

Chapter 6

The Crowdfunding as an Innovative Tool for the Economic and Social Promotion of Local Authorities in Morocco: Barriers and Opportunities



Abdelali Ezziadi  and Mohammed Fikri 

Abstract Crowdfunding or crowd financing is a financial practice that began in 2008 in the United States and is increasingly popular around the world. According to a World Bank study crowdfunding could represent a potential of \$93 billion per year by 2025 for developing countries. For the Middle East and North Africa region, this potential is estimated at \$5.6 billion per year by 2025”. Insofar as it relies on the Internet, crowdfunding is an innovative alternative to conventional sources of financing, which brings together three players—the project sponsor, the public and a collaborative financing company—and is based on three sources of funding: grants, loans and capital investment. In Morocco, the legal framework for crowdfunding has just been instructed by the promulgation of Law 15-18 in 2020 and its implementing decrees, thus laying the foundations for a collaborative finance industry with very significant potential. Moreover, a strong demand for crowdfunding in Morocco remains unsatisfied. Although professionals in the sector in Morocco are fairly confident about the evolution of crowdfunding, it must be said that the growth of this type of financing is linked to a number of factors that contribute to its development.

Keywords Crowdfunding · Social development · Opportunities · Barriers

A. Ezziadi (✉)

Polidisciplinary Faculty of Sidi Bennour, University of Chouaib Doukkali, El Jadida, Morocco
e-mail: ezziadi.a@ucd.ac.ma

M. Fikri

Faculty of Economic and Management, Hassan I University, Settat, Morocco

6.1 Introduction

Since the year 2000, Morocco has been in a process of advanced regionalization. A strategic choice that aims to better convergence and targeting of public policies and a reduction of territorial disparities. Thus, local authorities, with a thorough knowledge of their areas of action, have a central role to play in optimizing the limited and insufficient resources at their disposal to better meet citizens' expectations.

To meet the financing needs of local authorities' public projects, crowdfunding is an innovative alternative to conventional funding sources. Developed in the United States in 2008, this collaborative financing represents a potential of \$5.6 billion per year by 2025 for the Middle East and North Africa region (World Bank 2013).

In Morocco, the legal framework for crowdfunding has just been instructed by the promulgation of the law 15-18 in 2020 and its implementing decrees, thus laying the foundations for an industry with a very important potential. Moreover, a strong demand for crowdfunding in Morocco remains unsatisfied (Hemdane 2016).

In this context, the central objective of this work is to analyze the contribution of crowdfunding to economic and social promotion at the local level, while highlighting the obstacles and opportunities associated with this mode of financing. To this end, the state of the art on the development of crowdfunding in the public sector around the world will be presented. Then, we try to highlight the state of the art on this practice in Morocco, and more particularly in the public sector. And finally, based on secondary data, we highlight the obstacles and opportunities associated with collaborative funding in Morocco.

6.2 Details on Crowdfunding

In the following lines, we first try to define the term crowdfunding and briefly relate the history of its emergence. Next, we shed light on its practices at the foreign level.

6.2.1 *Definition and Emergence of Crowdfunding*

In reviewing the literature, we did not actually find a single, universal definition of the concept of crowdfunding. Nonetheless, the definitions formulated in this regard share a number of commonalities.

Generally speaking, crowdfunding consists of raising funds by collecting small amounts of money from the general public through the internet and social media. To this end, three categories of stakeholders are linked through this method of financing: project leaders, electronic platforms and a multitude of funders. The role of the internet therefore appears crucial in crowdfunding. In fact, it acts as a multiplier of possibilities.

Anglicism crowdfunding took off in the United States during the financial crisis in 2008 (Raguet and Le Teno 2017, p. 20), where banks no longer easily financed companies, especially for projects that are very risky and do not have a logic of financial profitability.

