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## CROWDFUNDING AND SMEs FINANCING IN NIGERIA- THREAT AND OPPORTUNITIES

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### ABSTRACT

Crowdfunding is a new dimension of sources of finance which provides Small and Medium Enterprises (SMEs) and other creative ideas initiators the opportunity to raised fund from the crowd by harnessing the power of the internet. As a new form of financing opportunity, the key knowledge of the concept is lacking on the part of entrepreneur, the financial expert, academicians and the general public. This calls for better understanding of the concept, models, element and environmental characteristics for its implementation and usage by entrepreneurs. It is against this background that the study examined crowdfunding as alternative sources of finance for SMEs. The study employed an exploratory research design with focus on literatures on the field of accounting and finance relating to the topic. The study concluded that one of the innovative ways for SMEs and creative ideas initiators becoming increasingly important and irreplaceable in promoting economic development is to improve on method of financing through crowdfunding as this had contributed to growth of SMEs in some developed countries. However, in Nigeria, there is the need for government to provide the regulatory framework and awareness that will support crowdfunding with good internet network for interaction between the promoters and investors.

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### INTRODUCTION

Crowdfunding with the aid of the internet is an emerging financing innovation available to entrepreneurs and other laudable creator of innovative business ideas to source for fund to finance projects or creativity ideas for an agreed rewards. In recent time, it has gained world-wide attention as an alternative means of financing start-up business and social projects. It is a new and rapidly growing form of financial intermediation that channels funds from investors or savers or contributors to borrowers, individuals or companies or users of equity capital (companies) without involving traditional financial institutions such as banks (EU, 2015). This method of financing which have more than 450 platform worldwide had become prominent in the developed economy likes USA, France, Britain, Netherland, China and India but at low level of usage in Africaparticularly Nigeria for entrepreneurship financing.

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It is a technique of fund raising through social media platform by means of showcasing details information, videos and pictures in respect of a profitable and non-profitable business ideas or projects. It is an alternative financing method of new innovation of the 21<sup>st</sup> century available to Small and Medium Enterprises (SMEs) and other social projects such as entertainment business, healthcare donation and other small creative ideas. It is not only an access to finance by SMEs but also as a means of access to investment opportunities to a larger group of individuals. According to Mollick (2014), it is a form of fund raising through the internet from large group of people without the involvement of any traditional intermediaries. Nordin, Ismael and Zainuddin (2017) stated that the alternative means of bringing the dream of creative ideas and SMEs into fulfilment is by adopting crowdfunding. This alternative means is due to the fact that entrepreneur faces various challenges of raising fund for start-up business from banks which is usually based on selective and stringent condition being attached to such loan application. One of these challenges for SMEs is stringent condition for sourcing for

fund and this problem is one of the major constraint to SMEs growth and development. Sourcing of fund problem through traditional sources calls for alternative sources of fund for SMEs and this alternative sources of fund is crowdfunding. Crowdfunding is not a new form of fundraising method but the advent of technology especially the modern day usage of internet has made the concept a new form of ways by which SMEs and creative ideas could be funded (Soreh 2017). Wieck, Bretshneider and Leimeister (2013) stated that Crowdfunding is an alternative sources of fund which provides SMEs and other creative ideas initiators the opportunity to raise fund from the crowd by harnessing the power of the internet for business start-up. According to Fleming and Sorenson (2016) it is an alternative means of finance for business start-up since accessing capital from the conventional financial institution had become difficult and stringent. As a new form of financing opportunity, knowledge of the concept is lacking on the part of entrepreneur, the financial expert, academicians and the general public.

Crowdfunding is different from other means of finance available to SMEs. In crowdfunding approach, SMEs or project initiator approaches a crowdfunding platform or website by introducing the intended project to interested parties or crowd funders in the form of listing. The necessary information about the project will be showcase through the internet for interested crowd funders for decision making. This gives the crowd funders the opportunity to appraise the project to either support or not to support the ideas based on their perception. The potential investors or crowd funder formed an opinion on which investment to invest into based on investment opportunities available. The supporters of the project with financial commitment are regarded as backer and are rewarded. The reward could be in form of monetary or material; or non-monetary or non-material depending on the purpose of the campaign and backers perception of the projects (Agral, Catalini & Goldfarb, 2014). There are three parties to crowdfunding, these are fund seekers, crowd investors and internet platform operators. Trust is key to the success of crowdfunding which flows through the form of shared values or geographical boundary. A double trust dilemma according to Hornuf and Schwiendbacher (2016) might arise when SMEs seeks fund from external sources through crowdfunding. This could likely involve loss of creative ideas by SMEs to fund provider due to the release of valuable information in respect of such creative ideas or the projects to the general public which can be replicated and used by the potential investors. This issue of loss of creative ideas reduces the opportunity from using crowdfunding as means of fund raising and also limits innovative projects ideas. This means that only projects that will be difficult in replicating will be readily available for crowdfunding and also provided by SMEs for showcasing.

