to directly combat the challenges that they are facing as a result of COVID-19.

As such, they have actively and proactively sought to incorporate solutions that will combat the challenges that they predict they will face in the future. Both the automotive and agribusiness sectors, for example, observed that one of their immediate priorities is to develop crisis management systems so that they are more resilient to similar events that may occur in the future.

**However, the psychological impact is very salient.** Despite the considerable financial difficulty into which the COVID-19 pandemic plunged many MSMEs, most participants focused more heavily on the psychological effects of the pandemic on themselves, their staff and the kingdom as a whole. The psychological impact of the pandemic is also credited, at least partially, for a reduction in consumers' willingness to spend money and thus a decrease in overall demand.

**Gaps in mostly knowledge, skills, funding and regulation.** Moroccan MSMEs in the agribusiness, automotive and tourism sectors implemented a range of responses to overcome the challenges that they faced as a result of the onset of the COVID-19 pandemic. Table 1 shows some of the major challenges and MSMEs' responses to these challenges and identifies some of the most important gaps that MSMEs could not cover themselves - in other words, challenges that MSMEs still struggled to overcome despite implementing the coping mechanisms at their disposal. The gaps identified mostly revolve around a lack of knowledge, skills, and funding, but also entail hindrances related to regulation and the enforcement thereof.

Table 1: Challenges, responses and gaps

Challenge Faced	Response from MSMEs	Remaining gaps
Decline in sales	<ul style="list-style-type: none"> <li>• Finding new clients</li> <li>• Diversifying their offerings</li> <li>• Diversifying their client portfolio</li> </ul>	<ul style="list-style-type: none"> <li>• Struggling to find and reach new markets</li> <li>• Cost of introducing new products and services</li> </ul>
Recovering outstanding payments	<ul style="list-style-type: none"> <li>• Negotiations with clients</li> </ul>	<ul style="list-style-type: none"> <li>• Payment systems that ensure on-time payment</li> <li>• Bridging finance for delivery on projects</li> </ul>
Meeting fixed costs	<ul style="list-style-type: none"> <li>• Negotiations with suppliers for adjusted payment schedules</li> <li>• Reduction in staff (layoffs) or staff hours</li> <li>• Using owner's savings</li> <li>• Loans from family and friends</li> </ul>	<ul style="list-style-type: none"> <li>• Increased funding in the form of subsidies and grants</li> </ul>
Increased operational costs	<ul style="list-style-type: none"> <li>• Use of owner's assets to reduce business expenses</li> <li>• Attempts to optimise operations</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of knowledge on how to further optimise operations</li> <li>• Struggling to measure performance in this optimisation</li> </ul>
Increase in price of raw materials	<ul style="list-style-type: none"> <li>• Switch to sub-contracting arrangements</li> <li>• Negotiations with suppliers for adjusted payment schedules</li> </ul>	<ul style="list-style-type: none"> <li>• Bridging finance for supplies</li> <li>• Grants and subsidies</li> <li>• Decreased taxes on imported goods</li> </ul>
Cost of compliance	<ul style="list-style-type: none"> <li>• None</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction in regulation within sectors</li> </ul>
Unfair competition	<ul style="list-style-type: none"> <li>• Focus on brand and quality service</li> <li>• Attempt to incorporate innovation into business processes</li> </ul>	<ul style="list-style-type: none"> <li>• Better regulation of informal sector</li> <li>• Skills in brand-building and communications</li> <li>• Skills and funding for innovation and investment</li> </ul>
Social climate within the company	<ul style="list-style-type: none"> <li>• Continue paying staff normal wages</li> </ul>	<ul style="list-style-type: none"> <li>• None listed</li> </ul>



**Importance of relationships barrier to uptake of digital solutions to overcome challenges.** The qualitative research indicates that interpersonal professional relationships play a key role in conducting business in Morocco. Digital solutions that could help to overcome some of the identified challenges are seen as compromising or removing this relational component. Moreover, across board, MSMEs are concerned that removing the in-person and relationship components of their operations will result in resentment from clients and suppliers alike. There is further concern from MSMEs that their customers simply will not take up digital solutions – especially with regards to payment – and that trying to implement such solutions will give them a bad reputation or cause them to lose clients and/or waste time and money.

**Nevertheless, there is existing potential for solutions to overcome cash-flow challenges.** Bridging finance and escrow services have the potential to help MSMEs to overcome cash-flow related challenges that they face – especially when it comes to their suppliers. It is important to note that these solutions were met with some degree of suspicion and hesitancy by participants, as they were viewed as having the potential to further weaken relationships that were already strained as a result of the impact of the COVID-19 pandemic. Raising awareness and knowledge of these solutions among MSMEs and ensuring that they are designed with the importance of maintaining relationships and trust in mind are key steps needed to fulfil the potential that they have to address MSMEs' challenges. The framing and positioning of these products will also be key to their success.

**Expectation of support from the state.** Across board, Moroccan MSMEs express the desire for and expectation that they will receive support from the state as a fundamental building block to enable a post-pandemic recovery – as individual enterprises and for their sectors as a whole. In addition to direct financial support (in the form of grants/stipends that are expected to be interest-free and that do not have to be repaid), MSMEs expect the Moroccan government to play a proactive role in stimulating local and international demand for the goods and services that they produce.

**(Interest-bearing) loans unable to address fundamentals.** Moroccan MSMEs recognise that loans or credit from the formal financial sector – especially in the absence of improvements in the efficiency of their own operations or the external economic environment – cannot be a cure-all remedy. Indeed, there is a reluctance to take up standard, interest-bearing loans that extends beyond the fact that these are not sharia-compliant; many MSMEs maintain that being indebted renders them worse off than they would have been if they had merely used whatever resources they have at their disposal (such as their savings, personal assets or loans from their personal networks).

**However, investment financing is highly sought-after.** Although Moroccan MSMEs indicate that they are more reluctant to take up loans, it is clear that covering their costs remains a major challenge. Investment financing, where the provider of funds supports improvements in an enterprise's efficiency and growth are a much-preferred option.

**Training, key opportunity to enhance MSMEs' resilience.** Across board, MSMEs express the need and desire for training to help them to build back better in the aftermath of the pandemic. It is important that this training be sufficiently tailored to meet enterprises' needs – although general business management, risk management and opportunities to diversify their offerings all appeal to respondents.

**Report structure.** The report, which unpacks the basis for the findings above, is structured as follows:

- Section 2 focuses on the rationale for the selection of the three sectors.
- Section 3 describes the impact that COVID-19 has had (and continues to have) on Moroccan MSMEs, with a particular emphasis on the challenges that they face as a result.
- Section 4 unpacks how MSMEs' perceptions of the future have changed as a result of the COVID-19 pandemic.
- Section 5 details the coping mechanisms that MSMEs used in the face of the risks, challenges and external shocks that COVID-19 exacerbated and brought about describing the short-term solutions that MSMEs would have wanted access to and would need to secure their future/long-term recovery.
- Section 6 provides an overview of the key findings and opportunities identified to enhance MSMEs' resilience.

## 1. INTRODUCTION

**MSMEs, significant driver of employment and GDP.** Micro, small and medium enterprises (MSMEs) are vital to the Moroccan economy. In 2018, small and medium enterprises (SMEs) constituted more than 90% of the total number of operating businesses– thus contributing 50% to total employment, more than 20% to gross domestic product (GDP) and in excess of 30% to exports (The World Bank, 2018). More recently, it is estimated that MSMEs (both formal and informal) account for 35.7% of GDP and represent more than 73% of jobs in the kingdom (African Development Bank Group, 2021).

**MSME challenges precede the COVID-19 pandemic.** Despite the significant contribution of MSMEs to economic growth and livelihoods in Morocco, their development has been constrained by challenges that precede the advent of the COVID-19 pandemic. One of the most frequently-cited pre-COVID-19 challenges is inadequate access to credit financing, due to perceived conservative lending practices in the banking sector and high collateral requirements – although the rate of SME financing (17% of GDP) exceeds the average across the region (African Development Bank Group, 2014, The World Bank, 2018 and Oxford Business Group, 2020). MSMEs lack the business, financial and innovation knowledge, skills, and capacity to manage and grow their enterprises (African Development Bank Group, 2014 and The World Bank, 2018). This may render them even less attractive as recipients of credit or equity financing (to which they already have limited access, compared to large enterprises) in the early and growth stages of their life cycle. MSMEs are also even more susceptible to going under because of another of their major challenges, namely payment delays. Stringent administrative, regulatory and tax requirements and related barriers, such as competition, may also disincentivise MSMEs from joining the formal sector (African Development Bank Group, 2014 and Oxford Business Group, 2020). MSMEs located outside of Rabat and Casablanca, or who do not qualify as high-potential firms in the manufacturing sectors, also struggle to access support programs (The World Bank, 2019).

**Renewed focus by Moroccan government on supporting MSMEs even before COVID-19 crisis.** Recent changes in legislation and government structures seek to support MSME development and growth in Morocco. The Small Business Act<sup>2</sup>, for example, aims to update and comprehensively set out regulations regarding financing and taxation for SMEs – simplifying export procedures and thus making it easier for local SMEs to access international markets. In late 2018, the Moroccan Competition Council (le Conseil de la Concurrence) was also relaunched with a stronger mandate, enabling it to clamp down on uncompetitive practices and reduce barriers to entry for MSMEs (Oxford Business Group, 2020). Moreover, the Financial Inclusion and Digital Economy Development Plan<sup>3</sup> proposes to develop new financial products (such as financing instruments and insurance) that specifically target MSMEs. Another shift that has the potential to enhance MSMEs' access to finance is that, in 2019, the Moroccan government signed off on a law that extends the definition of assets that can be used by enterprises as collateral to access credit to include, for example, movable goods (Oxford Business Group, 2020).

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<sup>2</sup> This law was prepared in mid-2019 (Oxford Business Group, 2020).

<sup>3</sup> This plan was approved in 2019 and has the dual objective of enhancing financial inclusion and access to digital technologies for individuals and SMEs (Oxford Business Group, 2020).

**Range of ecosystem actors focus on MSMEs.** There are various institutions, organisations and associations that focus on providing (financial and other) assistance to and information on Moroccan MSMEs, such as the public agency for SME support (Maroc PME-) and the General Confederation of Enterprises in Morocco (Confédération Générale des Entreprises Du Maroc or CGEM). The Central Guarantee Fund (Caisse Centrale de Garantie or CCG), for example, is a licensed financial institution that is supervised by the Bank Al-Maghrib (the Moroccan Central Bank) (Rahali, 2017). It provides partial credit guarantees (PCGs) aimed at SMEs (thereby seeking to help overcome banks' reluctance to lend to these enterprises), as well as targeted financing to innovative start-ups<sup>4</sup> (The World Bank, 2018 and Oxford Business Group, 2020). The Moroccan Micro, Small and Medium Enterprises Observatory (l'Observatoire Marocain de la TPME or MSMEO) has also set up a database that has the potential to enable the identification of the MSME population in Morocco, with the ultimate objective of fostering and developing MSMEs' role in the economy (Rahali, 2017).

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**Project methodology.** This report is based on a combination of sources of information<sup>5</sup> that will determine the key opportunities to improve the resilience of MSMEs in Morocco, namely desktop research, key informant interviews, qualitative research (in-depth interviews as well as focus group discussions) and a quantitative survey. It focuses on three key sectors: the agribusiness industry, the industry, the automotive industry and the tourism industry. The rationale for the selection of these sectors is detailed in subsequent sections of this report.

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- Section 6 provides an overview of the key findings and opportunities identified to enhance MSMEs' resilience.

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<sup>4</sup> The Innov Invest Fund was launched in 2017 and had provided funding exceeding MMDH12.3 million to 62 start-ups by March 2019 (Oxford Business Group, 2020).

<sup>5</sup> Further details on the methodology can be found in Appendix A.

## 2. TARGET GROUP FOR ANALYSIS

**Three sectors chosen for analysis: agribusiness, automotive and tourism.** The present report focuses specifically on the impact of COVID-19 on MSMEs within the three sectors. These three sectors were chosen on the basis of a combination of the following factors: a) their contribution to GDP, exports and employment; b) the extent to which these sectors are priorities for the Moroccan government; c) the presence of MSMEs operating in these sectors; d) the considerable impact of COVID-19 on MSMEs in these sectors and e) the strategic focus of the project partners (Allianz and GIZ).

**Manufacturing sub-sector largest single GDP contributor and large export sector pre-COVID-19.** In 2019, the manufacturing sub-sector (which falls under the secondary sector in the HCP's classification) contributed 17% to total GDP<sup>6</sup> - rendering it the largest single sub-sector (HCP, 2019). Within this sub-sector, food and tobacco (6% contribution to GDP) and mechanical, metallurgical and electrical industry (4% contribution to GDP) constitute the most significant industries (HCP, 2019). 'Food and tobacco' encompass agribusiness and the 'mechanical, metallurgical and electrical industry', the automotive sector. Moreover, although the manufacturing sector (including handicrafts) employed only 12% of the economically active population, it contributed significantly to exports, with mechanical, metallurgical, and electrical industry constituting 24% of total exports (the largest single category) and food and tobacco, 7% (HCP, 2019).

