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The impact of an attractive financial center on private equity fundraising: Evidence from Casablanca Finance City

Nahla ABBAR, *(PhD student)*
Research Laboratory in Finance, Accounting, Management and Information and Decision Support Systems
National School of Business and Management of Settat
University of Hassan 1st, Morocco

Abdessadeq SADQI, *(Full Professor)*
Research Laboratory in Finance, Accounting, Management and Information and Decision Support Systems
National School of Business and Management of Settat
University of Hassan 1st, Morocco

Correspondence address :	National School of Business and Management of Settat, Km 3 Rte de Casablanca, BP 658 Université Hassan I Settat, Maroc 05237-23577
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Abstract:

This paper empirically examines the effects of the size and attractiveness of Casablanca Financial City on the fundraising activities of the Moroccan private equity industry. The study uses Partial Least Squares (PLS) regression to analyze data from 2005 to 2021. The PLS regression can be more suitable than ordinary regression for our study since it addresses challenges arising from small sample sizes and multicollinearity. I use the Jackknife cross-validation method to test the robustness and generalizability of the model. The results suggest that the size and the connectivity of the financial center coupled with financial development and a stable macroeconomic environment are key determinants spurring private equity fundraising in Morocco. However, surprisingly, the quality of the political, institutional, and regulatory environment did not have a positive effect on private equity fundraising. The results affirm the importance of a well-established financial center in promoting investment activities, hence driving the private equity market. Private equity funds are crucial in providing capital to risky companies with high growth potential that may not have access to traditional finance such as banks or capital markets. Therefore, the research contributes to understanding how financial centers influence private equity fundraising providing valuable insights for policymakers and stakeholders aiming to foster economic development by enhancing the private equity industry. One of the main limitations of the study is the difficulty in obtaining detailed data for the analysis. Future research could benefit from improved data availability and accessibility which could potentially make the results more accurate and robust.

Keywords: Financial Center, Private Equity, Fundraising, Economic Growth
JEL Classification: G15, G20, G24, F43, E22, E44.
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1. Introduction:

With the rise of globalization and its impact on the intensity of international capital flow, financial centers appear to have a central role in channeling capital into productive investments driving economic growth. The presence of an attractive financial center can play a significant role in boosting a nation's GDP (Yildirim and Mullineux, 2015; Vo and Nguyen, 2021). A global financial center provides the proper infrastructure to encourage investment enabling the thriving of entrepreneurial activities. Vo and Nguyen (2021) observed that cities that represent a competitive global financial center are also the ones that contribute the most to their country's GDP.

A financial center can be defined as a central location characterized by a concentration of financial institutions where the financial transactions of the country, the region where it is located, or, in some cases, the entire world, are cleared and coordinated (Duffey and Giddy 1978; H.C. Reed,1980; Porteous,1995). A financial center's role is to efficiently gather and optimize the allocation of financial resources across time and space which in turn contributes to reducing risk and improving transaction efficiency (Kindleberger, 1974; Xie, 2008).

Before the establishment of Casablanca Finance City (CFC), Casablanca already held a significant position as a financial center within both Morocco and North Africa. The city hosted most of the country's financial institutions, and the Casablanca Stock Exchange, which was considered one of Africa's largest stock exchanges by market capitalization. However, Casablanca had not yet attained the status of a firmly established international financial center.

The creation of CFC in 2010 embodies Morocco's ambition to elevate the financial center's position on the global stage as well as to strengthen its position as a leading financial hub in Africa and beyond. To achieve this, CFC has implemented an attractive regulatory and fiscal framework along with modern infrastructure, thus creating a more appealing environment for international investors. A central aspect of this initiative is the introduction of the CFC status, which provides companies benefiting from this status with a multitude of advantages, including favorable tax treatment and simplified regulatory procedures. Businesses with CFC status gain a competitive advantage when operating within Casablanca Finance City, reinforcing its position as an attractive destination for investment.

