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CROWDFUNDING: DEFINITIONS, TYPOLOGY, DEVELOPMENT TRENDS IN THE WORLD

The article search purposeful definition of crowdfunding by different scientists and describes their views. Presented types of crowdfunding: in rewards-based crowdfunding, in donation-based crowdfunding, in equity crowdfunding, in debt crowdfunding. There are typologies of crowdfunding: by countries of origin of financial resources, by lifetime of the project, by directions of investment, by novelty, by information channels of the project, by way of rewarding donors. Showed statistical information on the dynamics of the world. Presented the regions of the world with the largest growth of deals of crowdfunding. Presented various parts of the world where crowdfunding grew rapidly in 2015.

Keywords: crowdfunding, crowdfunding platforms, innovative ideas, types of crowdfunding.

Formulation of the problem. In the modern world economic development is not possible without the implementation of innovative ideas. Often the problem of implementing such ideas is to search and attract funding. In 21st century appeared a new mechanism to raise funds for innovative ideas. It is about crowdfunding. Many of innovation has gained financial support and launch on the market. For some time, there are Internet platforms – as a middle tier between the owner of the idea and the owner of free money. Therefore important to investigate this issue and expand its value.

The purpose of the study. The aim of the article is the theoretical rationale for the study of the crowdfunding, and the relevance of its use in the global economy.

The basic material of research. Crowdfunding is a way of raising money to finance projects and businesses ideas in many sectors of the economy and society. The development of the Internet space provides an opportunity to collect money from a large number of people via online platforms. Crowdfunding is often used when launching a new product or increasing the company's business as a way of accessing alternative funds. It is a creative way of sourcing funding for new projects, businesses or ideas. Crowdfunding platforms are websites that enable interaction between fundraisers and the crowd. Financial pledges can be made and collected through the crowdfunding platform. Fundraisers are usually charged a fee by crowdfunding platforms if the campaign was successful. In return, crowdfunding platforms are expected to provide a secure and easy to use service for implementation of innovative ideas. Many platforms operate an all-or-nothing funding model. If the project did not collect the set amount of money – all money takes owners of online platform. Definitions of crowdfunding in the literature are analyzed in the Table 1.

Types of crowdfunding is an important question because the four different types of crowdfunding all get lumped under this umbrella term of crowdfunding, but they're actually very different (Table 2). There are distinct types of crowdfunding:

- 1) in rewards-based crowdfunding, backers give a small amount of money in exchange for a reward;
- 2) in donation-based crowdfunding, donors donate a small amount of money in exchange for gratitude and the feeling of supporting a cause they believe in;
- 3) in equity crowdfunding, investors invest large amounts of money in a company in exchange for a small piece of equity in the company;
- 4) in debt crowdfunding, lenders make a loan with the expectation to make back their principal plus interest¹.

Crowdfunding platforms raised \$16.2 billion in 2014, a 167% increase over the \$6.1 billion raised in 2013. North America still accounts for the largest market but 2014 saw Asia overtake Europe, by a small margin. With exponential growth in Asia, analysts forecasts this lead will increase significantly in 2015

¹ Hebert, C. (2015). The Different Types of Crowdfunding. <<http://crowdfundinghacks.com/different-types-of-crowdfunding/>>

Definitions of crowdfunding in the literature

Reference	Definition
Belt et al. ¹ (2012)	“Process by which capital is raised for a project, initiative or enterprise through the pooling of numerous or relatively small financial contributions or investments, via the internet.”
De Buysere et al. ² (2012)	“Crowdfunding can be defined as a collective effort of many individuals who network and pool their resources to support efforts initiated by other people or organizations. This is usually done via or with the help of the Internet. Individual projects and businesses are financed with small contributions from a large number of individuals, allowing innovators, entrepreneurs and business owners to utilize their social networks to raise capital.”
Hemer ³ (2011)	“Open call, essentially through the Internet, for the provision of financial resources either in form of donations (without rewards) or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes.”
Mollick ⁴ (2014)	“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.”
Oxford Dictionary ⁵ (2014)	“The practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet.

with the delta between Asia and Europe increasing to over \$4 billion (Figure1). Europe’s 20.1% of market share in 2014 will decline slightly in 2015 when Europe will account for 18.8% of the worldwide market⁶.

Total Global Crowdfunding Industry estimated fundraising volume in 2015: \$34 billion Breakdown: P2P Lending – \$25 billion, Reward and Donation Crowdfunding – \$5.5 billion, Equity Crowdfunding – \$2.5 billion. P2P/Marketplace Lending as a form of crowdfunding really inflates these statistics, as it consists of 71% of the total, and most companies in the P2P/Marketplace Lending space would not call themselves crowdfunding. Though even without P2P included, \$10 billion is still an impressive figure.

Now consider the most popular Internet platform. Among the first crowdfunding platforms can be identified: Artist Share, Crowd Valley, Indie Gogo, Joby, Kickstarter, Rocket Hub, Sponsume, Seedmatch, Companisto, Peerbackers, Startup Addict, New Jelly, Microryza, Quirky, iAMscientist, Start Some Good. The most popular service is web site Kickstarter. This site collects a commission of 5% of the funds raised. It runs on an "all or nothing", that is, if the target is not achieved and the project is not planned funds collected, the site takes all the money collected. The project, which gathered the largest number of funds on Kickstarter clock is «Pebble» (\$10 million), cooler bag «Coolest Cooler» (\$13 million), game console «Ouya» (\$8,59 million). Most are easy to use site Indiegogo. Service collects a commission, which is 4%, if the goal is not reached – 9%. Record amount collected on this site following projects: Smartphone «UbuntuEdge» (\$13 million), smart helmet «Skully» (\$2,8 million), family robot «Jibo» (\$2,3 million). Kickstarter is limited in location to the authors, forcing many of them to use the "agency" accounts or create temporary business in the United States solely to run and campaign. The largest number of projects on Kickstarter registered in the United States (83). As for Indiegogo, it is known in the US 79 project, in Canada – 5, in the UK – 4. The most successful projects is less than 1% of the total number of ideas, whose development started. To be listed, you need to work hard for months to launch a campaign to have a strong team and clear plans for the future.