**Strategic agribusiness sector.** As the second largest manufacturing industry, the agribusiness sector is important to the Moroccan economy, contributing to food security, economic growth and foreign trade (sector exports increased by more than 38% between 2014 and 2019) (MAP, 2020). Moreover, between 2014 and 2019, this sector led to the creation of more than 83,000 jobs, thus playing an important role in employment - especially in rural areas - and contributing significantly to the results achieved by Morocco's Industrial Acceleration Plan (MAP, 2020). Despite this sector's strategic importance, value addition in Morocco is still below its potential (for example, milled cereals, oil, canned fruits and vegetables, canned fish and animal feed involve limited processing)

**Automotive sector, key government focus; contributing to exports, employment.** The automotive industry is a strategic focus area for the Moroccan government and one of the kingdom's leading export industries - in 2018, vehicles made up 14.6% of exports (USD4.92 billion) (OEC, 2018). In 2019, the Moroccan automotive industry comprised more than 250 companies, creating over 222,000 direct jobs with a local integration rate that has strengthened to 60% in recent years and an installed capacity of 700,000 (Maghreb Arabe Press, 2021)). The activities performed within the sector are concentrated in four main integrated industrial hubs - Tangier, Kenitra, Rabat and Casablanca - and focus mainly on the manufacturing of parts and components and the assembly of vehicles, the latter of which is dominated by large manufacturers, such as Renault (Government of Canada, 2020). Additionally, distribution and some after-sales activities also take place in Morocco (Vidican-Auktor & Hahn, 2017). Nevertheless, the sector has not reached its inclusive growth potential yet. Workforce wages are low and local integration, as well as technology and knowledge transfer within the sector remains limited (despite recent improvement) (Al Arbi, 2019). Moreover, export market diversification prior to the COVID-19 crisis was constrained because of the very strong linkages to

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<sup>6</sup> This is the largest single sub-sector contribution if "other services", which includes financial activities and insurance, services provided to firms and individuals and education, health and social welfare services is excluded (HCP, 2019).

the European market as key export market for components and vehicles alike (Al Arbi, 2019). Today, the industry is structured into efficient ecosystems that cover all of the elements of the value chain, including wiring, metal and stamping, battery, vehicle interior and seat parts, powertrain, engine and transmission (Maghreb Arabe Press, 2021).

**Tourism, driver of growth, employment.** Before the onset of the COVID-19 pandemic, tourism constituted a key driver of growth and employment, contributing 6.9% to national GDP and creating 833,000 direct jobs and 1.9 million indirect jobs. Since 2011, the Department of Tourism has been implementing Vision 2020, which recognises the importance of economic development as well as the preservation of tourism resources and environments (OECD, 2021). The Vision 2020 strategy focuses on regional tourism, quality and sustainable development and is committed to making tourism a driver of economic, social and cultural development in Morocco. The tourism 'value chain' is fragmented and complex, however, covering a wide range of heterogeneous actors and spanning numerous sectors (such as attractions and activities, tour operators, accommodation, airlines and local transportation). This means that there are fewer clear aggregation points that could be leveraged for the distribution of solutions to MSMEs in this sector.

### 3. THE IMPACT OF COVID-19 ON MSMEs

This section describes the impact that the outbreak of COVID-19 had on Moroccan MSMEs, as well as the measures implemented by the Moroccan government to mitigate the adverse effects of this crisis.

**Proactive initial response by Moroccan regime to curb spread.** The first confirmed case of COVID-19 was reported on 2 March 2020. Soon thereafter, the Moroccan regime implemented a strong and proactive strategy, declaring a state of emergency and imposing strict measures to curb the spread of the virus. By March 20, 2020, the Moroccan government had suspended international flights, closed the kingdom's borders and imposed a nationwide lockdown, enforcing social distancing and mandating the suspension of all business activities, except those providing food and medical supplies (Abouzzohour, 2020).

**Initial measures relaxed after three months; unevenly implemented.** By June 2020, however, the first lockdown had come to an end and general social distancing protocols had also become more relaxed. The implementation of the lockdown had also been uneven, however – resulting in significant spikes in transmission of the virus associated with the uninterrupted operation of some farms and factories (Abouzzohour, 2020). While response measures helped to keep the fatality rates relatively low, the lockdowns and global economic slowdown also resulted in shocks to the Moroccan economy. Household consumption declined by over 20% between 2019 and 2020; an already high pre-pandemic youth unemployment rate rose 11 percentage points (to 33%), and the already-low female labour force participation rate is also likely to decrease further (Morocco Employment Lab, 2020).

**Moroccan regime sought to support SMEs.** The Moroccan regime implemented a range of appropriate measures to soften the blow of the pandemic on the economy. For example, it deferred/suspended debt/loan repayments to banks and social tax payments for MSMEs<sup>7</sup>, without payment of fees or penalties, from the end of April until 30 June 2020 – see Box 1 for further details (Abouzzohour, 2020). The government also implemented measures that exempted allowances paid to employees registered with the National Social Security Fund (Caisse nationale de sécurité sociale or CNSS) from income tax, within a limit of 50% of the employee's average monthly net salary (Abouzzohour, 2020). The Deposit and Management Fund (Caisse de dépôt et de gestion or CDG), a state-owned financial institution that manages long-term savings, also put various measures in place to assist MSMEs, such as an extension of financing deadlines for up to 6 months, an increase in the share of financing and the postponement of credit repayment terms for up to 3 months.

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<sup>7</sup> Specifically, those enterprises who had had a turnover less than Dh20 million during the 2019 financial year could opt to postpone filing their tax statements (Abouzzohour, 2020).

## Box 1: Tax and employment-related measures to support MSMEs

The Rectifying Financial Law for FY 2020 includes provisions allowing the non-application of penalties for delays caused by the crisis on the following:

- Regarding corporate tax, companies with a turnover of less than MMDH20 million benefit from (i) the postponement of the deadline for filing the declaration of tax income for the year 2019 (until June 30, 2020) and (ii) the postponement of the due date for the spontaneous payment of rights due (until September 30, 2020).
- Regarding personal tax, taxpayers who are individuals, subject to personal tax in respect of their professional income for the year 2019 (determined according to the system of actual net income or that of simplified net income and/or under their agricultural income), can also benefit from the postponement of the due date for the spontaneous payment of the duties due (until September 30, 2020).

Regarding employment-related measures, all penalties and surcharges for late payment on all arrears of contributions prior to June 2020 was cancelled for any employer affiliated to the CNSS whose activity has been impacted by the COVID-19 pandemic and fulfilling the conditions provided for by decree 2.20.331. To benefit from the exemption, employers are required to pay the full principal amount of the debt or resort to payment facilities that can extend up to 60 months with payment of the contributions due for the period of the schedule.

Source: (KPMG, 2020)

**Individual workers also eligible for government support.** The Moroccan labour market had a relatively high unemployment rate even prior to the COVID-19 pandemic. This can be largely attributed to: a) low labour force productivity (due to low education attainment and poor quality of education) and b) limited private investment, growth in SMEs and high-skilled sectors, in part due to strict labour market regulations, which result in low returns on private investment (Paul-Delvaux, et al., 2021). The Moroccan government provided a stipend to employees that faced adverse consequences (unemployment or underemployment) because of the COVID-19 pandemic and the – although only 24.1% of the Moroccan labour force has access to social security through their employment<sup>8</sup> and more than half of all employees (54.9%) do not have official contracts, thereby limiting the effectiveness of this measure in providing widespread support. For individuals working in the formal sector (and thus affiliated with the CNSS), the stipend was MMDH2,000 per month; for those working in the informal sector<sup>9</sup>, the stipend ranged from MMDH800 to MMDH1,200 per month, depending on the size of their household – amounts which have been widely regarded as being too small to offer full coverage of people's basic needs but that still allowed them to continue benefitting from essential services (Abouzzohour, 2020). In addition, a credit product granting interest-free loans of up to MMDH15,000 was created for self-employed individuals negatively affected by the pandemic (Abouzzohour, 2020).

**CVE and COVID-19 emergency fund created.** To mitigate the impact of the COVID-19 pandemic on the economy, the Moroccan government created the Economic Watch Committee (Comité de Veille Economique or CVE) on March 11, 2020 (Paul-Delvaux, et al., 2021). The CVE is a body that is led by the Minister of Finance and tasked with monitoring the economic situation and identifying appropriate measures to support the economy.

<sup>8</sup> Of which 36.4% live in urban areas and only 7.8% live in rural areas (Abouzzohour, 2020).

<sup>9</sup> Individuals were able to receive this support irrespective of whether they had registered for the Medical Assistance Plan (le Regime d'Assistance Medicale or RAMED), the national medical assistance programme that targets informal workers who had lost their source of income as a result of the compulsory lockdown.



In addition, on March 16, 2020, the government set up a large fundraising campaign, resulting in the creation of the COVID-19 special management fund. The fund is dedicated to financing economic measures identified by the CVE to support vulnerable sectors, save jobs, mitigate the social impact of the pandemic; and purchase medical supplies. Contributions to the fund were made a range of entities on a voluntary basis, and these were tax deductible. By June 19, 2020, MMDH33 billion had been raised – equivalent to 3% of GDP (Paul-Delvaux, et al., 2021).

**Despite support, considerable negative impact on enterprises in general.** As a result of the lockdown and accompanying decreases in economic demand, across board, business closures, underemployment and unemployment increased in Morocco – with the latter rising from 9.1% in 2019 to 13% by the second quarter of 2020 (Abouzzohour, 2020). Indeed, between the end of the second quarter in 2019 and the end of the second quarter in 2020, an estimated 589,000 jobs were lost – 88% of which were in rural areas (Abouzzohour, 2020). Agriculture, fishing, and forestry (477,000 jobs lost), industry (69,000 jobs lost) and services (30,000 jobs lost) were the hardest-hit economic sectors. Moreover, about 57% of all registered companies (142,000 in total) reported that they were suspending their activities because of the pandemic and the measures implemented to curb the spread – although the majority (95%) only temporarily (Abouzzohour, 2020). Of enterprises that suspended their activities (whether temporarily or permanently), the overwhelming majority (98%) can be classified as MSMEs. By the second quarter of 2021, the majority of quantitative survey<sup>10</sup> respondents (68%) still indicate that they are worse off as a result of COVID-19.

**Agribusiness sector relatively unscathed.** The lockdown period heralded a fall in demand for some food products and a decline in exports, although high-consumption products destined for the local market were least affected by the crisis due to relatively stable levels of local demand (MAP, 2020). As such, relative to other industrial sectors, such as textiles and aeronautics, the overall impact of the COVID-19 crisis on the agribusiness sector has been less severe – especially once restrictions had been gradually eased, allowing cafés, hotels and restaurants to reopen and exports to resume (MAP, 2020).

**Tourism sector severely affected.** The tourism industry plays a major role in the Moroccan economy but it has been especially hard hit by the COVID-19 crisis, which has also revealed significant weaknesses in the sector, especially where the extent of informality is concerned<sup>11</sup>. Prior to the pandemic, the sector's direct contribution to GDP was estimated at 7%, but the crisis is believed to have caused an increase in the unemployment rate of 50%, compared to 2019. Moreover, it is estimated that, between 2020 and 2022, the Moroccan tourism sector may face losses of up to 138 billion Moroccan dirhams (Abouzzohour, 2020). About 3,500 enterprises engaged in tourism-related activities have been affected and 89% of enterprises in the hospitality subsector suspended their activities because of the crisis and lockdown – one of the highest rates reported among the subsectors (Abouzzohour, 2020).

**Sectoral plan created to support tourism.** In order to revive the industry, a sectoral recovery plan was devised in early August 2020 and signed by the Ministries of Finance, Tourism and Labour on the one hand, and the banking and tourism associations on the other. The agreement extended the application of the CVE-created short-term support measures from March 2020 until the end of 2020<sup>12</sup>.

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<sup>10</sup> The sample for the survey is 18 MSME respondents operating across different sectors (and not only the key focus sectors).

<sup>11</sup> The crisis revealed that firms in the tourism industry had not been diligent in registering their employees with the CNSS, thus rendering those employees unable to benefit from the official safety net measures created to support them.

To receive support, firms must commit to maintaining employment levels, registering their employees with the CNSS and integrating informal/independent workers and craftsmen into the formal sector. The program also aims at reforming supply and demand-side aspects of the industry in order to enhance its resilience. As part of the supply-side measures, the program provides for the creation of a dedicated investment structure and focuses on improving competitiveness<sup>13</sup>. Other supply-side measures include upgrading existing training programs and improving digitisation in the sector. Where demand-side measures are concerned, the agreement focuses on stimulating national demand (through, for example, generalising the use of travel vouchers), while also promoting Morocco among international tourists (Paul-Delvaux, et al., 2021).

**Automotive sector affected, but shorter duration of impact expected.** 73% of enterprises operating the metal and mechanical industry, suspended their operations (Abouzzohour, 2020). Stakeholder interviews reveal that despite taking a knock initially, the sector rebounded relatively quickly following the onset of the COVID-19 crisis.

**Despite disparity in high-level, immediate impact, MSMEs across sectors plagued by negative sentiments, uncertainty.** Figure 1 enables us to unpack the high-level impact described in the preceding paragraphs in more detail. It illustrates qualitative research participants' attitude to COVID-19 and the impact that it has had on their businesses, as it displays the answers MSMEs in these sectors gave to the following question: "Write down the first five to ten words that come to mind when you think about COVID-19". The different colours indicate the frequency with which a specific word was included in respondents' answers, with the darkest colour representing the most frequently-answered words, in this case, change, shutdown, illness, disaster, insecurity, crisis, fear and shock.