To this end, the birth of crowdfunding was initially motivated by the need to finance artistic and innovative projects. As Lefèvre and Popescu (2015, p. 32) had clearly pointed out, with this type of financing, project leaders in the arts industries were no longer confronted with financing constraints. Subsequently, crowdfunding was strongly redirected towards startups. Some platforms are becoming specialized in financing them, such as “Seedrs”, which specifically targets European startups. Thus, collaborative financing is becoming increasingly widespread (Asli and El Idrissi Slitine 2013, p. 246), particularly in developed countries, thanks to renowned platforms such as Kickstarter, Kisskiss BankBank and Indiegogo.

In general, we distinguish three models of crowdfunding: reward-based crowdfunding or donation-based crowdfunding. The latter is lending, which is itself divided into two types: interest-free and interest-bearing (lending), and thirdly, we have equity crowdfunding.

In this vein, we would like to take this opportunity to underline something very important, which is that crowdfunding and Islamic finance generally share certain general principles in common, such as profit sharing and risk pooling.

6.2.2 *International Crowdfunding Practices*

Starting in 2008, crowdfunding has flourished internationally, especially in developed countries where it has been remarkably popular (Rhabra and Guerguer, 2015, p. 1).

In Africa, according to the Agence Française de Développement (2017), the most dynamic countries in terms of creating platforms are South Africa and Kenya. The Anglo-Saxon countries remain the leaders in collaborative financing and are becoming more and more involved in the creation of platforms place far ahead of Asia, which has recorded strong growth since 2012. On the other hand, European countries have lagged behind the Anglo-Saxon countries. This is basically explained by overly penalizing prudential rules and legislation that has been slow to be put in place.

For example, in France, crowdfunding was not properly regulated until 2014. According to the crowdfunding barometer in this country (KPMG, 2019), this method of financing has confirmed its momentum, with a 20% increase in funds raised in 2018. From 2013 to 2018, fundraising was multiplied by more than eleven times, from EUR 36 million to EUR 402 million. Another notable trend is the number of projects funded in 2018, which increased by 38% to 33,381 projects funded.

6.3 State of Pay on the Practice of Crowdfunding in Morocco

After having briefly discussed collaborative financing practices at the international level, we will talk this time about collaborative financing practices at the Moroccan level, while addressing a few clarifications regarding the corresponding law.

6.3.1 *Crowdfunding Practices in Morocco*

In the Moroccan context, there have been a number of significant events related to collaborative financing. In March 2016, the first conference on crowdfunding took place in Rabat, supported by the U.S. Embassy and under the patronage of the Moroccan Ministry of Economy and Finance. In May 2017, the Moroccan Federation of Crowdfunding (MFC) was created in collaboration with the Ministry and other actors in the collaborative financing ecosystem. Subsequently, thanks to some activism, a draft law on this form of financing emerged. On March 21, 2018, the Ministry of Economy and Finance submitted it to the General Secretariat of the Government. Thus, despite these multiple attempts, crowdfunding in Morocco remains underdeveloped in comparison to other foreign countries. In fact, until this moment, it does not yet have a legal and regulatory framework adapted to its development.

Despite this legal vacuum and legal constraints in Morocco, some platforms have been able to emerge, we have: Afineety, Smala & Co, Cotizi, Atadamone and Wuluj (<http://afineety.com/>, <http://www.smalaandco.com/>, <http://www.cotizi.com/>, <http://www.maroc.ma/fr/discours-du-roi>, <https://www.wuluj.com/>). For example, Smala & Co is a company under French law operating on Moroccan territory.

It has just suspended its activities due to a French regulation which was implemented on 01.01.2017 and whose objective is to strengthen the fight against money laundering. The said platform was able to finance 12 projects and collect MAD 246,000. In addition, a platform is one hundred percent Moroccan, it is in fact Cotizi. It is specialized in collecting donations and launching petitions. It did not leave Morocco by adapting to its legal context.