¹ Belt, B., C. Brummer, and D. Gorfine (2012). *Crowdfunding: Maximizing the promise and minimizing the peril*. Washington, DC: Milken Institute.

² De Buysere, Kristof, Oliver Gajda, Ronald Kleverlaan, Dan Marom, and Matthias Klaes (2012). A framework for European crowdfunding. *European Crowdfunding Network (ECN)*. <http://www.europecrowdfunding.org/european_crowdfunding_framework>

³ Hemer, Joachim (2011). A snapshot on crowdfunding. *Working papers firms and region*, No. R2/2011.

⁴ Mollick, Ethan (2014). The dynamics of crowdfunding: An exploratory study. *Journal of Business Venturing* 29, no. 1: 1-16

⁵ Oxford Dictionary. <<https://en.oxforddictionaries.com/definition/crowdfunding>>

⁶ Crowdfunding Industry Report (2015). CF – *Crowdfunding Industry Report*. <<http://ncfacanada.org/2015-massolution-report-released-crowdfunding-market-grows-167-in-2014-crowdfunding-platforms-raise-16-2-billion/>>

Typology of crowdfunding
(developed by the authors based on the sources [Kuzmin¹, 2016; Petrushenko², 2014])

1.	By countries of origin of financial resources	– National – Foreign – International
2.	By lifetime of the project	– Short-term – Medium-term – Long-term
3.	By directions of investment	– Entrepreneurship – Social projects – Art, music and books – Other projects
4.	By novelty	– Innovative – Modernizative – Classic
5.	By information channels of the project	– Direct – Indirect
6.	By way of rewarding donors	With the gift – Remuneration: – without any remuneration – with non-financial remuneration – with financial remuneration or crowdfunding: – P-2-P lending – equity-based crowdfunding – royalty-based crowdfunding – crowdfunding



Fig. 1. Growth by crowdfunding region in 2015³

¹ Kuzmin, O. Ye. Skybinskyi, O. S. Ugoikova, O. Z. (2016.) Crowdfunding: essence, value and typology. <http://nbuv.gov.ua/UJRN/Mimi_2016_2_17>

² Петрушенко, Ю.М. (2014). Краудфандинг як інноваційний інструмент фінансування проєктів соціально-економічного розвитку. *Маркетинг і менеджмент інновацій*, 1, 172-182.

³ Crowdfunding industry statistics 2015-2016. <<http://crowdexpert.com/crowdfunding-industry-statistics/>>

There are 7 basic principles to be followed by all crowdfunding projects:

1. The principle success of the project – the interest of many people who are involved in the same issues.

2. Emotional involvement of participants. This means that the idea should affect the feelings of those who will invest it.

3. Providing investors so-called reward. For example, if a person collects money for publishing comic book – it gives everyone who helped raise money, a copy of this book.

4. There should be a clear and specific purpose of the event. All participants need to understand whether the money collection practical sense. Therefore project's ultimate amount. If this amount is not announced, investors simply cannot evaluate the feasibility or ideas or seriousness of the author.

5. Trust. One of the reliable and simple ways to increase trust is to provide verification of accounts and wallets to collect money. Almost all payment systems make it possible to conclude that the real owner of the purse and he is not a crook. If the collection is engaged in a business – it simply must give all their details, which it could easily check any person.

6. Full transparency of fundraising. Investors should see that their money came to the beneficiary. And no less important to see for what purpose the money was spent. If a large share of the budget has provided sponsor – users should also be aware of it. This is the opportunity not only to enhance the credibility of the project, but also to inspire investors.

7. The last principle – usability. If there is a button for convenient money transfer – click it, if not – no one will go to the bank and will not stand in line to submit their \$100.

It is also important to note risks that investors may face these projects¹: disclosure (usually less intensive for crowdfunded companies than for publicly listed firms, especially where no specific disclosure is mandated by regulation); lack of regulatory clarity (lack of clarity on oversight and rules in most jurisdictions); default and business failures (lack of historical data for crowdfunding asset performance); platform failure (well over 4,000 platforms globally, with many that have already shut down); lack of liquidity (due to the absence of secondary market or issuer exit strategies); conflicts of interest (introducing moral hazard due to misalignment of incentives); information asymmetry (potentially preventing investors from access to sufficient disclosure). Therefore, all investors should take into account possible losses if such risks occur. Crowdfunding can provide many benefits, including: low cost and speed of rotation of capital for business; high rate of return; diversification of portfolio investors; increased competition in the field of investment.

Conclusion. Crowdfunding has potential as an alternative form of financing business projects at an early stage. The key benefits of crowdfunding are to support innovative solutions and startups, creating a transparent and effective mechanism for financing national projects. Modern traditional investment market has a certain financial threshold crowdfunding removes this limitation for potential investors and allows authors to bypass conservative ideas investment market and realize the most daring projects. Today more and more startups related to information technology, attracting financing for development is through crowdfunding. At this stage should involve active research and development regarding marketing crowdfunding and on the application of this way of raising funds for projects related to economic development of society.

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