Figure 1: Words that come to mind when MSMEs think about COVID-19

Change	Frustration	Damage	Shutdown	Illness
Suffering	Resilience	Disaster	Autonomy	Insecurity
Closure	Fragility	Continuity	Alarm	Crisis
Fear	Loss	Difficulties	Shock	Threat
Ambiguity	Distancing	Panic	Risk	Serious

<sup>12</sup> Employees registered with the CNSS were entitled to an allowance of MMDH2,000 from July to December 2020, and firms were allowed to defer payment of social security contributions until June 2022. The government also assumed the costs involved to ensure that workers could continue to benefit from health coverage and family allowances. Additional compensation paid by firms to their employees (up to a limit of 50% of employees' monthly salary) was declared tax-exempt. Repayments on bank loans and leasing contracts were suspended until the end of 2020 without incurring late payment penalties. Lastly, the program of subsidised loans was adapted to the tourism industry: repayment of Damane Oxygène was extended until December 2021, and the Damane Relance program tailored to the needs of hotel industry businesses (Paul-Delvaux, et al., 2021).

<sup>13</sup> This focus is clear in the Inmaa Tourisme initiative.

### 3.1. THE CHALLENGES FACED BY MSMEs BECAUSE OF COVID-19

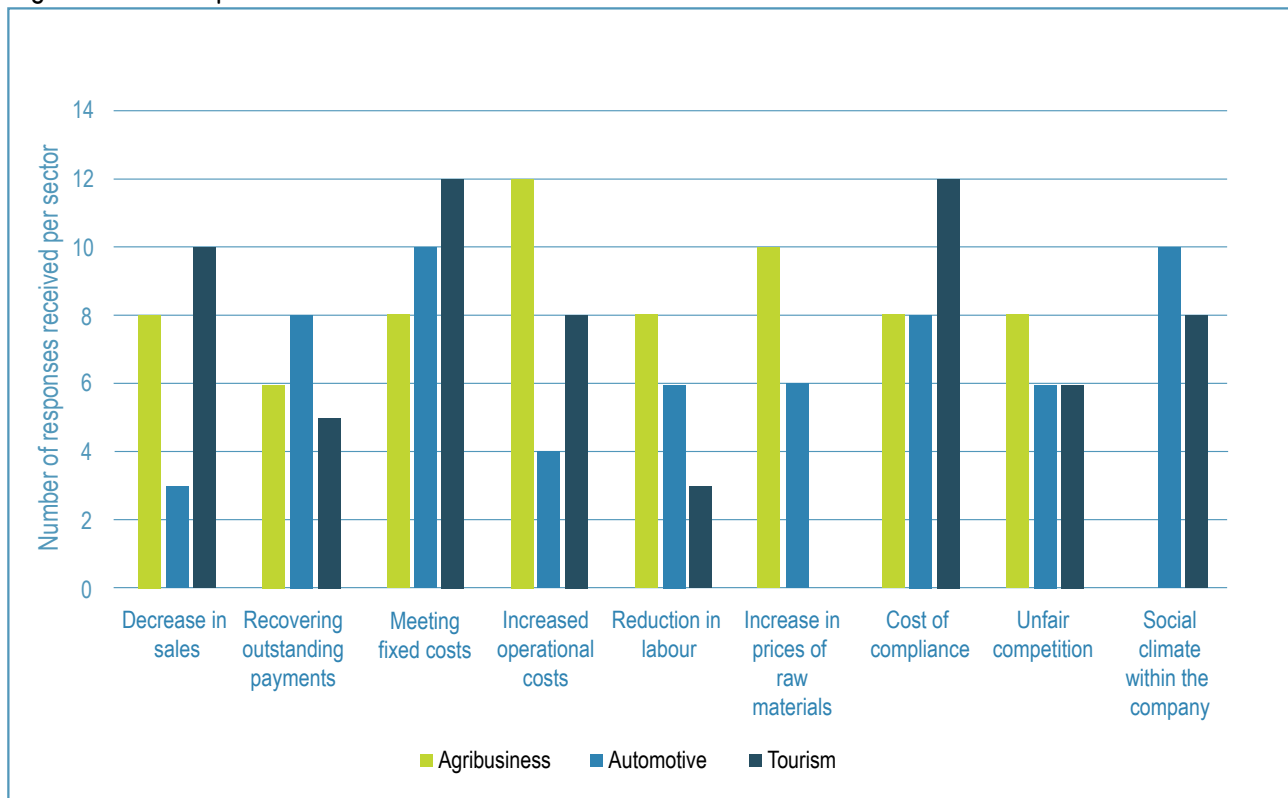
COVID-19 was a turning point in the contemporary history of Morocco and the world; everyday life has become more complicated and more restrictive.

~ Automotive sector

Covering costs significant challenge, exacerbated by outstanding payments. The most consistent challenge faced by MSMEs in Morocco following the start of the COVID-19 pandemic was difficulties in meeting fixed costs. This was the case both during the lockdown and the periods that followed, where decreased production and sales resulted in limited funds for meeting financial obligations – a challenge exacerbated by the often-reported challenge of recovering outstanding payments.

Indeed, 21% of quantitative survey respondents also indicated that late payments “completely changed/disrupted [their] business”, with a further 21% indicating that late payments had a “large impact”. While difficulties in covering costs were experienced across all three sectors, the specific costs associated with each varied to some extent. Nevertheless, all three sectors noted that covering staff salaries and wages was the biggest constraint on their finances. Other consistent challenges across sectors were increased operational costs and the cost of compliance with health and safety regulations to prevent contamination.

Figure 2: The impact of COVID-19 on MSMEs



[We had to] refuse certain services or orders because client companies required exaggerated security measures [that were] difficult or even impossible to set up  
- Automotive sector

**Maintenance and compliance costs especially pertinent in tourism sector.** MSMEs in the tourism sector stated that costs associated with the maintenance and upkeep of their premises were difficult to sustain, given that they were no longer generating income. MSMEs also emphasised that it is difficult to decrease their maintenance costs, because failing to maintain their premises during the lockdown would only lead to higher post-lockdown costs and delay their ability to respond to and profit from changes in regulation that allow tourist activities to restart. Furthermore, some aspects of maintenance and upkeep are essential for the protection of properties and premises and to ensure that no long-term damage is incurred.

The cost of compliance was most frequently listed as a challenge by the tourism sector, with many stating that compliance regulation incurred new costs and created operational challenges. For instance, the regulation limiting restaurants' opening hours created intense bursts, or "rush hours" where these establishments became extremely busy. This influx of patrons not only made it more difficult to comply with the health and safety protocols but also created new expenses related to the hiring of additional staff to be able to manage these rush hours. Nevertheless, the sales from these short operational hours were often not enough to meet the extra expenses. Furthermore, customers would need to be turned away if the establishment was unable to serve them within the parameters set out by the health and safety regulations, resulting in lost revenue and reputational impacts.

**Increased operational costs.** Operational costs increased across most sectors. In the agribusiness sector, MSMEs stated that the cost of transport drastically increased during and after the shutdown. This was because of the decreased capacity of public transport providers (due to limitations on numbers able to use any facility at one time) and due to an explicit increase in rates by transport companies. The tourism sector noted that many suppliers – especially in catering and food supply – "took advantage of the situation" to increase their prices.

In the automotive industry, the increase in operational costs were felt most strongly by those that operate in logistics and truck repairs. For these enterprises, technicians, mechanics, and drivers often need to travel between cities and regions and require overnight accommodation at the various stops along their journeys. The closure of hotels and other accommodation services consequently led to increased direct costs (associated with accommodation), as well as indirect costs (in terms of time and energy spent in finding suitable accommodation for their employees). Furthermore, the restrictions on inter-city and inter-regional travel led to long waiting times and increased administrative costs when moving staff or trucks between cities.

**Decreased sales.** All industries reported decreases in sales, which is to be expected during a pandemic. The root cause of this decrease differed to some extent between sectors, with tourism seeing an extended shutdown of all tourism operations, and a struggle to ignite domestic tourism once regulations had been eased.

In the agribusiness and automotive industries, declining sales were jointly caused by a decline in demand and a reduction in productive capacity. Decreases in the ability to import and export reduced demand in both sectors, with the agribusiness industry further noting that informal competitors were able to continue operations and start serving their old clients because of a disregard for the regulations.

**Unfair competition, cross-cutting challenge.** While the agribusiness sector observed unfair and fierce competition from the informal sector, specifically, the topic of unfair competition was mentioned across all sectors. In the tourism industry, many participants noted that there was a lack of transparency where government tenders are concerned. Specifically, MSMEs in the tourism sector indicated that they would like to see more fairness in how the government grants tenders (for example, in the selection of hotels to be used as quarantine stations).

In the automotive industry, the restrictions on movement resulted in the informal sector smuggling in parts and being able to continue operations, while formal companies could not continue their activities.

More details on the specific effects of the pandemic on each industry are discussed below:

## AGRIBUSINESS SECTOR

**Import and export restrictions affecting bottom line.** In the agribusiness sector, the restrictions on imports and exports had significant impacts on the cash flows of MSMEs. The decline in domestic demand meant that more enterprises turned towards exports, pushing up the supply and decreasing the price of exported goods. Similarly, the cost of imported goods increased, resulting in a decrease in profitability and difficulties in maintaining normal operations.

[With the crisis] all our old agreements and payment protocols that had been established for years have been turned upside down.  
- Agribusiness sector

**MSMEs face cash-flow and payments squeeze.** The general economic impact of the pandemic had implications extending beyond changes in demand and supply: with more and more enterprises struggling with cash flow, and more defaults on payments, suppliers began demanding payment for inputs in cash. This, of course, impacted the cash flow of enterprises. Compounding this, MSMEs report an increased difficulty in recovering outstanding payments from existing clients, with some reporting that they lost regular customers due to outstanding payments. Customers who were unable to pay

their bills would simply move to new suppliers in the hopes of avoiding their existing debt and trying to maintain their own operations.

**Health and safety regulations result in unintended adverse effects.** Health and safety regulations also impacted the ability of agribusinesses to maintain production during times when demand was higher. The reduction in the number of people per team resulted in lower production levels, and restrictions on transport led to increased costs. Alongside this decreased production, frequent health and safety checks by government authorities caused frequent disruptions to production and increased the time burden on managers and owners who would otherwise use their efforts in searching for and finding new clients or recovering existing debts.

## AUTOMOTIVE SECTOR

**Relationships threatened by unpredictable demand conditions.** A common theme for small businesses during the pandemic has been managing expectations and commitments with both clients and suppliers. In the automotive industry, as with tourism, the changing regulations often caused unpredictable shifts in demand. These shifts made it difficult for MSMEs to make appropriate production, cash flow and staffing decisions to ensure their ability to meet their existing commitments, as well as take advantage of potential growth in demand.

**Cost of compliance affecting employment arrangements and reputation.** One significant impact of these changes in demand relates to the employees of MSMEs in the automotive industry. One respondent reported that nearly 80% of the workforce in the sector is comprised of casual or temporary workers, including drivers and handlers for those involved in logistics. The cost of compliance and complexity of health and safety regulations resulted in many of the temporary agencies terminating their contracts, leaving MSMEs to recruit these employees themselves. Reacting in this way is, of course, a costly endeavour that had reputational effects on these enterprises, as the new staff were not equally trained, experienced, or qualified. This often led to a reduced quality of service, and MSME owners emphasised that they were spending significant time managing reputational risks to keep their existing clients.

**Export and import restrictions affecting inputs and bottom line.** In addition to the constraints with staff, the automotive industry reported stock shortages and increased costs of spare parts and raw materials as a significant challenge during the pandemic. The restrictions on imports and exports caused an increase in prices on imported goods, a decrease in the ability to export goods, and less stability and predictability in the provision of raw materials.

**Shift to strong preference for immediate payments and shorter timelines.** Suppliers began demanding payments in cash for raw materials and input goods, creating cash flow challenges for MSMEs. On the one hand, MSMEs were forced to make these payments to meet their obligations, but their relationships with their suppliers had often worsened. On the other hand, clients began making stricter demands, including threats to cancel orders if short deadlines were not met. With supply chains disrupted, lack of qualified staff, and businesses being forced to incur the costs of projects upfront, MSMEs were often forced to work long hours to meet their commitments and recoup the cost of the input materials they had already purchased.

**MSMEs in automotive sector under strain.** This highly demanding context resulted in further challenges with staff and employees, many of whom began refusing to travel for work or to work longer hours in confined spaces due to fear of the virus. MSME owners report feeling that these refusals were "sabotage" on the part of the employees, and these were usually the first employees to be laid off when the enterprise was forced to retrench staff.

## TOURISM SECTOR

**Nature of industry compounds cashflow issues.** The cash flow constraints in the tourism sector were compounded by the simple nature of the industry: customers pay deposits for their travels, which are often time sensitive. This means that travel restrictions do not simply delay the customers' travels but, rather, prevent it entirely. In this context, tourism enterprises were often confronted with the loss of income from the lockdown, and with the need to reimburse clients for cancelled trips due to the pandemic, forcing enterprises to draw on their already limited cash reserves to maintain their reputations and meet their obligations to their customers.

**Business relationships adversely affected.** The nature of the tourism industry and the challenges posed by the pandemic resulted in a significant breakdown in the relationships between different actors in the sector that had previously worked together, such as travel agencies and hotels. Instead of working with travel agencies, Hotels started working directly with clients and began refusing agency bookings.

**Challenges created by inconsistent government decisions and communication.** Government communications were also a significant challenge for the tourism sector. Many noted that changes in government regulation were often poorly communicated, with some stating that they would hear from clients about the opening of borders before they had received the information from their own government. Sudden changes in government decisions also made planning for recovery difficult for enterprises in this sector: abrupt and frequent changes in government regulations would result in enterprises constantly having to change their offerings or negotiate with clients to adjust dates, prices, and services without losing the limited income that they were generating.

