RELATIONSHIP BETWEEN CROWDFUNDING AND MICROFINANCE: A THEORETICAL APPROACH

CROWDFUNDING Y MICROFINANZAS: RELACIÓN Y ENFOQUE TEÓRICO

Jesús Manuel de SANCHA-NAVARRO
Universidad de Sevilla, Faculty of Economics and Business, Department of Financial Economy and Operations Management. Spain.
Email: jsancha@us.es

Carlos SANCHÍS-PEDREGOSA
Universidad de Sevilla, Faculty of Economics and Business, Department of Financial Economy and Operations Management. Spain.
Email: csanchis@us.es

María Dolores OLIVER-ALFONSO
Universidad de Sevilla, Faculty of Economics and Business, Department of Financial Economy and Operations Management.Spain.
Email: moliver@us.es

Resumen:
El crowdfunding se está convirtiendo en una herramienta importante para obtener fondos para muchos proyectos, gracias a las plataformas web que vinculan a los emprendedores y patrocinadores. Los promotores pueden obtener dichos fondos de los financiadores a través de capital en acciones, recompensas, tasas de interés o simplemente donación. Recientemente, estas herramientas de financiación colectiva han sido utilizadas por instituciones microfinancieras para ayudar a las personas que

viven en países subdesarrollados a mejorar su calidad de vida. Especialmente, estas instituciones han estado utilizando las herramientas de crowdfunding de donación y crowdlending. Además, podemos establecer que cuando las herramientas de financiamiento colectivo están dedicadas a la integración social, las diferencias con la forma de operar de la institución de microfinanzas no están claras. En este documento, tratamos de establecer los factores que aparecen en la literatura académica que relacionan ambos conceptos. Los resultados ayudarán a encontrar puntos de colaboración entre ellos para lograr sus propios objetivos.

Palabras clave:
Crowdfunding, Microfinance, Fintech, Crowdlending, Entrepreneurship.

Abstract:
Crowdfunding is becoming an important tool to get funds for many projects thanks to web platforms that links funders and backers. Backers can get back from funders some return like equity capital, rewards, interest rates or nothing (donation). Recently, these Crowdfunding tools have been use by Microfinancial institutions to help people living in underdeveloped countries to improve their quality of life. Specially, these institutions have been using Donation Crowdfunding and Crowdlending tools. Moreover, we can establish that when Crowdfunding tools are dedicated to social integration, differences with Microfinance institution way to operate are not clear. In this paper, we try to set factors appearing in the academic literature relating both concepts. Results will help to find points of collaboration between them to get their owns objectives.

Keywords:
Crowdfunding, Microfinance, Fintech, Crowdlending, Entrepreneurship.

JEL: G20, G21, G32

1. INTRODUCTION

Crowdfunding is becoming a growing tool to finance business project (Zhang et al, 2015). But, from the appearing of the term “Crowdfunding” (CF) to name a group of new ways to finance project (Crowdlending, equity, donation and reward CF) lots of platforms has been created with a broad number of goals (Beaulieau et al, 2015). Some of these platforms have been focused on support projects with social objectives, asking for money to sustain charities institutions throw a donation or helping to lend money for low-income persons (Marakkath and Attuel-mendes, 2015). When CF is used for this, we could be able to find points in common with microfinance sector (MF) that help people in under development areas to get access to financial capitals (Yum, Lee and Chae, 2012). However, the relationships between MF and CF can be blocked or facilitated by some elements like the needs and the development of Microfinance Institutions (MFIs) in each time or his ability to adapt to the technological and information supply requirements of CF platforms (Burand, D.,2009)

What seems to be clear is that the main point in common between MF and CF is the possibility of using the Internet community to obtain money for social purposes (Allison, Davis, Short, & Webb, 2015; Dorfleitner & Oswald, 2016; Gleasure & Feller, 2016b). In fact, there are already many platforms of CF that focus on microfinance to get funding in different ways, such as Kiva, Zidisha, Babyloan, DhanaX, Microplace, GlobalFunder India, United Prosperity, myElen, MyC4, among others. Another point is that MF has become a tool of democratization of entrepreneurship funding, while CF potentially opens entrepreneurship funding to masses (Marakkath & Attuel-mendes, 2015). Additionally, thanks to CF a group of people with social investment mind set could accomplish entrepreneurial finance better than what IMFs could individually do (Attuel-mendes, 2016).

