

# Crowdfunding: New Financing Tool for Social and Solidarity Economy in Morocco

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## Abstract

Alternative forms of financing have emerged recently, such as solidarity finance, crowdfunding and participatory finance. They provide innovative solutions to the financial problems faced by economic agents wishing to carry out projects with significant social and environmental impact.

In fact, these alternative forms of financing aim at proposing unprecedented alternatives and complementary financing offers that can help the actors of Social and Solidarity Economy (SSE) to concretize their projects. For this purpose, we are developing an analysis of the major assets and the distinguished opportunities that Crowdfunding will bring to SSE actors in Morocco. We will also examine how it can become one substitute of classical finance in Morocco.

**Keywords:** social and solidarity economy, crowdfunding, classic finance, social impact, investment

## 1. Introduction

Over the past few years, Morocco has committed itself to ambitious and proactive public policies aimed at the country's socio-economic development and which are in full harmony with the challenges of globalisation. In fact, the rationale that public authorities provide behind these policies is to ensure strong and sustainable economic development.

In the same way, the royal speeches recognise the role that the Social and Solidarity Economy (SSE) can play in the sustainable development of the country, the public authorities have focused their investment efforts on this logic of sustainability in order to promote the SSE.

Indeed, in recent years we have seen several investments that have affected many sectors of SSE. However, it should be noted that the development of this sector is conditioned by several factors, among which we find the optimal use of the financial resources that are and will be mobilised in its favour. To this end, this research, attempts to illustrate the added value that crowdfunding can bring to further develop SSE in Morocco. Two central questions may be raised in this regard:

Could crowdfunding be an effective alternative to finance and develop the solidarity and social economy in Morocco? Would the products offered by crowdfunding allow for more flexible and accessible financing for SSE actors in Morocco?

### 1.1 Research Hypothesis

H1: The crowdfunding products present an effective solution for the development of the social and solidarity economy in Morocco.

H2: The types of products offered by crowdfunding in Morocco do not present any added value for the development of the social and solidarity economy.

This article is structured as follows: To begin with, the concept of "crowdfunding" is presented with the aim of explaining its different modes of operation offered to economic agents.

Equally interesting is the historical evolution of this new financing alternative, its different actors as well as its main products. The second part of this article focuses on the role that crowdfunding could play in the development of SSE in Morocco. We conducted an empirical investigation in order to study the impact of Crowdfunding on SSE in

Morocco.

## **2. Crowdfunding: A New Financing Alternative in Morocco**

### *2.1 Literature Review*

Crowdfunding is a recently coined term in which "crowd" denotes 'the large public' and "funding" refers to the operations of financing. Therefore, the concept of crowdfunding is a form of crowdsourcing. The latter uses the general public to get new ideas, suggestions and solutions to develop activities in favour of entrepreneurs.

The objective of crowdfunding is simply to raise funds, generally small amounts, from a rather large, number of investors in order to finance innovative, cultural projects with strong social and economic impacts. It therefore helps to strengthen the financial inclusion of entrepreneurs, to support economic and social development and to lead collective savings into new opportunities. To perform a crowdfunding operation, it is imperative to go through Internet platforms allowing putting in contact the project holders, those who ask for financial aid, with the financial backers, those who wish to invest or subsidize the entrepreneurs' projects. The "Crowdfunding" concept was first invented in August 2006 by Michael Sullivan.

When we explore the literature on crowdfunding, we realize that there is no universal and precise definition of this concept. According to Lambert & Shwienbacher (2010), crowdfunding is defined as "an open call, primarily through the Internet, for the provision of financial resources, in the form of a donation in exchange for some form of reward to support specific purpose initiatives". According to (Bechter & al., 2011), crowdfunding refers to an approach to raising capital for a project or business by appealing to large numbers of people for small (\$1 - \$100) contributions. For its part, Lynn, (2012) describes crowdfunding as a new extension of social media that provides funding for a variety of businesses. In the opinion of Ramsey (2012), the concept is defined as a fundraising process to help turn promising ideas into commercial realities by connecting investors with potential supporters. On the other hand, Powers (2012), crowdfunding refers to a financial mechanism that allows businesses to start up by soliciting funds from the general public through websites. For their part Byrnes, Wang & Ranganathan (2012), argue that crowdfunding is a new, internet-based method of fundraising in which individuals solicit contributions for projects on specialised crowdfunding sites. From all these definitions, we deduce that crowdfunding can be seen as an approach, a mechanism, a method and a process, which makes it possible to raise funds from savers, through platforms, to finance and support project leaders. Moreover, according to Hemer (2011) and (Gerber & al., 2012), crowdfunding is a financing method mainly intended for project leaders who encounter constraints in raising funds in the early stages of a project that is too risky and complex in the eyes of the banks. Crowdfunding is currently seen as a new financing alternative, which has become increasingly popular in several countries around the world. Specifically, a new model for financing projects on the Internet is being put in place. Crowdfunding, as a new method of financing, will be operational via internet platforms enabling direct and transparent contact between project leaders and donors. Crowdfunding in Morocco will take three forms: crowdlending, Crowdequity and donation crowdfunding.