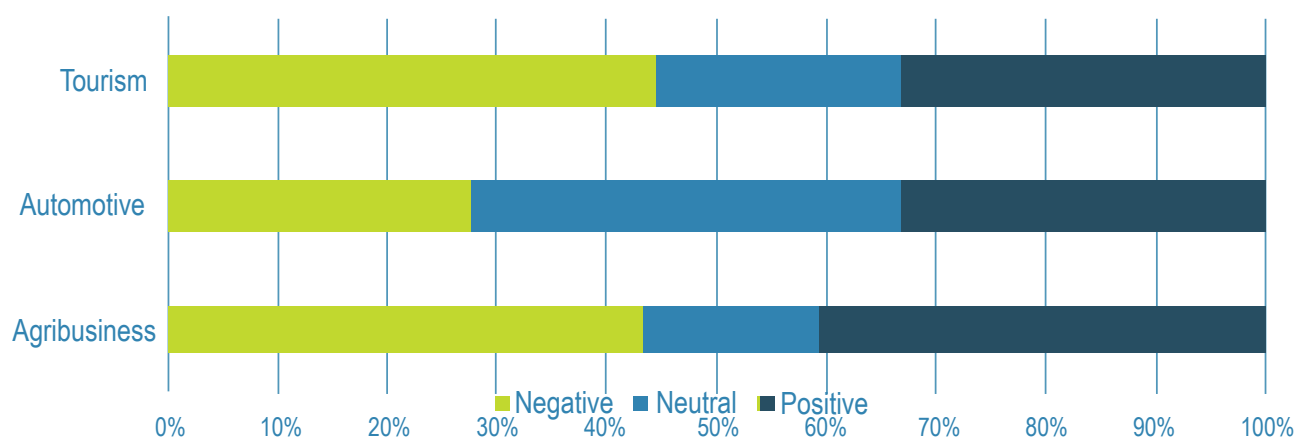
## 4. CHANGING PERCEPTIONS BECAUSE OF THE PANDEMIC

The COVID-19 pandemic has fundamentally changed the way that our world – and businesses – operate. The impacts of the pandemic extend far beyond lockdowns and the immediate decreases in sales or increases in operational expenses. While the tangible long-term impacts of the pandemic are yet to be seen, it is important to understand the impression and perception of small businesses regarding the future of MSMEs and the changing perceptions invoked by the pandemic.

This section aims to describe and analyse these perceptions and beliefs, by investigating MSMEs' outlook for the future of their businesses, the challenges that they believe they will face and the changes in business strategies and priorities that they have experienced because of the pandemic.

**Moroccan MSMEs optimistic about the future.** When asked about their perceptions of the future, participants in the qualitative research gave surprisingly optimistic responses. Figure 1 shows the results from a sentiment analysis on responses to the following question: "Think about your business in two years' time and write down the first five to ten words that come to mind". The responses were classified as positive, neutral, or negative; Figure 1 shows the percentage of each of these sentiments according to the answers given, by sector. The agribusiness and tourism industries are surprisingly optimistic about the future of their industries, despite the negative consequences of the pandemic. The automotive industry is also optimistic, but less so than the other sectors (given that a greater number of neutral sentiments were expressed)

Figure 3: MSMEs' feelings about the future





**Optimism, function of necessity, but not entirely unfounded.** The positive sentiments expressed included words such as perseverance, hope, opportunity, discovery, and solidarity. However, the qualitative research reveals that this optimism was a function of necessity: without hope, many believed that there was no way to carry on and that there was no chance for their businesses to survive the pandemic if they did not believe that things would get better. This optimism was not entirely unfounded, however. In the agribusiness sector, for example, MSMEs noted that the pandemic proved their resilience and their ability to adapt and to improvise. This adaptability had never been tested before and the survival of these enterprises through the pandemic – as well as the changes that they had been able to make to maintain this survival – proved to both owners and staff that this agility and adaptability was something that they could achieve.

Hope must be accompanied by caution, in order to better prepare for future hazards and reduce the impact of potential risks.

- Automotive sector

**Full recovery anticipated.** During the last quarter of 2020 when the qualitative research was conducted, most sectors agreed that mid-2022 would mark the start of the “new normal” and some degree of stability in their sectors, from which they could begin to rebuild and grow. For most, full recovery was anticipated to take 3 to 4 years and would depend largely on both government and public support. Nevertheless, by the second quarter of 2021, when the quantitative survey was administered, MSMEs’ perception of the duration of impact that COVID-19 would have on their businesses had shortened, with the majority of survey respondents indicating that reduced production and difficulty accessing finance would dissipate after less than a year.

**Optimism because trust, innovation, bolstered in formal agribusiness sector.** In the agribusiness sector, hope and optimism was partly founded on the belief that the pandemic will have increased trust in the formal sector, because the informal sector supplied inferior products during the lockdown. In addition, the sector believes that the pandemic would have created a more innovative mindset both within enterprises but also among customers, opening them up to new ideas and innovations that the sector can leverage. Finally, regional economic developments and planned developments give the sector further hope for a full recovery, with many acknowledging the important role that the macroeconomic climate and state support will play during the recovery and post-recovery stages.

**Relative neutrality because autonomy of automotive MSMEs is limited.** The lower levels of optimism in the automotive sector are largely driven by the knowledge that the sector relies on linkages between larger companies and multi-national organisations. This means that the fate of the sector is not controlled solely by the MSMEs themselves but is reliant on the decisions and actions of other larger and/or international players. Entrepreneurs in the sector believe that recovery will only happen for those enterprises who are willing to persevere and who are able to put in the time and effort to survive further struggles on the road to recovery. Despite the concerns surrounding the impacts of larger organisations on their own destiny, one participant noted that there are also positive macro-economic and socio-economic changes. Most impactful among these is the introduction of the COVID-19 vaccine, which the entrepreneur notes, has “more of a psychological effect than medical effect” because it has raised the sense of hope and certainty among the global population, allowing consumers to begin spending again and investments and larger projects to be re-opened.

Recovery will not depend on us but on the public will to save the sector.

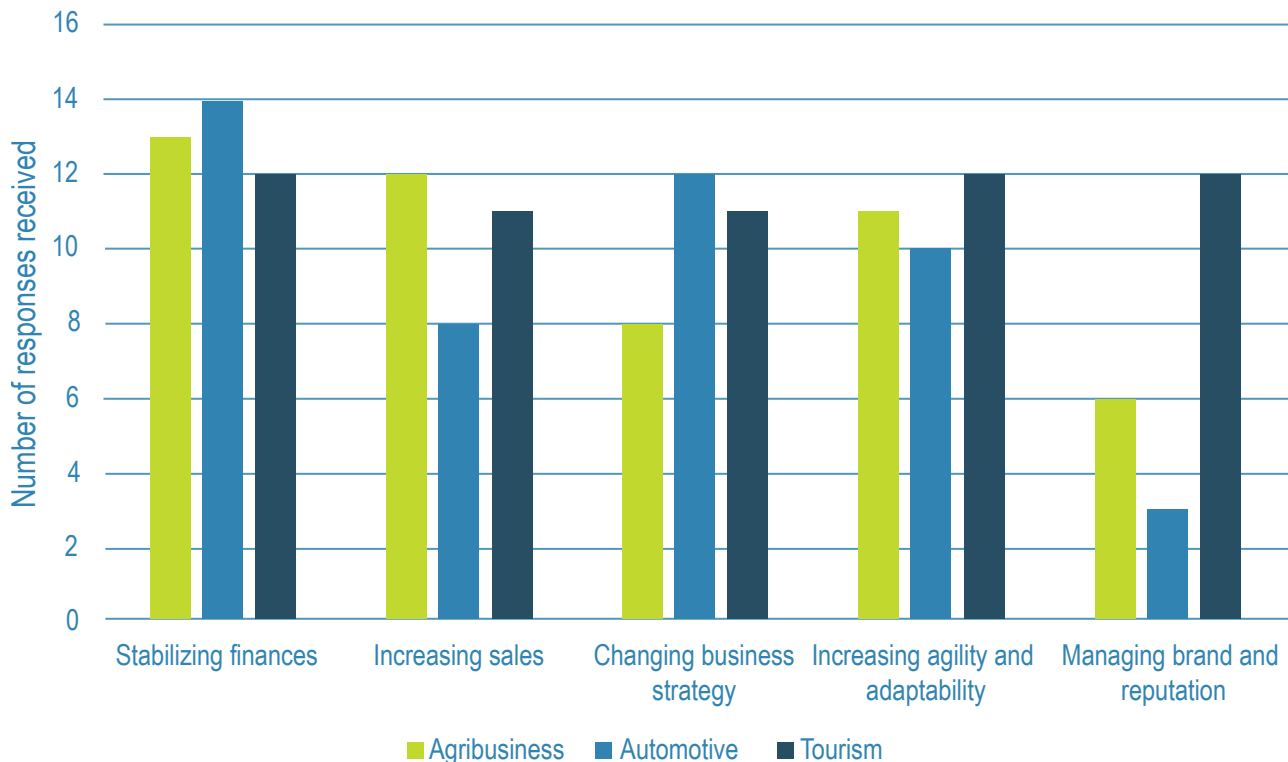
- Tourism sector


Considerable, surprising optimism in tourism sector. The tourism sector was among the industries that were hardest hit by the pandemic. Therefore, it is surprising that they remain reasonably positive about the future of the industry. Much like the automotive sector, their optimism is marked by equal parts caution, with many noting that the sector can only recover if the public begins to focus on domestic tourism. The drive for domestic tourism, MSMEs emphasise, will need to come from both the public and the government, who they believe has let them down during the pandemic to date. Despite the disappointing state of affairs so far, MSMEs

believe that the Moroccan government will support them in future and stress the importance of government communication to the sectors' ability to recover.

Short-term stability remains core priority for MSMEs. Figure 2 shows that there was significant consistency among sectors when considering the challenges that they will face in the coming years as they recover from the effect of the COVID-19 pandemic. In all sectors, the most frequently mentioned challenge was stabilising finances. In all three sectors, the core focus where stabilising their finances is concerned is to repay the debts incurred during 2020, and to collect the outstanding receivables that remain unpaid by clients and customers. Both the automotive and agribusiness sectors observed that one of their immediate priorities is to develop crisis management systems so that they are more resilient to similar events that may occur in the future.

Figure 4: MSMEs' future challenges





We have no sight of the future.  
We cannot plan or prepare  
because we have no visibility  
and resources, so we are in  
survival mode...  
- Tourism sector

**Many still in survival mode.** In the individual interviews in all sectors, the participants began their discussions about the future by stating that “preparing for the recovery” was going to be their biggest challenge. This shows us that the MSMEs of Morocco are still in “survival mode” and remain focused on overcoming the existing challenges that they face, rather than envisioning or preparing for the potential changes in the market that the pandemic has created.

**However, longer-term strategies to stabilise finances are gradually emerging.** Despite this short-term focus, there were several mechanisms for enhanced resilience and the stabilisation of finances that speak to longer-term strategies.

In the automotive sector, MSME owners note that building improved business practices and systems – including digital systems and risk assessment protocols – are key tools for stabilising future finances. The impact of non-payment and the reality of unstable client positions has highlighted the importance of strong systems to these enterprises. These systems, of course, will require investment in time and infrastructure, which owners appear to be willing to make, despite their low cash reserves following the pandemic.

In the agribusiness sector, the process for stabilising finances revolved predominantly around increasing efficiency and reducing expenses. MSMEs intended to accomplish these through improved systems, careful consideration of their operations and a strong focus on operational optimisation. For many, the pandemic forced them to adopt new ways of working, which resulted in lowered costs and improved systems that they plan to maintain or explore further in the near future.

While the agribusiness and automotive sectors focus on reducing costs, the tourism sector is relying on regaining demand as the mechanism through which they can stabilise their finances. More than any other sector, tourism is still in survival mode and heavily focused on simply making their existing payments and finding ways to maintain their brand, despite the remarkable decline in tourist activities.

**MSMEs forced to re-evaluate priorities and business strategies.** Although the immediate focus for MSMEs in Morocco are related to the short-term objective of stabilising their financial positions, many entrepreneurs reported that the pandemic has forced them to re-evaluate their businesses and their priorities (both personal and professional).

**Tourism sector, most advanced in re-evaluation and diversification.** Although this is the sector that is most focused on regaining short-term stability, the nature of the sector and the impact of the pandemic has meant that the tourism sector is currently most advanced (relative to the other focus sectors) in their efforts to re-evaluate their priorities and business strategies. These efforts are two-fold: first, re-define their target markets to focus on domestic tourism and unique offerings. Second, redesign their marketing and communications strategies to better leverage social media and digital platforms to better reach their target audience.

Indeed, redefining their target markets was an approach that MSMEs in the tourism sector focused on quite heavily. They note that the shift to domestic tourism is not enough and that their offerings will need to move away from traditional tourism to focus on more niche markets, with unique experiences. Some examples given were focusing on thematic offerings, such as food tours, and on “ethical tourism” such as ecotourism.

The sector also feels strongly that the year-long restrictions on travel will have created a newfound appreciation among consumers for experiences and a stronger desire to attend family and religious events once restrictions are eased. This bolsters MSMEs’ hope for the future of the sector, although their optimism is curtailed by the realisation that they will be competing against many others for a smaller domestic market. Despite this increased local competition, they report that they were able to innovate in their offerings and communication during the pandemic and believe that they will be able to maintain and build upon this innovation going forward.

The most resilient companies will be those that are able to adapt to the changes implied by the crisis, and to take courageous decisions to get out of their comfort zones and implement the necessary changes.

~ Automotive sector

**Importance of diversification also highlighted in other sectors.** Diversification was a common theme across all three sectors. In the automotive industry, entrepreneurs note that they need to diversify both their offerings and their client base. The pandemic highlighted to them the dangers of having a smaller number of larger clients, and they believe that they should build their client base to extend across new sectors and to include a wider range of industries to protect them against future crises.

