Crowdfunding for financing innovative and social entrepreneurship: Literature Review

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Abstract: A new collaborative economy is created and emerging methods of financing are established. Crowdfunding presents itself as an alternative and/or complement to current funding boot. It is an open call to the public to raise funds for a specific project. These calls are often published and promoted through the Internet and with the help of social networks and are only open for a specified period. This paper tries to contribute in clarifying this new mode of funding and enriching academic research in this little explored area.

Key Words: Crowdfunding, Project financing, collaborative economy, entrepreneurship

INTRODUCTION

New projects entail resources to succeed, and one of the most vital of these is financing (Gompers and Lerner, 2004). Traditional ways of financing seem to be more and more difficult. For that, entrepreneurs try to find new sources of financing. In recent years, crowdfunding has emerged as original way for entrepreneurial ventures to secure funds without having to seek out venture capital or other traditional sources of venture investment (Mollick, 2014).

This study attempts to clarify this new financing plan for that academic knowledge base of the dynamics of crowdfunding is lacking, outside the analysis still rare special efforts (Agrawal et al., 2010; Burtch et al., 2011). According to Mollick (2014), scholars know very little about the dynamics of successful crowdfunding, as well as the general distribution and use of crowdfunding mechanisms. There is also uncertainty about the long-term implications of crowdfunding, such as whether existing projects ultimately deliver the products they promise. In short, this important and growing area of entrepreneurial activity and government action is understudied, even as both practice and policy continue to rapidly advance.

In this paper, we will present first the definition and the emergence of this financing mode. After that, the experiences of crowdfunding in USA, France and Europe will be exposed. Finally, a short view on the Tunisian context will show that crowdfunding is slowly beginning to gain ground.

CROWDFUNDING: DEFINITION, MODELS AND ADVANTAGES

Definition:
Crowdfunding is an innovative method for funding a variety of new ventures, allowing individual founders of for-profit, cultural, or social projects to request funding from many individuals, often in return for future products or equity (Mollick, 2014). Schwienbacher and Larralde (2010) define crowdfunding as “an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes.” This extensive definition gives the opportunity to other scholars to associate to crowdfunding other financing modes like internet-based peer-to-peer lending (Lin and Viswanathan, 2013) or fundraising drives initiated by fans of a music group (Burkett, 2011), and other cases.

Mollick (2014) present a definition that provides specificity while allowing room for the continued evolution of the concept in an entrepreneurial context: “Crowdfunding refers to the efforts by entrepreneurial individuals and groups – cultural, social, and for-profit – to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries”.

Crowdfunding (financement participatif in French) is indeed a method of financing projects through the "crowd": a virtual crowd, as it happens on the Internet, specialized platforms where projects are presented. This method has been driven by social networks.
Crowdfunding is considered as an option or a new way of crowdsourcing by adding material contribution instead of the soft one. The term “crowdsourcing” has been first used by Jeff Howe and Mark Robinson in the June 2006 issue of Wired Magazine, an American magazine for high technology (Schwienbacher & Larralde, 2010). Kleemann et al. (2008) afford a good definition as follows: “Crowdsourcing takes place when a profit oriented firm outsources specific tasks essential for the making or sale of its product to the general public (the crowd) in the form of an open call over the Internet, with the intention of animating individuals to make a [voluntary] contribution to the firm's production process for free or for significantly less than that contribution is worth to the firm.”

Platforms of Crowdfunding: funding models and operation

- **Platforms donations**
  Some crowdfunding efforts, such as art or humanitarian projects, follow a patronage model, placing funders in the position of philanthropists, who expect no direct return for their donations (Mollick, 2014). In this case, the internet provides financial support to the project without receiving anything in return. The project manager retains all its intellectual property.

- **The platforms are funding with fringe benefit**
  In exchange for financial support, the user receives consideration. For example, in the case of support for the production of a film, it can receive a DVD or an invitation to the premiere. The project leader retains its intellectual property.

- **Platforms loans**
  It is a loan, with or without interest, provided by a user to an individual or organization (without using a bank). In the case of microfinanced loans, the lender may be more interested in the social good promoted by the venture than any return generated by the loan, thus including patronage model elements as well. The project leader retains all its intellectual property.

- **Platforms with equity financing or co-production**
  The "investor" acquires a participation in the project or becomes co and the right to exchange financial compensation in case of commercial success of the project. The project leader may have to sell part of his property intellectual.

Advantages of crowdfunding for founders

Crowdfunding is an alternative to traditional ways of funding especially for entrepreneurs who have encountered difficulties in obtaining funds from banks or other institutions of regular funding. Many projects do not require large sums to start, so their founders can use fundraising through this technique. Many crowd-funded projects seek to raise small amounts of capital, often under $1000, to initiate a particular one-time project (an event, for example). In these cases, capital is often provided by friends and family (Mollick, 2014).

In addition, crowdfunding seems to be a viable source for seed capital business (Schwienbacher and Larralde, 2010), allowing entrepreneurs to raise the initial funds needed to start their new project (Evans and Leighton, 1989).

In fact, more than simply funding, investors in crowdfunding can give to the founder and the project advice, governance and prestige (Mollick, 2014; Ferrary and Granovetter, 2009; Gompers and Lerner, 2004; Gorman and Sahlman, 1989).

Mollick, (2014) states in his article that crowdfunding has also been used for marketing purposes, creating interest in new projects in the early stages of development. This has been especially important in industries where projects seek to create ecosystems of complimentary products. Mollick, (2014) gives as a success story of Pebble and Ouya, a videogame console that led other developers to write applications for these products even before they were released, helping build competitive advantage even before the projects were released to the public. Press attention also potentially follows crowdfunding campaigns, which can be beneficial to founders. Thus, crowdfunding, like other forms of venture finance (Ferrary and Granovetter, 2009), offers a potential set of resources that go beyond capital which can be beneficial to founders”.

