Chapter 12
Crowdfunding: Waker of Small Hidden Insignificant Funds?

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ABSTRACT

Crowdfunding has proved for a very short time to be a powerful tool to stimulate innovative entrepreneurship. Only original and quality projects and ventures that are good enough will be recognized by crowdfunders and get a chance of this alternative option to be funded with the money that will arrive from different parts of the world without any restrictions. Someone once said that the world is a global village, and crowdfunding as an innovative way of financing confirms that such a statement in many ways is true. Only in the last five years, individuals and companies have had the opportunity to raise billions of euros, dollars or pounds through different modalities of crowdfunding. We dare say that crowdfunding is one of the most exciting phenomena of networked globalization of which, however, very little is known. Therefore, this paper will explain several steps of the crowdfounding mechanism, its evolution and dynamics, as well as indicate many advantages of using crowdfunding both in developed and even more in developing countries.

INTRODUCTION

Due to spillover effects, it is not only the innovator but also the entire society that has multiple benefits from developing new ideas. That is why the creators and holders of economic and business development policies must find policies that will continuously encourage and support the process of research and development, as well as innovative ways of their financing. Crowdfunding is one of the new ways of financing entrepreneurship. It started as an online extension of financing by family and friends, where the community funded jointly its members coming with interesting projects and endeavors, without seeking anything in return except for personal satisfaction of helping a close person and participating in the emergence of something new. Thus, in the early stages of crowdfunding, money arrived in the form of donations in smaller amounts, but later evolved to debt or equity shares intended for the rapidly growing entrepreneurship, until the latest form of mini-bonds popularly called „Burrito bonds” by the chain

DOI: 10.4018/978-1-4666-9604-4.ch012
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of Chilango Mexican restaurant in London which has pioneered the new wave of issuing crowdfunded mini-bonds to small investors looking for high yields. A mini-bond is an unlisted bond usually issued by companies directly to their customers and the general public.

As a relatively new concept of funding, crowdfunding enables entrepreneurs to provide funding for their ventures through direct collection of relatively low/small deposits from a relatively large number of individuals using the Internet, without the usual services of financial intermediaries (De Buysere, Gajda, Kleverlaan, & Marom, 2012). This rapidly growing model of entrepreneurship financing is prevalent and used exclusively in developed countries, but at the same time it also represents a special challenge and the right solution for countries that are still in a recession and are suffering from low economic activity.

Microenterprises, like many other entrepreneurial endeavors, typically have difficulties in accessing the commercial banking sector particularly in the Third World, due to liabilities and smallness.

However, the most of the poor countries in Southeast Europe or more precisely Western Balkan countries, and Asia, Africa, the Middle East, and Latin America already possess the assets they need to achieve entrepreneurial ventures. One of the blocking problems in these countries is that people cannot use their small resources for venturing and investing in ventures because of lack of legal property rights and proper technological infrastructure to reduce transaction costs between them.

In this paper, the author seeks to provide insight into the linkage between crowdfunding and the potential of fund raising in the developing countries. Although each individual in the crowd generally contributes a small sum to a campaign, the combined financing can be sufficient to help a social venture to fund a program or initiative.

This chapter is organized as follows: theoretical discussions of crowdfunding are given in the next section. In further text the author points to contemporary problems in financing entrepreneurship, and a series of non-financial advantages that use of crowdfunding can bring in addressing these problems. The historic development of crowdfunding initiatives or its evolution and dynamics are considered next. This section aims to show where we started and where we have arrived with the crowdfunding initiative. After that follows an explanation of the crowdfunding functioning through several main stages. Although the crowdfunding model is becoming more common in developed countries, it may be a chance and an opportunity, or a powerful mechanism for encouraging the development of less developed countries, which is shown in the sequence of the paper. Finally, the chapter concludes with recommendations for future research and concluding remarks.

THEORETICAL BACKGROUND

In less than a decade, a completely new method of fundraising by intermediary of Internet called crowdfunding has had its own evolution and revolution. Despite its rapid development it seems that academic and wider social circles still know little about the phenomenon of crowdfunding, its usage patterns, opportunities and benefits in general, particularly in the domain of entrepreneurship (Urbańska & Staszkiewicz, 2015; Lehner, 2013; Griffin, 2012).

For this reason, in this part of the paper the author reviews the definitions and different understanding of crowdfunding in order to provide a theoretical basis for the discussion that will follow throughout this chapter.
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