

Chapter 15

Crowdfunding for Infrastructure Project Financing: Lessons Learned for Asian Countries

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ABSTRACT

Infrastructure plays a pivotal role in national development. However, financing infrastructure projects becomes a major hurdle as it is often considered unbankable, high risk, and requires a long payback period. The use of crowdfunding as an alternative source for infrastructure project financing is flourishing, especially in European and American countries. In contrast, the utilization of crowdfunding for such purposes in Asian countries is very limited. Hence, this study reviews four crowdfunding platforms in Europe and America that have successfully raised capital for infrastructure projects which are Oneplanetcrowd, Convergence Finance, Citizenergy, and Infrashares. Learning from best practices of those platforms, policies, and regulations, the study proposes four crowdfunding business models to be implemented in Asian countries including (1) blended finance, (2) cross-border citizen funding, (3) commercial infrastructure financing, and (4) within country crowdfunding.

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INTRODUCTION

Inevitably infrastructure has a vital role in a nation's economic development. Numerous studies, both theoretically and empirically, have strongly supported the notion. From various countries' experiences, Kessides (1993) comprehensively found that infrastructure has a positive impact on cost reduction, production, investment, employment, international competitiveness, domestic market development, economic diversification, the structure of production and consumption, personal welfare, wealth, productivity, and the environment. In Asia, by taking cases of the Philippines, China, and Pakistan, Cockburn, Dissou, Duclos, and Tiberti (2013) conclude that spending on public infrastructure plays a critical role in promoting economic growth and poverty alleviation.

Although it provides many benefits for economic development, infrastructure project requires a considerable amount of capital investment. McKinsey Global Institute (2013) estimated that accumulated capital required up to 2030 for infrastructure projects reaches USD 57 trillion. Some of the factors affecting the investment gap are 'unbankable' projects, hardship in managing macroeconomic and political risk, and mismatch between offered investment instrument and the requirements of investors (Tyson, 2018). This challenge even heavier for low income and lower-middle-income countries. Investors tend to put their money in countries with strong fundamentals and politic stability.

Concerning this financing gap issue, infrastructure project needs an alternative source of funding, diversified investors, and innovative financing process and intermediary. One of the alternative sources that has vast potential is through Financial Technology (FinTech). The rapid development of technology has also revolutionized financial services. FinTech is a financial service that combines modern financial services with innovative technology (Dorfleitner, Hornuf, Schmitt, & Weber, 2017). Generally, FinTech attracts consumer through its Internet-based products or services usually using a web or more efficient, transparent, and automated. Those features are aspects that make FinTech differ from conventional financial services.

One of the FinTech services that has grown remarkably is capital raising and financing. Peer to peer lending FinTech has been widely used around the world, even in low income and lower-middle-income countries. It has served various consumers ranging from personal consumers to large corporations. Another financing FinTech service with notable impact is capital raising and public financing through crowdfunding. Crowdfunding has become an effective method to raise capital and finance projects and other purposes. Currently, it has been widely used to fund creative projects and social purposes. For instance, up to June 2020, Kickstarter as the most popular crowdfunding platform to fund innovative projects has successfully funded 182,795 projects and raised more than USD 5 billion from nearly 18 million funders (Kickstarter, 2020). However, most crowdfunding platforms for infrastructure projects operate in western countries mainly in Europe and America, while in Asia, it is not developing yet.

Therefore, this study aims to provide policy recommendations on how to optimally utilize FinTech as an alternative project financing method for Asian countries. The policy recommendations are mainly based on an in-depth review of the successful case of crowdfunding platforms engaged in infrastructure project financing. The selected platforms are OnePlanetCrowd (Netherland), Convergence Finance (Canada), Citizenergy (Europe), and InfraShares (USA). They are chosen by considering their business model, number of projects funded, and the amount of capital raised. Based on these, the authors formulate crowdfunding models and make an adjustment for Asian countries' context. Following this introduction, the chapter comprises another three sections, which are a literature review of crowdfunding, a review of each selected platform, as well as conclusion and policy recommendations.

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