Because of all the above, we propose to point out factors in commons and differences between both concepts founded in the prior literature. To do this we will conduct a comprehensive literature review searching for academic papers relating CF and MF. Results would be very helpful to establish how CF and MF can collaborate using the best of both fields. In the following section a deeper theoretical analysis is show in order to provide a framework for our research. Later, methodology and results of our literature review are outlined. Finally, conclusions are presented together with a series of implications, limitations and future research.

2. THEORETICAL FRAMEWORK

Newly, CF is emerging as financing innovation consisting in a series of activities that aim to involve a large group of people in the financing of a particular project. These projects are promoted by single entrepreneurs or small groups of people who want to finance their new businesses, or social proposal, throw relatively small contributions of a relatively large number of individuals using web tools, avoiding the traditional financial intermediaries (Belleflamme et al, 2014; Moritz and Block, 2016). Other authors describe CF as a close collaboration between investors, intermediaries and entrepreneurs (Valanciene and Jegeleviciute, 2013; Ahlers et al., 2015). Nevertheless, CF seems to be a high potential trend that will play an important role at business and personal project financing (Assenova et al., 2016).

However, under CF classification we can find several types of technological alternative financing tools. Firstly, Equity Crowdfunding (ECF) allows small investors to become co-owner of a startup company to get monetary returns (Belleflame et al, 2014). However, in Reward Crowdfunding (RCF) entrepreneurs give to the funders back a give in exchange of their contribution, which use to be a product related to the project that they are promoting (Mollick, 2014). In other way, Donation Crowdfunding (DCF) is more related with charity because the only return for the backer is the satisfaction of collaborate with a fare cause (Burtch et al, 2013). Finally, Crowdlending (CL) is de most popular kind of alternative finance on behalf of a recent study (Zhang, B. et al, 2015). This is gaining importance because it allows borrowers to get money with lower interest rates and for lenders it is a way to get a better profitability than in bank deposits with a low default rate (Lin et al 2013). In all these ways of CF, funders publish detailed descriptions of their projects on websites (CF platforms) and backers choose which projects to support based on those descriptions (Riedl, 2013). But all of the CF types have a common point: platforms use intensively technology to keep in contact funders and backers.

On the other hand, Microfinance (MF) has been identified as a financial tool for the poor and low-income clients with have no access to traditional financial institutions (Yum, Lee and Chae, 2012). These have been very popular in underdeveloped areas of Latin America and South Asia (Armendáriz and Morduch, 2004). Although the success of MF, which has reached more than 150 million borrowers worldwide, it also has its failures. In this line Sancho, Vega and Álvarez (2013) pointed out that microcredit sometimes presents some uncertainty about its impact achieving poverty reduction, inclusion and job creation goals.

More in depth, it is relevant the role played by the Microfinance Institutions (MFIs). The goal of MFIs is to provide micro loans and other microfinance services (microinsurance, microsaving, etc.) to socially and financially excluded people, for the creation of micro enterprises. Countries with higher MFIs' gross loan portfolio per capita tends to have lower levels of poverty indices. This suggests that microfinance significantly reduces poverty at macro level (Imai, K.S. *et al* 2012). In recent years, funding of MFIs has radically changed. Traditionally, these institutions were financed mainly by donations and public and/or private subsidies (Hudon, M. and Traca, D., 2011). A lot of IMFs that claim to make profits still rely on subsidies in order to cover their seemingly high transaction costs (Armendariz, B. and Morduch, J., 2005). However, the recent financial crisis triggered the decreasing of donations and subsidies to MFIs and a significant negative impact on real credit growth of MFIs (Wagner, C. Winkler, A., 2013).

