

Chapter 3

Crowdfunding and Slow Money: Challengers or Partners – A Field Perspective

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ABSTRACT

Investment is always needed for new business or business development, and we are living with the emergence of new kinds of providers. Alongside banks, funds, or capital markets, efficient funding through people is doable on a larger scale than ever before, thanks in part to the Internet. Crowdfunding platforms and Slow Money are part of this bottom-up trend. In this chapter we compare crowdfunding and Slow Money and by analyzing how they attract people, we discuss their similarities and differences to respond to the research questions. The analysis might help identify potential synergies between the two non-conventional models, and heighten crowd-based solutions of fundraising. This article will identify their fundamentals. More importantly, we will investigate the spirit behind direct funding.

INTRODUCTION

The severe decline in finance for business has arguably been the most enduring dimension of the 2008 financial crisis. American and European banks, the conventional channels of funding for businesses, have abruptly decided to lend less, particularly to small and medium enterprises (SMEs), to reduce their exposure to worthless debt and risk. As a consequence, the normal supply of funds for smaller businesses and micro-enterprises has significantly declined even more in both nominal and real terms.

Small firms, unlike large firms, lack access to public institutional debt and equity capital markets, and therefore in crisis periods when credit sources tend to dry up, they are more likely to experience difficulties in obtaining external funding for working capital and investment than large firms. Banks pledge 40% of their resources to multinationals, 20% to derivatives, 13% to interbank loans and only 17% to the local economy (Mortier, 2013),

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Gordon Mills and McCarthy (2014) report that American small enterprises were hit harder than large firms in terms of securing bank credit during the 2008 financial crisis. In the same vein, the European Central Bank (2014) notes that while access to finance is a major challenge for European SMEs in normal times, it was much more so during the financial crisis. Klein (2014) finds that limited access to bank credit in recent years has increased the pressure on SMEs, forcing them to scale back investment plans and production. He finds evidence that countries with a high prevalence of SMEs tended to recover more slowly from the global financial crisis than their peers, implying that the interaction of the economic structure and access to bank financing plays a critical role in episodes of economic recovery (Klein 2014).

The 2006-2008 crisis also revealed that governments, often affected by high levels of public debt, were unable to provide extensive funding. People consequently took initiative for both protesting (“Occupy Wall Street” in the United States, “Indignados” and “Podemos” in Spain, etc.) and leveraging their social ties to be part of the solution in the face of the financial problems.

One of their basic solutions consisted of bypassing the conventional institutions as intermediaries of collecting funds from one and lending them to others. Crowd-based initiatives used the power of people to unlock funds for small entrepreneurial and local projects. The idea was to link people who had extra capital to people who needed capital.

While the emerging community-based solutions had almost always existed, they experienced a renaissance after the financial crisis of 2008. Crowdfunding and Slow Money are from this strand. Both resort to people for supporting project initiators and entrepreneurs. The idea behind these new modes of funding is to offer people to invest in projects they relate to.

This chapter compares the two crowd-based solutions of crowdfunding and Slow Money. Crowdfunding is the process by which capital is raised for a project through pooling numerous and relatively small financial contributions or investments (Belt et al, 2012). The rationale is similar to any entrepreneurial project that is funded through conventional channels: profitability, or at least financial sustainability.

Slow Money is socially and proximity oriented. It encourages consumers to buy from and investors to support local businesses. Woody Tasch, founder and chairman of Slow Money, a nonprofit organization, criticizes the grow-big-and-go-global-fast mode of industrial and capitalist agriculture, and calls for a capitalism that restores biodiversity, soil health and the local economy (Tasch, 2009). Kurland et al. (2012) believe that Slow Money is part of the localisation movement with four priorities: independent ownership, local buying, local sourcing, and pragmatic partnering. They also identified other values such as responsibility to workers and the natural environment (Kurland et al. 2012).

The ultimate objective of this research is to identify similarities and differences between crowdfunding and Slow Money in financing small projects. Do they have the same mission? Are they challengers or partners?

COMPARATIVE ANALYSIS OF CROWDFUNDING AND SLOW MONEY

In this section, we compare crowdfunding and Slow Money in terms of rationale, networks (communities) of initiators and backers, and regulations.

For crowdfunding, the analysis is mainly based on relevant literature. For Slow Money, because of its relative newness, the review will mainly be based on the founding book of the movement, “Inquiries into the nature of Slow Money” (Tasch, 2009), some direct meetings with key people and the related websites through fifteen states in the United States and one in France.

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