

Possibilities of crowd funding; an alternative source of financing for entrepreneur in Balochistan; Review paper

¹Muhammad Shafiq,²Marmar Razi, ³TayybahSafdar

¹Assistant Professor,Department of Commerce University of Balochistan, Quetta; ²MS Scholar, Department of Commerce SBK Women University Quetta, ³Assistant Professor,Department of Commerce SBK Women University, Quetta.

Cell No: 00923337871206, corresponding email: forshaf@gmail.com

Abstract:

The purpose of this paper is to find out the possibilities of crowd-funding for entrepreneur in Balochistan, a province of Pakistan. Crowd-funding is one of the methods of raising capital through the collective effort of friends, family, customers, and individual investors. This approach taps into the collective efforts of a large pool of individuals—mostly online through social media and other crowd-funding platforms or different networks for doing of business. It is another source of finance to various businesses. It is largely something opposite of traditional sources of finance in traditional support of any business idea. In Balochistan, there is sufficient internet connectivity in most parts, hence, whenever the feasibility analysis is conducted then the ventures go towards the limited options of banks, credit institutions and informal loan sources in the province. Crowd funding the ventures are open to all communities to have funds from vast network of connectivity of internet. This research paper is undertaken as a qualitative study where all the previous reviews were studied to draft about entrepreneurship and the impact of the crowd funding on it. Crowd-funding has proved to be a very supportive and innovative source for fund raising and boosting entrepreneurship across the globe. This study is undertaken to review all the relevant studies to determine that how the new trend of financial sources is useful for the entrepreneur in Balochistan.

Key words: crowd funding, entrepreneurship, reward based crowd funding, debt based crowd funding

Introduction:

Crowd-funding is method of raising small amount of money by utilizing financial assistance of several people through internet (Gleasure, R., & Feller, J. (2016). It is not necessary that Crowd-funding is used via internet, nevertheless, it is considered as the internet is the main source of financing. It is becoming an important source as in the year 2015 over \$34 billion has been raised using the crowd-financing in the world (Agrawal, et al., 2013). Several other are using similar concept like crowd-financing such as; benefit events, mail-order subscription and some other technique, however, crowd-financing is typical to internet mediating registries (Oxford Dictionary Definition of Crowd-funding , 2014). There are three types of crowd financing which can be available to entrepreneurs and business persons: individual, group based and moderating organization. In these three models idea is created which supported and funded by the people (Ordanini, et al., 2011).

Community-ventures entrepreneurship project which are socially motivated are more emphatically utilized in crowd-funding. There are some other creative and artistic projects which are popular subject in this sort of financing. Therefore, when Balochistan demographical scenario compares with crowd-financing, it looks quite adjacent and appropriate. The list of subscribers has, though, the power to create the necessary confidence among investors that is needed to risk the publication. Another example of crowd financing is the issue or war bond during the military war. In the era of 1930s the traders of London jointly made effort to rescue the Bank of England on the verge of bombardment of demand of English pond to convert into gold creating an example of crowd-financing. Auguste Comte's is the recent form of crowd-financing when he launched his scheme when he issued notes for his philosophical work and got the public support. The "Première Circulaire Annuelle adressée par l'auteur du Système de Philosophie Positive" was published on 14 March 1850, and several of these notes, blank and with sums have survived. The cooperative movements were forerunner through crowd-financing during the period of 19th and 20th centuries groups to pull out fund from the masses especially in the pastoral societies of North America and Western Europe. Statue of liberty was also funded by the general public in 1885 from 160,000 donations from all over the France when the government failed to do make such a precious piece of art.

Notably, music communities were the pioneers who brought the crowd-funding into mainstream. British rock band Marillion, raised \$60,000 in 1997 through crowd-funding source, beware the world the importance and significance of finance collection from general public. It was actually a fan-based Internet campaign which collected huge amount of money

from tiny donations of general public. Marillion used this source further to get more finance for their studio albums. In 1997, Film director and writer Mark TapioKines premeditated a website for his then-incomplete t feature film. In the same way, Marillion obtained more than \$125,000 in1999 through Internet; his fans donated him which were not more than 25, ."Free Blender" raised funding in 2002 through internet campaign of crowd-funding.

ArtistShare (2003) got the funds and raised money for his need, opening the ways for several other artists in the field. With the passage of time, idea of crowd-financing as many more companies took the advantages such as; GoFundMe (2010) Kiva (2005), , Kickstarter (2009), , Microventures (2010), IndieGoGo (2008) and YouCaring (2011). Crowd-funding is relatively a new idea of raising fund as old as August 2006 the word was here in different corner of the world as source of financing,

Infect, Crowd-financing is not a traditional way of utilizing the funds. In traditional business idea generates the further its implications such as product, market and etc. however, funds is raised in unique way of doing business, it uses the funnel on-end strategy. With crowd-funding , it's much easier for you to get your opportunity in front of more interested parties and give them more ways to help grow your business, from investing thousands in exchange for equity to contributing \$20 in exchange for a first-run product or other reward.