Additionally, the providers of subsidies increasingly demand transparency related to the effects of their subsidies on the performance of MFIs. In particular, questions have been raised whether subsidization may compromise the efficiency of institutions. One main issue is that subsidies may keep inefficient institutions alive (Hudon, M. and Traca, D., 2011). So the question became both from the sustainability of IMFs and de MF sector. In addition, there is a need of improving mechanisms and loan structure (Carpena et al., 2012) in spite of the proposals to predict default throw credit scoring models in microfinance sector (Blanco et al, 2013; Lara-Rubio et al, 2016). One of the main goals of MFIs is to be sustainable over the long term. As shown Jayo et al. (2008), the majority of European microlenders providing information about their future goals assert that the most important challenges are reaching sustainability and achieving a good social performance, followed by outreach to the most excluded and achieving scale.

The growth in the crowdfunding sector (online fundraising platforms for donors, lending and investment) presents an opportunity and challenge for MFIs intent on tapping the potential online donors, lenders or investors (Burand, D., 2009). The number of online platforms focusing on microfinance is growing. It can be especially relevant when this concept extends to philanthropy. Online philanthropy is changing the nature of how and where people give. A study of Aspen Institute (2008) introduced the term “online philanthropy” and it is defined as “an internet phenomenon through which individual citizens and institutions can engage with citizen-le organizations and micro-entrepreneurs all over the world to invest their money, time or expertise to improve human and environment well-being”. The possibility of crowdfunding as a source of financing for the microfinance sector is significant. For microfinance, according words of Deborah Burand (2009), “crowfunding can contribute to growing of the next generation of socially responsible lenders and investors by showing the small investor/lender how his money can used to do good in the world while returning the principal amount of that financing and perhaps even generating a financial return on this principal”.

Finally, according to Attuel-Mendes (2016) both mechanisms (MF and CF) are an important leverage for entrepreneurs, for whom fundraising has always been a problem. MF has become a tool to finance small entrepreneurship projects, while CF potentially opens up such financing to the masses. The same authors pointed out that combination of CF and MF could lead to the acceleration of poverty eradication. It would be interesting, therefore, to explore into these two approaches and to look for the relation and differences between both formulas trying to create a theoretical framework of reference. Because of that, we consider this topic need more research and to fill this gap we proposed to conduct a literature review seeking for papers relating MF and CF in order to find what is in common between both concepts. Results would be very useful to determine how CF tools could improve MF performance.

3. LITERATURE REVIEW

To get our research goals we conduct a literature review using a systematic and rigorous process (Jesson et al., 2011). Data has been obtained from the Web of Science database to ensure the quality of the papers found. The first step of our research consisted on successive iterations and the consequent refining of the key words. At the en of the process we selected the words "microfinance” and “crowdfunding" appearing in the title or abstract of the academic paper. Although the broad nature of the terms used, only 14 papers were identified. Finally, 10 of them were selected after abstract reading. However, we include two more papers that we consider relevant for this research work although they do not appear in our systematic literature review. At the end of the process, we have hardly found more than a dozen of documents matching with our research criteria (Bruton and Khavul, 2011; Ibrahim and Verliyantina, 2012; Allison *et al.*, 2015; Barasinska and Schaefer, 2014; Burtch, 2013; Marakkath and Attuel-mendes, 2015; Frydrych and Kinder, 2015; Attuel-mendes, 2016; Gleasure and Feller, 2016b; Dorfleitner and Oswald, 2016; Gleasure and Feller, 2016a; Beaulieu *et al.*, 2015). However, it is not surprising the limited number of papers found because CF is a relatively new phenomenon and its literature related is nascent yet (Belleflamme, Omrani and Peitz, 2015).

To complete our analysis, on one hand, the papers selected were analyzed in detail seeking for data helping to know the journal areas, type of paper and the impact of the research works found (impact factor and number of citations). On the other hand, we look for information in the papers found like data source of the research, destination of funds obtained and which type of CF was analyzed relating to MF for the authors. These will help to determine points in common and differences between both concepts.