CROWDFUNDING EXPERIENCES

Specializing in news of crowdfunding websites estimate that the number of platforms reaches 536 in 2012. A figure that has almost doubled compared to 2010. $ 5.1 billion were generated by crowdfunding in 2013 against 2.7 in 2012, of which 59% are from North America and 35% in Europe.

One of the most popular platforms in the world is the U.S. website kickstarter.com (2009). In Europe, there has been kisskissbankbank.com (2010) or also ulule.com (2010). Beyond the numbers they generate and that double every year, these platforms may perform phenomenon with 1 million successful projects total worldwide in 2012. 11.9% of these projects are films and videos, and 7.5% concern music and discs. Forbes believes that the potential financial crowdfunding will rise 1,000,000,000 000 dollars in 2020.

Crowdfunding in USA:

In his 2012 remarks upon signing the JOBS Act to legalize equity crowdfunding, President Obama stated that “for start-ups and small businesses, this bill is a potential game changer.” Despite such enthusiasm from the highest authorities is unclear in what ways, exactly; crowdfunding might change the game for new ventures seeking financing.
Over a billion dollars are spent by millions of individual crowdfunding backers, and large-scale action by the US Congress to encourage crowdfunding as a source of capital for new ventures (Agrawal et al., 2010; Burtch et al., 2011). According to Deloitte, $6 billion (€4.5 billion) will be collected worldwide via crowdfunding in 2013.

**Crowdfunding in France:**
Appeared in France there are only five years, crowdfunding allows to collect on the internet small amounts to a wide public. Today, more than twenty platforms create links between project leaders of all kinds (SMB, associations, musicians, craftsmen, etc) seeking funds and individuals wishing to give, lend or invest money.

According to the association Financement Participatif France, crowdfunding helped raise 40 million Euros invested in 60,000 projects between 2007 and 2012 France, with 25 million Euros for the single year 2012.

**Crowdfunding in Europe:**
In 2012, the total amount collected in Europe and from all forms of crowdfunding was 735 million euros; it reached about 1 billion euros in 2013. This is low compared to retail bank lending to Non-financial institutions (6,000 billion euros in 2011), but it is promising if compared to funding provided by "business angels" (market segment estimated at 660 million euros in 2010 for its visible part) or investors venture capital to companies in the seed, start-up or later development (7 billion euros in 2012). Crowdfunding is an important funding source for approximately half a million projects European annually that otherwise could not obtain the necessary funds their realization.

**Crowdfunding in Tunisia:**
In the academic context, we cannot find any study interested in the crowdfunding. We just find some magazine articles interested in defining the crowdfunding for their readers and citing some Arabic experiences like the article of l'apresse.tn published in February, 2014. The article mentioned that the initiative of the Tunisian floosys.com platform was unsuccessful. Launched in 2012, the fifteen projects that have been submitted have not reached their goal. The spot of the platform that has circulated on the Internet tried to be attractive in riding the wave of the revolution and the Islamic finance (which crowdfunding is compatible).

The article was concluded by this statement: “international institutions like the World Bank encourage such initiatives in developing countries, conduct studies and even provide funds to create platforms. In Tunisia, we are talking more of crowdfunding in the voluntary sector and entrepreneurship. During the days of the company (6 and 7 December 2013), the issue was put on the table with the conclusion that it takes at crowdfunding regulatory framework, technical solution and further extension.”

Another platform sees rise in 2014. Cofundy.com is considered by its founders as the first crowdfunding platform which offers Tunisian projects social, cultural or economic impact, to be funded in a participatory manner through donations (Press release, 2014). CoFundy is developing a network of local partners working in coaching projects from the idea phase to the launch and development. These partners are incubators, support platforms for the creation of enterprises, institutions, development NGOs, etc. CoFundy has already signed partnership agreements with the LAB’ESS (Laboratoire de l’Economie Sociale et Solidaire), and CONECT (Confederation of Citizen Enterprises of Tunisia).

In their Press Release, founders of CoFundy mentioned that an analysis of the practices of the Tunisian project leaders on key foreign crowdfunding platforms revealed that since 2011, a hundred Tunisian projects have applied to the total funding of approximately 1.9 million Euros but only 9 Tunisian projects have managed to raise around 90,000 euros. They added that the

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low success of Tunisian projects is mainly due to the fact that foreign platforms are not oriented to Tunisia and do not unite communities of people with a strong interest in its development. The emergence of a crowdfunding platform for Tunisia will undoubtedly be a success factor for financing Tunisian crowdfunding projects.

CONCLUSION

Find funds to turn ideas into businesses, convince mainstream investors to trust and to bet on the future may be, at best, an obstacle course, at worst, crossing the desert. Funding priority of the economy is also embodied in alternative financing methods. One of the innovative methods is the crowdfunding which consists in creating focus and action in cities and towns of all sizes, to form entrepreneurial ecosystems that can ignite innovation, create jobs and grow economies (World Bank, 2013). Forbes estimates that crowdfunding platforms could collect more than 1,000 billion dollars around the world in the next 10 years. World Bank appraised that the potential of crowdfunding for the Middle East and North Africa is estimated at $ 5.6 billion per year by 2025.

Observing the academic literature, we remark a lack in studying this promising source of financing. In the future, we project to study the cultural determinants of the success or failure of projects financed by the crowdfunding.

REFERENCES