

Crowdfunding as a financing alternative for entrepreneurs.

Financial Markets.



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Abstract

Objectives

- Identify how Crowdfunding is a financing alternative for an entrepreneur in different regions of the world.
- Identify the different types of Crowdfunding and the purpose they have for an entrepreneur and/or investor, based on the Fintech Law.
- Categorize the benefits of Crowdfunding used as financing in a business environment.

Methodology

The research carried out was presented through a theoretical analysis of collective financing (crowdfunding) for entrepreneurs, so the structure of the research is specifically descriptive and documentary since the method used is deductive, because it starts from the general to the specific to satisfactorily cover the stated objectives. The project was carried out with information extracted from official academic pages and documents, this research is descriptive and argumentative because it allows exposing concepts and characteristics that deepen crowdfunding as a financing alternative for entrepreneurs. It is based on a qualitative approach since the context in reality was studied, especially the benefits or advantages that this element brings within a business environment, involving various tools to collect data and information such as images, observations, life stories, and research based on the Fintech law.

Contribution

When an entrepreneurial idea is started, but there are not enough resources to start the project, generally friends, family and acquaintances represent the first sources of financing, because they are people who are closer to their social circle. That is why in order to grow as an entrepreneur economically, it is required that third parties or strangers trust the entrepreneurs and that they are willing to invest in the project economy.

Introduction

The purpose of this work is to know how Crowdfunding can be a financing alternative in a business environment, since there is currently a greater boom in new technologies, web portals and social networks, it is worth mentioning that this phenomenon is used in different areas, not only in computer techniques and tools, but also in others related to accounting, finance and legislation. According to preliminary studies Crowdfunding having a meaning that comes from the words crowd (multitude) and funding (financing), that its translation into Spanish is crowd or mass financing, that is why it is known as "collective financing" and this consists of finance ideas or projects with small resources by users or investors. According to (Mölkck, 2014) crowdfunding in a term used in the field of "entrepreneurship" (art of entrepreneurship), given this due to the lack of economic resources, is not only a problem for poor countries, but also for developed countries; This focuses on taking advantage of technological facilities such as the Internet to socialize in a globalized way, ideas and projects that are subsequently financed in small amounts, with the difference that this is massively by millions of users of the platforms. This author mentions that crowdfunding contributes with a connection that goes beyond the usual market interaction, and this trying to bring a more active and focused communication between creators and entrepreneurs. Crowdfunding is an important element for entrepreneurs, although it is necessary that to develop a crowdfunding project you must have a business plan and have knowledge and the way in which you want to finance the project and make the decision to be under crowdfunding. This type of financing allows entrepreneurs to take advantage of a crowd that is willing to use their savings or relatively small contributions to gather the necessary resources to make a project a reality and without the need to use a financial intermediary, that is, a bank or some other entity, credit institution. This technological infrastructure makes it possible to access a wide group of users, and in such conditions of direct or multilateral interaction, so that it is low cost and territorial in scope. Therefore, the technology has presented efficiency of the underlying economic principle in crowdfunding, such as risk sharing. It is true that financial institutions, by concentrating their investments on specific projects and assuming the risks associated with them, mass or collective financing is based on distributing the risks among a large number of contributors who contribute resources in a relatively small amount, and this makes it possible to control or manage the risk of loss and, in turn, the contributions reach or exceed the amount sufficient to support the financial initiative of the project. Although it has the same economic function as financial markets, crowdfunding platforms act as direct mechanisms for efficient micro-savings for investment but taking into account that the redistribution of resources is done and this under a principle of cooperation.

Materials and methods

Within this financing method, three different types are clearly distinguished, supported by the Fintech Law, which is cited in article 15 that activities aimed at putting people from the general public in contact, so that between them Financing is granted through operations in a regular and professional manner through computer applications, interfaces, internet pages or any other means of electronic or digital communication. Following article 16 of the law, the clients of a crowdfunding institution that participate in the aforementioned activities will be called investors and applicants. Investors are considered to be natural and legal persons who contribute resources to the applicants. Applicants are considered to be natural or legal persons who have required such resources through.

Crowdfunding

The clients of this financing model will be able to carry out the following operations among themselves and through said institutions:

- Collective debt financing: In order for investors to grant loans, credits, mutuality or any other financing that causes a direct or contingent liability to the applicants.
- Collective financing of capital: In order for investors to buy or acquire titles representing the capital stock of legal entities that act as applicants.
- Collective financing of co-ownership or royalties: In order for the applicant investors to enter into joint ventures or any other type of agreement by which the investor acquires an aliquot part or participation in a good present or future or in the income, profits, royalties or losses granted from the performance of one or more activities or projects of an applicant.

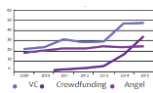
Based on the above, it can be established that crowdfunding can be divided into two.

- Non-financial crowdfunding, which is based on donations and rewards.
- Financial crowdfunding, based on debts and shares.