### *2.2 Historical Evolution of Crowdfunding*

Historically, crowdfunding is not a very recent form of financing. In fact, many projects have been funded by appealing to the general public. For instance, the pedestal of the Statue of Liberty in New York, was financed in 1888 by micro-donations from Americans. Some \$400.000 was raised to enable the construction of this famous monument. Even before that, the famous composers Beethoven and Mozart repeatedly appealed to the general public to finance and perform some of their works. In Morocco, there has also been a major fundraising campaign among the public to build the Hassan II Mosque in Casablanca. Indeed, more than 3 billion Dirhams were collected after the late Moroccan King Hassan II announced that the construction of the mosque would be financed by popular subscription.

However, the advent of the Internet has exponentially accelerated crowdfunding thanks to the exchange platforms between project leaders and funders. KIVA (Note 1) is the first site in the world that had proposed an interface, the purpose of which is to collect donations in order to support the projects of young people living in a developing country. The site was created in 2005 and the contributors are mainly microfinance financial institutions and non-profit associations. IndieGogo (Note 2) is the first platform in the world to have generalised the crowdfunding model. It has contributed to the realisation of 800.000 innovative ideas since 2008. It currently brings together more than 9 million donors from 235 territories around the world. Several other platforms have subsequently emerged.

Take Kickstarter (Note 3) as an example; the platform is based in the United States, which has rapidly built up a good reputation throughout the world because of the diversity of the projects it proposes and the size of the amounts it manages to collect. Until Jun 2021, Kickstarter was able to raise US\$5.913 billion to fully fund 203.911 projects

with 19.851.868 contributors with 73.297.871 contributions. Another example is KissKissBankBank (Note 4), the French platform which, since 2009, has raised 113.315.128 Euros to finance a total of 22,825 projects. The project categories as well as the amount of funds raised are listed in the table below:

Table 1. Statistics of crowdfunded projects in 2020 (KissKissBankBank Platform)

Category	Funds raised	Succeful projects	Number of contributions	Average Contributions
Solidarity	19.399.234 €	4.226	274.413	71 €
Music	16.775.273 €	3.668	285.523	59 €
Écology	15.653.092 €	2.227	222.319	70 €
Health & Education	13.229.577 €	2.782	190.279	70 €
Art & photo	12.681.022 €	3.147	203.435	62 €
Books	9.368.174 €	1.193	168.257	56 €
Films & video	9.314.299 €	1.777	150.627	62 €
Foods	9.082.804 €	1.214	125.019	73 €
Sport	9.037.035 €	2.256	119.526	76 €
Fashion & design	7.332.932 €	1.199	84.820	86 €
Theatre and dance	6.308.416 €	1.809	100.396	63 €
Journalism	6.056.944 €	525	108.735	56 €
Agriculture	4.931.604 €	684	66.239	74 €
Crafts	4.824.525 €	800	62.889	77 €
Heritage	3.350.132 €	574	45.758	73 €
Technology	2.792.407 €	324	34.985	80 €
Comics	1.861.846 €	188	34.491	54 €
Games	954.310 €	132	14.010	68 €

Source: KissKissBankBank- Crowdfunding Platform in French.

### 2.3 Actors and Types of Crowdfunding

As mentioned in the definition section, crowdfunding is a very recent method of financing which makes it possible to finance any type of project with a social and economic impact on society by relying on financial contributions from the general public without using the traditional financing circuit (banks or other financial institutions). However, the financing of projects via crowdfunding requires, in addition to the internet, the intervention of certain economic actors, in particular: The project leader, The contributor, The Crowdfunding platform.

