

Financing the Transition of Social Entrepreneurship in Morocco: The "Missing Middle" Challenge Through the Lens of Intermediary Signaling Theory

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Abstract

Social entrepreneurship has emerged as an innovative paradigm for territorial development and social cohesion in Morocco. However, while early-stage initiatives multiply under the auspices of state programs like the National Initiative for Human Development (INDH), local social ventures suffer from extreme financial fragility and remain trapped in a small-scale "missing middle" transition. While Reichert, Hudon, Szafarz, and Christensen (2021) developed an intermediary signaling framework validated through a microfinance case, and Rihihil et al. (2019) documented the operational realities of Moroccan social ventures, no prior study has bridged these two strands to diagnose how subsidy design can resolve the structural financing bottleneck in an emerging-market ecosystem. This paper addresses that gap by applying the eight-proposition intermediary signaling framework to the secondary empirical data collected by Rihihil et al. (2019) in the Casablanca-Settat region (a dual-sample survey of 20 social entrepreneurs and 300 citizens, conducted in 2017). The authors of the present article did not collect these primary data; they reinterpret them through a novel theoretical lens. The reanalysis reveals that extreme information asymmetry characterized by a 20% public awareness rate and a 62% public reluctance to grant procurement contracts prevents commercial capital acquisition. By mapping the eight theoretical propositions onto the empirical bottlenecks, this study achieves a proposition-to-bottleneck correspondence rate of 100%, demonstrating that every theoretical mechanism in the intermediary signaling model finds a direct empirical anchor in the Moroccan context. The analysis argues that transitioning Moroccan social enterprises from grant dependency to financial self-sufficiency requires shifting from "addictive" operational subsidies to "smart," time-limited, and performance-conditioned instruments. The paper proposes a prioritized policy matrix emphasizing public credit guarantees, private-sector corporate mentoring as intangible in-kind grants, and a structured post-break-even transition to preferential debt, thereby providing a clear pathway to crowd-in commercial finance and scale local social innovation.

Keywords: Social entrepreneurship, Intermediary signaling, Crowding-in, Missing middle, Smart subsidies, Morocco

JEL Classification: O55

Type du papier: Theoretical research (reanalysis of secondary empirical data)

1. Introduction

Social enterprises are hybrid organizations that combine a social mission with market-based activity, and this hybridity is widely treated as their defining characteristic rather than a peripheral feature(Doherty et al., 2014; Ebrahim et al., 2014; Reichert et al., 2021). Because they simultaneously pursue social value and financial sustainability, they must manage persistent tensions between competing logics, governance demands, and resource constraints(Battilana, 2018; Ebrahim et al., 2014; Schätzlein et al., 2023). These tensions are especially consequential for resource mobilization, since social enterprises often struggle to fit the expectations of conventional investors, lenders, and legal advisors(Le et al., 2026; Schätzlein et al., 2023)

Financing difficulties are not incidental but structural. Social enterprises often struggle to acquire external funding because their hybrid identity weakens fit with standard capital market logics(Santos et al., 2015; Schätzlein et al., 2023). More broadly, information asymmetry is a fundamental problem in entrepreneurial finance: borrowers know more about project quality than lenders, direct verification is costly, and good projects can be rationed out when markets cannot distinguish them from weaker ones(Leland & Pyle, 1977). Signaling research therefore treats observable actions and third-party endorsements as central mechanisms for reducing uncertainty and conveying venture quality to external financiers(Colombo, 2021; Leland & Pyle, 1977; Yang et al., 2023)

This signaling problem is particularly acute for small and young ventures. MSMEs in developing and emerging economies are frequently denied credit because they lack track record, collateral, and credit history(NA et al., 2023). SME financing constraints also stem directly from lender–borrower information asymmetry, although intermediation mechanisms and network-based signals can partly mitigate this problem(Solodoha, 2026; Song et al., 2020). For social enterprises, these generic SME constraints are compounded by hybridity, multiple stakeholders, and the need to demonstrate both economic viability and social impact(Lovas et al., 2025; Schätzlein et al., 2023)

Within this broader problem, the transition from subsidy dependence to commercial finance constitutes a distinct “missing middle” challenge. Donor and policy interest in supporting medium-sized enterprise growth is substantial, but the evidence base on which instruments work remains limited and often dated(Lenhardt, 2021). The available literature shows that social enterprises typically rely more heavily on grants in earlier phases, while repayable instruments become more relevant as organizations mature(Reichert et al., 2021; Venkataraman, 2026). Yet this transition is difficult in fragmented or weak financing environments, especially in settings where suitable instruments are unavailable or too complex to use effectively(Le et al., 2026)

Reichert, Hudon, Szafarz, and Christensen (2021) provide a useful framework for analyzing this transition by conceptualizing subsidies not merely as financial inputs, but as signals that shape later access to commercial capital(Reichert et al., 2021). Their intermediary signaling model extends classical signaling theory by assigning an active informational role to early-stage funders, whose subsidy design can either crowd in or crowd out future commercial partners. This perspective fits social enterprise finance particularly well because receiver responses to signals are context-dependent, and signaling effectiveness varies with the informational environment and the characteristics of the evaluator(Colombo, 2021; Solodoha, 2026)

