

Crowd Funding: A Way to Finance Entrepreneurs in Cooperative Sector

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Abstract

Crowd funding is one of the latest methods of financing people which was first applied in developed countries and then in developing countries. According to the nature of the cooperation that has been established on the basis of collaboration NABA, this method can be a successful way to fund entrepreneurs and knowledge-based plans. The aim of this study is to provide a model for funding projects based on Crowd funding. This study was conducted using the Delphi method and survey from experts (executives and managers in Cooperative Investment Guarantee Fund, Cooperative Development Bank and the Department of Employment and Entrepreneurship of Ministry of Labor and Social Welfare). As a result of the research, a model of Crowd funding which was native in cooperative section and is a mixture of borrowing and partnership in income was presented. this can cause the growth of entrepreneurship and the development of the cooperative sector.

Keywords: Crowd Funding, Guarantee Fund, Entrepreneurship, Cooperation

1. Introduction

Financing through public is in fact referred to providing resources through unofficial ways from a set of individuals and particular institutions which are called Crowd. This type of financing is conducted through internet interface systems called Platform. Financing programs mainly are done with benevolent, political, humanitarian, trade and finally financing entrepreneurship projects. In recent years Crowd funding has been noticed across the globe as an attractive investment method and many ideas were created this way. In 2013 a total of 5.1 billion dollars in the world was collected for different campaigns. Kickstarter is one of the most successful funding platform. According to a report regarding performance of the platform in 2014, nearly 3.3 million people across the globe proceeded to invest in this system on 22,252 projects and a turnover of 500 million dollars-1000 dollars per one minute was reported where 5 projects were recognized as the top 25 inventions of the year.

Figure 1 presents the volume of investments carried out in various disciplines such as film, music, design etc.

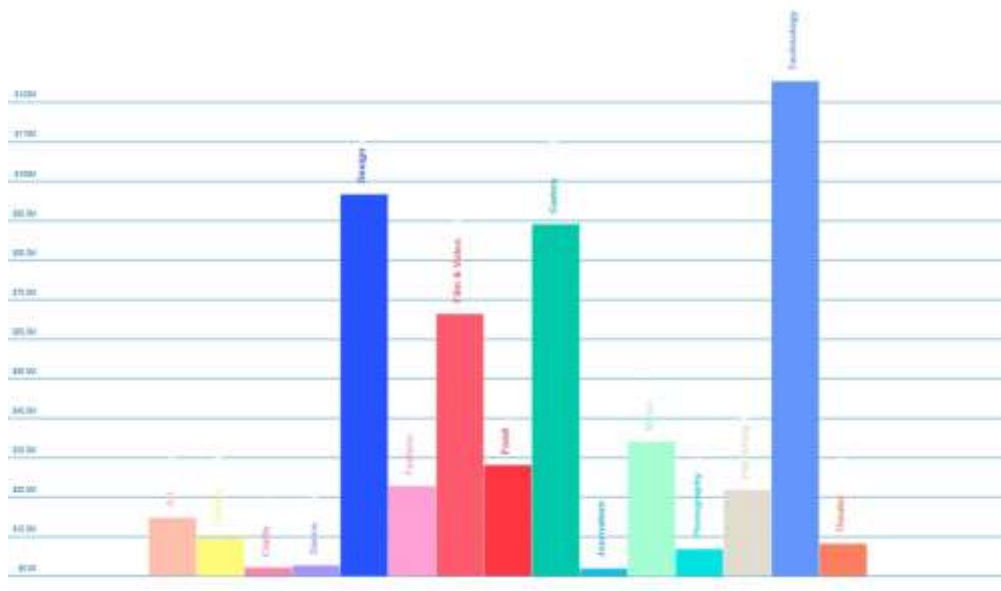


Figure 1: Size of investment in different topics using Crowd funding Kickstarter

Crowd funding is conducted with the aim of collecting small investments of people and provide appropriate funds in various models and postings which mainly include bonus, donation, borrowing and participation.

Bonus: In this method, the plan is provided for public through pre-selling product or determining incentive bonuses such as discount for the first products. Investors who might want to receive bonuses are set to participate in the scheme. Kickstarter is a successful funding platform in financing in reward method and Colombo et al (2015) studied the samples (Colombo et al., 2015).
Donation: donation is used for charity affairs. projects that need to be granted are held by discussion condition and requests. If the request is accepted, financing will happen and funds will be providing. Althoff et al studied behavior of donors in the crowd funding through donation in one of active platforms (DonorsChoose.org) (Althoff et al, 2015).