The platforms play the role of intermediaries and allow direct contact between the investor and the project leader. They accompany and explain the crowdfunding process to stakeholders so that both understand the risks and responsibilities of the operations. Indeed, control of the process, whether on the project leader's or investor's side, helps to avoid any slippage or malfunction of the operation. We also point out that there are two types of crowdfunding platforms, specifically speculative and non-speculative platforms. The speculative platforms represent a complement to traditional finance (banking circuit) and offer an alternative for the financing of very small and medium-sized enterprises. While non-speculative platforms are differentiated by the solidarity of investors.

Table 2. Differences between speculative and non-speculative platforms

Speculative Platform	Non-Speculative Platform
-The loan with interest: the investor demands the repayment of his loan with interest;	- Donation without counterpart: in this case the general public finances projects of a philanthropic nature;
- Investment in capital: the investor has the possibility to invest his savings through the subscription of securities or participation in the capital of the company;	- Donation with counterpart: the investor requires a symbolic and non-cash counterpart;
- Bond investment: the investor finances the project through the subscription to the bond issued by the project holder.	- Solidarity loan: loans are granted from one person to another without any interest.

Source: Authors.

Moreover, according to a study by Afrikstart (Note 5), the African market includes 57 platforms that raised a total of US\$32.3 million in 2015. South Africa alone had 21 platforms, followed by Nigeria with 9 and Morocco with 4. The money raised by these platforms enabled the financing of SMEs (\$17.7 million) and real estate projects (\$13.6 million). The balance sheet of all crowdfunding activities carried out in Africa reveals that in 2015, 32% of the projects financed have a strong social impact, followed by entrepreneurship with 21% and then creative projects with a share of 5%. In addition to this, the annual growth rate in 2015 is estimated at 101% (Note 6) and the potential for financing through crowdfunding is estimated by the World Bank at nearly 2.5 billion dollars by 2025 (Note7).

As for the types of crowdfunding, we distinguish four main categories:

**Simple donation (no quid pro quo):** the platforms that encourage this type of crowdfunding are part of the Social and Solidarity Economy and try to propose projects whose bearers are excluded from the banking system and living in precarious situations, or projects with the objective of local development such as the construction of schools, hospitals, etc.

**Donation with counterpart:** this is generally associated with projects of a socio-cultural nature. In fact, the project leader receives donations in return for a non-financial reward. For example, the contributor can buy t-shirts bearing the name of a singer in advance to enable him or her to finance the recording of his or her album.

**The loan:** After obtaining a loan, the contributor expects repayment of the principal with or without interest. Indeed, the investors can recover their money and keep it for themselves or use it to finance another project. We specify that interest-free loans are practically intended for actors of the solidarity and social economy. It is worth mentioning solidarity loan platforms can play the role of a complement to microcredit by establishing partnerships with microcredit institutions. We cite the example of the American platform KIVA, which enables this type of crowdfunding.

In the case of the interest-bearing loan mode, the investor selects the project that suits him in terms of profitability while seeking to minimise the risk. In fact, the interest rate is set based on an interest rate that comprises a base rate plus a risk premium, the latter being defined according to the feasibility of the project and the risk of default of the counterparty. The interest rates applied are lower than the rates charged by banks.

**Investment:** this category of crowdfunding is based on the investment of the general public in the capital of the company. It is, in fact, an equity investment Hornuf & Shwienbacher (2014). The contributors thus become shareholders in the company in which they have invested.

### 3. The Legal Framework of Crowdfunding in Morocco

Law n°15-18 defines a scheme of crowdfunding activities in Morocco and the types of financing it allows: Crowdlending, Crowdequity and Donation Crowdfunding.

#### 3.1 The Legal Procedures of Crowdfunding in Morocco

Law n°15-18 aims at regulating the framework of crowdfunding in Morocco, by defining procedures concerning:

- The creation of the status of manager of collaborative funding platforms (CFP);

- The specification of the mechanism for approving SFCs and supervising collaborative financing activities;
- The definition of procedures and terms for the creation and operation of CFPs;
- Defining the commitments and obligations of the SFC, particularly in terms of public information, publicity and reporting;
- Defining the rules that apply in terms of prior verification of projects to be financed, securing transfers and protecting contributors;
- The establishment of ceilings in terms of the amounts to be raised per project and per contributor for the different forms of financing;
- The definition of specific rules for each of the three forms of collaborative funding (Note 8).

We specify that after being adopted in the Council of Government in August 2019, and after two long years in the legislative circuit, the law 15-18 concerning Crowdfunding became official in Morocco, on March 2021.