**Rebuilding relationships, key focus in automotive sector.**

While this diversification is the most important change in business strategy for the MSMEs in the automotive sector, they also mention changes in their relationships with clients and suppliers. While these relationships took significant strain during the pandemic, the easing of restrictions and the beginnings of recovery have allowed MSMEs to focus on rebuilding these relationships. While this has focused on negotiation of outstanding debts and payments, some MSMEs emphasise that they have changed components of their business model for more resilience against these risks in future. MSMEs are also trying to partner with other MSMEs that are more established or at different points in the value chain and choosing to be subcontractors, rather than engaging the client directly as they were doing before. This ensures that some portion of their fee is paid upfront and that the burden of managing client payments lies with other enterprises.

**Agri-industry diversification reliant on enhanced efficiency.** The agribusiness sector has a similar focus to the automotive industry in its diversification, aiming to diversify both offerings and clients. The strategy taken in this sector, however, relies on improving systems, processes, and operations to enable them to take on more clients with smaller orders, rather than a limited number of larger clients. Consequently, this shift includes diversifying their distribution channels and considering new target groups along the entire value chain. For instance, one MSME noted that the restrictions in travel meant that their sales through a large retailer became more costly and difficult due to the increased transportation costs. Where most businesses took to digital sales during the pandemic, this enterprise recognized that they could reduce their costs by opening a brick-and-mortar store and selling directly to the public and to their previous/loyal customers.

With the aim to accomplish these diversification goals, all three sectors admitted that they would have to implement changes to their management and operations practices and investigate innovative ways to optimize these and leverage technology to improve their management of costs and production.

## 5. MSME RESILIENCE IN THE FACE OF RISKS AND EXTERNAL SHOCKS

This section seeks to investigate the coping mechanisms used by MSMEs to face the challenges that arose because of the COVID-19 pandemic and the measures implemented by the Moroccan government to curb the spread (unpacked above). Beyond the coping mechanisms used, this section also explores MSMEs' ideas on their ideal solutions (looking back), as well as their perception and appraisal of the potential solutions that could aid them in future – including digital tools (such as online marketing).

### 5.1. HOW DID MSMEs RESPOND TO THE CHALLENGES THEY FACED DURING THE PANDEMIC?

#### 5.1.1. GOVERNMENT SUPPORT

**Government support widely, but not universally, used.** The government introduced a wide array of measures to support firms, but the bulk of these measures consisted of access to new credit through the Damane Oxygène and Damane Relance programs (see Box 2 for more information on these instruments). The majority of the MSMEs interviewed used these financial instruments, in addition to support provided by the CNSS. MSMEs that made use of these government support structures stated that the amounts were not sufficient to cover their costs, however. As a result, business owners consistently had to find alternative means to make up the balance.

#### Box 2: CGC loan instruments

By 31 December 2020, MMDH53 billion worth of loans had been granted to almost 66,200 companies via the Damane Oxygène and Damane Relance guarantee facility instruments, which cover 95% of the credit amount. The industrial and trade/distribution sectors lead as beneficiaries of these loans (29% each), followed by construction (15% of the total volume of loans).

After the first three months of the health crisis, it was necessary to prepare for the resumption of business activity. Thus, from mid-June 2020, the CGC deployed two new guarantee mechanisms, namely "Relance TPE" and "Damane Relance" with a view to initiating a gradual return to normal activity levels. These mechanisms allow companies access financing on better terms (where rates, quantities of guarantees and maturities are concerned).

Source: (L'Economiste, 2021)

**Insufficient credit repayment deadline.** In the tourism sector, many reported that the repayment deadline for the credit they received was insufficient (in other words, too short). This deadline meant that they went into arrears on their payments, which made their financial situation worse than it was prior to receiving this financial help. This sentiment was expressed by several participants across sectors, with one owner in the automotive sector noting that a refusal to take out credit was a good business decision for their business, because although they struggled for several months, at the end of this tough time, their subsequent recovery was easier because of their unindebted financial position.

**Access to financial support remains a challenge.** Some enterprises were not able to receive government support. Smaller enterprises stated that their employees were not eligible for CNSS and several MSMEs in the agribusiness and tourism sectors emphasised that despite the partial credit guarantees, banks were still not willing to grant loans to MSMEs, often delaying the processing of their files or demanding additional guarantees/collateral.

### 5.1.2. PERSONAL ASSETS AND NETWORKS

**Owner assets and networks utilised.** When government support was insufficient to cover fixed expenses, MSMEs relied heavily on owner equity, savings and assets. Most owners were able to maintain fixed payments by drawing on their personal savings or receiving informal loans from family and friends. Several entrepreneurs in the tourism sector noted that they relied on using their personal assets to reduce costs, for example using their own vehicles for staff transport. Some entrepreneurs in the automotive industry report doing the same, with one stating that they housed clients in their own homes rather than hotels to reduce expenses. Another entrepreneur in the automotive industry described the use of their family and friends to manage the business and its expenses. This entrepreneur used a friend's property as a storage facility and workshop and created an office space for the business's staff at the entrepreneur's home, thereby reducing rental costs for the business.

**Personal or religious reasons limit use of bank loans.** In most cases, MSMEs refused loans from banks for personal or religious reasons. As indicated above, many noted that they believed this to be an effective business decision because, at the end of the crisis, they were in a 'clear' financial position – in other words, they did not have to also account for the repayment of debt in planning their recovery.

### 5.1.3. CLIENT RELATIONSHIPS

**Payment schedules play key role in client relationships.** Across all sectors, MSMEs focused heavily on rebuilding relationships that had broken down over the course of the pandemic. For client relationships, they focused on negotiating payment schedules, which introduced its own set of challenges for many industries. In the agribusiness sector, this was especially difficult for MSMEs to do, as they had to strike the balance between maintaining good relationships and cash flow. In the tourism sector, MSMEs relied on negotiating client repayments and trying to find ways to get clients to shift their travels to later times or alternative offerings. In the automotive sector, MSMEs focused on maintaining good relationships with important, loyal and long-term clients, while finding a strict balance on debt ceilings for other clients (in other words, ensuring that clients do not fall too far behind on their payments).

Finding new clients, major focus. In addition to rebuilding existing client relationships, most sectors focused on finding new clients. In tourism, this was not possible during the lockdown period, but these enterprises spent the time focusing on their business strategy so that they would be prepared once restrictions were sufficiently eased. The automotive industry looked to diversify the sectors that they worked in and, in some cases, find new types of work entirely, based on the tools and skills that they had (for example, expanding beyond car mechanics to general mechanical work and machining or small-scale metal manufacturing).

### 5.1.4. OPERATIONAL CHANGES

**Longer-term optimisation as objective.** While most operational changes were short-term to manage the restrictions and regulations introduced because of the pandemic, many industries began working towards longer-term operational optimisation. In the automotive and agribusiness sectors, many enterprises had to rapidly shift to remote working. In the agribusiness sector, this short-term move was combined with an exploration of where additional digitisation and the further introduction of best practices could be implemented to reduce operational costs. Enterprises operating in the tourism sector were forced to rely simply on layoffs and a reduction in staff shifts to reduce operational costs.

Many MSMEs noted that the changes in the business environment following the pandemic would likely increase costs for their businesses because it would require more efforts in marketing and the development of new packages and offerings.

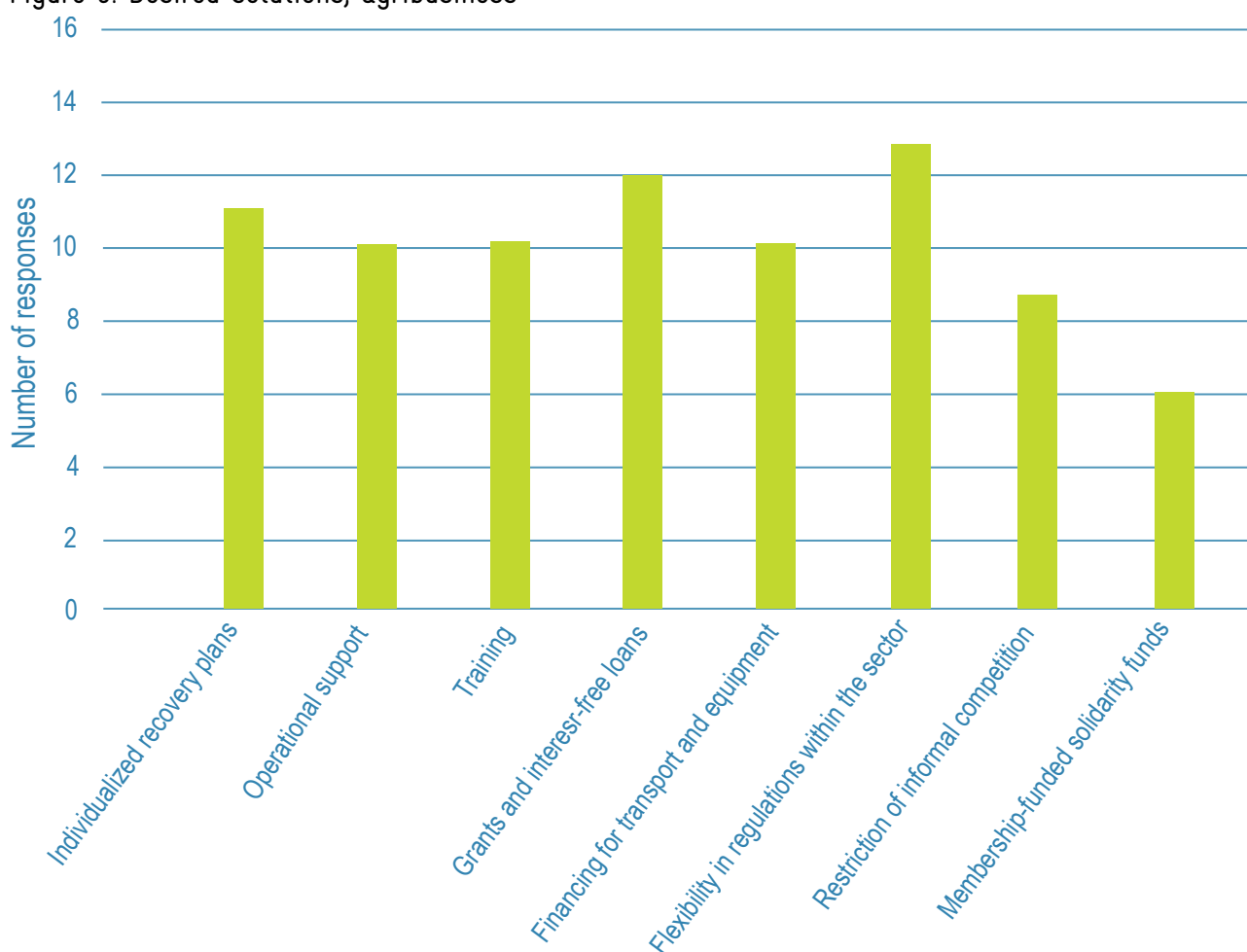
## 5.2. WHAT SOLUTIONS WOULD MSMEs HAVE FOUND HELPFUL?

In this section, we discuss the solutions that MSMEs suggested in spontaneous-response answers.

### 5.2.1. AGRIBUSINESS

**Regulatory flexibility, funding and individualised recovery plans sought after.** In the agribusiness sector, the most common request was for more flexibility in regulations within the sector. This related most predominantly to health and safety regulations for transport and production. The agribusiness sector also indicated that interest-free loans and grants would have been helpful, with the primary costs that they needed coverage for including: staff salaries and wages, the cost of produce that was wasted and input costs for restarting business. Finally, individualised recovery plans were frequently mentioned as a form of needed support. Where this solution was concerned, MSMEs emphasised that they were looking for recovery plans that were specific to their business, rather than for the sector as a whole. These plans should include financial and operational planning, as well as assistance with future strategies.

