WHAT IS CROWDFUNDING?

Factsheet 3

Crowdfunding is a way of raising finance for a project or activity by widening the ask to many hundreds if not thousands of people AND asking each person for a small amount of money. Traditionally, if an organisation or business wanted to pump prime a project or venture, they would generally ask a few people for large sums of money. Crowdfunding switches this idea, using the internet to talk to thousands (if not millions) of potential funders. Typically, those seeking funds will set up a profile of their project on a website or platform. They can then use social media (alongside their traditional networks) to raise money. Given below is a brief description of each of the different types of crowdfunding.

Donation or Reward Crowdfunding

People invest simply because they believe in the cause. Rewards can be offered (often called reward crowdfunding) such as acknowledgements on a website, tickets to an event, regular news updates or free gifts. Returns are considered intangible. Donors have a social or personal motivation for giving their money and expect nothing back in return, except perhaps to feel philanthropically good about helping the project or the cause.

Debt Crowdfunding

Investors receive their money back with interest. Also called Peer-to-Peer (P2P) lending, it allows for the lending of money while bypassing the traditional banking system. Returns are financial, but investors also have the benefit of having contributed to the success of an idea they believe in. In the case of microfinance, where very small sums of money are leant to the very poor, most often in developing countries, no interest is paid on the loan and the lender is rewarded by doing their social good.

Equity Crowdfunding

People invest in an opportunity in exchange for equity. Money is exchanged for a share or a small stake in the business, project, or venture. As with other types of shares there is always a risk. if the venture is successful than the share will naturally increase. If the venture is unsuccessful then the share value decreases.

And here's some History......

The first online crowdfunded project is thought to have occurred in 1997. The Rock band Marillion were unable to afford a tour after the release of their seventh album so American fans used the then fledgling internet to raise $60,000 so they could continue to play around the USA. Although the band was NOT involved in the first round of fundraising, they have since used the same techniques to successfully fund the production of their following three albums.

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