

## Chapter 10

# Breaking the Formal Financing Barriers Facing Entrepreneurs: Crowdfunding as an Alternative Financing for Enterprise Development in Nigeria in the Digital Era

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### ABSTRACT

*Financing programs at both start-up and growth phases are confronted with a number of institutional barriers. However, the digital era with its attendant benefits of interconnectedness has provided an alternative financing option called crowdfunding for internet-savvy entrepreneurs. Crowdfunding is a digital-based tool used to raise funds for different projects contributing to socio-economic development. The chapter discusses crowdfunding as an alternative financing option for enterprise development in Nigeria. Using a desk research technique, this chapter highlights the prospects of crowdfunding and strategies for leveraging crowdfunding as a viable alternative financing alternative in Nigeria. As an internet-driven process, this chapter identifies a number of challenges, but the most fundamental is the absence of regulatory environment to protect investors, a development that is in contrast to developed countries where crowdfunding is guided by enabling legislation. The chapter concludes with a number of research implications and suggestions.*

### INTRODUCTION

Financing programs at both start-up and growth phases are confronted with a number of institutional barriers. These barriers prevent entrepreneurs from accessing the required external financing support for survival at the early phases of their development. There are many entrepreneurs, whose dreams of establishing innovative businesses and creative projects have long been forgotten due to lack of start-up funds. Apart from the stringent conditions attached to conventional financing programs, there are dif-

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ferent conditions tied to loan disbursement by the commercial banks, venture capitalists, angel investors and development banks. Personal savings as of most entrepreneurs are often grossly inadequate to grow their businesses beyond start-up and early growth stages. For formal loans from commercial banks, microfinance banks and other financial institutions, Bazza, Maiwada & Daneji (2014) noted that these banks provide short-term loans at higher interest rates, as well as impose very stringent conditions on fund-seeking entrepreneurs that approach them for funding support. Apart from very high interest rates, there are other associated transaction costs – a situation that makes commercial loans too expensive and unfriendly to both new businesses and existing businesses (Onakoya et al., 2013). Unfriendly interest rates charged by the commercial banks discourage start-ups and early growth businesses from patronizing them for loans. Loans from commercial banks are also inhibited by the inability of most borrowers to provide the needed collateral securities when requested by financial institutions (Ehimagunmwende 2016). Provision of collateral securities – a precondition required by the commercial banks and development banks is a major barrier in accessing financing in Nigeria. Without collateral securities, banks do not provide financial support regardless of the viability of the business models. This negative attitude of banks is borne out of the past experiences they had with defaulting entrepreneurs. However, the digital era with its attendant benefits of interconnectedness has provided an alternative financing option called crowdfunding for internet-savvy entrepreneurs. Crowdfunding is a digital-based tool used to raise funds for different businesses and social projects impacting on socio-economic development in different parts of the world. While crowdfunding is popular in developed economies such as the US, UK, France, Canada and Italy, it is an emerging financing option in Nigeria. The purpose of this chapter is to discuss crowdfunding as an alternative financing option for enterprise development in Nigeria. The less popularity of crowdfunding in Nigeria in spite of the growing number of internet users justifies the need for this exploratory chapter. Another important justification is the unique advantages it offers entrepreneurs and project owners as an alternative financing program. By unveiling the prospects of crowdfunding to fund-seeking entrepreneurs, investing publics and the academic, this chapter will enrich the understanding of the stakeholders as well as open the door for richer and indepth research on the subject matter.

In view of the foregoing, this chapter discusses crowdfunding as an alternative financing for enterprise development in Nigeria in the digital era. Specifically, the two research questions that this chapter intends to answer are: (a) What are the prospects of crowdfunding for enterprise development in Nigeria in the Digital Era? (b) What are the typologies of crowdfunding and the key challenges facing this alternative financing option in the developing context of Nigeria?

There are eight (8) sections in this chapter. Section 1 discusses the background to the chapter including the methodology and approach. Section 2 discusses financing options in Nigeria and imperative of crowdfunding. Section 3 defines crowdfunding, best practices and typologies. Section 4 provides a theoretical underpinning for crowdfunding in Financing leveraging social exchange theory (SET). Section 5 highlights the prospects of crowdfunding in a developing context. Section 6 explains systematically the strategies for crowdfunding venture financing. Section 7 highlights the challenges of crowdfunding in a developing economy. Section 8 concludes with summary of discussion and implications of research including suggestions for further research.

## **Methodology and Approach**

A qualitative research method is adopted, while relying on desk research as the preferred technique for conducting the study. The approach is effective for exploring poorly researched issue or new phenom-

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