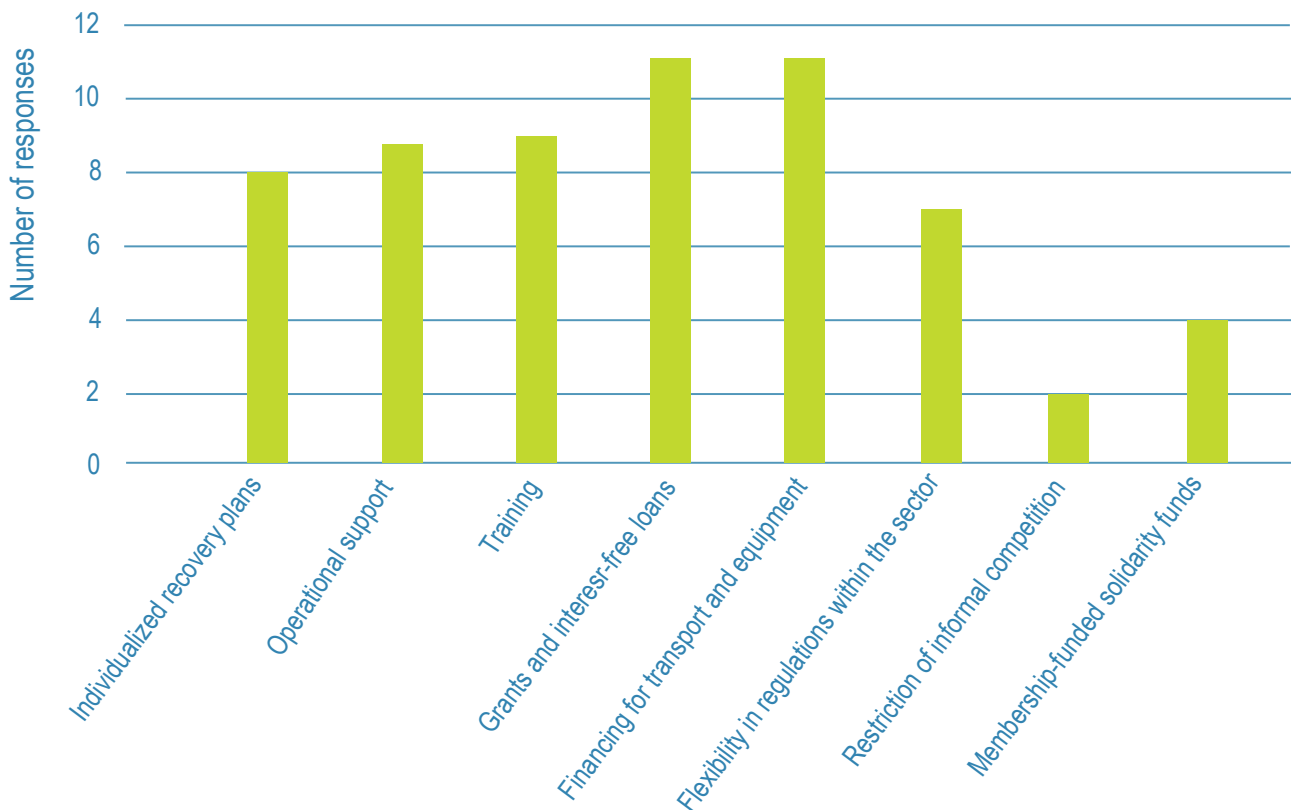
Figure 5: Desired solutions, agribusiness



## 5.2.2. AUTOMOTIVE

**Financing and training, most needed.** In the automotive sector, financing for transport and equipment was the most sought-after form of assistance. Automotive enterprises struggled with cashflow to purchase new equipment for developing their businesses and needed to make changes to their operations based on the regulations following COVID-19. The second-most desired solution, was interest-free loans and grants, which the MSMEs in the sector needed to cover running expenses during the lockdown period. Operational support and training in business management were also frequently mentioned in this sector, where MSMEs were hoping to implement changes that could reduce their operational expenses.

Figure 6: Desired solutions, automotive

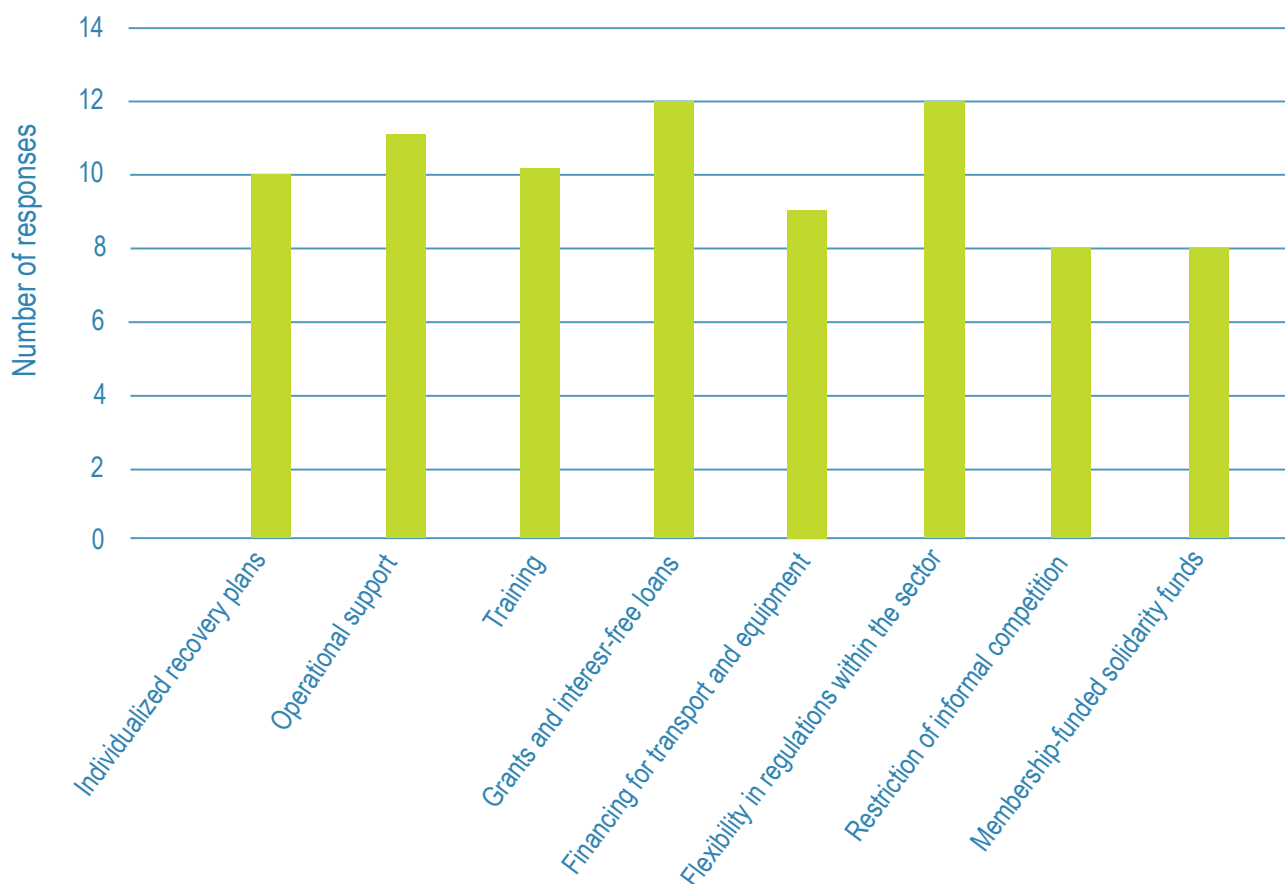


## 5.2.3 TOURISM

**Range of options required.** In the tourism sector, the desired support was spread more evenly across multiple options. Grants and interest-free loans were the most common support desired, with these funds intended to be used to continue covering fixed costs and to develop new offerings in response to COVID-19. Regulatory flexibility was also a high priority within the sector, with health and safety regulation placing significant cost burdens on MSMEs. Operational support was also noted as a highly desirable solution, with MSMEs in the sector indicating that they were not sure how to reduce costs further or optimise their business operations.



Figure 7: Desired solutions, tourism

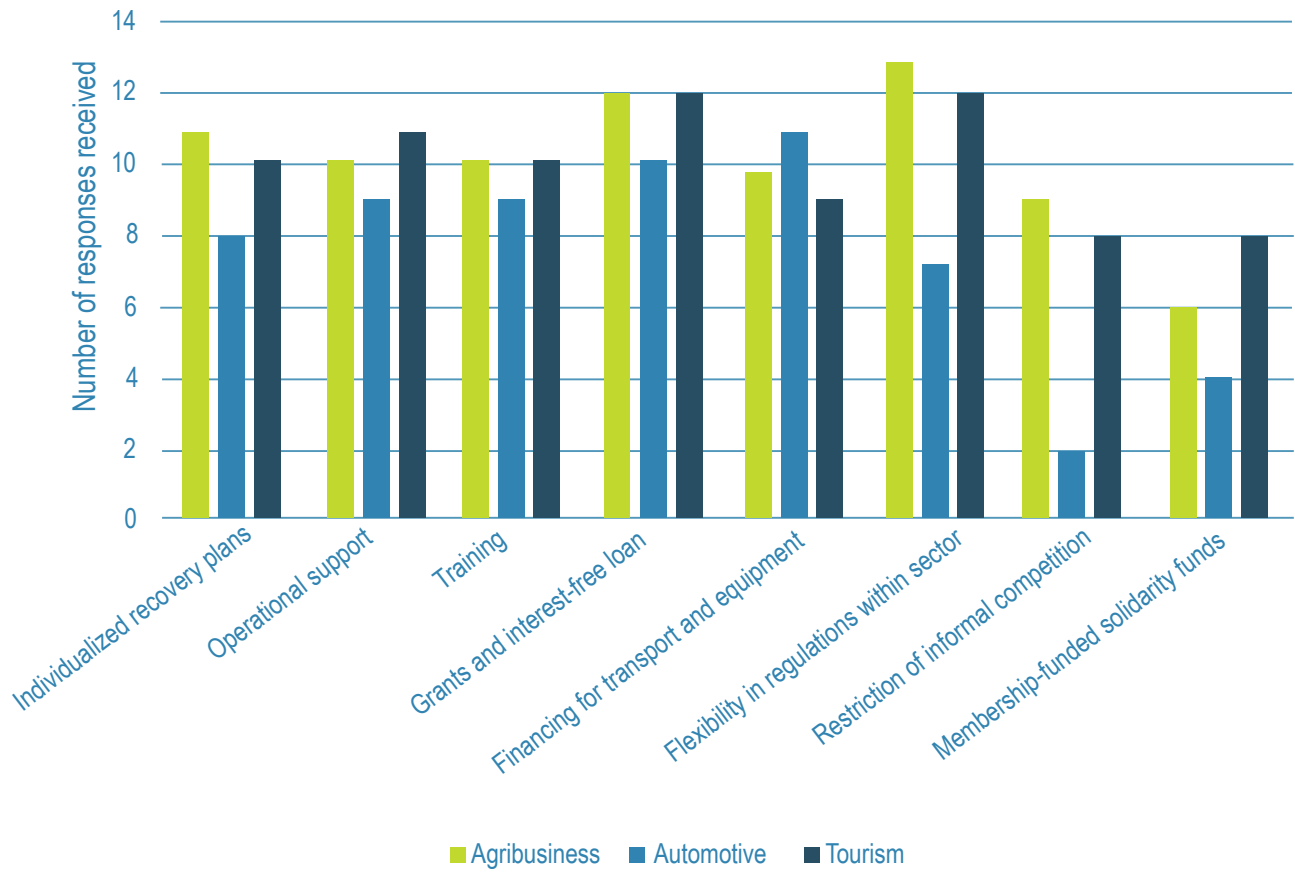


#### 5.2.4. SUMMARY

**Key funding and regulatory flexibility.** Figure 8 illustrates the desired solutions across all three focus sectors. Unsurprisingly, grants, subsidies and interest-free loans were the most common form of support that MSMEs would have wanted. Second to this was flexibility with the regulations in the sector, specifically regarding health and safety and transport, respectively.

**Helpful tailored training.** Respondents across all three sectors frequently expressed their interest in having training on risk management, operations and financial literacy. It is important to mention that MSMEs emphasised that they would want individualised recovery plans and that they were sceptical about any solution that did not take individual circumstances into account. Respondents in the agribusiness sector, for example, specifically mentioned that it is crucial that these recovery plans be monitored and that they are looking for assistance in establishing whether these recovery plans should be changed and how well they were faring in achieving them. Respondents in the tourism sector spoke about solidarity funds, with some even saying that they were now actively working on finding or creating professional organisations that would give out interest-free-loans (funded by membership fees) and that would act as a lobbying agent at the state level for better support for the sector.

Figure 8: Desired solutions, all sectors



### 5.3. WHAT SOLUTIONS DO MSMEs THINK THEY NEED FOR THE FUTURE?

We proposed several solution types to MSMEs during the qualitative research to establish the usefulness of each. The solutions proposed are listed and described in Appendix B.

#### 5.3.1. AGRIBUSINESS SECTOR

**Interesting practical, tailored training.** Respondents in the agribusiness sector are very positive towards training as a potential solution to the challenges that they face as a result of the COVID-19 crisis. MSMEs are most interested in business management training, followed by risk management training. Irrespective of the topic, participants express considerable scepticism about training that is too generalised and not easy to implement; instead, they express a need for training that is practical and tailored to the individual business's needs.

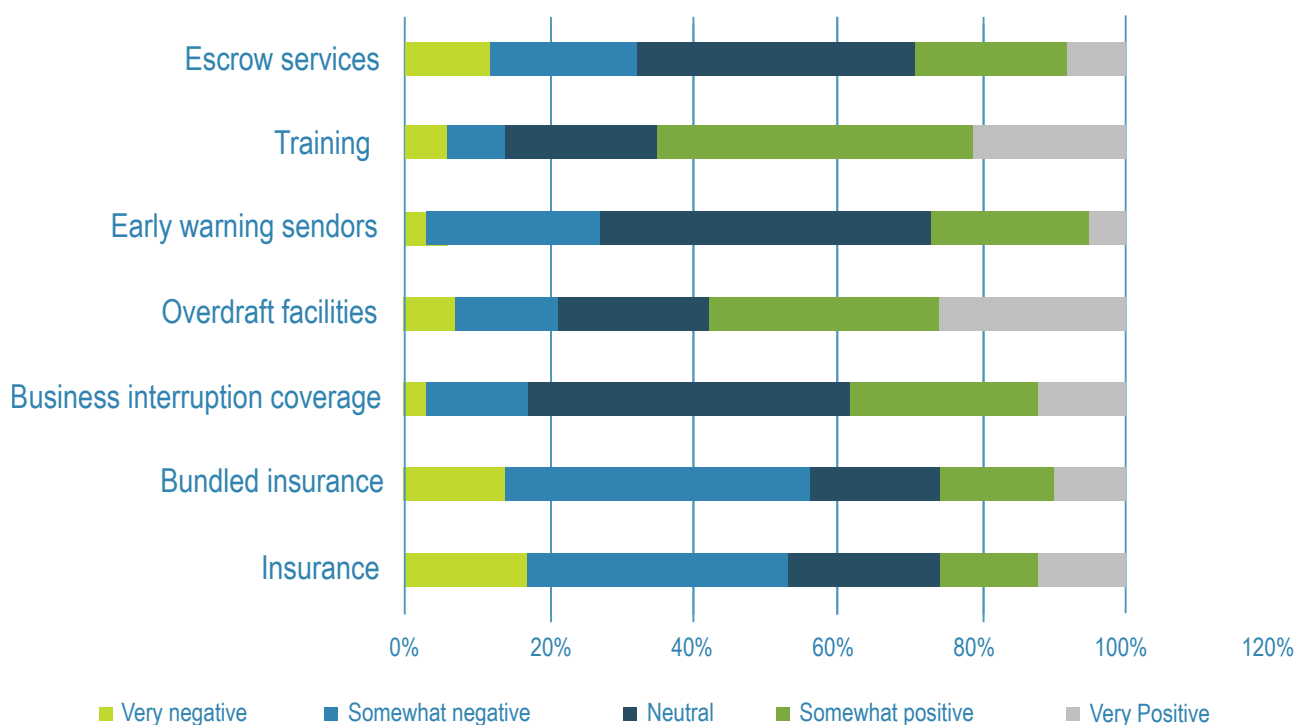
**Overdraft facilities interesting, but scepticism remains.** Overdraft facilities are another solution towards which respondents in this sector are very positive. Respondents express that the additional cash-flow that this solution would provide is sorely needed, but also emphasise that they are hesitant when it comes to the terms and conditions of this type of product. Moreover, MSMEs are also very sceptical about whether formal financial institutions (specifically, banks) would in fact allow them to access overdraft facilities, given past experiences of delays in the processing of applications and an expectation of exorbitant rates charged.