In fact, there is no lack of enthusiasm for collaborative funding in Morocco. This observation can be motivated through a multitude of illustrations, of which we only quote the following experience: in 2014, MAD 302,688 was raised on Cotizi within the framework of the project “MAD 100 to help”. The Moroccan population was mobilized to help the victims of the floods that devastated the southern regions.

6.3.2 Law Number 15-18

It is a text that provides a framework for the activity of Collaborative Finance Companies (CFCs) in their various forms. It then provides for several provisions, including, for example (Loi 15-18 relative au financement collaboratif n.d.): the creation of the status of collaborative financing platform manager, represented by the SFC; the definition of specific rules for each of the three aforementioned forms of collaborative financing.

However, this project has been widely criticized by platforms operating in Morocco. A director of operations within one of the latter has already pointed out to the press that the text of the project is modelled more on French legislation. The latter requires more control, which will make the daily management of the company more cumbersome. In short, the actors of collaborative financing hope that after the passage through the legislative circuit, the final version of this project is well cared for and meets the specificities of the Moroccan context.

In this context, the following central question arises: Why is this law still dragging in the Moroccan legislative circuit? Thus, among the possible explanatory hypotheses of this delay, we underline the following: crowdfunding can be possibly regarded by traditional banks as a major competitor. However, these two modes of financing are obviously complementary and do not actually target the same market.

6.4 Contributions of Crowdfunding for Social Entrepreneurship

Before addressing the topic of crowdfunding's contributions to social entrepreneurship, it's considered crucial to provide a brief overview of the notion of social entrepreneurship and its specificities.

6.4.1 Social Entrepreneurship: Elements of Definition

Social entrepreneurship is actually still young, but its practice is older. According to Asli and El Idrissi Slitine (2013), this concept is defined as "... any private initiative, led by one or more people advocating for change, combining economic efficiency and positive societal impacts, innovating in many ways, distributing few benefits and reinvesting in the societal mission".

The best-known international example of social entrepreneurship remains that of Bangladeshi Muhammad Yunus, who created the first microcredit institution the Grameen Bank, an idea for which he was awarded the Nobel Peace Prize in 2006. The mission of the Grameen Bank has been the eradication of poverty. Yunus is now nicknamed "the banker of the poor".

To get around the meaning of “social entrepreneurship,” we have used the characteristics of social enterprise. In their article, Asli and El Idrissi Slitine (2013) rightly distinguished eight specificities. The diagram below highlights them:

For example, the characteristic “participatory governance” refers to governance that adopts a participatory dynamic involving the various parties concerned by the activity.

6.4.2 Contributions of Crowdfunding for Social Entrepreneurship

Given the above, we note that the social component is pervasive in both areas: social entrepreneurship and crowdfunding. This means that there is indeed a shift from the social to the social, and this through the financing by the general public of innovative projects with a social impact. Therefore, these two areas have a common objective which can be summed up in the positive impact on society.

In this perspective, several researchers have demonstrated that there is an intimate relationship between the social and human aspect of the project and its financing by the public. Among these authors, we cite: Belleflamme et al. (2010); Agrawal et al. (2011); Bauer-Leeb and Lundqvist (2012); Lehner (2013); Calic and Mosakowski (2016); and others. This thesis proves that contributors are more sensitive to the ideology and legitimacy of projects.

After digging into the literature on this topic, we were able to distinguish a diversity of crowdfunding contributions to social entrepreneurship. The following list, which is of course not exhaustive, succinctly identifies the most important contributions:

- Timeliness and accessibility of funding;
- Transparency and communication on the social project;
- Commitment to social entrepreneurship;
- Encouragement of patronage;
- Channeling of collective savings;
- Follow-up by subscribers;
- Financial inclusion;
- Diversification of financing;
- Credibility of the project;
- Strengthening of the social fabric;
- Frenzy of a diverse community around a social project;
- Increasing the legitimacy of the social project;
- Increase in trust and security;
- Improvement of the performance and creativity of the project;
- Democratization through the crowd selection process;
- Improvement of the notoriety and the brand image of the project;
- Attraction of philanthropic contributors (especially the Moroccan Diaspora);

- Liberation of energies and initiatives of young people with social projects; and
- Unlocking the funding system for associations.