To enhance its international attractiveness, Casablanca Finance City launched a series of major reforms in 2020, concerning its legal and fiscal framework. One of the primary reforms involves expanding the range of activities eligible for CFC status to attract more investments. The CFC status has been extended to include six new activities, namely: investment companies, Collective Investment Schemes, Financial Investment Advisors, crowdfunding platforms, trading companies, and regional headquarters able to charge for intra and extra-group goods and services (Casablanca Finance City Authority, 2020).

Including private equity funds, as a collective investment scheme, in the range of activities eligible for CFC status can play an important role in attracting new private equity funds. This will help enhance economic growth by fostering entrepreneurship, driving innovation, and boosting productivity (Stromberg, 2009; Makhene, 2009; EVCA, 2013; Malik and Dhankar, 2017). Private equity funds are crucial in providing capital to risky companies with high growth potential that may not have access to traditional finance such as banks or capital markets. Several studies have shown that private equity helps foster innovation for private equity-backed firms through the screening and monitoring process (Lerner et al., 2013; Amess et al., 2016; He et al., 2024). Additionally, private equity positively impacts innovation in the regional private equity market through knowledge spillovers from private equity-backed firms to other firms." (Bernstein et al., 2016; Aldatmaz & Brown, 2020; He et al., 2024).

Private equity firms could benefit from the size and attractiveness of the financial center where they operate. Factors such as regulatory environment, macroeconomic environment, and access to a well-developed capital market can significantly influence private equity fundraising (Hain et al., 2016; Al-Smadi, 2018).

This paper explores the impact of the size and attractiveness of a financial center on private equity fundraising with a particular focus on Casablanca Finance City (CFC) as a case study. This study contributes to understanding how a financial center can influence private equity fundraising, particularly in the case of CFC and Morocco. As previously mentioned, private equity fundraising can have a crucial impact on innovation and economic growth. Therefore, the findings from this study could assist local authorities in prioritizing factors that significantly impact private equity fundraising when developing policies to enhance the financial center's attractiveness.

2. Literature review and hypothesis formulation:

The Global Financial Centers Index (GFCI) report, published by Z/Yen Group since 2007, provides rating and rankings for financial centers using a factor assessment model that relies on two types of inputs. The first type is instrumental factors that are classified into five categories which are business environment (including political stability and rule of law, institutional and regulatory environment, macroeconomic environment, and tax and cost competitiveness) human capital, infrastructure, financial sector development, and reputation (Exhibit 1). The second type of input is financial center assessments through an online questionnaire. These assessments made by professionals allow the consideration of other areas of competitiveness such as connectivity between financial centers.

Risk diversification and the improvement of the portfolio's expected returns are the main advantages of international portfolio investment. Due to the weak correlation between assets from different countries, holding an international portfolio allows for better risk diversification (Solnik, 1974; Odier and Solnik, 1993; De Santis and Gérard, 1997). Moreover, international asset allocation offers a large range of asset choices allowing investments to be oriented toward higher expected returns markets (Odier and Solnik, 1993; Solnik and McLeavey, 2009).

Despite these advantages, investors' behavior is subject to home bias, which can be described as the tendency for investors to allocate a less important share of their savings to foreign assets compared to what the portfolio theory predicts (French and Poterba, 1991; Tesar and Werner, 1995; Faruqee et al., 2004). Considering this, other specific country-related factors must be taken into account when evaluating a country's potential to attract international investors and thus increase private equity fundraising such as:

2.1. The Macroeconomic Environment:

A stable macroeconomic environment attracts international portfolio investors (Al-Smadi, 2018). A positive relationship between GDP (Faruqee et al., 2004; Coeurdacier and Martin, 2007; Diyarbakirlioglu, 2011), or GDP growth (Garg and Dua, 2014; Hain et al., 2016; Al-Smadi, 2018) of a country and international equity investment in the same country has been established. High economic growth sends a strong signal to investors of a stable economy where companies operate in an environment that allows them to make more profits and thus increase their value (Garg and Dua, 2014).

Inflation and interest rates have also been shown to be correlated with investment. In a country, inflation is the result of a growth in aggregated demand along with a growth in aggregated supply. Hence, inflation can send a strong signal to investors leading to an increase in international equity investments (Onuorah and Akujuobi, 2013). On the other hand, a country's interest rate is negatively correlated with investment. A low interest rate

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encourages companies to invest in productivity growth (Liu et al., 2022) sending a strong signal to private equity investors. Rachel and Smith (2015) reported that over the period 1985-2015, the most developed economies have known a decrease in their interest rate by 450 basis points.

