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Chapter 8

Crowdfunding and Civic Crowdfunding: Theoretical Features and Future Prospects

Nadia Oliva

Abstract

The aim of this work is to carefully analyze crowdfunding, an innovative financial tool based on fundraising activities intended for “crowds” of people, also meant as an antidote to the global financial crisis. After an introduction to crowdfunding, its origins and evolution, the document pinpoints the specificities of the various models. Special attention will be then reserved to civic crowdfunding, which engages the citizens in financing or co-financing public works meant to improve and preserve the territory, or to support social and cultural activities. This study focuses on critical and successful factors of the crowdfunding campaigns to then propose a research schedule meant to implement the future of this emerging tool.

Keywords: crowdfunding, civic crowdfunding, fundraising, crowds, equity-based crowdfunding

1. Historical origin and evolution of crowdfunding

The difficult crisis that has hit the financial markets has pushed the sector players to find new financing tools, since the banks could support neither long-established companies nor emerging start-ups any longer. This deep recession has created a solid ground for alternative forms of financing, such as crowdfunding, which stems from it. The word crowdfunding originates from the English “crowd” (mass or multitude of people) and “funding,” meaning financing and literally means to be financed from a multitude of people. Alessandro Brunello defines financing in: “Il manuale del crowdfunding” (the Crowdfunding manual) as “a process of cooperation between several people who decide to hand out their money, generally small sums, to finance the effort, the projects and the visions of other private citizens, but also entities...
and/or organizations” [1]. With this financial tool, funds can be raised by a virtual community through online fundraising meant to support projects proposed by a group of people or organizations. “Crowdfunding originates from Crowdsourcing, a system of outsourcing the solution to a given problem to an online community: the feasibility of the prospected hypothesis is then evaluated by the entire group for the purpose of selecting the one that better fits that particular case. All the participants to the problem solving activity may receive several forms of reward: from money to mere intellectual satisfaction” [2].

Crowdfunding is characterized by Internet platforms able to gather people beyond any geographical barrier, for the ideas that are proposed and for the emotional and spontaneous participation of the crowdfunders. Other features to be ascribed to this phenomenon are definitely “pliancy, referring to the fields of application that are various and heterogeneous (arts, culture, science, journalism, politics, philanthropic, business…), as well as the centrality of the information technology tool for what concerns the fundraising operations” [3]. It is called civic crowdfunding when the field of application extends to financing, with small or large capitals, public or social and cultural works, or environmental impact projects benefitting the citizens.

Crowdfunding has its roots in the 700 Ireland, when Jonathan Swift, the author of “Gulliver’s travels,” established, in Dublin, the Irish Loan Funds, which granted microcredit to poor farmer families with the commitment to pay back on a weekly basis without interest. The applicant had to bring in two people who would serve as guarantors that, in case of lateness, would provide payment of the loan.

The first ever example of collective financing, in this case civic financing, was in 1884 when the French Government gave the Statue of Liberty to the United States of America to celebrate the centennial of the Declaration of Independence in 1776 [4]. In 1885, the American Commission entrusted with the building of the base needed to hold the statue, finished the funds, which blocked the completion of the work, and consequently the possibility to erect the statue. The situation changed thanks to the intervention of Joseph Pulitzer, who, through his newspaper “The New York World,” announced the intention to collect $100,000 that would be needed to complete the base. As a reward, he offered a mention to whoever would donate funds, no matter the amount. In just 5 months, the sum collected amounted to $102,000, raised by more than 100,000 people, most of whom had donated less than one dollar [5].

The success of the fundraising was determined by the fact that Pulitzer was able to hinge on the “sense of belonging of the citizens and on the recognition of the moral value of the donations” [6], having considered the mention of their name on the pages of his newspaper as a reward for the fundraisers.