Debt: the debt is determined on the basis of the loan with interest. In this method entrepreneur introduces their plan which is not mainly approved by banks and asks for financing. Because of its usury nature this method does not comply with Islamic law and cannot be applied in the country. In their study, Beaulieu et al (2015) explained elements for financing in aware method completely and its Executive pattern it has followed (Beaulieu et al., 2015).

Participation: In this method investors share their shares and interests of plan.

In an exploratory study Molik (2014) studied entrepreneurship development through crowd financing. The study has shown that a high percentage of requests for financing was not successful (Molik, 2014). Due to the growth of this method, financing in the world and its impact on entrepreneurship, creativity to study and finding an appropriate pattern of this model is confirmed. By defining an appropriate model for

financing non-governmental community with the aim of introducing a tool for entrepreneurs we study endemic patterns.

2. Literature Review

In an exploratory Molik (2014) studied development of entrepreneurship through Crowd funding. In this research two models of participation in shares and pre-purchase of product were studied where entrepreneur can provide capital for their plan. As a result of the research, it was suggested that a great portion of the projects which had request for financing through this method, were not able to absorb capital.

On average only 10% of projects were able to climb the 30% target, and only 3% were able to provide more than 50 percent of their target. The study has shown that factors such as the amount of investment needed for the plan, geographic location, social capital and time to deliver the project have a significant impact on a successful financing. Kapasvamy and bias (2014) studied the dynamics of Crowd funding's supporters. The research was conducted in two-year plans of site Kickstarter which is one of the most successful platforms in crowd...in the U.S. as a result, dynamic study related to various factors such as public c impact of noticing platform, role of family and friends in supporting projects, social impact and updating role of project during financing project were suggested. in a research Ehler and others (2015) studied entrepreneur signals that lead to collective investment in Equity Crowd funding model. The study has shown. As a result this study emphasized the effect of social capital and intellectual capital in Crowd funding. In this regard Agrawal et al. (2015) emphasized on geography, social networking, and time in investment decisions. In an article called "a conceptual framework for understanding the financing of NGOs (collective)" Beaulieu et al (2015) to investigate the Crowd funding model types ranging from donations, loans, contributions and bonuses. In this paper various frameworks for Crowd funding have been emphasized. this paper has been prepared to explain the possible scenarios for financing and explaining these models.

Colombo et al (2015) examined the role of social capital built in the early participation in collective financing. This study analyzed a sample of 669 projects in Kickstarter project that shows significant positive influence on domestic social capital financing in its early days. In addition, the effect of social capital in providing the initial capital campaign led to success of final financing (quoted by Beaulieu et al., 2015). Other studies in different fields have been associated with Crowd funding. The following table shows the various studies in this field.

Table 1: Studies on Crowd funding

Articles	Field of study
Allison, Davis, Short, & Webb (2014), Belleflamme, Lambert, &	Level of success of crowd...
Agrawal, Catalini, & Goldfarb (2011), Burtch et al. (2013a), Burtch, Ghose, & Wattal (2014), Gerber et al. (2012), Kuppuswamy & Bayus (2013), Zhang & Liu (2012)	Behavior of supporters` participation

Cumming & Johan (2013), Ordanini et al. (2011)	Designing model and structure of Crowd funding
Mutengezanwa, Gombarume, Njanike, & Charikinya (2011)	Impacts of Crowd funding
Burtch, Ghose, & Wattal (2013b)	Privacy in Crowd funding
Bains et al. (2014)	Financing V.C
Braet et al. (2013), Ley & Weaven (2011)	Continuity of Crowd funding

3. Methodology

This study has been done with the aim of providing indigenous model of public financing in the cooperative sector. Therefore, this is an applied research where interviews and surveys of experts had been involved which is a field research. In this research first common methods for crowdfunding in other countries were studied and identifying model elements through Delphi mode, an appropriate model was provided for cooperative sector. Delphi can be seen as a way of structuring a group communication process so that this process allows members of the group to solve a complex problem in a more effective way. Using Fawle model the research sought to apply Delphi method. (Delinstoun and teroff, 2002)

1. The implementation and monitoring of Delphi
2. Choosing one or more panels to participate in activities
3. Setting up activities interview questions for the first round
4. Reviewing questions in terms of writing
5. Sending the first the questionnaire to members
6. Analysis of the responses received in the first round
7. Preparing questionnaire in the second round
8. Sending the second round questionnaire for members
9. Analysis of the responses received in the second round
10. Preparation of a report by the processor

The model shown in Figure 2 have been processed.