Table 1 shows the list of articles analyzed, classified according to the journal area, the last known impact factor (JCR and SJR) in its main area and the number of citations provided by Google Scholar. In this classification we have used values “0” and “1” to indicate the existence or not of said characteristic. As can be seem, the majority of the works belong to the Management area (6) follow by Economics (3) and Information System (2) area. Only 1 paper has been found in financial journal so this subject seems to have some implications in others areas witch make it an interesting topic. However, if we put together al the papers related to business (Management, Economics, Finance and Marketing), there is no doubt that this is a topic impacting to the economic environment in several aspects. In addition, we analyzed the impact factor of the journals where the authors published their research. To do this we complemented data from Web of Science (ISI Journal Rank) with Scopus (Scimago Journal Rank, SJR). Most of these papers are published in high impact journals (9 of them in SJR Q1 or Q2), and there are 6 of them with more than 20 citations in July 2017. So we can establish that our set of data come from papers with robust conclusions on behalf of the journals quality that they are published. More over, the relevance of the topic point to that it needs more research.

Table 1: Bibliometric analysis

			Ibrahim and Verliyantina (2012)	Burtch, Ghose and Wattal (2013)	Barasinska and Schaefer (2014)	Allison et al. (2015)	Bruton et al. (2015)	S. (2015)	(2015)	Frydrych and Kinder (2015)	Gleasure and Feller (2016b)	Dorfleitner and Oswald (2016)	Gleasure and Feller (2016a)	Attuel-mendes (2016)	Total
Journal area	Management		0	1	0	1	1	0	0	1	1	0	1	0	**6**
	Economics		1	0	1	0	0	0	0	0	0	1	0	0	**3**
	Information System		0	1	0	0	0	1	0	0	0	0	0	0	**2**
	Finance		1	0	0	0	0	0	0	0	0	0	0	0	**1**
	Marketing		0	0	0	0	0	0	1	0	0	0	0	0	**1**
	No data		0	0	0	0	0	0	0	0	0	0	0	1	**1**
Impact Factor 2015	**ISI**	Q1 JCR	0	1	0	1	1	0	0	0	0	0	1	0	**4**
		Q2 JCR	0	0	0	0	0	0	0	0	1	0	0	0	**1**
		Q3 JCR	0	0	1	0	0	0	0	0	0	0	0	0	**1**
		Q4 JCR	0	0	0	0	0	0	0	0	0	0	0	0	**0**
		No impact	1	0	0	0	0	1	0	1	0	1	0	1	**5**
	Scimago	Q1 SJR	0	1	0	1	1	0	0	0	1	0	1	0	**5**
		Q2 SJR	0	0	1	0	0	1	1	0	0	1	0	0	**4**
		Q3 SJR	0	0	0	0	0	0	0	0	0	0	0	0	**0**
		Q4 SJR	0	0	0	0	0	0	0	0	0	0	0	0	**0**
		No impact	1	0	0	0	0	0	0	1	0	0	0	1	**3**
Citations (Google Scholar)			25	111	27	83	97	23	3	1	2	0	3	1	

Source: Prepared by the authors on the basis of the analysis

Considering criteria for the Systematic literature Review analysis, in Table 2 can be seen the type of research, data source, type of relationship between MF y CF and destination of funds. Firstly, according to the type of research done we can point out that there is a balance between theoretical and empirical works. So, these seem to be a nascent topic that need of a conceptual framework yet. In the near future, it would important to have a wider set of empirical research works.

Secondly, we consider relevant to seek the data source from financial web platform if it is used in the papers. Related to this we appreciate that there is a platform (Kiva) that is the most used, appearing in 4 of the articles. (Ibrahim and Verliyantina, 2012; Beaulieu et al., 2016; Dorfleitner and Oswald, 2016; Gleasure and Feller, 2016b). Additionally, Smaava (Barasinska and Schaefer, 2014), Razoo (Gleasure and Feller, 2016a) and Zidisha (Ibrahim and Verliyantina, 2012) have been part of studies in our set of papers. Among these, Zidisha defined itself like a “person to person microlending” and it works in a similar way to Kiva. Both of them are supported by non-profit organizations trying to connect low-income persons to people whom are keen to support them lending money. However, Razoo use technology to make easier donations throw its platform. Finally, Smava is a German CL platform not so clearly related to the development support like the other analyzed.