H1: The Macroeconomic Environment has a significant positive influence on private equity fundraising.

2.2. Political, Institutional, and Regulatory Environment:

Several empirical papers studied the impact of institutional quality and political stability in attracting international investments. Using a generalized method of moments (GMM) estimator on a sample of 77 developing countries from 1981 to 2005, Tun et al. (2012) show that bureaucratic quality, the rule of law, corruption, risk of expropriation, and government repudiation of contracts are key factors of FDI inflows. Moreover, studies on arab countries and the MENA region (Mina, 2012, 2014; Helmy, 2013; Aziz and Mishra, 2016) argue that factors such as institutional quality, corruption rates, political stability, internal and external conflicts, ethnic tensions have a significant impact on foreign investment inflows.

Several reasons why the quality of institutions and political stability represent important determinants of international investments have been suggested. First, institutional quality increases productivity, which in turn attracts international investors. Productivity growth is determined by the existence of a strong research and development system, low restrictions on companies, the availability of financial institutions that are capable of financing large-scale projects, and political stability (Aziz, 2018).

Second, institutional efficiency helps reduce transaction costs that may arise from the lack of property rights protection, widespread corruption, the absence of a well-regulated institutional system, undeveloped financial markets, or the lack of incentive structures (Dunning, 2004). High transaction costs could negatively impact investment levels as they hinder the proper functioning of businesses, and their ability to diversify risk, handle conflicts, and choose optimal organizational structures (Aziz, 2018). Transaction costs are considered as a determining factor when evaluating a country's business environment thus influencing the investment decisions.

Finally, the decision to invest in a country, especially in technology-intensive sectors, is closely related to the presence of institutions and policies aimed at protecting intellectual property rights, and to the effectiveness of the government in enforcing these rights (Rondinelli, 2005; Aziz, 2018).

H2: The political, institutional, and regulatory environment has a significant positive correlation with private equity fundraising.

2.3. Financial Development:

Developed stock markets tend to be more structured and liquid and generate low transaction costs, attracting international equity investors (Roque and Cortez, 2014). Higher stock market indices attract international investors searching for high returns (Al-Smadi, 2018). Moreover, liquid stock markets allow investors to withdraw their capital at any given moment (Tsaurai, 2022).

Regarding private equity, a dynamic stock market represents a profitable exit option (Hain et al., 2016), thereby stimulating the activity of the private equity industry (Black and Gilson, 1998; Gompers et al., 2008; Hain et al., 2016).

Moreover, the development of the banking system can also profit the private equity industry especially when it comes to leverage buyouts where a company is acquired using a relatively small portion of equity and a relatively large portion of debt financing.

H3: Financial Development significantly and positively influences private equity fundraising.

2.4. Familiarity and information costs:

Home bias has always been considered inherent to financial intermediaries who have an important need for spatial proximity and rely heavily on local expertise to mitigate agency costs (Coval and Moskowitz 1999, 2001; Parwada, 2008; Hain et al., 2016). As regards investing in matures or listed companies, information such as balance sheets, income statements, and performance history, needed to mitigate traditional financial risk and optimize resource allocation are codified and easily accessible. However, when it comes to cross-border investments, this information, although accessible, is written in a foreign language and/or subject to an unfamiliar institutional context, which makes it difficult to decipher and therefore not completely understood.

Home bias may prove even more significant for private equity, especially for venture capital, due to the unavailability of historical data used to estimate future performance and to value young and innovative companies. Furthermore, in the case of start-ups, the founder's personality is considered as a tacit knowledge essential for or evaluating the potential for success of the company. This tacit knowledge is not easily accessible and is gradually revealed through interpersonal interaction (Hain et al., 2016). Successful investments are therefore conditioned by the existence of close, frequent, and free interactions between the investor and the company held allowing the exchange of both codified and tacit information (Cumming and Dai 2010; Hain et al., 2016).