Morocco offers a relevant emerging-market setting in which to examine these dynamics. The social enterprise literature still lacks sufficient empirical coverage outside the better-studied contexts of Western Europe and North America, and African and Middle Eastern settings have been explicitly identified as under-researched(Doherty et al., 2014). At the same time, social enterprises in resource-constrained environments tend to face acute dependence on external

finance, institutional gaps, and limited access to suitable funding instruments (NA et al., 2023; Schätzlein et al., 2023). This makes Morocco analytically relevant for studying how subsidy design, intermediation, and information asymmetry interact in an emerging ecosystem.

The present article mobilizes secondary empirical material from Rihhil et al. (2019) on the Casablanca-Settat region to examine these issues in the Moroccan context. The temporal status of these data must be made explicit from the outset: the original fieldwork was conducted in 2017 and published in 2019, so the evidence predates more recent institutional changes in Morocco's social and solidarity economy. This time lag does not invalidate the analytical relevance of the material for studying structural mechanisms of opacity, dependency, and scaling constraints, but it does require caution when formulating present-day policy recommendations. The article therefore uses these data primarily as a theoretically informed secondary empirical basis rather than as a current real-time portrait of the Moroccan ecosystem. Against this background, the article asks the following central question: How can public and private subsidy instruments in Morocco be restructured to crowd in commercial capital and foster the financial independence of local social enterprises? This question is operationalized through four sub-questions aligned with the theoretical framework. First, which subsidy instruments are most likely to generate crowding-in rather than crowding-out effects in the early stages of social enterprise development (Reichert et al., 2021)? Second, how do source effects differ between public subsidies, private in-kind support, and credit guarantees as intermediary signals to commercial funders (Lovas et al., 2025; Reichert et al., 2021). Third, how should subsidy instruments be sequenced over the organizational life cycle to support the transition from grant dependence to repayable finance and, where relevant, equity (Reichert et al., 2021; Venkataraman, 2026). Fourth, to what extent do the empirical patterns observed in Casablanca-Settat support the relevance of the intermediary signaling model in an emerging-market social enterprise ecosystem characterized by small scale, fragility, and institutional opacity (Doherty et al., 2014; Lovas et al., 2025; NA et al., 2023)

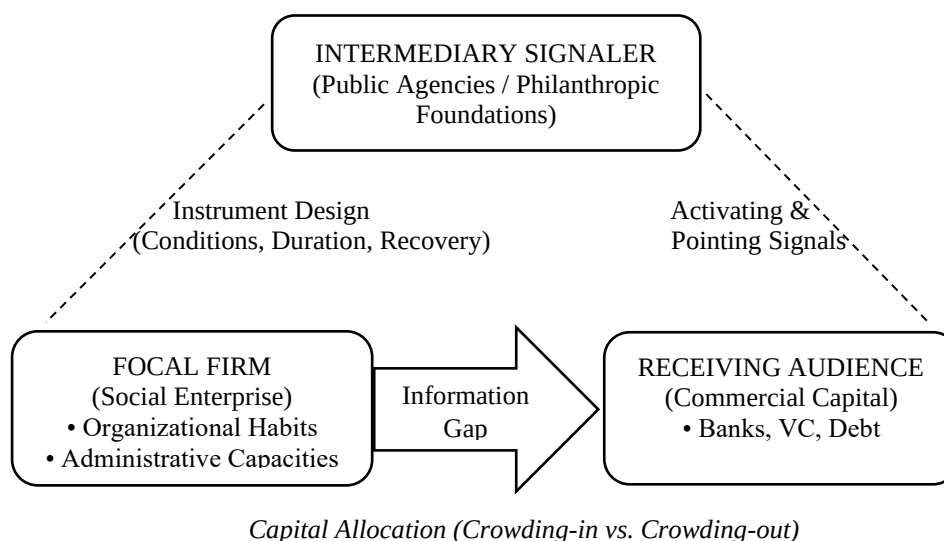
2. Theoretical Framework: Intermediary Signaling and the Subsidy Typology

To understand the financial transition of hybrid organizations, signaling models must be combined with habit formation and organizational capabilities to unpack how interactions among donors, social ventures, and commercial funders evolve (Reichert et al., 2021; Schätzlein et al., 2023; Hussain et al., 2024). Hybrid enterprises pursue dual objectives of social mission and financial sustainability, often managing complex institutional demands and mixed resource flows across their life cycle (Defourny & Nyssens, 2010; Doherty et al., 2014; Reichert et al., 2021).