In developed countries, large number of SMEs had used crowdfunding platform to raised fund to start their businesses as it often provide a simple and faster access than the traditional method of financing. In these developed countries, there are various crowdfunding platforms that had successfully aid fund seekers in raising fund for their business. In USA, there are Indiegogo (<https://www.indiegogo.com>) established in 2008 and Kickstarter (<https://www.kickstarter.com>) which commenced operation in 2009. In France, there is My Major Company which is the leading crowdfunding platform and it commenced operation in 2007. Indiegogo in 2015 raised USD12million for Flow Hive in developing a project of better

way of harvesting honey without being disturbed or stung by bees. Kickstarter also in 2015 raised USD 20million for a project called Pebble Time Smartwatch. MyMajor Company in France had also assisted young artist to raised fund for career development (Nordin, Md. Sum & Zainuddin, 2018). SMEs occupy a pivotal position in economy development in terms of entrepreneurship development, employment generation, Gross Domestic Product (GDP) growth contribution, product diversification, market penetration and forward integration with large scale industries. In Africa, crowdfunding is at low level of awareness and its future expansion as an alternative financing option for SMEs is hinder by low form of internet web operation, low social media usage and limited amount of fund that can be transferred through few approved payment options platforms in most African countries. The advantage of crowdfunding concept had led some enterprises to embrace it which had led to the creation of numbers of platforms in Africa likes Crowd Africa, Afrikstart, Thunda Fund, StartMe, Jumpstart Africa, Nigeria 234 Gives and Fund Find Slice Biz. Afrikstart (2015) reported that there are 57 active crowdfunding platforms in Africa and these crowdfunding platforms jointly raised \$32.3 million in 2015 which is less than 0.1% of the world crowdfunding activities with South Africa being the leading country in this fund raising.

Besides, according to World Bank estimates in Foundy.com (2017), it was reported that the Sub-Sahara Africa crowdfunding markets would be \$300 billion in 2025. This would be achieved with South Africa leading the way in Africa crowdfunding platforms with 21 operational platforms and this is followed by Nigeria with 9 platforms. In respect of 57 active crowdfunding platforms in Africa, 9 were launched in 2012, while 17, 26 and 23 were launched in 2013, 2014 and 2015 respectively. As at 2015, the crowdfunding market in the continent had 21 donation based platforms (37%), 19 equity based platforms (33%), 13 reward based platforms (23%), 2 peer to peer lending platforms (3.5%) and 2 hybrid platforms (3.5%). The donation and equity based platforms are the fast growing crowdfunding models in Africa. Crowdfunding in Africa has much focus in promoting fund raising for social causes, business and entrepreneur projects, creative and innovation projects with relevant percentage of 31.5%, 21% and 17.5% of the total platforms respectively. In Nigeria, SMEs are faced with problem of underperformance which could be attributed to poor funding which are paramount with other issues such as lack of access to technology, low managerial skill, un-conducive business environment and lack of access to fund (Kazaure & Abdullah, 2018). The money deposit bank which supposed to be one of the financiers of SMEs had in the past failed in assisting this sector due to high risk and uncertainties. The failure of money deposit bank in alleviating finance need of SMEs had made viable ideas not to see the light of the day. In some cases, an established SMEs by a promoter faces the problem of expansion and growth due to inadequate funding where necessary, thereby shortchanging the vital roles and contribution of such SMEs to the economy. SMEs is key to nation's growth and development. It also enhances employment of individuals by reducing the rate of unemployment in the society. It also provide the platform for reducing individual migration from the rural geographical location to the cities. In view of these benefits, finance still posed a major challenge to SMEs as a vehicle of growth and development in an economy whereby lack of access to finance had led to some business closure (Gbandi & Amisshah, 2014). In Nigeria business environment, SMEs has the highest

numbers business enterprises as it accounted for over 90 percent of businesses. Although with this contribution to business environment, it has a very low contribution to GDP of 1 percent due to poor funding which leads to other problems such as lack of management expertise and access to modern technology (Kazaure & Abdullah, 2018).