Platforms for entrepreneurs

The world is changing and that means that there are more and better options to finance a company, and one option is crowdfunding since it continues to grow every year giving entrepreneurs the opportunity to finance their business, for this it is important to compare different platforms to know what benefits it can have and how it focuses on the planned turn of the business. Kickstarter.com: It originated in the United States and is a crowdfunding platform that is largely focused on catering to creative projects such as art, music, film, technology, games, etc. It offers not only to raise the necessary money to put the project into action, but also ensures to create a community around it, to be able to launch it and have a greater journey. If the financing is achieved, the platform will enter the money that the taxpayers have contributed, charging 5% of the proceeds, if the objective is not achieved, the platform will not collect the money from the donors, and nothing will be received and these are with the in order to guarantee the viability of the project and that the rewards can be met, the disadvantage of this is that it only accepts projects that come from the United States, Canada, the United Kingdom, Australia and New Zealand.

In March 2014, the main crowdfunding platform in the world, Kickstarter, reported that only 10 countries represented 85% of the sponsorship of projects. Approximately 80% is the US contribution, 7% from Great Britain and 5% from Canada. In April 2016, the platform reached 2.33 billion dollars.



Graphic 1 Annual Funding (Billions of dollars): venture capital, crowdfunding and Angel Investors
Source: crowdfunding.com, 2015

During 2015, crowdfunding is an industry that has exceeded the value of angel investors and of course, in perspective, the trend had a scope for 2016 and that it exceeded the risk capital that was estimated at approximately 48 billion dollars.



Figure 1 Origin, by country of the sponsors of the Kickstarter page
Source: kickstarter.com

Advantages of the crowdfunding model for entrepreneurs according to Steiner & DeMaría (2012)

- Full control of the idea and its application remains in the hands of the creators.
- These, in turn, can prove the popularity and possible success of a project through prototypes that users value, anticipating or denying their usefulness or validity.
- If the product is in close tune with your audience, you may exceed your funding goal.
- If a project is not successful, the creators do not lose money, only time, and they have the possibility to start it at another time by adding improvements and running a new campaign.
- Crowdfunding manages risks and raises capital that can be applied directly to production and marketing costs.
- Project managers often get very helpful advice and ideas from the funders, on the other hand the sponsors also become part of the marketing team helping to drive the project forward.

Region	América del Norte			América Latina y Caribe			Asia y Oceanía		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
Lending	2,748	3,576	4,422	3	4	5	3,75	5,045	24,102
Equity	129	407	1,060	1	3	17	135	420	1,082
Partners	0	0	32	-	-	1	0	0	33

Table 1 Analysis of financial crowdfunding activity by type of financing and region in millions of dollars
Source: Data from Wardrop et al. (2015)

Crowdfunding has become a multi-billion dollar global industry

The report prepared by Rubén García shows an important global growth of this financing method, which the following information is about the Massolution report:

- In 2012, the platforms that managed to raise the most money were those based on donations and rewards, which grew by 85% to reach 1.4 million dollars.
- Platforms based on equity offerings grew by 30% reaching 116 million dollars.
- Those based on loans were the ones that had the greatest growth with respect to the previous ones, 111%, that is, up to 1.2 million dollars.
- 2.7 billion dollars were raised in 2012 thanks to more than a million campaigns.

In 2013, the industry has seen explosive growth in recent years. The analysis firm Massolution reported that in its last report of 2013 that the crowdfunding sector had grown 81% more than the previous year.



Figure 2 Total funds raised in 2012
Source: Massolution Report (2013)

As can be seen in the image, America and Europe are at the forefront of this growth, controlling 95% of the entire market in 2012. In the US alone, growth reached 105%, raising 1.6 billion dollars. Europe is a little below, but with a growth that is also important, of 65%, reaching 945 million dollars. Below these two great powers is Oceania, with 76 million dollars, Asia with 33 million, and far below South America and Africa. By leveraging technology, crowdfunding can serve as a proprietary mechanism for new business formation, job creation, and inclusive economic growth. The most productive factor for the appearance of Crowdfunding is the proliferation of social media. "The way in which the media and social networks are impacting alternative financing and crowdfunding has made them become the essential tool for most entrepreneurs with ideas and projects." (García, R. 2013).

Results

Reasons that justify the growth of crowdfunding

There are various forms of financing as an alternative in force worldwide, and crowdfunding is allowing more and more people to find an investment alternative in it. To understand the reasons for this exponential growth of collective financing, it is within a context of the economic-financial crisis that began in 2008, motivated by both demand and supply issues. From the perspective of the demand side, the intense regulation to which the banking sector has been subjected, with a notable increase in capital and liquidity, has caused significant restrictions in access to bank credit that has led companies and individuals to search for new financing mechanisms. From an investor point of view, crowdfunding has provided a new investment opportunity with high returns, in a very prolonged context of low interest rates.