Thirdly, all papers studied related MF and CF but, as there are 4 types of CF, we have analyzed which of them appears in our set of papers. In this line, we can show that MF seems to have a high relationship with CF through the CL model. This is the only one that appears in 6 of the articles (Ibrahim and Verliyantina, 2012; Burtch, Ghose and Wattal, 2013; Barasinska and Schaefer, 2014; Allison et al., 2015; Bruton et al., 2015; Dorfleitner and Oswald, 2016). In addition, there are four papers that mention the other three types of CF but together with CL (Frydrych and Kinder, 2015; Gleasure and Feller, 2016a; Gleasure and Feller, 2016b; Attuel-mendes, 2016).

Finally, in the case of use a data source from platform, the destination of the funds obtained has been study. In that way, we can point out that the vast majority of them are designed for social purposes (Ibrahim and Verliyantina, 2012; Burtch, Ghose and Wattal, 2013; Bruton et al., 2015; Marakkath and Attuel-mendes, 2015; Dorfleitner and Oswald, 2016; Gleasure and Feller, 2016a; Attuel-mendes, 2016).

This drives us to highlight that the social aspect of the interaction is and important point in common between MF and CF.

Table 2: Systematic Literature Review

		Ibrahim and Verliyantina (2012)	Burtch, Ghose and Wattal (2013)	Barasinska and Schaefer (2014)	Allison et al. (2015)	Bruton et al. (2015)	Beaulieu, Sarker, S. and Sarker, S. (2015)	Marakkath and Attuel-mendes (2015)	Frydrych and Kinder (2015)	Gleasure and Feller (2016b)	Dorfleitner and Oswald (2016)	Gleasure and Feller (2016a)	Attuel-mendes (2016)	Total
Type of paper	Empirical	0	1	1	1	0	0	0	0	0	1	1	1	**6**
	Theoretical	1	0	0	0	1	1	1	1	1	0	0	0	**6**
Data sources	Kiva	1	1	0	1	0	0	0	0	0	1	0	0	**4**
	Smava	0	0	1	0	0	0	0	0	0	0	0	0	**1**
	Razoo	0	0	0	0	0	0	0	0	0	0	1	0	**1**
	Zidisha	1	0	0	0	0	0	0	0	0	0	0	0	**1**
	Others	0	0	0	0	0	0	0	0	1	0	0	1	**2**
	No data	0	0	0	0	1	1	1	1	0	0	0	0	**4**
Type of CF-MF relation	Crowdlending	1	1	1	1	1	0	0	1	1	1	1	1	**10**
	CF Reward	0	0	0	0	0	0	0	1	1	0	1	1	**4**
	CF Donation	0	0	0	0	0	0	0	1	1	0	1	1	**4**
	CF Equity	0	0	0	0	0	0	0	1	1	0	1	1	**4**
	Others	0	0	0	0	0	1	1	0	0	0	0	0	**2**
Fund destination	Social	1	1	0	1	0	0	1	0	0	1	1	1	**7**
	Others	0	0	1	0	0	0	0	0	1	0	0	0	**2**
	No data	0	0	0	0	1	1	0	1	0	0	0	0	**3**

Source: Prepared by the authors on the basis of the analysis

4. DISCUSSION AND CONCLUSIONS.

First at all, we have to point out that although we found little research papers exploring the existing connection between MF and CF, the documents found have a high relevance. Proof of this is the number of citations, impact factors and the diversity in the areas of the journal where the works are published. So, we consider this data set like a good support to establish some final considerations and future research.

Starting with similarities between MF and CF, we have to point out that several papers have been previously described both to under a CL classification (Ibrahim and Verliyantina, 2012; Burtch, Ghose and Wattal, 2013; Barasinska and Schaefer, 2014;Allison et al., 2015; Bruton et al., 2015; Dorfleitner and Oswald, 2016). However, DCF is mentioned (Frydrych and Kinder, 2015; Gleasure and Feller, 2016a; Gleasure and Feller, 2016b; Attuel-mendes, 2016) in the same proportion as RCF and ECF but we consider that is a good way to MFIs to get founds minimizing the impact of financial crisis (Wagner and Winkler, 2013).