Crowd funding is a new source where an individual can start a new business without having to approach the traditional sources of funding such as loans, banks etc. It is a method of collecting funds through online platform. It is one of the best opportunities provided by internet based on technology where a person presents ideas and opportunities to a group of audience and ask for resources to support financially. The supporters can range from several to thousands of individuals. Basically the entrepreneur is a person who presents a unique idea, in order to get financing. so they are interlinked. Several crowd-funding platforms have emerged that allow people to donate or invest in food- and agriculture-related opportunities (Pierakis, Collin, 2013).

It basically consists of the following steps:

1. Preparing the content material:

The presenter or the one that needs funds prepares a proper content that he is going to present in the websites initially, it is formed in such a format that attracts the maximum number of the supporters.

2. Testing material:

Secondly the individual before uploading material in website for donations, he presents it to a number of audiences in order to get feedback about whether the content is influential or not.

3. Publicity of the project:

The project which is undertaken different sources are adopted in order to persuade people and publicize the project so that maximum support is obtained.

4. Following project goals:

Even after getting funds as the individual has given and mentioned some goals and deadlines therefore he is so keen to persuade the goal so that he can fulfill the demands of the audience because there are very rare chances of frauds in such websites.

5. Reciprocating sources:

When the individual is supported to carry on any project then he is to use resources in a very proper manner and useful sources so that he can take out maximum output from the inputs

It was started in U.S when an American musician and computer programmer launched a platform through website called as “Artist Share” in the year 2003(Pierakis, Collin, 2013). It was launched where the artists, musicians could seek donations for the recordings of their music and albums.

The first project of this website was Maria Schneider’s Jazz album where those who made a donation of \$250 their names were to be mentioned in the album one of the fans donated \$10000 and he was mentioned as the executive producer of the album.

The album was successful to raise a fund of \$130000 and was awarded the biggest jazz album of 2005.

From tapping into a wider investor pool to enjoying more flexible fundraising options, there are a number of benefits to crowd-funding over traditional methods. Here are just a few of the many possible advantages, which we’ll cover in greater detail later in this guide:

- Reach – By using a crowd-funding platform like Fundable, you have access to thousands of accredited investors who can see, interact with, and share your fundraising campaign.

- Presentation – By creating a crowd-funding campaign, you go through the invaluable process of looking at your business from the top level—its history, traction, offerings, addressable market, value proposition, and more—and boiling it down into a polished, easily digestible package.
- PR & Marketing – From launch to close, you can share and promote your campaign through social media, email newsletters, and other online marketing tactics. As you and other media outlets cover the progress of your fundraiser, you can double down by steering traffic to your website and other company resources.
- Validation of Concept – Presenting your concept or business to the masses affords an excellent opportunity to validate and refine your offering. As potential investors begin to express interest and ask questions, you'll quickly see if there's something missing that would make them more likely to buy in.
- Efficiency – One of the best things about online crowd-funding is its ability to centralize and streamline your fundraising efforts. By building a single, comprehensive profile to which you can funnel all your prospects and potential investors, you eliminate the need to pursue each of them individually. So instead of duplicating efforts by printing documents, compiling binders, and manually updating each one when there's an update, you can present everything online in a much more accessible format, leaving you with more time to run your business instead of fundraising.

Literature review:

The need for finance is something so necessary. Recently the entrepreneurs are integrating different traditional sources, microfinance and the current sources i.e. crowd funding to support their business (Moenninghoff andWienandatt, 2012). The most important factor is that all steps were undertaken for eradication of poverty in under developed countries but all the sources are more successfully spreading in developed countries(Freedman, 2000). As crowd funding was initiated as an online approach to support initial capital for business startups on small scale but turned to an innovational approach(Choy et al., 2016) which is so rapidly spreading developed countries than developing countries.(world bank, 2013).These all services are done in order to increase the efficiency of different sources of funding and finance for ventures that makes entrepreneurship difficult (Breedon, 2014).The changes in technology have assisted to a great extent in reduction of barriers and hurdles in accessing

financial resources. Such development and advancement in technology has provided more choices in developing financial alternatives for entrepreneurs (the finance authority conduct, 2014). All the individuals whether in developed countries or developing countries utilize micro finance, crowd funding alone or together to avail opportunities, such steps are undertaken where the traditional sources are not available. (Finance authority conduct, 2014). Now the traditional financial sources are not only the options in both developed and developing countries people access angel investors, micro lenders and debt based crowd funding to support their businesses. (World Bank, 2013). Micro finance has been an option since very long but it is not available to everyone due to number of hurdles but now the online platforms are not bearing such constraints, rather they are available to all the deserving ones regardless of any race and community. The institutional environment has played a very prominent role in emerging crowd funding. In crowd funding all are given the chance to decide and invest their money on projects of their choice and interest. It is actively being operated in a number of developed countries.