In finding solution to this problem, Agral, Catalini and Goldfarb (2014) reported that the constraints experienced by SMEs and creative ideas in the search for fund when required for purpose of growth and expansion, profit prospect and increase in business market share can be resolved with the use of crowdfunding. Ariyo (2000) stated that the problems and challenges which SMEs and creative ideas initiators faces in terms of raising finance could be attributed to their inability to recognize other sources of finance available for them to use. As the traditional and intended investors backs out, coupled with non-intervention of finance from the government agencies and other financial assistance from elsewhere, SMEs and creative ideas initiators has no option than to tapped into other means of fund raising. Therefore, using the crowdfunding platform to fill the gap created by the money deposit bank and other government agencies becomes inevitable in order to enhance the business operation of the SMEs. In present day, crowdfunding is fast growing and popular as an innovation internet based platform of financing creativity ideas and new project (Suhaili & Palil 2016). This enables entrepreneur to source for fund, contribution, donation, equity or loan through internet platform from group of individuals across the globe in financing creative ideas and start-up business (Yu, Johson, Lai, Cricelli & Fleming, 2017). The knowledge gap on the other sources of funding being available to SMEs in Nigeria has made this paper to focus on crowdfunding as an alternative form of finance, this would provide knowledge on crowdfunding for academics, SMEs and project initiators. According to Hossain (2015) crowdfunding is still scanty and sketches in literature and as a focus of finance by entrepreneur, it is not popular in developing country like Nigeria. Even few of the studies on crowdfunding were carried out in developed countries. Najah and Jaboui (2015) reported that crowdfunding as a studies is less explored by researchers. This was collaborated by Mollick (2014) who stated that the basic knowledge of Crowdfunding is lacking and therefore call for better understanding of the concept, element and environmental characteristics for its implementation and usage by entrepreneurs. Small business faces difficulties in obtaining capital for start-up from banks as these banks becomes more selective and reluctant in granting loans to this types of business.

The objectives of the study are to outline and explain the concept of crowdfunding, to promote the usage of crowdfunding as alternative sources of raising money for product development, expansion and growth, commercialization and financial stability for SMEs in Nigeria, to create awareness among the general public especially the potentials users of crowdfunding as one of a modern day form of seeking financial funding with less stringent process as obtainable in money deposit bank, and to explore the importance of crowdfunding and the ways in which the concept operates compared to other traditional method of raising fund by entrepreneur. The theoretical implication of the study is the contribution to knowledge and literatures as crowdfunding is still an emerging issue with less related research.

## Review of Extant Literature

### Conceptual review

**Crowdfunding:** Crowdfunding is an emerging trend for small, micro businesses and individual entrepreneur to source for fund via an internet dominated platform. The term crowdfunding comes from crowdsourcing which has been defined as the process of obtaining required services, ideas or content by soliciting contribution from the large group of individual especially through internet platform of online community (Pekmezovic & Walker, 2016). Crowdfunding on the other hand is a process of fund raising from potential investors, donors or sponsors to finance creative ideas, start-up business or new ventures as a form of turning ideas into business reality. The word crowd in crowdfunding means the people (general public) connected through the internet platform and this might include potentials investors such as banks, individuals, donors, business angels or venture capital providers. The major difference between crowdfunding and crowdsourcing is what being provided by the crowd. In crowdfunding, the crowd provide the fund while in crowdsourcing, it is the labour that the crowd provides. Hossain and Oparaocha (2017) defined crowdfunding as an internet based method of fund raising for creative ideas, projects or task in form of contribution or pledge of money by large pool of people within a limited time frame. Schwienbacher and Larralde,(2010) stated that entrepreneurs will rely on the internet to directly source for financial help from the general public (the crowd) instead of approaching financial investors such as business angels, banks or venture capital funds because of the stringent method of sourcing fund from these channels.