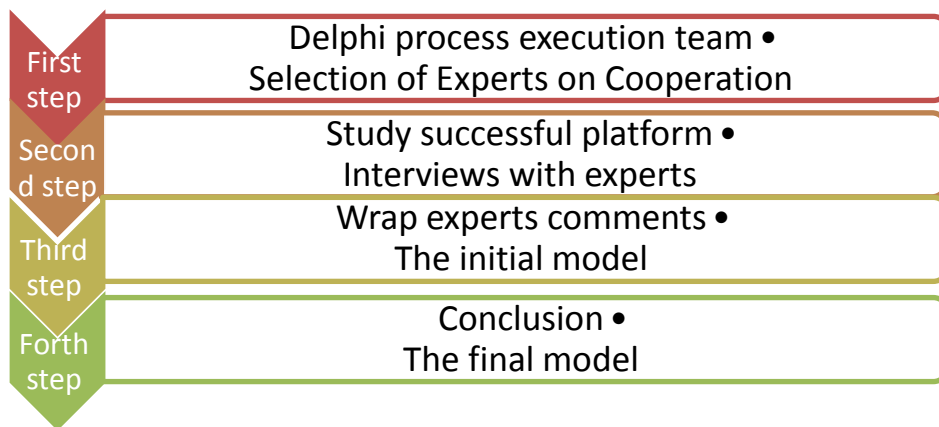


Figure 2: Stages of research

4. Data Analysis:

First step: a team for implementation and monitoring the process of the Delphi including managers and experts Guarantee Fund in cooperative ventures was set up. The Investment Guarantee Cooperation fund in line with organizational mission sought to support knowledge-based and innovative designs and made it their key strategic goal. Thus was formed the organization's executive team was formed.

Secondly: at present, there have been many successful Crowd funding sites available for financing entrepreneurs and startups that so far absorbed capital for many startups in in European and American countries-start-ups which have been successful in business by absorbing capital from one primary idea through this method. some of the most famous sites are as follows:

Indiegogo, Kickstarter, Crowdfunder, Rockethub etc.

In this stage, studying global successful platforms which are shown in Figure 3, pattern for financing was extracted and in an interview with expert's components of the model were criticized and reviewed, the experts included Investment Guarantee Fund Managers and Directors of Cooperatives, Cooperative Development Bank and the Department of Employment and Entrepreneurship Ministry of Labor and Social Welfare.

Rank	Crowdfunding Site	US Alexa Rank	Fee	Payment Processing Fee	Optional or Suggested Fee	Funding all-or-nothing
1	 gofundme	239	5%	2.9% + €0.30 (differs for each country) 4.25% Charities only	-	X
2	 KICKSTARTER	190	5%	3% + €0.20 per pledge Pledges under €10 have a discounted micropledge fee of 5% + €0.05 per pledge	-	✓
3	 INDIEGOGO	794	5%	3% + €0.30 per transaction for credit card processing 3-5% for PayPal transactions \$25 wire fee for international payments Additional currency exchange fees may also apply	-	✓
4	 Teespring	1,215	10%+	Fees vary based on t-shirts selected for sale.	As you wish for donation or charity	N/A
5	 patreon	1,417	5%	4%	-	✓
6	 YouCaring	2,406	0%	2.9% + \$0.30	5% fee is suggested to campaign donors	✓
7	 crowdfunder	5,791	3%	2.9% + \$0.30	Free accounts charge 5%, paid accounts are 3%	X
8	 DonorsChoose.org	7,137	15%	2.9% + \$0.30	Optional 15% fee to support the platform	✓ Donors get their donations returned as account credits
9	 KIVA	6,116	15%	2.9% + \$0.30	15% fee is suggested to campaign micro-lenders	✓
10	 GiveForward	9,116	5%	2.9% + \$0.50	As you wish for donation or charity	X

Figure 3: World successful platform

The third stage: comments of experts was collected and prototype was presented. After reviewing the prototype and modifying some items, some modifications were obtained and the final model was presented.