In 1976, Muhammad Yunus, an economist from Bangladesh, the winner of the Nobel Prize in Economic Science, established the Grameen Bank, the “first bank of the poor” which granted micro-loans to poor people without asking for guarantees. Therefore, the present fundraising originates from the concept of microfinancing and has become common at the beginning of the 1990s as an evolution of microcredit [6]. With the coming of the Internet in 1991, the early online fundraising campaigns began and they were mostly meant for charity purposes, like those started by the platform JustGiving 2000 [7].
In 2005, Kiva [8], the first microloan platform for entrepreneurs from developing countries, which presently raises over 165 million dollars with an excellent 98.83% repayment rate [9], was launched.

In 2006, Michael Sullivan invented Fundavlog, an attempt, later failed, to create an incubator for events linked to videoblogs [10] and, for the first time in a post, he used the term “crowdfunding” to define this specific financing modality. The word spread rapidly worldwide thanks to the American platforms Kickstarter and Indiegogo, which finance new projects while granting a reward that is not financial, but rather of material or experiential type.

The development and diffusion of social web media has determined a higher visibility of these platforms and has enriched them with new applications. From the United States, the phenomenon has spread worldwide and has arrived in Italy, amid some difficulties, thanks to the “culture of sharing” that has made it so that an activity that used to be hidden and limited to a restricted number of followers could emerge.

The first Italian portal is “Produzioni dal basso” which dates back to 2005. The crowdfunding phenomenon has reached a strong popularity [11] only in 2013.

The Italian regulatory framework is a new limiting factor to the development of the phenomenon; therefore, Piattelli wonders whether the regulation be an avant-garde or a missed occasion [6]. The implementation of the Italian regulatory system fits in a trend that, from 2012 on, has seen the legislator become more oriented toward start-ups and to support small- and medium-sized businesses. Essential to this purpose is L.D. 179/2012 Decreto crescita bis (Decree for growth bis) carrying “further urgent measures for the growth of the country” that has taken on the significance of a real systematic policy which has identified, in the support of innovative business people a new approach toward the Industrial policy, pinpointing the specific recipients of the regulation related to Crowdfunding [12]. Subsequently, with L.D. 3/2015 Decreto crescita 3.0, the range of beneficiaries was extended to start-ups and to innovative small- and medium-sized businesses.

In Europe, a harmonic regulation on crowdfunding equity (the most common type) is still missing, and this represents an obstacle to its development [13].

In 2013, the European Crowdfunding Network (ECN), a professional association that tries to facilitate the political debate on a European level and to make the public aware of bottom-up funding, was established. The first European research on the matter is the Framework for European Crowdfunding. The deficiency of a regulatory framework has been later analyzed by the European Commission that, in 2013, promoted a public consultation with the aim of understanding the correct lines of action for the development of this form of financing. An expert forum was held in 2014: the European Crowdfunding Stakeholders Forum, to promote transparency and define best practice.

Within the member states, the absence of specific national regulations (except that for Italy) refers to any controversies arising to ordinary justice according to the “warning documents” published in order to protect the investors. The United States, instead, together with Italy, have intervened to positively discipline the spreading phenomenon of crowdfunding [14]. Indeed, in 2012, Obama signed the “Jumpstart our business Startups Act (Jobs Act)” that aims to regulate the conduct of the web platforms to which all subjects but financial intermediaries
and publicly traded companies have access to. The aim of the Jobs Act is to encourage financing of small entrepreneurs, which is essential to the relaunch of American economy.

2. The main crowdfunding business models

Crowdfunding is a flexible and modulable financial tool, suitable for the realization of any entrepreneurial project of artistic, ludic, cultural, sport-related, scientific, and environmental type. There are several types of crowdfunding divided by the scope or in relation to the reward provided for the financers. Massolution [15] pinpoints four main models:

- **Donation-based** is the base model because it allows to make donations to entities and non-profit organizations to support social causes or charity activities without obtaining any tangible rewards, if only a moral one.