2.1. The Intermediary Signaling Model

Classical signaling theory focuses on a two-party environment where a signaler communicates unobservable qualities to a receiver, thereby reducing information asymmetry. In social enterprise financing, severe opacity and hybrid dual logics prevent conventional investors from directly appraising operational quality (Reichert et al., 2021; Schätzlein et al., 2023; Sun et al., 2023). Reichert et al. (2021) extend classical foundations by establishing an intermediary signaling model wherein third-party subsidy providers emit credible signals to commercial financiers through specific subsidy structures (Reichert et al., 2021). Because these intermediaries are motivated by their own social development agendas rather than a deliberate attempt to manipulate commercial markets, their signals are perceived as highly trustworthy and credible by commercial funders (Reichert et al., 2021; Kerlin et al., 2024). Consequently, prospective capital providers interpret non-market funding as informative signals of organizational legitimacy and investment readiness (Colombo, 2021; Sun et al., 2023; Kerlin et al., 2024)

Figure N°1: The Intermediary Signaling Model in social enterprise



Source: Authors

2.2. Smart Subsidies, Addictive Subsidies, and Organizational Logics

The impact of these intermediary signals is governed by two competing mechanisms: crowding-in and crowding-out (Reichert et al., 2021; Mulligan et al., 2019; Yeo et al., 2026).

Smart Subsidies: subsidies trigger crowding-in effects when they are designed to be transparent, rule-bound, and time-limited (Reichert et al., 2021; Lovas et al., 2025). They act as a "quality stamp," signaling to commercial investors that the social enterprise has built administrative capacity, adopted market logics, and is on a clear trajectory toward viability (Morduch, 2007).

Addictive Subsidies: Conversely, subsidies trigger crowding-out when they are untargeted, sticky (opaque), and lacking an exit strategy (Lovas et al., 2025; Reichert et al., 2021; Yeo et al., 2026). These subsidies insulate the enterprise from market discipline, creating « soft budget constraints » (Kornai, 1979).

Beyond signaling, contract and agency theories demonstrate that external subsidies alleviate moral hazard by aligning heterogeneous stakeholder objectives (Lovas et al., 2025). Meanwhile, the resource-based perspective highlights that subsidy mixes supply unique non-financial endowments, including technical advisory and strategic networks, indispensable for capital access (Schätzlein et al., 2023; Hussain et al., 2024).

Table N°1: smart Subsidy vs addictive Subsidy

Subsidy Mechanism	Operational Attributes	Managerial & Organizational Impact	Capital Market Respons
Smart Subsidy	Time-limited, transparent, metric-dependent rules (Reichert et al., 2021)	Stimulates managerial additionality and business capacity (Reichert et al., 2021; Kang et al., 2021)	Crowds in commercial credit and venture equity (Bianchi et al., 2019; Reichert et al., 2021)
Addictive Subsidy	Open-ended, non-conditional, ambiguous exit path (Reichert et al., 2021)	Creates soft budget constraints and operational inertia (Reichert et al., 2021)	Crowds out private investment due to dependency risk (Giraud et al., 2019; Reichert et al., 2021)

Source: Authors

2.3. Typology of Subsidy Instruments and Theoretical Propositions

The framework classifies subsidies into four primary instruments, formulating eight key propositions regarding their signaling effects (Reichert et al., 2021):

1. Grants: Monetary grants are optimal for building capacity in formative stages and mitigate extreme seed-stage risk (Colombo, 2021; Huergo Orejas & Moreno Martín, 2017).

Proposition 1: The crowding-in effect of grants is strengthened by using smart subsidy criteria (transparent, rule-bound, and time-limited) (Reichert et al., 2021; Lovas et al., 2025).

Proposition 2: The crowding-in effect of in-kind grants (tangible or intangible) is strengthened when delivered by private donors (who bring valuable business expertise and "corporate intangibles") rather than public donors (Reichert et al., 2021; Bianchi et al., 2019).

2. Procurement: Public procurement involves purchasing goods at administered, above-market prices to boost social venture competitiveness (Chung et al., 2024).

Proposition 3: The crowding-out effect of procurement subsidies is strengthened when they are not time-limited (Reichert et al., 2021).

3. Preferential Debt: Soft loans concessional along interest rates, grace periods, or security features (Huergo Orejas & Moreno Martín, 2017).

Proposition 4: The crowding-in effect of preferential debt is weakened when grace periods are used rather than interest rate subsidies or guarantees, as grace periods temporarily allow firms to avoid financial discipline (Reichert et al., 2021).

Proposition 5: The crowding-in effect of credit guarantees is strengthened when delivered by public donors rather than private donors, as governments are uniquely suited to assume risks the private sector cannot evaluate (Reichert et al., 2021; Giraudo et al., 2019).

4. Preferential Equity: Equity investments by specialized social investors who accept dividend caps or asset locks (Reichert et al., 2021; Giraudo et al., 2019).

Proposition 6: The crowding-in effect of preferential equity is strengthened when subsidized ownership rights (restrictions) do not extend to commercial funders, preserving their upside potential (Reichert et al., 2021).

Life-Cycle Dynamics: The efficacy of funding instruments shifts as firms cross the operational break-even threshold (Reichert et al., 2021; Wenqi et al., 2022).