In short, the characteristics of speed and accessibility represent added value compared to traditional funding (Bessi re and St phany 2017). Also, the platforms, especially the donation platforms, open up extremely interesting perspectives, for development policies in particular, in order to develop entrepreneurial projects with high societal added value, for example in the fields of crafts, education, energy or agri-food.

The small amounts contributed, the fun aspect and the concrete and personalized side of the support contribute to the current success of the donation campaigns with or without reward, with a large number of people mobilized. Again, the crowd selection process is seen as more democratic (Lehner 2014).

Collaborative funding contributes to the credibility of projects and also serves as a steppingstone to other kinds of funding (Majid and Neysen 2017). Indeed, successful crowdfunding gives credibility to the project with banking or credit organizations, which subsequently facilitates the process of diversifying funding. In addition, the general public aspect reinforces the community dimension that social entrepreneurs enjoy through their crowdfunding, which again gives them a certain legitimacy. The crowdfunding process, which is perceived as more democratic, creates a certain excitement around social projects. This can lead to an increasingly diverse community.

6.5 Barriers to the Development of Crowdfunding in Morocco

Although crowdfunding is a practice that is becoming more and more known by young and ambitious Moroccan entrepreneurs, several barriers are hindering its expansion in the kingdom. These barriers are both stakeholders' confidence and financial sustainability (Alami and Ouezzani (2015); Markria & Bouhmouch(2017)).

6.5.1 Barriers Related to Lack of Financial Sustainability

Although crowdfunding funds are becoming increasingly important in Morocco, the business model of the platforms currently in place is not financially attractive enough for an entrepreneur. Indeed, these are essentially "marketplace" platforms that link demand and supply by means of commissions that do not exceed 6% of the funds collected. This commission rate, which is quite high, is limited by the expenses necessary to obtain an effective user as well as transaction fees, which are relatively high in Morocco. On the other hand, these platforms can propose only a limited

number of projects to be financed for fear of having too much offer and thus the failure of fundraising campaigns.

6.5.2 Lack of Stakeholder Confidence

One of the main specific challenges facing crowdfunding services in Morocco and around the world is the lack of trust among stakeholders. Indeed, with the multiplication of scams on the Internet, donors are quite distrustful of project leaders as well as of the platforms that act as intermediaries between them and donors. Also, in the case of problems, it is quite difficult to resort to judicial institutions and to register an insurance policy that can help build trust and security between the parties.

6.6 Conclusion

At the end of this paper, we conclude that crowdfunding has characteristics that are eminently compatible with the financing needs of social entrepreneurs. It therefore represents a solution more adapted to the financing of social entrepreneurship.

It should be noted that the technical constraints are relatively mitigated in Morocco, thanks to the development of digital technologies with a wide dissemination and evolution of mobile telephony, electronic banking and the Internet network (4G, fiber optics, etc.). However, the regulatory gap now represents a real loss of income for social project holders. In this sense, the approval of law 15-18 on collaborative financing will certainly be, among other things, a lever for the development of social entrepreneurship.

The regulation of collaborative financing proves to be indispensable but insufficient. Awareness-raising and communication campaigns will have to be conducted with the general public regarding its functioning and its advantages. The same should also be done with regard to traditional banks to inform them and convince them that collaborative financing is aimed at a market other than their own.

Before closing, we open a parenthesis to shed light on a research perspective on this subject; it is that a deepening of the results obtained in the framework of this research work is more and more solicited. This can, of course, be undertaken with the help of other more advanced quantitative studies by concretely measuring the impact of crowdfunding models on the development of the social entrepreneurial fabric in Morocco.

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