The fourth step: presented model suggested

Reviewing experts' comments in the Delphi process and through spatial analysis of the models a different model in Crowd funding was presented. In this model, guaranteeing the principle of people's capital for validating and ensuring people have been predicted. Also there exists another main difference in approving plans where in international platforms people can perform the plan. But according to this model requests re submitted to guarantee fund they will be financed in spite of appropriate approval and validation. This process largely covers the risk of fraud. Other features of this model is the use of Islamic contracts, especially when the partnership contract is signed between entrepreneurs and investors electronically. Entrepreneurs and cooperatives can refer to guarantee fund which is a successful

organization in industry in order to provide their finances To create a field of Crowd funding as an intermediary between suppliers and entrepreneurs.

Evaluation of plans is performed in the fund and they are introduced to Crowd funding contractor if approved. Finally, funds are collected in the account which is under supervision of fund. Entrepreneur seeks to withdraw he fund in various steps based on development of plan.

This process is shown in Figure 4.

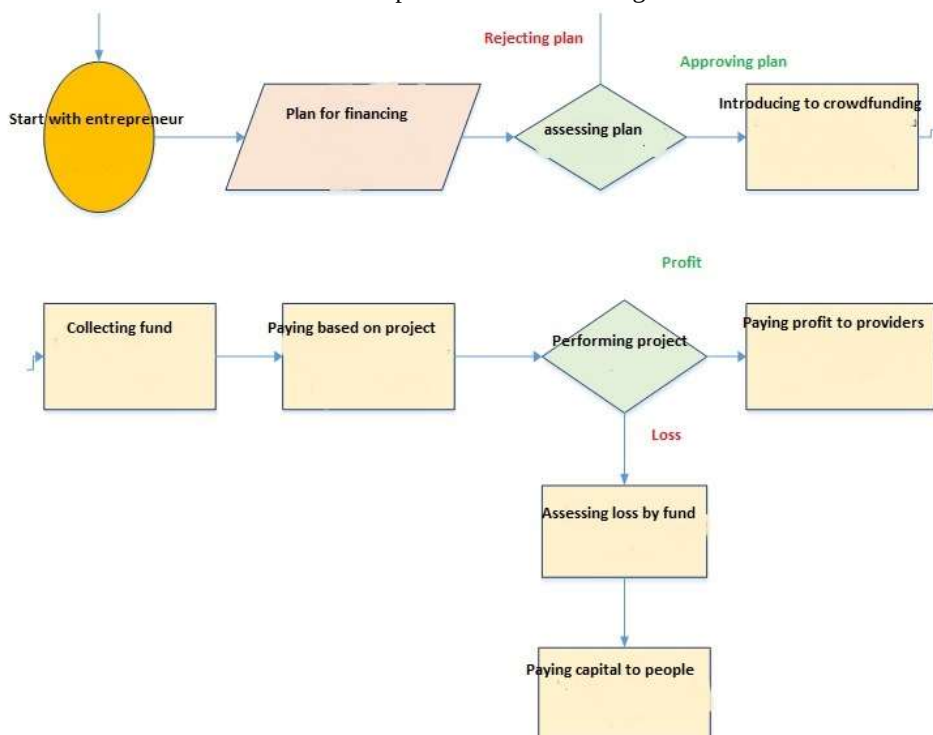


Figure 4: Template for Crowd funding in cooperative sector

5. Conclusion

In this study, reviewing collective financing model and the Delphi method a native pattern of Crowd funding for Iran's business has been provided. Current conditions governing the business environment in the country needs to create trust and confidence for investment. For this reason, in this model, the principal of people's capital to validate and establishing confidence were guaranteed.

Also there is another significant difference in accepting plans where this process is largely covered the risk of fraud and Guarantee Fund has done a study that could guarantee investments in people. This model of financing public debt in Islamic transactions covered by the rules. This template using Islamic contracts and guaranteed financing can be used for all models. Also there exists another main difference

in approving plans where in international platforms people can perform the plan. But according to this model requests re submitted to guarantee fund they will be financed in spite of appropriate approval and validation. This process largely covers the risk of fraud. Other features of this model is the use of Islamic contracts, especially when the partnership contract is signed between entrepreneurs and investors electronically. The borrowing model in Crowd funding provision is covered based on rules of Islamic transactions. The model can be used in all financing models using Islamic contracts and guarantee.

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