Proposition 7: The crowding-out effect of smart grants is strengthened once a social enterprise has reached break-even (as continued grants signal operational inefficiency) (Reichert et al., 2021; Huergo Orejas & Moreno Martín, 2017).

Proposition 8: The crowding-in effect of preferential debt is strengthened once a social enterprise has reached break-even (signaling to commercial banks that the firm is ready for credit discipline) (Reichert et al., 2021).

3. Empirical Context and Methodology: The Case of Casablanca-Settat

To evaluate the theoretical propositions developed in Section 2, this study mobilizes secondary empirical data originally collected by Rihhil, Tayane, Gassemi, and Zahouily (2019) in their territorial study of the Casablanca-Settat region of Morocco. It is important to distinguish clearly between the original data collection methodology, which was designed and executed solely by (Rihhil et al., 2019), and the present article's own analytical contribution, which consists of reinterpreting these empirical findings through the lens of intermediary signaling theory and the subsidy typology framework. The authors of this article did not participate in the design, collection, or validation of the primary survey instruments; rather, they leverage the existing dataset as a secondary source to test theoretical propositions regarding subsidy signaling effects in an emerging market context.

3.1. The Regional and Economic Context

Morocco represents a highly compelling laboratory for studying social enterprise financing. The country has actively mobilized state resources to build a dynamic social and solidarity economy (Rihhil et al., 2019). This effort is exemplified by the launch of the National Initiative

for Human Development (INDH) in 2005, which introduced local participatory decision-making and funded thousands of local co-operatives and income-generating activities (AGR)(Rhihil et al., 2019).

The Casablanca-Settat region plays a central role in driving national economic growth: it acts as Morocco's premier economic metropolis and financial capital, contributing approximately 32% of the national GDP(MAAROUFI, 2024). It covers 19,448 km² and, according to the official results of the 2024 General Census conducted by the High Commission for Planning (HCP) of Morocco, hosts 7,688,967 inhabitants(HCP, 2024) , remaining the country's most populated region and representing more than 20% of the national population. Within this territory, the prefecture of Casablanca alone concentrates 3,218,036 inhabitants and 909,829 households. This represents a significant demographic growth compared to the previous 2014 census which registered 6.86 million residents.

However, Casablanca-Settat suffers from deep spatial and structural disparities. While the region is highly urbanized (73.61% urban density), its peripheral and rural communes suffer from high rates of poverty, precariousness, and youth unemployment(Rhihil et al., 2019). Consequently, social entrepreneurship is highly solicited in this region as a tool for territorial regulation and social cohesion.

3.2. Temporal Validity and Institutional Evolution

The original data collection by(Rhihil et al., 2019) was conducted between July and September 2017 nearly nine years before the submission of this article. The authors acknowledge that the Moroccan institutional landscape has since evolved significantly. Notably, the « Caisse Centrale de Garantie (CCG) », a key public intermediary for credit guarantees to social enterprises, has undergone a strategic transformation into Tamwilcom, broadening its mandate to support very small enterprises and social ventures under revised eligibility criteria.

To address this temporal gap, the present study triangulates the 2017 findings with more recent institutional and demographic data. The 2024 HCP census figures cited above provide updated demographic context, and references to the Tamwilcom reorganization. Nonetheless, the authors note that the core empirical observations regarding subsidy dependency, funding histories, and signaling dynamics captured by(Rhihil et al., 2019) remain analytically relevant, as the fundamental mechanisms of information asymmetry and intermediary signaling are not contingent on specific regulatory regimes.

3.3. Original Survey Design (Rhihil et al., 2019)

The researchers deployed a dual-sample survey design between July and September 2017 to capture both public perceptions and operational constraints:

1. General Public Survey (n = 300): A stratified representative sample of approximately 300 citizens aged 18 and over in Casablanca-Settat. The sample was balanced according to gender, age, socio-occupational categories, and geographic locations (urban, rural, and peripheral communes). This survey gathered quantitative data on public awareness, cognitive definitions, utility perceptions, and trust in social enterprises(Rhihil et al., 2019).
2. Social Entrepreneurs Survey (n = 20): A targeted, online questionnaire-based survey of 20 active, recognized social entrepreneurs operating within the region (Rhihil, 2019). This questionnaire gathered operational and financial indicators, legal structures, success factors, and funding histories(Rhihil et al., 2019).

3.4. Representativeness and Sample Limitations

The authors wish to nuance the claim that a sample of 20 social entrepreneurs constitutes a "highly representative segment" of the ecosystem. At the time of the 2017 survey, no exhaustive

official census of formally registered social enterprises in the Casablanca-Settat region was available, making it impossible to calculate a precise sampling frame or saturation rate. The sample of 20 ventures should therefore be understood as a purposive, exploratory sample of pioneering, formally registered hybrid organizations, rather than a statistically representative cross-section of the full population. This approach prioritizes depth and contextual richness over statistical generalizability, consistent with standard practice in exploratory territorial entrepreneurship research. The findings derived from this subsample are treated as illustrative case-level evidence for theoretical proposition-building, not as population-inferential statistics.