Therefore, investors prefer to invest in geographically close companies, that have a shared language and share cultural and institutional similarities (Roque and Cortez, 2014; Hain et al., 2016).

The presence of a financial center makes it easier for international financial institutions and intermediaries to establish subsidiaries or branches there to benefit from proximity to the companies constituting their portfolios or in which they potentially wish to invest (Johnson, 1976). Financial intermediaries located in the region have a comparative advantage in terms of relationships maintained with businesses in the region, particularly thanks to their knowledge of local specificities and the complexity of the business culture. As a result, these financial intermediaries will be able to mobilize capital more easily in the countries where their headquarters are located and transport it to the destination country or region. Therefore, financial centers can help mitigate the effect of the distance between the countries of origin and the country of destination of the investments.

Moreover, foreign and domestic investors often syndicate with each other to compensate for the effects of geographic, institutional, and cultural distance (Dai et Nahata, 2016). Syndication involves not only mutual knowledge, either through the reputation of each party, the existence of previous joint investments, or shared contacts but also sufficient, open, and persistent communication between domestic and foreign private equity firms. Therefore, the share of investments made in syndication between national and foreign investors reflects the potential relational trust between two countries (D. Hain et al., 2016).

Bilateral exchanges between two countries increase familiarity between them, thereby reducing information costs. Investors show a preference towards countries with which they have closer professional relationships. The connectivity of the country's financial center with other financial centers can help enhance the trust-building process.

H4: The size of the financial center has a significant positive relationship with private equity fundraising.

H5: The connectivity of the financial center positively and significantly impacts private equity fundraising.

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3. Methodology:

3.1. Variables and data

The study analyses secondary data related to Morocco, between 2005 and 2021. This data range is the one available for all our variables.
We will construct a composite indicator when multiple indicators are used to compute one variable. For this purpose, we will follow the method developed by Svirydzenka (2016) and used by the International Monetary Fund (IMF) to compute the Financial Development Index. This method can be summarized into two steps:
i) Data are normalized between 0 and 1 using the min-max procedure to enable aggregation over variables expressed in different measurement units by bringing all variables to the same range:

$$N_i^t = \frac{x_i^t - \min(x_i)}{max(x_i) - min(x_i)}$$

N_i^t and x_i^t are respectively the normalized value and the underlying raw value of the indicator *i* at time *t*; min (x_i) and max (x_i) are respectively the minimum and the maximum value of the indicator *i*.

ii) Normalized data are then aggregated into the composite indicator. The aggregation is a weighted linear average where the weights are obtained from principal component analysis.

$$I^t = \sum_{i=1}^{n} w_i N_i^t$$

I^t is the composite indicator, w_i is the weight of the indicator *i*, and *n* is the number of indicators.

Weights can have a significant effect on the overall composite indicator. Several weighting techniques exist, some of which are derived from statistical models such as factor analysis or principal component analysis (PCA). Svirydzenka (2016) uses the PCA as a weighting technique for the Financial Development Index to prevent prejudging the importance of indicators in measuring financial development. Since the first component explains a higher part of the overall variance, the factor loadings on the first principal component are chosen to compute weights. Factor loadings are coefficients that relate the observed variables to the principal components, or factors.
To assign weights to each index component, the first principal component loadings are normalized to sum up to 1:

$$w_i = \frac{abs(component\ loading_i)}{\sum_{j=1}^{n} abs(component\ loading_j)}$$

abs = the absolute value

3.1.1. Dependent Variable:

We study how the size and the attractiveness of Casablanca Finance City (CFC) can affect private equity fundraising in Morocco. Therefore, our dependent variable will be the total funds raised by the Moroccan private equity funds (FR_t). Data for this variable were obtained from the Moroccan PE & VC Association's (AMIC) reports.

3.1.2. Independent Variables:

The Financial Center's Size (FCS):

To evaluate the size of the financial cluster we use the total number of the financial industry's companies and companies that support the financial activity which are based in Casablanca. Data for this variable were obtained from:

i) The Moroccan PE & VC Association's (AMIC) for data concerning the number of private equity companies and companies that support the industry (located in Casablanca).
ii) The Moroccan central bank, Bank al-Maghrib, for data related to the number of credit institutions and similar organizations (located in Casablanca).
iii) The Moroccan Capital Market Authority (AMMC) for data related to the number of brokerage firms (located in Casablanca).