This method, called crowdfunding has made possible in seeking capital for project and specific investments as well as for starting up new ventures. The concept of crowdfunding can be understood as an integral part of the concept of crowdsourcing. The objective of crowdfunding is to raise money for investments through the use of social networks on the Internet. The crowdfunders (those who provide the money) can at times also participate in strategic decisions or even have voting right. In other words, instead of raising the money from a very small group of sophisticated investors, the idea of crowdfunding is to obtain it from a large audience where each individual will provide a very small amount. Thus raising funds by tapping the general public (or the crowd) is the most important element of crowdfunding. Belleflamme, Lambertz, and Schwienbacherx, (2013) sees crowdfunding as an open invitation, especially through the internet platform, for capital, either in form of donation or payment for future product or service, or as future reward for supported business ideas or specific purposes. Bouncken, Komorek and Kraus (2015) also see crowdfunding as a means of raising fund from the public especially group of individuals around the world using internet based platforms. Collins (2014) asserted that four technological advances have assisted the growth of crowdfunding. These are the ability to easily set up a free online platform, secure online money transferring services and accurate credit scores. The three component of crowdfunding are large number of investors, the provision of relatively small amounts of money from each investors, the use of the internet, which is used for its conveniences and ability to connect individuals across the globe.

## Historical Background of Crowdfunding

Crowdfunding had been used for decade. In 1884, a business proprietor Joseph Pulitzer Company approached the public to raised fund for the installation of pedestal for the statue of liberty in New York harbor with donation of £1 or less in which Pulitzer raised more than £100,000 from 125,000 individuals in six months (Collins, 2014). In the modern day phenomena, crowdfunding can be traced to microfinance and microcredit operation. Crowdfunding is the fusion of two concepts crowdsourcing and microfinance. The objective of microfinance is for the eradication of poverty among the public within a society by ensuring finance is made available to individuals who could not have access to bank loan. In the developed world crowdfunding started from music and film industries. This is in line with private sponsorship and donations that favor arts and cultures. The concept gained popularity in 2009 with the establishment of the popular crowdfunding platform called Kickstarter. The historical time lines of crowdfunding according to FSD Africa Report, (2017) are as follows, In 2000 Artist Share launches the first crowdfunding platform for creative industries. In 2005 Zopa becomes the world's first peer-to-peer consumer lending platform and Kiva (microfinance lending platform) was also launches. In 2007 Indiegogo was launches in US as rewards crowdfunding platform. In 2009 Kickstarter was launches in US as rewards crowdfunding platform. In 2011 Peer-2-Peer Finance Association launches in the UK known as Crowdcube being the first equity crowdfunding platform that was launches in the UK. In 2012 UK Crowdfunding Association was launched and President Obama signs JOBS Act.

In 2013 UK FCA launches consultation on crowdfunding and Italy (CONSOB) introduces strict equity crowdfunding regulations. In 2014 New Zealand introduces crowdfunding legislation while India launches equity crowdfunding consultation and IPO of Lending Club known as consumer lending platform. In 2015 Malaysia introduces equity crowdfunding regulation and TrustBuddy known as Swedish lending platform files for bankruptcy due to mismanagement while DFID launches CrowdPower for renewable energy for crowdfunding in developing countries. In 2016 UK HMRC launches 'Innovative Finance Individual Savings Account, Lending Club faces grand jury subpoena for improper financial disclosure, India conducts consultation of online lending regulation, Funding Circle lists SMEs fund for institutional investors, Ezubao, Chinese lending platform, was exposed as \$7.6bn Ponzi scheme. Also in 2016, UK FCA launches first Regulatory 'Sandbox, Regulatory Sandboxes was also launch in Singapore, Australia, Malaysia and Hong Kong. Malaysia introduces peer-to-peer lending framework, China introduces peer-to-peer lending guidelines while FSD Africa hosted an indaba in June 2016 to discussed potential of crowdfunding for East Africa. Crowdfunding development depends on the conducive legal environment. According to Hornuf and Schwiendbacher (2017) different countries had promulgated laws to promote equity crowdfunding in order to guides its operation and also mitigate against the crowd risk. France and United Kingdom had also drafted regulation to guide and control the operation of loan based crowdfunding. Besides, the first country in the world that proposed equity crowdfunding law as part of the Jumpstart Our Business Startups (JOBS), Act, 2012 is USA. This was implemented by Securities and Exchange Commission (SEC) in 2016. Some other countries such as France, Italy, Belgium, Germany, Austria and UK had