- **Reward-based**, which consists in fundraising via Internet in exchange for a compensating equivalent toward the financier who supports a project, receiving in exchange a material good of a value determined according to the amount of the donation [13]. The prizes have a symbolic value and may consist of a recognition, a promotional object realized with the collected money, an autograph, and so on. The reward-based crowdfunding model is particularly appreciated by entrepreneurs and start-ups, since it allows companies to start with orders that are already in the budget and with a guaranteed cash flow, as well as to stimulate the curiosity of consumers regarding their products or innovative services before their launch on the market [16]. This model is used mostly to finance creative and artistic projects and it is at the base of the American platform Kickstarter. The reward-based model is often characterized by the philosophies of “all or nothing” and “take it all”: in the first case, if the prearranged fundraising target is not reached, the funds will get back to the crowdfunder or will be invested in other projects; in the second case, all the contributions collected within 90 days will be credited to the crowdfunder, even if the campaign objective is not reached. The take-it-all model is suitable for projects that need a minimum sum to be started and that can be realized even without reaching the goal, or as an integration to other financing modalities.

- **Lending-based** is a system for lending money, through Internet platforms, to consumers or businesses in exchange for interests and capital reimbursement. The financier may directly lend the money to any applicant through the platform (classic model) or via an intermediary who will absorb the overdue risks and will manage any fundraising action (fully brokered model). The loans granted via lending provide an interest rate that is lower than banks’ interest rate. This model shows three subspecies: micro-lending, which consists of financial support, granted via an intermediary, in favor of subjects with financial difficulties who cannot rely on bank loans; P2P (peer to peer) which does not consider the presence of an intermediary and the funds are paid directly to the recipient; P2B (person to business) in which the savers lend money without a bank intermediary to small- to medium-sized enterprises or start-ups.

- **Equity-based crowdfunding** is continuously evolving and represents the most recent form of crowdfunding. It is a financial tool for start-ups and innovative small- to medium-sized
companies that offers company shares to the crowdfunders in exchange for money. This model is used to favor the growth of small companies provided with little financial possibilities that are new to the financial market. In order to face the complexity of the equity procedures, the platforms have introduced two solutions: club and holding. According to the first, the equity web offer is not directed toward the public, but just toward the investors that are members of a closed investment club; the holding, also called cooperative, entails the creation of an investment society with the aim of collecting funds and of serving as an intermediary between the financier and the beneficiary company. Italy, with art. 30 L.D. 179/2012, has been one of the first countries to introduce a consistent regulation on equity crowdfunding deemed to be avant-garde at a European level.

The companies can orientate themselves in the choice of the type of crowdfunding more suitable for them based on the type of activity they carry out, on their life cycle, on their financial needs, and so on as summarized in Table 1.

<table>
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<th>Equity crowdfunding</th>
<th>Rewards crowdfunding</th>
<th>Peer-to-peer loans</th>
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<td>Pre-profit</td>
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<td>Profitable and growing company</td>
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<td>Long-established company</td>
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<td>Stable long-established company</td>
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<td>Launch of new products/services</td>
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<td>Acquisitions</td>
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<td>Expansion in new territories</td>
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<td>Investment in new structures</td>
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<td>Refinancing needs</td>
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<td>Capital restructuring needs</td>
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Table 1. Guide to the choice.

3. Civic crowdfunding

Alessio Barollo and Daniela Castrataro during the “Torino Crowdfunding” convention defined civic crowdfunding as “collective funding of public works and projects – outside the budget of the interested entity or administration - collected by citizens, organizations and private companies sometimes in match funding with the administrations themselves” [17].

The decrease in public funding, due to the difficult economic crisis, has favored the inception of civic economy, a new economics model based on the social responsibility of the citizens
who take part in the development and production of “common property and infrastructure which neither the Government nor the market economy alone were able to realize” [18]. This civic economy expresses itself in the participation of the citizens to the construction of public infrastructures, to the environment requalification, and to the protection of the artistic and cultural heritage.