**Mixed feelings regarding insurance.** Most participants have purchased compulsory insurance products. It is clear that they have had negative experiences with insurance and are therefore hesitant about its general usefulness as solution to their challenges. Insurance cover for business interruption often does not include, for example, global disruptions through war, acts of terrorism, natural catastrophes or pandemics (force majeure events). Although some respondents in this sector indicate that they would be interested in bundled insurance products<sup>14</sup>, they remain unconvinced of its relevance for them, because they believe that the product itself will be too expensive and/or that insurance companies will refuse to pay out in the event of a claim. Moreover, participants express concern that the bundled products will not actually respond to their company's needs and that, instead, these products are just a way to trick them into paying more for different insurance cover types that they do not really need.

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<sup>14</sup> The bundled insurance presented to participants suggested cover for a series of natural disasters, as well as potential property cover and employee health cover. The benefit of bundled insurance is that the risk diversification reduces costs of insurance – insurers have lower risks of paying out large sums for multiple events and businesses can pay lower premiums on insurance products that they would otherwise have had to purchase separately. However, participants felt that the risks that would be included in such a bundle would not be comprised of only risks that their business would face and that they would then be purchasing insurance against risks that are not applicable to their business.

Figure 9: Agribusiness response to proposed solutions



### 5.3.2. AUTOMOTIVE SECTOR

**Very interesting business management training.** Training is among the most well-received solutions by MSMEs in the automotive sector. Participants expressed a preference for business management training, with many revealing that they do not have these skills because they were never forced to learn them when working for others. Some respondents also stated that business management training for their staff would be valuable, too. There is a preference among respondents for training that includes leadership, communication and strategy, while some mention training on business management in terms of operations, which may include training on optimising operations through the use of digital solutions.

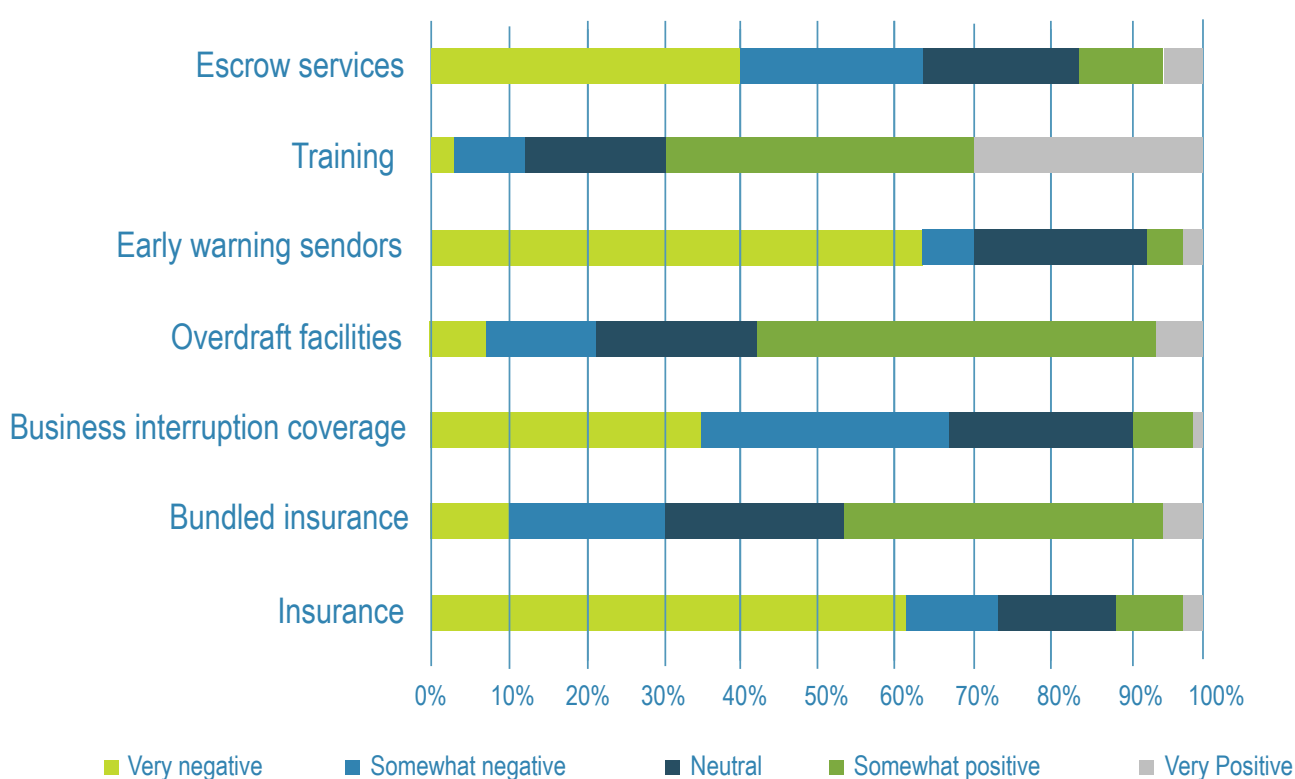
**Overdraft facilities useful, but only in emergencies.** Overdraft facilities were noted as having the potential to be a very useful solution, but respondents remain very sceptical about it. The majority mentioned that they would only use these in the case of an emergency and that they were concerned that it would put them in a worse financial position overall. Despite this fear, respondents indicated that they think that overdraft facilities would be a helpful tool if they were in a position where it was absolutely vital for their business to survive. Several declared that they would only use this solution if it was a free service, in other words, involving no additional charges or interest repayments.

**Negative general outlook on insurance.** Respondents in this sector reported negative view of insurance more generally because of previous bad experiences. Many felt that insurance premiums were an unwarranted strain on their enterprise's finances and that they would rather spend that money on savings for future crises or paying their staff and/or increasing staff skills.

However, **bundled insurance is interesting**. Although insurance was generally perceived very negatively, there was a more positive response to bundled insurance<sup>15</sup> among respondents in this sector. In particular, insurance bundles that motivated staff or gave staff additional benefits were perceived as having the potential to address some of MSMEs' challenges. Bundled insurance that included a savings component was also explicitly mentioned as interesting by respondents.

**Unrealistic escrow services.** Most MSMEs operating in the automotive sector have larger enterprises/ organisations as clients and, as such, are forced to comply with these enterprises' payment structures. As a result, because of the position of these enterprises within the value chain and their relationship to other enterprises, MSMEs in this sector did not view escrow services as a potential solution to their payment-related challenges.

Figure 10: Automotive sector response to proposed solutions

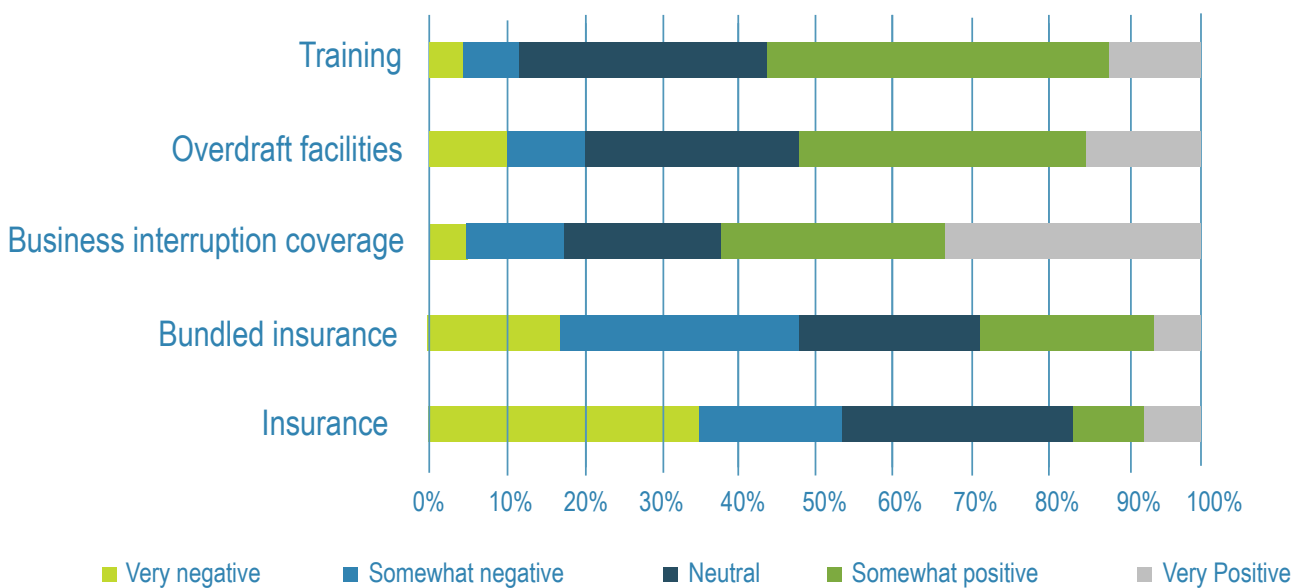


<sup>15</sup> From a framing perspective, it is important to note that individuals understood this term to mean that they will receive "free" insurance if they buy a set bundle of products, rather than that they will receive a discount on insurance because they purchased several types of insurance together.

### 5.3.3. TOURISM SECTOR

**Interesting practical training involving ongoing support.** Respondent MSMEs in the tourism sector view training – whether business management or risk management – very positively. Nevertheless, they emphasise that it is important for the programmes to be practically applicable (including and accompanied by, for example, an action plan that allows them to implement what they have learned). Moreover, they are sceptical about training that is too broad or generalised and express a desire for training to be an ongoing support process, encompassing assistance with adapting to change and monitoring their progress (some even mention a need for it to take place face-to-face).

Figure 11: Tourism sector response to proposed solutions



**Overdraft facilities useful, but not panacea, given terms and conditions.** Overdraft facilities were positively received by respondents and is a solution that they would consider in future, although they do not view it as sufficient to help them to maintain stability. Instead, they expressed a strong preference for supplier credits provided by the government. Credit systems that are intended for investment and growth were also viewed more favourably than overdraft facilities or bridging credit. MSMEs’ greatest concern regarding overdraft facilities is the terms and conditions, given that their experience is that banks do not usually develop terms and conditions that are favourable to/workable for MSMEs.

**Negative experiences with; lack of knowledge on insurance.** MSMEs in the tourism sector described their negative experiences with insurance to date – particularly during the crisis when they had to continue paying their insurance premiums in full, despite the difficult financial position they were in. Many mentioned that they would like training and more information about insurance in order to better understand their rights with regards to it. MSMEs in this sector have to purchase compulsory insurance products and express that they see the value of insurance as a concept, but some emphasised that the state should regulate insurance better to prevent abuse on the part of insurance companies. Interestingly, in most cases, participants noted that business interruption coverage was an option that they would consider but without discussing the topic in more detail.

This lack of comment suggests that the individuals either did not fully understand the concept or were aware that it might be a useful solution but were potentially sceptical about the practicality thereof. Moreover, one of the key adverse effects of the COVID-19 pandemic on the tourism industry is a decline in demand, which is a risk that is very difficult to solve with simple insurance solutions.

#### 5.4. DIGITAL SOLUTIONS AND THE FUTURE OF MSMEs

**Basic digital solutions assumed.** Attempts to curb the spread of the COVID-19 pandemic have rendered it necessary to minimise face-to-face contact with individuals outside one's own household as far as possible. In a business environment, this has led to an accelerated adoption of digital technologies (LaBerge, et al., 2020). Nevertheless, it is important to note that, across all sectors, participants in the in-depth interviews (IDIs) and focus group discussions (FGDs) conducted as part of this study assumed "digital solutions" to mean either digital marketing and social media or basic software for purposes such as accounting – and not necessarily innovative new products. All participants in the tourism sector noted, for example, that financial transactions and accounting occur through digital platforms.

**Limited use of digital tools beyond day-to-day operations in agribusiness sector.** The majority of participants use digital tools for the day-to-day operations of their businesses – for example, accounting, inventory and order tracking – but they do not see the importance of considerably improving their digital skills. Indeed, there is a belief that the business culture in Morocco in this sector limits the uptake of innovative technologies because people prefer to rely on relationships and to continue to do things the way that they have always been done before. As such, it is unsurprising that very few participants indicated that they use digital marketing and most stated that digital marketing is not currently common practice in their sector overall.