The Financial Center's Connectivity (FCC):

To evaluate the connectivity of the country's financial center with other financial centers, we use the number of partnerships established between the country's financial center and other financial centers. Data for this variable were obtained from press releases issued by the Casablanca Finance City Authority.

Macro-economic environment (ME):

To assess the macro-economic environment three indicators will be used to construct a composite indicator: the Moroccan GDP growth, inflation, and real interest rate. Data were all obtained from the World Bank.
Since the lending interest rate is not available for Morocco, we use the deposit interest rate instead to compute the real interest rate.

Political, Institutional and Regulatory Environment (PIRE):

To assess the political, institutional, and regulatory environment we use the Worldwide Governance Indicators (WGI) to construct a composite indicator. Data for the Worldwide Governance Indicators are obtained from the World Bank.

Financial Development (FD):

To assess Financial Development, we compute a composite indicator using three key metrics sourced from the Moroccan Capital Market Authority (AMMC) and the World Bank:
i) Market capitalization (% of GDP): This indicator reflects the size of the stock market relative to the overall economy. Market capitalization data are obtained from the AMMC, while GDP data are sourced from the World Bank.
ii) Stock market liquidity: This indicator measures the ease with which assets can be bought or sold in the stock market. Data on stock market liquidity are sourced from the AMMC.
iii) Stock market performance (annual % variation): This indicator measures the annual change in stock market returns. Data on stock market performance are also obtained from the AMMC.

3.2. Data Processing:

Partial Least Squares (PLS) regression presents itself as a method of choice in our study for several reasons. Firstly, with a sample size of 17, traditional regression techniques may face challenges in producing robust results, particularly in the presence of multicollinearity among the independent variables. The correlation matrix of independent variables, presented in Table 2, shows a high correlation between variables. PLS regression addresses this issue adeptly by focusing on extracting latent structures that capture the maximum covariance between the predictors and the dependent variable, thereby mitigating the adverse effects of multicollinearity. Moreover, PLS regression offers flexibility by not requiring assumptions about the distribution of the data, making it particularly suitable when the normality of the distribution cannot be reliably determined. PLS regression provides a pragmatic approach for modeling complex relationships with small sample sizes and uncertain distributions

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(Kaufmann and Gaeckler, 2015; Bayonne et al., 2020), thus rendering it an advantageous analytical tool in this specific context.

Since we have a relatively small sample size of 17, we find it imperative that we incorporate the jackknife method as a cross-validation method to ensure the robustness and generalizability of the model. The Jackknife method systematically leaves out one observation at a time and computes the model's performance on the remaining data. Each data point acts as a validation set, enabling a thorough examination of the model's behavior across slightly varied datasets. Considering the small sample size and potential for variability in our data, employing the Jackknife method alongside Partial Least Squares (PLS) regression offers a rigorous approach to evaluating model performance and addressing concerns such as overfitting and data-driven biases.

The PLS regression and the Jackknife cross-validation method are run by the XLSTAT software.

The idea behind PLS regression is to generate *h* components from a table of n observations described by p variables. The equation of PLS regression model with *h* components is written as (Bastien et al, 2005):

$$y = \sum_{i=1}^{h} c_i (\sum_{j=1}^{p} w_{ij}^* x_j) + \varepsilon$$

c_i and w_{ij} are parameters that need to be estimated. ε is the residual. $t_i = \sum_{j=1}^{p} w_{ij}^* x_j$ represents the PLS components and must be orthogonal to each other.

To estimate the parameters, the PLS algorithm is used. The estimated regression equation can be written as using the original variables x_j:

$$\begin{aligned} \hat{y} &= \sum_{i=1}^{h} c_i (\sum_{j=1}^{p} w_{ij}^* x_j) \\ &= \sum_{j=1}^{p} (\sum_{i=1}^{h} c_i w_{ij}^*) x_j \\ &= \sum_{j=1}^{p} bjxj \end{aligned}$$

4. Results and Discussion:

4.1. Regression Results:

When using two components all the independent variables have a Variable Importance in the Projection (VIP) higher than 0.8 which suggests that all independent variables contribute significantly to the model (Wold, 1995).