Crowd funding was established to support projects where the traditional financial sources fail to support the projects (Duarte, 2012). Initially crowd funding was purposed for arts and entertainment and then it took several shapes varying from gifts and reward to proper structured loans and investments for entrepreneurs. After the traditional crisis of finance, debt and equity crowd funding evolved and spread rapidly. Initially debt based crowd funding or peer to peer (P2P) crowd funding the interest rates were low, and now it is most widely adopted crowd fund source, Zopa was the first P2P the emerged funding circle and ThinCats (Pierakis, Collin, 2013). Peer to Peer has gained much coverage than other sources of crowd funding in all countries Equity crowd funding is adopted less than debt based crowd funding. The minimum amount is kept low so that even low amount investors can make contribution to this emerging trend of investments. (Xusheng, 2014).

Availability of fund through crowd financing

When artist share went successful then several other platforms were established as well for the purpose of raising funds like IndieGoGo in 2008, Kick starter 2009 and Micro venture 2010 (Agrawal, at al., 2013). But the contents were further extended from music to different fields (social causes, education, entrepreneurship, health) etc. From 2009-2015 kick starter campaigned 265,000 projects out of which 36% were successfully funded (MALIKA, 2016). Out of 265000 campaigns 95200 campaigns raised fund of 1.76 billion dollars which were

funded by 9.7 million supporters and backers (MALIKA, 2016).27000 (29%) of the projects raised \$10000 and 2.6% raised \$100000 which were from different categories(Olaf, 2016). It is always not necessary that all projects should go funded some go with empty hands as well. The support depends upon the deadline and the goals mentioned.When any project is uploaded it is provided with a deadline if the credit is not recharged till the end of deadline it means the project is not supported.One of the most successful campaigns of kick starter was Pebble smart watch which was designed and presented by a group of entrepreneurs. They had designed a customizable wrist watch that could be connected to iPhone and Android. Kick starter is a website acting as an intermediary connecting backers and campaigners. The campaign of the project gained \$10266845 from 68929 supporters.The second most successful campaigns of the kick starterwerecoolest cooler raising \$13285000 which was supported by 62000 backers;these two campaigns were of 2014 (Olaf, 2016).Sometimes people donate less than the nominate amount just with the motive of making the project successful

Other websites are also getting started but they are on small scale.Microryza is a common example of them(Andrew, 1999).All the reward based crowd funding types possess intellectual, property rights of them like copyrights, trademarks and patent marks.While funding the backers assess and assume the risk and return both at a time because 70% of the projects (MALIKA, 2016)even after successful funding do not fulfill their deadline regarding the demands of the backers in such circumstances the website is neither responsible not intervene.One of the other issues in campaigns is the chances of fraud like giving your amount to receive the product in return which is yet not produced but still due to high level of interaction the level of fraud is low.The low result of fraud is because of the community, as the backers they communicate with each other, with the campaigners, discussing matters,demands of campaignsetc.reducing the fraud level.

2. Debt based crowd funding:

It is also called as peer to peer funding; market lending has come to emergence. This type of crowd funding was started in 2006 at unite states of America and UK (Ordanini et al., 2011).In debt crowd funding the campaigners ask the platform for unsecured loans, if the project is approved the crowd pay loan which is to be refunded with some additional interest.The reason the borrowers prefer this type of loan is because their rates are comparatively low as compared to banks and doesn't require collateral. But in this type of

funding only a small percentage of loans are approved. It is a bit complex than reward based funding and requires much time period to understand its process. The investors have to see all the borrowers and their rate of interest and risk to decide whom to invest on. When the loan is approved then the interest rate and risk percentage rate is decided by the platform. Here the investors are given diversification options through multiple choices. Till 2013, the lending club was successful to service 2000000 loans with an amount of \$2.7 billion with around loan of 13490 each (Olaf, 2016). The default rate is 1.5% to 10% with riskiest loans (Catherine, 2014). Against collection and provision of loan the website charges some fee (Williams, 2016).

3. Equity offering platforms:

Another concept is equity offering platforms. These are professional intermediaries who try to match the angel investor with the borrower and startups. The entire process takes place online with a time period of 8-12 months even some are funded within weeks (Prive, 2012). One of such websites is Micro venture established in 2011 which does campaigns for technological products and Circle up for consumer products (Williams, 2016). In this study the researcher is aimed at determining the impact of crowd funding on entrepreneurship. The researcher will conduct a thorough study of all the previous review and on the basis of that will draft a conclusion and result as it is a qualitative review based paper.