The tool that allows such participation is civic crowdfunding, which allows the citizens to operate in person for the public thing.

We define this “shared government” [19] in which the citizens, pushed by an emotional value toward their territory, become players and promoters of their own well-being in a contest of absolute transparency.

This way, the crowd, an indistinct group of people that are potential investors, becomes peer, a community of supporters and co-creators who share the same values and take interest in the realization of the project. The possibility to obtain some sort of reward adds up to this last feature of civic crowdfunding, just as it happened with the initiative launched by the platform do-it-yourself (DIY) crowdfunding “I Make Rotterdam.” All the citizens who participated to the realization of a footbridge to connect an isolated part of the city had the possibility to write a message or a mention on the wooden planks of the bridge or to just place on them their name and signature.

The civic, innovative, and creative projects are realized via web, and this, despite connecting users without any geographical barrier, hinges especially on the sense of belonging toward the territory. In order to protect this close relationship between citizens and territory, we are seeing a new variation of crowdfunding that goes by the name of do-it-yourself (DIY).

DIY or independent crowdfunding expects the crowdfunder (creator of the project) to use personal websites and platform, rather than public ones. There are several advantages to DIY:

- personally chosen projects with peculiar objectives which do not have a limited due date but that can last long. Indeed, the proposers create, together with the supporters, a cooperative path with a community of fans that is linked to the project. This relational network can serve as the base for future online collaborations;
- campaigns that do not get lost between many; and
- cost reduction due to the public platform which gets a percentage of the sum collected.

The only element to take into consideration in a DIY campaign is that the creator must own a good media exposure so as to be able to spread the project’s objective and to increase the number of crowdfunders.

Civic crowdfunding is expanding because the citizens are linked to their territorial community, their schools, the Church, the parks, and they positively share its growth and improvement.

Despite civic crowdfunding in Italy being less common compared to other European Countries and the United States, there have been five successful cases.
The most impressive one is the reconstruction of Città della Scienza (City of Science) in Naples, which was destroyed by a terrible arson, and for which DeRev collected Euro 1,463,867 through fundraising with the involvement of 2,584 investors and most of all through a massive participation of the citizens.

The gathering of Euro 339,743 by the platform Ginger was also very important, to restore the San Luca Portico in Bologna. The operation was successful thanks to the involvement of 7,111 investors, and it was the demonstration that the collaboration and the participation of the citizens can improve not only the quality of life but also give honor to the city. The third case involves the Palazzo Madama Museum in Turin, which was the first Museum in Italy to enjoy the potential of crowdfunding to the benefit of arts and culture. Indeed, the Italian website dedicated to the fundraising activity, by using the reward-based model, managed to collect 96,203.90 euro and to buy a porcelain tea set dating back to 1730 and belonging to the Turin’s family Taparelli d’Azeglio. The tea set was for sale in London up until March 31, 2013, for the price of 66,000 pounds. The main feature of this winning campaign was a valid communication strategy based on four questions: What makes this initiative unique? What value is it trying to promote? What value does it have in common with the museum’s mission? What is the target?

The fourth place is occupied by “Adopt a Majolica for the House Museum Stanze al Genio” set up in Palazzo Torre Pirajno in Palermo. The 12,000 euro fundraising target was broadly exceeded, and the museum continued the crowdfunding campaign beyond Indiegogo, continuing to receive contributions from all over the world to save the Sicilian Majolica.

Last but not the least, since this top five list may change at any time, the creation of a new way to run after school programs is in Salluzzo (CN). The project was created for children who, thanks to the commitment of volunteers, teachers, and educators, every afternoon get together to study and to learn how to have fun through sports. The citizenry, the schools, the Council, and several associations have participated in the fundraising that has collected 12,378 euro through the support of 123 sponsors.