**However, necessity to change, recognised in agribusiness sector.** Despite the general lack of desire to expand and improve their digital practices at present, participants in the agribusiness sector are aware that there are new technologies and processes which will become increasingly important in the business world and believe that Moroccan enterprises are not well prepared for these changes – emphasising that a lack of understanding, knowledge and funds significantly limit the use of these new technological advances. Although participants cannot see how these technologies can be applied to their businesses at present, they know that they should start thinking about it and, among some participants, there is some interest in learning more about digital solutions and how they can be used to improve business practices and marketing.

**Satisfaction with existing digital solutions in automotive sector.** In the automotive sector, only 50% of the participants in the individual interviews stated that they use digital solutions beyond the Microsoft Office suite of products in their business. Only one participant reported thinking that digital solutions could be useful to the business, while the bulk of participants stated that they have no interest in further strengthening their enterprise's digital skills or marketing, given that, as a result of the pandemic, they had been forced to move to remote working and needed to use more digital tools in response. As such, following the pandemic-induced shift, MSMEs in the automotive sector indicated that they are satisfied with their current (enhanced) use of digital solutions, although this satisfaction could indicate a lack of awareness of the options available to them – a hypothesis that would need to be tested in follow-up research.

**Digital marketing crucial in tourism sector.** Digital tools (beyond digital software used for some components of an enterprise's operations) are most widely used and appreciated in the tourism sector. The qualitative research indicates that competitiveness in the tourism sector is largely driven by digital marketing and online engagements, with participants indicating that they are certain that digital communication and marketing is going to become increasingly important. Nevertheless, many participants indicated that they are not sure how they can best leverage these tools and, as such, are looking for support – whether financial or through technical training – to enable them to best use digital spaces.



## 6. KEY FINDINGS AND OPPORTUNITIES

The State will have to play a big role in the recovery, but we also have our share of responsibility. We must work on our state of mind, and put in place good practices, and by networking and finding mutual solutions to our problems.  
- Agribusiness sector

MSMEs sought to directly combat challenges faced. Instead of simply shutting their doors permanently in response to the crisis, the qualitative research conducted indicates that MSMEs in Morocco have tried to directly combat the challenges that they are facing as a result of COVID-19. As such, they have actively and proactively sought to incorporate solutions that will combat the challenges that they predict they will face in the future.

However, the psychological impact is very salient. Despite the considerable financial difficulty into which the COVID-19 pandemic plunged many MSMEs, most participants focused more heavily on the psychological effects of the pandemic on themselves, their staff and

the kingdom as a whole. The psychological impact of the pandemic is also credited, at least partially, for a reduction in consumers' willingness to spend money and thus a decrease in overall demand.

**Gaps in mostly knowledge, skills, funding and regulation.** Moroccan MSMEs in the agribusiness, automotive and tourism sectors implemented a range of responses to overcome the challenges that they faced as a result of the onset of the COVID-19 pandemic. Table 1 shows some of the major challenges and MSMEs' responses to these challenges and identifies some of the most important gaps that MSMEs could not cover themselves – in other words, challenges that MSMEs still struggled to overcome despite implementing the coping mechanisms at their disposal. The gaps identified mostly revolve around a lack of knowledge, skills, and funding, but also entail hindrances related to regulation and the enforcement thereof.

Table 1: Challenges, responses and gaps

Challenge faced	Response from MSMEs	Remaining gaps
Decline in sales	<ul style="list-style-type: none"> <li>• Finding new clients</li> <li>• Diversifying their offerings</li> <li>• Diversifying their client portfolio</li> </ul>	<ul style="list-style-type: none"> <li>• Struggling to find and reach new markets</li> <li>• Cost of introducing new products and services</li> </ul>
Recovering outstanding payments	<ul style="list-style-type: none"> <li>• Negotiations with clients</li> </ul>	<ul style="list-style-type: none"> <li>• Payment systems that ensure on-time payment</li> <li>• Bridging finance for delivery on projects</li> </ul>
Meeting fixed costs	<ul style="list-style-type: none"> <li>• Negotiations with suppliers for adjusted payment schedules</li> <li>• Reduction in staff (layoffs) or staff hours</li> <li>• Using owner's savings</li> <li>• Loans from family and friends</li> </ul>	<ul style="list-style-type: none"> <li>• Increased funding in the form of subsidies and grants</li> </ul>
Increased operational costs	<ul style="list-style-type: none"> <li>• Use of owner's assets to reduce business expenses</li> <li>• Attempts to optimise operations</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of knowledge on how to further optimise operations</li> <li>• Struggling to measure performance in this optimisation</li> </ul>
Increase in price of raw materials	<ul style="list-style-type: none"> <li>• Switch to sub-contracting arrangements</li> <li>• Negotiations with suppliers for adjustment</li> </ul>	<ul style="list-style-type: none"> <li>• Bridging finance for supplies</li> <li>• Grants and subsidies</li> <li>• Decreased taxes on imported goods</li> </ul>
Cost of compliance	<ul style="list-style-type: none"> <li>• None</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction in regulation within sectors</li> </ul>
Unfair competition	<ul style="list-style-type: none"> <li>• Focus on brand and quality service</li> <li>• Attempt to incorporate innovation into business processes</li> </ul>	<ul style="list-style-type: none"> <li>• Better regulation of informal sector</li> <li>• Skills in brand-building and communications</li> <li>• Skills and funding for innovation and investment</li> </ul>
Social climate within the company	<ul style="list-style-type: none"> <li>• Continue paying staff normal wages</li> </ul>	<ul style="list-style-type: none"> <li>• None listed</li> </ul>

**Importance of relationships barrier to uptake of digital solutions to overcome challenges.** The qualitative research indicates that interpersonal professional relationships play a key role in conducting business in Morocco. Digital solutions that could help to overcome some of the identified challenges are seen as compromising or removing this relational component. Moreover, across board, MSMEs are concerned that removing the in-person and relationship components of their operations will result in resentment from clients and suppliers alike. There is further concern from MSMEs that their customers simply will not take up digital solutions – especially with regards to payment – and that trying to implement such solutions will give them a bad reputation or cause them to lose clients and/or waste time and money.

**Nevertheless, there is existent potential for solutions to overcome cash-flow challenges.** Bridging finance and escrow services have the potential to help MSMEs to overcome cash-flow related challenges that they face – especially when it comes to their suppliers. It is important to note that these solutions were met with some degree of suspicion and hesitancy by participants, as they were viewed as having the potential to further weaken relationships that were already strained as a result of the impact of the COVID-19 pandemic. Raising awareness and knowledge of these solutions among MSMEs and ensuring that they are designed with the importance of maintaining relationships and trust in mind are key steps needed to fulfil the potential that they have to address MSMEs' challenges. The framing and positioning of these products will also be key to their success.

**Expectation of support from the state.** Across board, Moroccan MSMEs express the desire for and expectation that they will receive support from the state as a fundamental building block to enable a post-pandemic recovery – as individual enterprises and for their sectors as a whole. In addition to direct financial support (in the form of grants/stipends that are expected to be interest-free and that do not have to be repaid), MSMEs expect the Moroccan government to play a proactive role in stimulating local and international demand for the goods and services that they produce.

**(Interest-bearing) loans unable to address fundamentals.** Moroccan MSMEs recognise that loans or credit from the formal financial sector – especially in the absence of improvements in the efficiency of their own operations or the external economic environment – cannot be a cure-all remedy. Indeed, there is a reluctance to take up standard, interest-bearing loans that extends beyond the fact that these are not sharia-compliant; many MSMEs maintain that being indebted renders them worse off than they would have been if they had merely used whatever resources they have at their disposal (such as their savings, personal assets or loans from their personal networks).

**However, investment financing is highly sought-after.** Although Moroccan MSMEs indicate that they are more reluctant to take up loans, it is clear that covering their costs remains a major challenge. Investment financing, where the provider of funds supports improvements in an enterprise's efficiency and growth are a much-preferred option.

**Training, key opportunity to enhance MSMEs' resilience.** Across board, MSMEs express the need and desire for training to help them to build back better in the aftermath of the pandemic. It is important that this training be sufficiently tailored to meet enterprises' needs – although general business management, risk management and opportunities to diversify their offerings all appeal to respondents.

## 7. CONCLUSION

**COVID-19 impact severe on all fronts.** COVID-19 has transcended a health shock to become an economic shock, the impact of which has left very few untouched (even the course of this research report had to be adapted). Despite the support measures offered by the Moroccan government and the coping mechanisms implemented by these enterprises themselves, the challenges exacerbated by and arising from the COVID-19 pandemic have left Moroccan MSMEs more vulnerable than they were before.

**MSMEs in Morocco have adapted to survive.** Despite the fact that Moroccan MSMEs have needed to deal with a major and cumulative shock event (the repercussions of which continue to last to this day), across three very different sectors, they express considerable hope that the future looks brighter than the past. For some, this sentiment is a function of having no other option – their peers who have given up on adapting their strategies and finding new ways to engage (potentially new) clients have gone out of business. For others, this optimism is based on a firm belief that the Moroccan government will continue to support the recovery, whether through policy measures aimed at strengthening their sector's future prospects or through direct financial contributions.

**More support required to build future resilience.** In order to harness this optimism, it is important that the existing challenges and gaps be recognised so that solutions can be designed that are tailored and adaptable to MSMEs' needs. If not, financial services providers risk remaining untrusted and providers of coping mechanisms of last resort. Capacity building and training offers an avenue for financial services providers to forge relationships with MSMEs, which can generate a win-win situation in terms of upskilling on risk mitigation and risk management strategies, such as insurance. The need for these strategies has never been more salient and recognised by MSMEs than they are now.

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## APPENDIX A: RESEARCH METHODOLOGY

**Mixed methods, but difficulties encountered.** Table 2 contains a breakdown of the consumer-facing research activities conducted during the course of this project. As a result of the prolonged effects of the COVID-19 pandemic, it was exceedingly difficult to secure interviews with decision-makers within MSMEs in a timely manner. Indeed, instead of conducting a FGD in the automotive sector, additional IDIs had to be undertaken because of potential participants' reluctance/inflexibility to meet with a group of their peers – whether due to immense time-pressure from work, increased workload because of the implementation of new restrictions or due to fears around spreading the virus.

Table 2: Research approach breakdown

Research activity	Number
In-depth interviews (IDIs)	10 automotive sector
	6 tourism sector
	6 agribusiness sector
Focus group discussions (FGDs)	1 agribusiness sector
	1 tourism sector
Quantitative survey	18 respondents across sectors

**All qualitative research conducted in French and/or Arabic.** It is important to note that all of the research was conducted in either French and/or Arabic; as such, the quotations scattered throughout this report have been translated from another language into English (and thus represent approximations and not direct quotes).

**Quantitative survey distributed via Facebook; limited responses received.** Although the questionnaire was distributed in both French and Arabic, we received only 18 responses. A larger sample would have been ideal to validate the findings from the qualitative research; nevertheless, many of the common themes that emerge from the other research activities are reflected in the quantitative survey, too.

## APPENDIX B: SUGGESTED SOLUTIONS

Early warning sensors	Equipment that tells you if your premises or equipment are at risk from natural disasters, such as floods or fire damage.
Bridging credit	A credit facility that gives you liquidity to purchase the production inputs you need if you have secured a contract but are only paid upon delivery.
Risk management training	Training that helps you identify the risks your business might face and how to manage and mitigate these risks.
Business management training	Training that helps you to manage your business more effectively to reduce costs and increase your resilience to changes in the economy or market.
Escrow services	A financial service where your client or customer pays a third party when they contract work from you. You are then paid once the work has been delivered. This protects you against non-payment and protects the client or customer from non-delivery after they have made payment.
Business interruption coverage	Insurance that protects you against loss of revenue in the case of disasters, such as a pandemic or flood. This draws on government support programmes to ensure that specific, pre-selected payments such as rent for your premises are able to continue.
Bundled insurance	Insurance that gives you a discount on your insurance products if you purchase several types of insurance against business risks. For instance, if you purchase insurance to protect your business against theft, fire, employee health insurance and insurance for goods in transit then you will get a discount on all your insurance products.



## ABOUT GIZ

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH is an experienced service provider and assists the German government in achieving its objectives in the field of international cooperation. GIZ offers demand-driven, tailor-made and effective services for sustainable development. For more information, please visit: [www.giz.de/en/](http://www.giz.de/en/)

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Allianz Re is the reinsurance arm of the Allianz Group and tailors reinsurance solutions to the diverse business needs of customers worldwide. Moreover, it serves as Allianz' center of competence in Nat Cat Management, Agricultural Reinsurance, Climate Solutions and Resolution Management. For more information, please visit: [https://www.allianzre.com/en\\_GB/about-us.html](https://www.allianzre.com/en_GB/about-us.html)

## ABOUT SAGABI

On behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), the Strategic Alliance between GIZ and Allianz Re "Developing Risk Management Approaches for Climate and Health Risks" (SAGABI) supports small and medium-sized enterprises (SMEs) in industrial zones in Morocco to develop integrated solutions for the management of climate risks in order to reduce their overall risk exposure.

## IMRINT

### Published by:

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

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### Project:

Strategic Alliance between GIZ, Allianz and BIMA (SAGABI) "Developing Risk Management Approaches for climate and Health Risks"

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### Design:

Busy Ants Limited

Photo credits: © Unsplash.com / Adil Diless

### Place and Date of publication:

Accra - Ghana  
November 2021

### Disclaimer

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Internationale Zusammenarbeit (GIZ) GmbH

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for Economic Cooperation  
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