### *3.2 Actors in Crowdfunding in Morocco*

The activities of crowdfunding in Morocco are governed by law n °15-18. This law requires the intervention of the following actors:

- The project leaders;
- Collaborative financing companies (SFC);
- Collaborative financing platforms (PFCs);
- Central Bank of Morocco (BAM);
- Moroccan Capital Markets Authority (AMMC).

In fact, the main role of a CFS is to manage one or more PFCs. It can also provide advice to project leaders, advertise the various projects presented on the platforms under its control, and manage fundraising on behalf of the contributors. It should be noted that the procedures, terms and conditions for carrying out these activities are defined by regulation based on proposals, depending on the situation, from BAM or AMMC.

It should be noted that the activity of SFCs specialising in "loan category" or "donation category" crowdfunding operations is directly controlled by BAM. Whereas those whose activity falls under the "investment category" are directly controlled by AMMC. As far as the amount of financing is concerned, the law specifies that the funds raised in favour of the same project, within the framework of crowdfunding, are capped at 5,000 KDH. Thus, the contributions of a natural person, for each project, cannot exceed 250 KDH and at the end of a calendar year, cannot exceed 500 KDH. Moreover, any crowdfunding operation in the donation category exceeding 500 KDH must be authorised by Central Bank of Morocco.

## **4. Crowdfunding and Development in Morocco**

In order to meet the challenges related to the promotion of entrepreneurship in Morocco, especially in the SSE sector, crowdfunding seems to be an effective financing tool that can complement the existing offers and sources of funding in Morocco. Due to its digital nature, crowdfunding is today a new financing tool that should involve the entire population, including the Moroccan diaspora, in the economic and social dynamics; let us specify over five million Moroccans are abroad and can also raise funds through crowdfunding platforms to finance projects with a social and economic impact. In addition, crowdfunding also has its place in various public policies and strategies that advocate for inclusive economic development. As evidenced by the publication of the law No. 15-18 of crowdfunding, in March 2021, in the official bulletin.

Regarding its relationship with the social and economic development of the country, crowdfunding will channel collective savings towards new investment opportunities and mobilize alternative sources of funding to support young project holders, very small, small, and medium enterprises in Morocco.

## **5. The Impact of Crowdfunding on the Social and Solidarity Economy in Morocco: An Empirical Study**

### *5.1 Methodology*

In order to respond to our research question which targets the study the impact of crowdfunding on the social and solidarity economy in Morocco, we used a methodology based on documentary research as well as a quantitative survey via a questionnaire.

## 5.2 Literature Review

By analysing several documents related to the Crowdfunding concept, we were able to obtain relevant information which helped us to write the first part of this article and to compile a bibliography. It should be noted that the resources used are mainly books, reports and scientific articles. In addition to the documentary research, we also relied on information from the platforms that carry out the activities of the Crowdfunding.

## 5.3 Quantitative Analysis

We carried out a survey through a questionnaire which includes a series of questions asked in a structured and logical manner. The target population consists mainly of directors and managers operating in the banking and financial sector, civil servants, entrepreneurs, professors of economics and management and PhD students in economics and management. The objective is to collect statistical data that enable measuring the possible impact of crowdfunding on SSE in Morocco.

## 6. Presentation of the Results

We were able to collect 40 responses from a sample of 28 women and 12 men, with the following age structure: The age of 21 persons varies between 18 and 25 years old; The age of 12 persons is between 26 and 35 years old; 4 persons are between 36 and 45 years old, and; 3 persons are over 45 years old. Concerning the professional situation, our sample includes 4 entrepreneurs, 5 civil servants, 8 employees and 23 PhD students, one of whom is a civil servant and the other two work in the banking and financial sector. It is important to note that the banking and financial sector is ranked first, as the 12 people in our sample are managers and financial directors. Next comes the Services & Administration sector, this time with 5 people. In 3rd place is the Trading sector, which is represented by 2 people. The table below shows the sectors of activity in which each member of our sample is engaged.

Table 3. Members of our sample by sector of activity

Sectors of activity	Number of employees	Percentage
PhD Student- Researchers*	15	37.5
Finance - Banking - Insurance	12	30.0
Services – Administration	5	12.5
Import - Export – Trade Intermediary	2	5.0
Agrifood, Horticulture, Livestock	1	2.5
Food and beverages	1	2.5
Building and Public Works	1	2.5
IT – Telecommunication	1	2.5
Paper - Cardboard – Printing	1	2.5
Coatings- Painting – Surface treatment	1	2.5
Total	40	100

Source: survey conducted by authors.