Moreover, MF and CF are not so similar in CL platforms that are designed to work in developed countries with a profitability goal (Prosper, PPdai, Lending Club). But there is a trend to use this tools helping people who live in underdeveloped countries to improve their quality of life (Frydrych and Kinder, 2015) using a mix model between MF and CF. This model can been clearly observed in the most studied platform appearing in our set of papers: Kiva (Ibrahim and Verliyantina, 2012; Beaulieu et al., 2016; Dorfleitner and Oswald, 2016; Gleasure and Feller, 2016b). Throw this model, Kiva replace MFIs connecting persons directly.

In this line, we consider that there is a trend replacing MF by CL as an alternative to the above (Burtch, Ghose and Wattal, 2013; Bruton et al., 2015). Moreover, we have to claim that the CF system is more complex because it involves different forms of capital provision, not only by lending (Ibrahim & Verliyantina, 2012). Finally, the clearest point in common is the destination of founds that seem to be social in all cases (Ibrahim and Verliyantina, 2012; Burtch, Ghose and Wattal, 2013; Bruton et al., 2015; Marakkath and Attuel-mendes, 2015; Dorfleitner and Oswald, 2016; Gleasure and Feller, 2016a; Attuel-mendes, 2016). So, it seems to be clear is that the main point in common between MF and CF is the opportunity of using technology to obtain funds for social purposes (Allison, Davis, Short, & Webb, 2015; Dorfleitner & Oswald, 2016; Gleasure & Feller, 2016b).

However, we consider that this relation is not clear enough. Firstly, because MF depends on an institutional context and CL on the individuals (Bruton et al., 2015). In addition, we established that even though the success history of MF managing to reduce poverty in a high number of families around the world, there are a series of challenges to face and CF can be a tool to solve these problems pointed out. Secondly, in the use of technologies we find important differences because of the difficult access to communications by the low incomes people (Beulieau 2015). More in deep, we can point out that there is a certain ambiguity between CF and MF and it claims that CF markets has been explored at length in existing research on MF (Gleasure & Feller, 2016a).

Beaulieu, Sarker, & Sarker (2015) state that the relationship is of belonging to each other (MF is one of six CF business models) and in other cases, it recognizes that the phenomenon which is described as CF has strong links and origins to the broader field of traditional MF (Frydrych & Kinder, 2015). But most of papers claim that CF and MF even though non-synonymous aim similar goals and talk about a mix of them like crowdmicrofinance (Marakkath & Attuel-mendes, 2015) or “microfunding” (MF through CF model) assuming the form of CF in MF (Attuel-mendes, 2016) and maximizing the use of internet technology. Particularly the use of interactive and social media sites that have the ability as a catalyst and mobilizes the mass (Ibrahim & Verliyantina, 2012). Nevertheless, MFIs must consider taking advantage of the high increasing of the “online philanthropy” (Aspen Institute, 2008) to show to the crowd how their money is used to improve life’s around the world (Deborah Burand, 2009).

Finally, all the analyzed articles concur in assessing as positive the application of technology and Internet in the field of MF, taking as a model the mechanism of operation in CF platforms (Attuel-mendes, 2016). Moreover, it has been proven that the volume of funds generated by platforms like Kiva has improved the development and use of traditional MF institutions (MFIs) (Ibrahim and Verliyantina, 2012; Marakkath and Attuel-mendes, 2015). Like a practical implications we consider that MF institutions would use CF tools in order to improve their performance looking for a hybrid model maintaining the best from both fields. Bearing in mind the little research found on this topic, our future research will be testing empirically benefits of such cooperation and its possible ways of development. Finally, this research is no free of limitations. Mainly, they derives of the novelty of the topic that give a result an anecdotic number of high quality research papers. Because of that, we propose in the future research to monitories CF environment to set empirically differences between performance of CF and MF platforms.

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