These crowdfunding campaigns have simplified funds access by putting into place a democratization of the process of funding culture that makes the projects sustainable without having to turn to traditional forms of funding.

What emerges from these excellent examples is that when local administrations or institutions have limited funds, if the citizens share a project of high social or cultural value, they actively participate in civic crowdfunding actions, improving their territory and the quality of life of its inhabitants.

Barollo and Castrataro have proposed, for Italy, an integrated crowdsourcing, crowdvalidating, and crowdfunding platform based on a few important steps that integrate the decisions of the administrators with the indications offered by the crowdfunding to increase the feedback within the local communities and to highlight the positivity of the project.

The cases of civic crowdfunding abroad are many and increasing. The Tous Mecenes DIY campaign initiated in 2010 by the Louvre Museum in Paris to acquire a wonderful painting (“The
three Graces” by Canach) is very famous. The Louvre created a webpage where it was possible to donate: all the donors were rewarded, according to the amount donated, with a private visit to the museum or with an invitation to a special evening event. The project was a success and it raised the 1,200,000 euro that were needed to acquire the painting. This campaign is the first experiment of a fundraising model that has given the museum the possibility to organize more campaigns to gather funds to restore the “Nike” of Samothrace and to acquire two statues of public figures to complete the sculpture group already hosted at the Museum. A very important initiative has taken place in the United Kingdom in 2013 for the whole region. Indeed, from August 12 to 15, London and other English cities were transformed into an open air gallery, thanks to an idea from Art Fund and Tate Gallery, which had 22,000 posters affixed reproducing 10 British masterpieces that could be voted by anyone, thanks to a Facebook page. The funds raised in a few weeks amounted to 35,000 pounds. The citizens participated actively, choosing the works to affix, and admired their beauty in the streets of their city.

4. The main crowdfunding platforms

A platform is a virtual place acting as an intermediary for the gathering of funds. Among some of the world famous ones, the American “Kickstarter” stands out for the number of projects completed. Its mission is to find new ways to finance initiatives linked to the world of arts, music, and technology. The strength of this platform stands in its notoriety, and in the
segment of people, it is able to involve, as well as the fact that it focuses on creative projects. The use that can be done on this platform is the classic crowdfunding one: a subject publishes his/her idea on the website and only upon the operator’s approval the idea becomes a page and is turned into a project. Anyone who signs up may become a supporter of one or more projects by promising to fund them with a minimum amount of 1$. It is possible to change the sum amount (pledge) at any time before the completion of the project, and the money is collected by Kickstarter only if the project reaches the goal set. According to the value of the “pledge,” in case the project is successful, the donors will have access to specific prizes. In 2015, Kickstarters arrived in Italy since the Ceo Yancey Strickler, co-founder of the platform, declared that “Italian ideas are appreciated all over the world.”

The most famous platform in Italy is Starteed, established in 2011 and launched in September 2012 from an idea by Claudio Bedino and Valerio Fissore. It offers a complete service to whoever has an idea, integrating the crowdfunding campaign with the final sale phase. The gather of funds for projects and ideas integrates with co-creation. This is a formula, then, which mixes both crowdfunding and crowdsourcing. It is essentially a reward-based platform whose originality revolves around the figure of the influencer, who may share the initiative on social networks, convince its Facebook or Twitter friends to donate something, give advice and suggestions on how to improve and/or develop the idea, and answer to surveys related to the product.

It is evident that the success of any platform is based on a few essential elements, such as the use of a charming yet clear and understandable graphic design. The projects must be divided into categories with an immediate and accessible view. Transparency is another element that grants success to the proposed projects and increases the number of sponsors who participate in the project with interest and passion.

5. Success factors and criticalities of crowdfunding

Crowdfunding is spreading more and more as an alternative and complementary financial instrument; therefore, it has been deemed necessary to perform a SWOT [20] analysis in order to pinpoint its strengths, its weaknesses, its opportunities, and threats.