(\*) Not concerned by the classification by sector of activity.

The findings from the survey show that 77.5% of our sample, i.e. 31 respondents knows the concept of the solidarity and social economy. For this purpose, we mention that SSE includes two terms "social economy" and "solidarity economy". The first term refers to associations, cooperatives, mutual societies and foundations. The second term refers to organisations that aim to be of high social utility, for example those that give priority to hiring people in difficulty or helping them to create an activity with a social impact, or by practising forms of exchange that impact high social and environmental.

Furthermore, after analysing the results of our survey, it turned out that 18 people in the sample had already heard of Crowdfunding. This is indeed:

- 8 PhD students, 7 of whom are women;

- One woman working in the food and beverages sector;
- One man working in the building and public works sector;
- 2 men and 3 women working in the banking sector;
- An entrepreneur working in the painting sector, and;
- 2 professors of economics and management.

Table 4. Knowledge of crowdfunding, its forms and its legal law in Morocco

		Knowledge of "Crowdfunding"	
		No	Yes
Knowledge of the legal framework of crowdfunding and its main forms	No	22	7
	Yes	0	11

Source: survey conducted by authors.

Table 4 shows that only 11 of these people are aware of the legal framework of crowdfunding in Morocco and its different forms.

With regard to the participants' perception of the impact of crowdfunding on the development of the solidarity and social economy in Morocco is concerned, the results of our survey are optimistic.

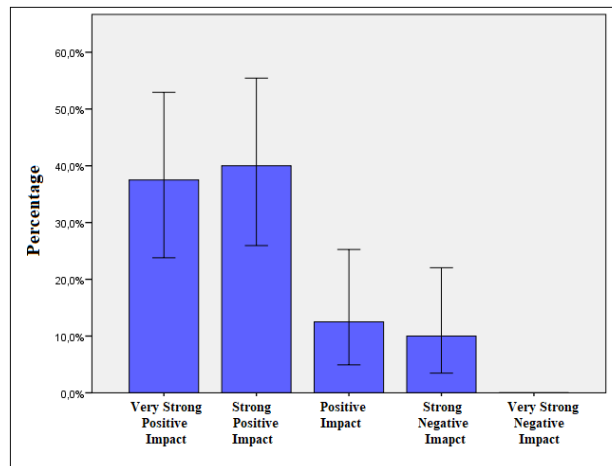


Figure 1. Impact of crowdfunding on SSE in Morocco

Source: survey conducted by authors.

As illustrated in the graph above, 37.5% of our sample believes that Crowdfunding would have a very positive impact on the development of the activities of the solidarity and social economy in Morocco. 40% of them foresee a positive impact and only 10% believe that this new funding alternative would have a negative impact on SSE in Morocco.

In fact, by type of products, the same survey shows that "Crowdequity" would have more impact, followed by "Donation crowdfunding" and then "Crowdlending".

Table 5. Relative impact of crowdfunding products on SSE in Morocco

Forms of Crowdfunding in Morocco	Number of people believing that this product has more impact on SSE in Morocco
Crowdequity	14
Donation Crowdfunding	9
Crowdlending	7
Total *	30

(\*) The other 10 persons are indifferent between the 3 forms and believe that they would have the same impact on the development of SSE.

As mentioned in the first part of this article, the Moroccan law on crowdfunding requires that the envelope allocated to each project within the framework of collaborative financing must not exceed 5 million dirhams. Accordingly, the present study results from the survey show that only 30% consider that the funds raised will be sufficient to start and develop a project in the framework of the social and solidarity economy.

Table 6. Analysis of the impact of crowdfunding on SSE according to the envelope allocated to the projects and the level of knowledge of crowdfunding and SSE by the sample

		The crowdfunding envelope is sufficient to develop SSE in Morocco?							
		Insufficient				Sufficient			
		Knowledge of SSE				Knowledge of SSE			
		NO		YES		NO		YES	
		Knowledge of "Crowdfunding"		Knowledge of "Crowdfunding"		Knowledge of "Crowdfunding"		Knowledge of "Crowdfunding"	
		No	Yes	No	Yes	No	Yes	No	Yes
		Number	Number	Number	Number	Number	Number	Number	Number
Impact of crowdfunding on SSE	Very Strong Positive Impact	1	0	5	5	0	0	1	3
	Strong Positive Impact	2	0	4	5	2	0	0	2
	Positive Impact	0	0	2	1	2	0	0	0
	Stong Negative Impact	1	1	1	0	0	0	1	0
	Very Strong Negative Impact	0	0	0	0	0	0	0	0

Source: survey conducted by authors.