The regression results indicate that Hypotheses 1, 3, 4, and 5 were confirmed by the data, while Hypothesis 2 was not supported.

Table 1. Summary statistics

Variable	Obs.	Obs. with missing data	Obs. without missing data	Min.	Max.	Mean	Std. Dev.
FR	17	0	17	50,000	1867,000	998,235	531,830
FCS	17	0	17	73,000	126,000	103,294	15,878
FCC	17	0	17	0,000	14,000	4,118	4,910
ME	17	0	17	0,323	0,593	0,520	0,061
PIRE	17	0	17	0,160	0,807	0,542	0,198
FD	17	0	17	0,087	0,872	0,333	0,200

Source: Authors

Table 2. Correlation matrix of the independent variables

Variables	FCS	FCC	ME	PIRE	FD
FCS	**1**	0,854	-0,586	0,745	-0,570
FCC	0,854	**1**	-0,707	0,572	-0,366
ME	-0,586	-0,707	**1**	-0,482	0,196
PIRE	0,745	0,572	-0,482	**1**	-0,508
FD	-0,570	-0,366	0,196	-0,508	**1**

Source: Authors

Table 3. Results of PLS regression analysis

Variable	Coefficient	VIP for one component	VIP for two components
FCS	11.824	1.144	0.906
FCC	72.840	1.757	1.260
ME	1465.452	0.198	0.889
PIRE	-1303.306	0.484	1.072
FD	1146.179	0.574	0.807
Constant	-961.829	-	-

Note: VIP means Variable Importance in the Projection

Source: Authors

The size of the financial center has a positive and significant effect on Private Equity fundraising. The concentration of institutional investors such as banks, insurance companies, pension funds, and mutual funds provides the private equity industry with a substantial pool of potential investors. The concentration of financial professionals in a financial center promotes networking opportunities which can encourage investment deals and partnerships.

The connectivity of the financial center also plays a significant positive role in fostering Private Equity fundraising. Being connected to other financial centers around the world can give the Private Equity industry access to a wider pool of potential international investors. Connectivity also encourages syndicated investments and partnerships which can facilitate and generate new opportunities.

The macroeconomic environment is positively linked to the amount of capital raised by the private equity industry. These findings are consistent with previous studies (Balboa and Pellón, 2003; Oberli, 2014). A growing and stable economy boosts investor confidence encouraging them to invest money in private equity funds. Positive economic indicators generally make private equity investments more attractive to investors since economic growth and stability drive the development of industries and businesses leading to more private equity investment opportunities.

Financial Development significantly enhances capital raising within the private equity industry. These findings are consistent with previous research (Black and Gilson, 1998; Gompers et al., 2008; Hain et al., 2016). Financial development implies the development of institutional investors which are considered the main source of capital for private equity funds. Moreover, a dynamic stock market is considered to be a profitable exit strategy for private equity

However, contrary to previous studies (Rondinelli, 2005; Mina, 2012, 2014; Helmy, 2013; Aziz and Mishra, 2016. Aziz, 2018), the political, institutional, and regulatory environment is negatively linked to private equity fundraising. This negative relationship can be explained by the fact that in emerging economies, such as Morocco, underdeveloped political, institutional, and regulatory environments can result in poorly governed firms. If the private equity funds manage to successfully navigate these challenges, they could unlock more investment opportunities in these markets. The higher returns that can be generated from these investment opportunities generally attract more potential investors.