3.5. Statistical Treatment and Analytical Scope

The original survey instruments employed by Rihhil et al. (2019) yielded primarily descriptive statistics, including frequency distributions and percentage calculations for both the public perception and entrepreneur subsamples. No inferential tests of association (e.g., chi-square, correlation analysis), confidence intervals, or formal non-response bias analyses were reported in the original study. Accordingly, all empirical results mobilized in this article are explicitly qualified as descriptive. The theoretical propositions formulated in Section 2 are grounded in the signaling framework and supported by illustrative empirical patterns from the secondary data, not by inferential statistical validation.

4. Empirical Findings Mobilized from Existing Literature: Perception and Operational Realities in Morocco

The empirical observations mobilized in this section are entirely borrowed from the territorial study conducted by Rihhil, Tayane, Gassemi, and Zahouily (2019). The authors of the present article did not collect, process, or validate these primary data; rather, they reinterpret the existing descriptive findings through the lens of intermediary signaling theory. All percentages reported below originate from Rihhil et al. (2019) and are presented as descriptive statistics only. No tests of statistical significance, confidence intervals, or non-response bias analyses were reported in the original study; consequently, the inferential scope of these observations is limited, and the findings should be interpreted as illustrative patterns rather than statistically validated generalizations.

4.1. Deficit in Public Notoriety and Concept Confusion

The general public survey highlights an acute cognitive deficit and market opacity. A mere 20% of the population correctly knows the definition of "Social Entrepreneurship" (Rihhil et al., 2019). Similarly, the broader concept of the "Social and Solidarity Economy" is defined correctly or partially by only 36% of respondents.

Furthermore, even among those with some familiarity, understanding is highly ambiguous. The majority of citizens confuse social entrepreneurs with traditional charity associations, non-governmental organizations, or private benefactors (Rihhil et al., 2019). This indicates that the market fails to perceive the dual nature commercial of hybrid business models. However, the public strongly associates successful social initiatives with projects funded by the state's National Initiative for Human Development (INDH), reflecting the dominant role of the public sector in legitimizing the field.

4.2. Social Expectations vs. Market Reluctance

Despite this cognitive deficit, Moroccan citizens express a profound belief in the utility of social enterprises. They recognize their role in filling the shortcomings of public services and addressing environmental challenges. Crucially, 77% of citizens identify youth and female unemployment as the most urgent social problem that social entrepreneurs must resolve,

placing it far ahead of basic infrastructure (22%) or primary education (11%)(Rhihil et al., 2019).

Also, 95% of respondents agree that local authorities should support social entrepreneurship to stimulate local employment and territorial economic dynamism. However, 62% of citizens oppose local authorities giving preference to social enterprises in public procurement contracts. This high level of public distrust stems from a perception that social enterprises present an operational risk, lacking the professional experience and technical knowledge necessary to guarantee public services(Rhihil et al., 2019).

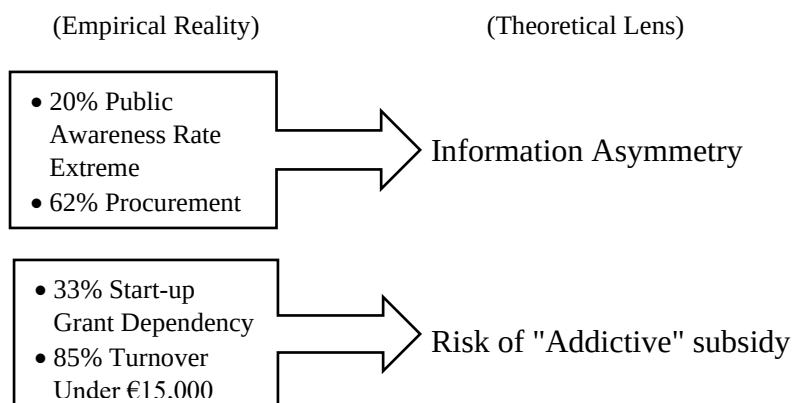
4.3. Profile and Financial Fragility of Moroccan Social Ventures

The survey of active social entrepreneurs in Casablanca-Settat paints a picture of a sector that is young, highly gender-inclusive, but economically precarious:

- ✓ **Feminization and High Education:** The sector is characterized by an outstanding rate of female leadership, with over 70% of social enterprises led by women. These female founders are highly qualified, with the vast majority holding advanced scientific, engineering, or management degrees.
- ✓ **Youth and Low Operational Scale:** The structures are exceptionally young, with 3 to 7 years of operational existence in most cases. They are also small, employing only 2 to 5 people.
- ✓ **Extreme Financial Fragility:** The annual turnover of these organizations is strikingly low. Only 15% of the social enterprises surveyed manage to exceed an annual turnover of €40,000. The remaining 85% achieve revenues of around €15,000 , with a substantial portion failing to cross €10,000 annually.
- ✓ **High Start-up Subsidy Dependency:** More than one-third (33.3%) of the social entrepreneurs surveyed relied on public start-up subsidies, specifically through local grants provided by the INDH.
- ✓ **Perceived Success Factors:** When asked to identify the decisive drivers of their development, entrepreneurs overwhelmingly cited financial resources (75%), partnerships with public authorities (64%), and partnerships with traditional private businesses (52%).