The success factors in fundraising operations are linked to the viral nature of the net that, breaking down all geographical barriers and using real-time information, becomes a driver of projects that have a social, environmental, artistic, and cultural impact and that have a developmental effect on new enterprises. Crowdfunding turns citizen from users to actors, who actively participate in the improvement of their territory, by cooperating financially with local institutions. Therefore, it affirms itself as an entity in full evolution, confirming the positive growth trends.

The opportunities lie in offering the citizens the possibility to exchange ideas and opinions both online and offline and to promote projects according to the principle of democracy and meritocracy. Transparency, at the base of every financial campaign, can be seen as an example of accountability and best practice, whereas the products obtained constitute a marketing and engagement tool.
For sure, an element of weakness lies in the originality of a method that is still not known well and that is based on the web, toward which persists a certain mistrust (digital divide), while at the same time it requires a good level of digitalization and knowledge of the English language. Furthermore, the high number of existing platforms with several products can disperse visibility.

The threats are due mostly to the incomplete broadband connection on the territory and to the lack of a homogeneous regulation for all the member states. This last aspect is very important because, especially for equity crowdfunding, which entails a reward in company shares in exchange for financial contributions to start-ups, it persuades savers to make illiquid investments which can lead to capital loss. This adds up to the obligation to pay a percentage on the budget to be granted to the promoting platform. Lastly, it is important to evaluate disclosure, that is, the display on the web of the product, which can be stolen or plagiarized by competitors.

Ultimately, it is evident that crowdfunding is a truly valid financial strategy, since it is able to promote the economic recovery, but it is not free of weaknesses and threats that undermine any new tool entering the market.

6. Final considerations and future prospects

Crowdfunding is undoubtedly spreading and it has become an object of attention for the European Union. This exponential growth is due to the interesting and important social, economic, and cultural implications that involve a lot of people and it is therefore defined as an anthropologic phenomenon. Indeed, investors target a high and undifferentiated number of crowdfunders that, via the web, multiplies while breaking down any possible geographical boundary, spreading the idea of a project that must necessarily be good and captivating so widely. This is a clear example of restoration of meritocracy, since the product can fascinate the virtual community and push it to sponsor it only if it convinces them because of its positivity. Troisi has recognized a possible solution to the financial crisis in crowdfunding that has caused an impasse in the ordinary mechanisms of bank intermediation, which lead to a reduction of the credit offer and therefore a widespread lack of liquidity [21].

Small- and medium-sized businesses and start-ups, which have had their traditional financial channel closed, both for the difficult economic crisis and for the intrinsic risks linked to their activity, can find a valid solution in bottom-up funding.

This phenomenon is constantly developing and it requires a continuous study in order to satisfy the questions that it continuously poses, considering that it is not an alternative funding phenomenon, but a marketing and engagement leverage. The donation and lending models have reached their highest expression, and the equity and reward ones are evolving both as implementation and as regulation.

This new-generation marketing technique must be analyzed in relation to the relational and collective dimensions and to the choice of the most valid model to support the new entrepreneurs.
The scenarios can open with an empirical survey about the most valid platforms and the reasons behind the success or failure of some of the campaigns they promote.

From a close examination, it emerges that there is a need for a new regulatory framework to slim down financial operations and make them more transparent, and it should be uniform and easily understandable for public investors in all member states. Indeed, crowdfunding must be seen as an added value, a feature of accountability, because it is becoming more and more necessary to conjugate two worlds that are normally antithetical and dominant such as ethics and finance, which coexist in this widespread practice of modern economy. To this purpose, it would be useful to research and organize a mechanism offering crowdfunder a clear and precise evaluation of the hidden risks they might incur when they support a project to which they often adhere moved by an emotional choice without a calculated consideration. The strong potential of crowdfunding must not be ruined by any gray areas; in fact, they must be taken advantage of by using them as a relaunch driving force for the financial and business economy of our countries.

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