International crowdfunding

At a global level, crowdfunding reached a volume of 16.2 billion dollars in 2014, which represents a growth of 167%, based on the data established a previous year. This trend prevails the strong growth of this form of financing in Asia of more than 320%, reaching 3.4 billion dollars and surpassing Europe, where the volume reached 2.26 billion dollars, both regions are still far from North America, which exceeds 9.26 billion, with an annual growth of 145%. Following the usual trend in the field of financial services, the most active in 2013-2014 was the United Kingdom, with a collection of 89 million euros, followed by France and Germany with 19 and 18 million, respectively. These are also some transnational activity, although the data in this area is highly conditioned by the methodology used.

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Impact of crowdfunding according to region and activity

There are 502 platforms that the study identifies as operational and established in the European Union, 143 have the United Kingdom as their dominant and active location, France 77 and Germany 65. The growth of the sector measured through this article is remarkable since in the period 2013-2014 229 new platforms were created. In America, crowdfunding activity is much higher, reaching a volume of 36.49 billion dollars in 2015, compared to 11.68 billion in 2014, which represents an increase of 212%. Most of the activity is concentrated in North America, especially in the United States, which accounts for 99% of alternative financing (36.17 billion dollars). The growth rate in this country is also very high, at 21%, although the growth in Latin America and the Caribbean, which is 97%, is not insignificant. Within this region, the countries in which the highest volume has been collected are Chile, with 27.57 million dollars, and Brazil, with 24.16 million, which represents a share of 43% and 39%, respectively. These countries are followed by Mexico with 13.18 million and Argentina with 9.06.

País	Plataformas (número)	Proyectos (número)	Capital total (millones de euros)	Cuanto medio (millones de euros)	Cuanto máximo (millones de euros)
Australia	2	10	1,023	102	104
Bélgica	10	1,067	309	30	436
República Checa	1	128	128	128	128
Alemania	22	34	11,315	327	3,000
Dinamarca	2	79	79	79	79
Estonia	1	54	54	54	54
España	8	7	1,125	381	400
Francia	2	17	2,275	134	344
Francia	17	37	13,808	373	3,872

Table 2 Analysis of equity crowdfunding activity by country
Source: Project database, Crowdfunder Ltd.

Conclusions

After the world financial crisis and the serious banking situation, this way of collective financing continues to grow both nationally and internationally. It should be noted that Crowdfunding has become a phenomenon of great growth that allows taking advantage of business opportunities, since it enables entrepreneurs to find a viable source of financing that is different from traditional banking. Since the first platforms dedicated to Crowdfunding emerged, their increase has been enormous and has spread throughout the world. The platforms play a fundamental role in the commercial and financial operations of Crowdfunding, which serve as a reference for people who want to take advantage of the possible alternatives both to seek financing for their project, and to find projects where they can make a contribution. However, despite this being a financing alternative that is used more and more, it is not always easy to have or be successful in obtaining financing and this is necessary to be original and convey an image of security and transparency to stand out among so many projects that likewise seek financing. It is essential to maintain communication with investors, in order to know the evolution of their investment and this requires maintaining current information to transmit to investors at all times. It is important to mention as possibilities for improvement that this method of financing is handled with administrative and operational structures much lower than those of banks, sodcos (Popular Financial Societies) and other intermediaries such as Savings and Loan Cooperative Societies, so through Technological tools can be achieved to create a greater structure for adequate efficiency and, above all, to show the maturity of interesting projects with favorable results.

Future of research

Due to what is mentioned in much of the research, crowdfunding has a cavity when an economic crisis occurs or this phenomenon has a greater impact to try to remedy financial issues. At the end of 2019, the pandemic created by the Covid-19 virus occurred worldwide and in 2020 it was officially the confinement in many countries, during this pandemic many entrepreneurs could not bear the deficiency in different economic situations, and important elements to be able to develop the common activities within an organization or business, such as production, financial markets, trends, high level of interest rates, inflation, etc. That is why all the technologies that kept businesses in communication with users without the need for a physical visit began to have an important participation, from which collective financing began to be more used and used, and not only this source. If you don't give the financial technology institutions, since in 2021 the number of Fintech companies in Mexico grew 16%, so there are now 512 startups that make up the ecosystem in the country. According to Finanz Radar, 2019 it was declared that for the first time in the country, the category of loans was ranked as the main one in Mexico with 21% participation followed by payments and remittances with 18% and technology companies for financial entities with 14%. Having said this and giving a future focus and a context in which we live, there has been a growth of digital banks that is attributed to different factors and in the same way, lending startups began to grow due to the lack of liquidity between individuals or small and medium-sized companies as a result of the pandemic, giving an impetus to new business models and trying to give them a twist that had potential in these times and that it is possible that it will be maintained since a large part of the population is involved with technology and the facilities that this has to perform any service and not only in the financial and economic field but also different areas necessary for a person.

Acknowledgments

First of all, sincere and special thanks to Mrs. Sylja Viridiana Guerrero García and Lic. Joel Silva Fragoso, who, with his important contribution, with his knowledge and his great support, guided me in each and every one of the stages for the development of this project and as co-researchers of the Universidad Politécnica de Toluca, for providing me with all the resources and useful tools for the development of the project in order to carry out the research process, a university that without a doubt has always sought the well-being of each of its students.

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DOI: 10.35429/S.2022.1.15.5.15