The analysis of the results shows that 12.5% of the sample believes that crowdfunding would have a positive impact on SSE. This first category knows about SSE, Crowdfunding and for it the 5 MDH are sufficient to set up a project. According to the same survey, 27.5% of the sample believes that crowdfunding would have a positive impact on SSE. This second category is familiar with the SSE sector, Crowdfunding, but considers that the 5 MDH are not enough to start a project.



## 7. Discussion

Based on the results obtained from the survey responses crowdfunding would have a positive impact on the development and growth of the social and solidarity economy in Morocco because of its capacity to replace traditional finance in terms of financing. In addition, we concluded that crowdfunding could be an alternative financing option for SSE actors or any other economic agent that encounters difficulties in financing activities with an economic and social impact. In this respect, let us recall that crowdfunding in Morocco offers 3 types of products:

- Donations (with and without counterpart);
- Loans (practically with an interest rate lower than that offered by the banks);
- Crowdequity (the raising of funds through investment in the company's capital).

We specify that, the average impact of crowdfunding on SSE in Morocco is estimated at 1.95 on a scale ranging from 0 to 5, with a standard deviation equal to 0.95. This result is considered satisfactory.

## 8. Conclusion

Nowadays, crowdfunding presents itself as a real alternative of financing which could contribute to the development of the structures of the social and solidarity economy in Morocco. It is essentially intended for Start-ups', Very Small Companies, Cooperatives, Associations and any other economic agent having difficulties in raising funds in the early stages of a project that is too risky and complex in the eyes of the banks.

In fact, the different products of the Crowdfunding will present an innovative and more relevant response to the multiple economic, social and environmental challenges in order to succeed in Morocco's societal project which aims at catching up with sustainable development.

The three forms of Crowdfunding (crowdlending, Crowdequity and donation crowdfunding) will strengthen the financial inclusion of SSE actors, support social and economic development in Morocco and lead collective savings towards new opportunities. However, the success of this new financing method is conditioned by the existence of certain elements, notably the implementation of a framework law for Crowdfunding.

In view of the above and based on the results obtained from our survey, we confirm the first starting hypothesis that crowdfunding products will present an effective solution for the development of SSE in Morocco.

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## Notes

Note 1. Kiva is an international nonprofit, founded in 2005, in San Francisco, with a mission to expand financial access to help underserved communities thrive. [www.kiva.org](http://www.kiva.org)

Note 2. Indiegogo is a crowdfunding website founded by Danae Ringelmann, Slava Rubin, and Eric Schell in 2008. It is based in San Francisco, California. [www.indiegogo.com](http://www.indiegogo.com)

Note 3. Kickstarter is an American Company specialized in crowdfunding, founded in 2009. [www.kickstarter.com](http://www.kickstarter.com)

Note 4. KissKissBankBank is a French Company specialized in crowdfunding, Founded in 2010 by Omblin Le Lasseur, Vincent Ricordeau and Adrien Aumont. [www.kisskissbankbank.com](http://www.kisskissbankbank.com)

Note 5. Afrikstart is an African Crowdfunding Platform set to provide Funding, training and mentoring to entrepreneurs in Africa. [www.afrikstart.com](http://www.afrikstart.com)

Note 6. We have collected these statistics from the Massolution Crowdfunding Industry 2015 Report. [www.smv.gob.pe/Biblioteca/temp/catalogacion/C8789.pdf](http://www.smv.gob.pe/Biblioteca/temp/catalogacion/C8789.pdf)

Note 7. We have collected these statistics from the Report “Crowdfunding’s Potential for Developing World, Report” by World Bank published in 2013. [www.infodev.org/infodev-files/wb\\_crowdfundingreport-v12.pdf](http://www.infodev.org/infodev-files/wb_crowdfundingreport-v12.pdf)

Note 8. Law n °15-18 concerning crowdfunding in Morocco.

Note 9. <https://www.capital.fr/economie-politique/crowdfunding-1316742>

Note 10. <https://www.kiva.org/about>

Note 11. <https://www.kickstarter.com>

Note 12. <https://www.indiegogo.com>

Note 13. <https://www.kisskissbankbank.com>

Note 14. <https://www.afrikstart.com>

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