5. Discussion: Resolving the Moroccan "Missing Middle"

Figure N2: the moroccan "missing middle" bottleneck



Sources: Authors

Moroccan social enterprises appear trapped in a classic missing middle: they are too hybrid and opaque for conventional lenders, yet too small to scale on grants alone(Nyikos et al., 2020; Schätzlein et al., 2023; Yoshino & Taghizadeh-Hesary, 2019). The literature on social enterprise finance consistently shows that younger ventures rely more on grants, whereas more mature organizations shift toward repayable instruments, but this transition is difficult in

markets with weak financial infrastructure and strong information asymmetries (Farazi et al., 2013; Schätzlein et al., 2023)

5.1. From Donor to Intermediary Signaler

The core policy implication is not simply to increase subsidy volume, but to redesign subsidies so they act as credible signals to later commercial funders (Boccaletti et al., 2025; Reichert et al., 2021). Public support can facilitate later access to market-based finance when it improves observable discipline, transparency, and financing readiness (Boccaletti et al., 2025). This logic fits Morocco especially well because MENA lending constraints are strongly linked to poor transparency, weak credit information, and weak collateral systems (Farazi et al., 2013).

5.2. Transitioning INDH Funding from "Addictive" to "Smart" Subsidies (Proposition 1)

Currently, more than a third of local ventures rely on starting subsidies, yet 85% remain stagnant with annual revenues under €15,000 (Rihhil et al., 2019). This stagnation is a classic symptom of addictive subsidy dependency and soft budget constraints (Reichert et al., 2021). Because early-stage grants are often distributed without strict time-limits or performance criteria, managers develop comfortable, non-commercial operational habits.

To trigger a crowding-in effect (Proposition 1), the INDH must restructure its grant mechanisms (Boccaletti et al., 2025; Reichert et al., 2021):

- **Milestone-Conditionality:** Emulating the Consultative Group to Assist the Poor (CGAP) conditional grant structure applied to Banco Compartamos, INDH grants should be disbursed in performance-based tranches (Dugan & Goodwin-Groen, 2005; Reichert et al., 2021). Tranches must be tied to observable benchmarks such as client growth, specific social impact indicators, and operational cost-to-revenue targets (Cull et al., 2018; Rosenberg, 2007).
- **Strict Time-Limits:** Funding contracts must include explicit, non-negotiable exit strategies and sunset clauses to prevent habit formation and force managers to adopt financial discipline from day one (Morduch, 2007).

5.3. Leveraging Private Sector Mentoring as Intangible In-kind Grants (Proposition 2)

The survey indicates that Moroccan social entrepreneurs are highly educated but run small, isolated operations. more than that, 52% of entrepreneurs identify partnerships with traditional businesses as a critical success factor (Rihhil et al., 2019).

According to Proposition 2, intangible in-kind grants such as executive mentoring, strategic advising, and technical assistance sent by private corporate actors carry a significantly stronger signaling effect to commercial lenders than public sector support (Andreoni, 2006). Just as Banamex President Alfredo Harp Helu's pro-bono financial advising signaled institutional quality and professionalized Banco Compartamos lending systems, Moroccan corporate leaders can provide invaluable coaching (Dugan & Goodwin-Groen, 2005). Morocco should establish a "Corporate Philanthropy Venture Network" that pairs high-potential female social entrepreneurs with executives from the traditional private sector. This transfer of market-based managerial competencies will act as an activating quality signal to commercial banks (Andreoni, 2006; Lall et al., 2019).

5.4. Managing Public Procurement Risks to Avoid Crowding-Out (Proposition 3)

The empirical data reveals a significant tension regarding public procurement: while 95% of citizens support local authorities backing social entrepreneurship, 62% actively oppose granting these enterprises preferential procurement contracts due to perceived operational risks and a lack of technical competency (Rihhil et al., 2019). This public reluctance validates the core mechanism of Proposition 3. When public procurement subsidies are administered without clear time-limits or strict performance milestones, they risk triggering a crowding-out effect

rather than fostering market competitiveness(Reichert et al., 2021). To prevent this, Moroccan local authorities must anchor procurement contracts within the "smart subsidy" framework. Contracts should be structured with explicit sunset clauses and rigorous capacity-building requirements, ensuring that preferential purchasing acts as a temporary stepping stone rather than a permanent crutch that insulates social ventures from competitive market discipline.