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4.2. Robustness analysis:

Statistical measures are used to provide insight into the model's performance and explanatory power. The first statistical measure is the Q²cum index (Table 3) which assesses the overall contribution of the first h components to the predictive quality of the model and is generated using a cross-validation method. The exploration for new components ceases in alignment with a cross-validation method (Bastien et al, 2005). For example, in the XLSTAT software, the search for new components is stopped when the Q²cum is optimal. The second statistical measure is the R²Ycum index (Table 3) which represents the sum of the determination coefficients between the dependent variable and the first h components. It is therefore a measure of the explanatory power of the first h components for the dependent variables of the model. The third measure is the R²Xcum index (Table 3) which is the sum of the determination coefficients between the explanatory variables and the first h components. It is therefore a measure of the explanatory power of the first h components for the explanatory variables of the model.

Table 3. Quality of the model

Index	Comp1	Comp2
Q² cum	0,053	0,248
R²Y cum	0,258	0,508
R²X cum	0,488	0,773

Source: Authors

Q²cum is optimal when two components are used. Therefore, two components are used for our study. The Q²cum measure is equal to 0.248 which means our model has a predictive relevance. Q² greater than zero indicates that the observed values are accurately reconstructed and signify the model's predictive validity. Conversely, Q² below zero suggests a lack of predictive validity (Henseler et al, 2009). The R²X cum is equal to 0.773 meaning that the two components retained in the PLS regression model collectively explain 77.3% of the variance in the independent variables. This relatively high value suggests that these two components effectively capture the variability of the predictor variables and that the model has successfully extracted relevant information from these predictor, or independent variables. The R²Y cum has a value of 0.508 which indicates that around half of the variance in the dependent variable is collectively explained by the two components retained in our model. This suggests that our model effectively captures a significant portion of the variability of the dependent variable. An R² of 0.5 is generally considered significant in social science, including economics and finance, where it is difficult to perfectly model human behaviors (Roque and Cortez, 2014; D. Hain et al., 2016; Al-Smadi, 2018).

5. Discussion:

The results of this study suggest several policy implications. Moroccan policymakers need to prioritize initiatives that aim to strengthen the country's financial infrastructure. This can be achieved by implementing measures to increase the efficiency and liquidity of the capital market to ensure a profitable exit for private equity investments. Moreover, efforts should be taken to promote the growth of institutional investors which represent the main source of capital for private equity funds.

To increase the size of CFC policymakers should encourage both domestic and international financial institutions to establish a presence in the financial center through investing in infrastructure, technology, and human capital. Building stronger partnerships with other financial centers could further boost the financial center's connectivity and attractiveness.

Morocco also needs to create a more robust and dynamic economic environment. First, the country should implement monetary policies to maintain a stable inflation rate and interest rate. This will help create an investment-friendly environment. Second, it should invest in human capital through education and training to build a skilled workforce that meets the needs of a growing economy. Third, the country should improve infrastructure to facilitate trade, especially transportation and communication infrastructure. Finally, Morocco should encourage entrepreneurship and the creation of innovative businesses by launching funding and mentorship programs.

6. Conclusion:

This study examines the influence of a financial center's size and attractiveness on private equity fundraising, focusing on Casablanca Finance City (CFC) in Morocco. The findings confirm that in the case of Casablanca Finance City the size and the connectivity of the financial center, along with financial development and a favorable macroeconomic environment significantly contribute to the Moroccan private equity industry's fundraising. However, contrary to what was expected the quality of the political, institutional, and regulatory environment, as measured by the Worldwide Governance Indicators, was found to negatively impact the private equity fundraising. In markets with underdeveloped political, institutional, and regulatory environments, firms often suffer from poor governance. However, if private equity funds manage to effectively navigate these challenges, they may uncover additional investment opportunities. The potential for higher returns in these markets can therefore attract more investors.

Private equity serves as an alternative financing option for innovative businesses that lack access to traditional funding sources. Our study contributes to the expanding body of research that studies the determinants of private equity fundraising. Specifically, we explore the impact of the size and attractiveness of a financial center on private equity fundraising.

One of the main challenges encountered was the difficulty in obtaining detailed data for the analysis. Despite efforts to gather relevant information, data availability was a significant obstacle. This may have affected the depth and precision of the analysis, potentially limiting the full understanding of the relationship between the dependent and the independent variables. Future research could benefit from improved data availability and accessibility. For instance, providing monthly data would help increase the sample size, potentially making the results more accurate and robust.

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