4. Software value token

Another kind of crowd-funding is to raise funds for a project where a digital or software-based value token is offered as a reward to funders which is known as Initial coin offering (abbreviated to ICO). Value tokens are endogenously created by particular open decentralized networks that are used to incentivize client computers of the network to expend scarce computer resources on maintaining the protocol network (Aitken, Roger (2016)). These value tokens may or may not exist at the time of the crowd-sale, and may require substantial development effort and eventual software release before the token is live and establishes a market value (Tapscott, 2016). Although funds may be raised simply for the value token itself, funds raised on blockchain-based crowd-funding can also represent equity, bonds, or even "market-maker seats of governance" for the entity being funded (Popper, (Nathan 2016)). Examples of such crowdsales are Augur decentralized, distributed prediction market software which raised US\$4 million from more than 3500

participants;Ethereum blockchain; Digix/DigixDAO;and "The DAO."(Allison, 2016) some of the largest token crowdsales in 2017 were Tezos which raised US\$232 million,(Waterss2016)Bancor which raised US\$153 million and Status which raised US\$102 million(Randazzo, 2016).

Methodology

Qualitative research is very useful design when exploring an area where little is known or where holistic understanding of the situation, phenomenon, episode, site, group or community. The research is conducted on the basis of review of literature, having a qualitative research. The research study finds out the way of possibility in the framework of Balochistan which is basically an agrarian economy. Hence, study is undertaken to review all the relevant research articles, magazines and different archive pertinent to study in order to determine that how the new trend of financial sources i.e. crowd funding has put impact on entrepreneurship. It is study entirely based on the past review papers and no further quantitative research will be undertaken, due to insufficient resources.The study would be highly significant for all the concerned departments. The study will provide an insight to understand to what extent the new emerging trend has impacted the entrepreneurial forum.

Discussion:

Crowd funding is a very efficient way for the entrepreneurs to support their businsses, but it should be never taken as a source that can replace traditional sources of financing. Hence, it suits to the province of Balochistan as it is remote and population density is very low. However, there is need to build better internet infrastructure to take the advantage of this unique source of financing. Due to the meager availability of financing especially for agriculture produce, it can be the blessing in disguise. The entrepreneurs in earlier stage of their business cannot utilize crowd funding because people are ready to make investments for the products before they come in their physical form but in case only if the campaigns are persuasive enough.

After the recession period of 2008, crowd funding has turned a very vital source to support the ventures(Belleflamme, et al.,2015).One of the most effective impacts of crowd-funding on entrepreneurship is that if the project campaign is useful it will be advertised within hours and funded within two weeks.Angel investors and venture capitalists have also been using the online trends of funding to support and assist startups to avail opportunities. One of the

prominent examples is the Angel list website that interacts with angel investors and initiators. All the relevant organizations have been contributing to boost up entrepreneurship. One of such organizations is Kiva, which celebrated their 10th anniversary few days back. It has succeeded in facilitating 920000 loans which amounted \$775 million (Freedman, & Nutting, 2015). From 1.8 billion borrowers 625000 borrowers belonged to the poorest countries. The platform works around 83 countries. One of the best features of Kiva is if the project seems attractive it provides loan at 0% interest rates (Lambert, 2014). Another good feature of them is that they provide trainings, literacy about finance and accounts and entrepreneurship enabling the clients not only to have access to loan and capital but also learn optimum utilization of loans. The major borrowers of this platform are women that make investments to support their families, which can be inferred that the organization is making one of the best contributions in boosting the society towards development.

On the other hand it depends on the entrepreneurs to select the appropriate type of crowd funding for their project. Donation based crowd funding is suitable for social entrepreneurs and charity based projects. Reward based equity funding is suitable for all types of businesses as they are meant to promise something in return. Whatever is the source, crowd funding has been a very great contribution in the world for supporting businesses specially the lower class where people have ideas but are unable to make it an opportunity by making investments as they lack financial resources but through crowd funding it has been possible for all the dreamers.

Conclusion:

Balochistan is a vast land; the population density is very low. However, it is the largest part of the country. Financing from traditional sources is not feasible to its remote outskirts. Hence, crowd-financing may play an important role for its development through small and medium entrepreneurs. From the review of all the previous literature and articles of crowd funding it can be concluded that crowd funding has a very positive impact in the world of entrepreneurship. Since the emergence of this source of funding millions of people have been enabled to make investments in different fields and make dreams of several people come true. It is a source where everyone belonging to any community can take benefit from because it is solely based on the potential of the ideas presented by individuals who perceive that they have potential to make their name and make in the world of entrepreneurship.

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