5.5. Disciplining Preferential Debt Through Grace Period Limitations (Proposition 4)

As Moroccan social enterprises mature and reach the operational break-even point, their funding matrix must transition from grants to preferential debt to instill financial discipline (Proposition 8). However, the specific design of these soft loans is critical. According to Proposition 4, the crowding-in effect of preferential debt is significantly weakened when instruments rely on grace periods rather than interest rate subsidies or guarantees(Reichert et al., 2021). In the context of Casablanca-Settat, where 85% of ventures currently suffer from extreme financial fragility and stagnant revenues(Rhihil et al., 2019), offering extended grace periods could reinforce the very dependency habits the ecosystem is trying to break. Grace periods temporarily allow managers to avoid the immediate financial discipline required by commercial markets, thereby sending a negative signal to potential commercial lenders. Consequently, Moroccan financial actors and public donors should prioritize preferential debt structures that utilize concessional interest rates or partial guarantees over those that delay repayment obligations.

5.6. Deploying Public Credit Guarantees to Foster Commercial Lending (Proposition 5)

When social enterprises in Casablanca-Settat reach operational break-even, continuing to provide them with grants is highly counterproductive, causing severe crowding-out (Proposition 7)(Reichert et al., 2021). Instead, at this critical inflection point, the ecosystem must transition them to preferential debt to instill credit discipline (Proposition 8). However, because Moroccan commercial banks are highly risk-averse, they will not lend without collateral. To bridge this gap, the Moroccan government should mobilize its state-backed guarantee institution, Tamwilcom (formerly CCG), to design dedicated social credit guarantee funds. As established in Proposition 5, public credit guarantees explicitly crowd-in commercial capital by absorbing risks that the private sector cannot evaluate. In the Compartamos case, a partial public guarantee from the IFC enabled the leverage of over \$130 million in purely private, commercial investment. Utilizing Tamwilcom to cover up to 70% of bank loans to validated social enterprises would successfully crowd-in commercial debt and build the credit history of local ventures(Reichert et al., 2021).

5.7. Reserving Preferential Equity for Mature Scale-Ups (Proposition 6)

While the immediate priority for the Moroccan ecosystem is restructuring grants and deploying credit guarantees, preferential equity represents a necessary, albeit longer-term, instrument for ventures ready to scale. The empirical survey shows that the sector is exceptionally young (3 to 7 years old) and micro-scaled, employing only 2 to 5 people(Rhihil et al., 2019). This profile indicates that the majority of these focal firms are not yet structurally prepared for the complexities of equity dilution. However, for the minority of high-performing ventures that demonstrate scalable models, preferential equity provided by specialized social investors can crowd-in subsequent commercial capital. As outlined in Proposition 6, this crowding-in effect is strengthened when the subsidized ownership rights such as dividend caps or asset locks do not extend to future commercial funders, thereby preserving their upside potential(Reichert et al., 2021). Moroccan policymakers should facilitate a regulatory framework that allows social impact investors to provide equity under these specific conditions, ensuring that early social investors absorb the initial risk without encumbering the future commercial capital structure.

5.8. Phasing Out Grants at Operational Break-Even (Proposition 7)

The empirical data reveals a structural stagnation in the Casablanca-Settat ecosystem: 85% of surveyed social enterprises remain trapped with annual revenues under €15,000, despite 33.3% relying on INDH start-up subsidies (Rihhil et al., 2019). This prolonged dependency validates Proposition 7. Once a social enterprise reaches operational break-even, continuing to provide grants becomes highly counterproductive and triggers a severe crowding-out effect (Reichert et al., 2021). Commercial investors interpret the ongoing receipt of non-repayable funding as a strong signal of operational inefficiency and a lack of capacity for autonomous survival. Consequently, Moroccan public donors must establish strict sunset clauses that mandate the automatic termination of INDH grant support once a venture demonstrates consistent revenue generation, thereby forcing managers to adopt independent financial discipline and preventing the entrenchment of subsidy-dependent habits.

5.9. Transitioning to Preferential Debt Post Break-Even (Proposition 8)

At the critical inflection point of operational break-even, the ecosystem must transition validated social enterprises toward preferential debt to instill credit discipline and signal readiness to commercial banks (Reichert et al., 2021). As established in Proposition 8, the crowding-in effect of preferential debt is significantly strengthened once a social enterprise achieves financial viability, as loan repayment requirements demonstrate to commercial lenders that the firm can sustain market discipline. However, because Moroccan commercial banks remain highly risk-averse and require collateral that micro-scale social ventures cannot provide, this transition must be facilitated by public credit guarantees. The state-backed institution Tamwilcom (formerly CCG) is uniquely positioned to absorb the initial risk that private lenders cannot evaluate, thereby bridging the gap between operational viability and full commercial credit independence.

6. Conclusion and Policy Matrix

To transition Moroccan social entrepreneurship from its current "under-construction" phase to a mature, self-sustaining ecosystem, policy makers and researchers must abandon the simplistic assumption that "more funding" equals "more development" (Rihhil et al., 2019). Instead, they must focus on the structural design and sequential alignment of subsidy instruments (Reichert et al., 2021).

The following policy matrix synthesizes our theoretical and empirical analysis, offering a roadmap for Moroccan decision-makers to resolve the "missing middle".

- **Prioritized Policy Matrix**

The recommendations below are hierarchized according to their implementation horizon (short, medium, and long-term) and evaluated for their institutional and budgetary feasibility.

To operationalize these recommendations effectively, the Moroccan entrepreneurial ecosystem requires a phased institutional roadmap that addresses systemic bottlenecks from micro-level sustainability to macro-level structural integration. The short-term transition toward performance-based INDH grants directly tackles grant dependency by enforcing hard budget constraints, compelling social ventures to cultivate essential market discipline and financial viability. As these enterprises approach the break-even threshold, medium-term interventions, specifically Tamwilcom's public credit guarantees and structured private corporate mentoring, mitigate commercial risk, crowd in private debt, and facilitate the transfer of critical intangible commercial expertise, particularly for isolated founders. Over the long term, cementing public-private trust through dedicated incubators and establishing state-recognized university curricula will eliminate market opacity and public skepticism regarding hybrid business models.

Ultimately, this synchronized, multi-horizon framework transforms social enterprises into self-sustaining economic drivers, ensuring long-term institutional scalability and inclusive regional growth across Morocco.

Table N°2: comprehensive policy recommendations and implementation horizons for moroccan social enterprises

Moroccan Empirical Bottleneck	Priority	Theoretical Concept	Proposed "Smart" Policy Intervention	Intermediary Signaler	Expected Outcome
85% of ventures stagnant with turnover under €15,000; grant dependency.	1 (Short-term)	Soft Budget Constraints & Habit Formation (Reichert et al., 2021)	Restructure INDH grants into conditional, performance-based tranches with strict sunset clauses.	INDH (Public)	Hard budget constraints; adoption of market logic and financial discipline.
Isolated female founders requesting private partnerships (52%).	2 (Medium-term)	Corporate Intangibles & Private In-Kind Grants (Prop 2) (Andreoni, 2006)	Launch a National Corporate Mentoring Network pairing social ventures with private sector executives.	Moroccan Private Corporate Leaders	Transfer of commercial expertise; highly credible professionalization signal.
Risk aversion of local banks; collapse at the post-break-even point.	3 (Medium-term)	Public Credit Guarantees (Prop 5 & Prop 8) (Reichert et al., 2021)	Deploy Tamwilcom credit guarantees to cover up to 70% of commercial loans for break-even ventures.	Tamwilcom (Public Guarantee Institution)	Strong crowding-in of private debt; creation of formal credit history.
62% public reluctance to grant public procurement due to perceived risk.	4 (Long-term)	Credibility of Signals & Technical Competency (Dugan & Goodwin-Groen, 2005)	Establish dedicated social business incubators/nurseries that provide mandatory operational and governance training.	Private Sector Partners & Universities	Public trust built; reduction of perceived operational risk.
80% lack of public awareness; confusion of social business with traditional charity.	5 (Long-term)	Information Asymmetry & Intermediary Signaling (Connelly et al., 2011)	Establish specialized university curricula and state-recognized certifications to validate the hybrid business model.	Hassan II University & Ministry of Social Economy	Reduced market opacity; clear conceptual separation of social business from charity.

Source: Authors

• **Research Limitations**

This study presents several significant limitations that must be acknowledged. First, the empirical data mobilized are entirely secondary and retrospective, originating from the 2019 territorial study by Rihihil et al. (2019). The original data collection dates back to July-September 2017, meaning the empirical observations are nearly nine years old at the time of submission. The Moroccan institutional landscape has since evolved significantly, notably with the transformation of the CCG into Tamwilcom that may have altered the operational realities of the surveyed ventures. Second, the sample of active social entrepreneurs (n = 20) is purposive and exploratory; it does not constitute a statistically representative cross-section of the population, and the absence of exhaustive official census data at the time of the survey prevents any calculation of saturation rates or sampling error. Third, the original study reported only descriptive statistics (frequencies and percentages) without inferential tests, confidence intervals, or non-response bias analyses, thereby limiting the robustness and generalizability of the quantitative findings. Finally, the eight theoretical propositions formulated in the conceptual framework are not tested empirically through direct measurement in the Moroccan context; rather, they are applied as a heuristic analytical lens to reinterpret existing descriptive patterns.

• **Future Research Perspectives**

These limitations open several natural avenues for future research. First, a new, updated field survey should be conducted in the Casablanca-Settat region to capture the post-2022 institutional reality, particularly the impact of the new ESS framework law and the Tamwilcom reorganization on social enterprise financing. This updated survey should employ a larger, statistically representative sample and incorporate inferential statistical tests to validate the descriptive trends observed in the 2017 data. Second, an ex-post impact evaluation of the proposed policy interventions, specifically the deployment of Tamwilcom credit guarantees and the establishment of a corporate mentoring network would provide empirical validation of the intermediary signaling mechanisms theorized in this article. Third, future studies could extend the intermediary signaling framework to other Moroccan regions or comparable emerging markets in the MENA region to test the external validity of the eight propositions across diverse institutional environments.

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