followed these steps but with different approach but the same similarities. The laws require the crowdfunding issuer to disclose relevant information about the company's activities in addition to the limits of fund that each crowdfunder can invest and the amount which issuer can raised within a period of one year. In addition, the crowdfunding portal required to be registered with the commission. The essence of this regulation is to minimized crowd risks in terms of fraud risk or risk associated to the type of investments especially in equity crowdfunding. In addition, Jegelericiute and Valanciene (2015) stipulated that different countries promote crowdfunding using different approaches and some of these approaches are provision of appropriate legal framework that enhances transparency and legal funding market places, promotion of crowdfunding platforms with strong social media market and good internet usage enabling environment, promoting an appropriate crowdfunding campaign, proper enlightens on workability concept of entrepreneur and working process to potentials investors. Besides, country promote crowdfunding using standard and best practices that fit into circumstances prevailing in respective country. In Nigeria, Securities and Exchange Commission (SEC) had suspended the operation of crowdfunding based on their valid view that Companies and Allied Matters Act (CAMA) 1990 and Investment and Securities Act 2007 did not considered crowdfunding as alternative sources of fund to be used by SMEs. Although SEC has put all necessary machinery in place by looking at various laws and regulations that guide the operation of crowdfunding in USA, UK, Canada and other developed nations with a view of instituting the enable environment and laws that will guide the operation of this new innovation of financing start-up business.

## Models of Crowdfunding

The recent research on Crowdfunding as posited by Massolution (2015) cited in Soreh (2017) suggests varied models such as donation based, reward based, equity based, loan based, pre-order and hybrid. Donation and reward based are classified as community/ non-financial crowdfunding while equity and peer to peer lending are regarded as financial crowdfunding.

### Donation based model

It is a Crowdfunding approach in which the campaigner seeks for a small fund in the form of donation from various individual in the public (crowd). The purpose is to assist in financing a project or ideas without an expected reward by the donor. It is a form of contributing money in support of a particular cause or project such as educational programme, famine and disaster relief. The only reward derivable by the financial supporter is the satisfaction he/she get in donating to a worthy cause as the project continued to perform and do well in the market as projected by the initiators. Example of these type are JustGiving (<http://www.justgiving.com>), Go Fund Me (<http://www.gofundme.com>).

### Reward based model

This is a non-monetary reward from the donor. It is a form of soliciting for financial support from the crowd in return for a tangible or non-tangible items. A tangible reward could be in form of cloth, equipment, machinery or company's products while non-tangible could be in form of personal thank you,

advertising of donor's name, showcasing the donor name on the project or recognizing the donor as a supporter. Example are Kickstarter (<https://www.kickstarter.com>) and Indiegogo. (<https://www.indiegogo.com>).

**Equity based model:** This model of crowdfunding entails the campaigner inviting the general public to invest in a project or creative ideas in return for ownership interest. The model is fast becoming a prominent means of financing SMEs in UK and US with a good legislation backing. A backer/fund supporter gets an equity ownership of interest in the company in return for their donation which enables them to participate in the sharing of future profit generated by the project. According to Soreh (2017), World Bank put equity crowdfunding estimate at £90 billion by 2020 but this could be achieved in earnest as a result of trend in this model of financing. Example is Peer Realty (<http://www.Peerrealty.com>).

**Loan based model/ Peer to Peer lending (P2P):** This also called micro-finance or peer to peer lending. It is a form whereby the contributors sees their fund as loan to attract interest payment at maturity or crowdfunders made contribution into a pool for SMEs to raise fund in form of debt finance. Massolution (2016) posited that in 2015, £25 billion was raised through crowdfunding using debt contracts approach. The peer to peer lending is very common in countries where it is difficult to source bank loan to start a business. There are various lending club sites for loan based model of crowdfunding in developed countries where investors make returns to contributors in the form of interest, although it has a very high risk which is associated with the fund contributed. In Malaysia, there is B2BFinPal (<http://www.b2bfinpal.com>).

**Product pre-order model:** The campaigner sells his product at a very cheap price in return for a pledge. The backer supporters are those that pledge for the product. It achieves the aim of ensuring the campaigners the opportunity of returning the money raised to the contributors.

**Hybrid model:** This form of model offers more than one approach at a time. According to Abushaban (2014), it is a campaign for capital as loan as well as a pledge. In the form of capital, the platform focuses on business start-up which gives the contributors the opportunity to co-invest in the project in the form of venture capital. The major characteristic of crowdfunding is that creative ideas initiators needs to supply details information about the ventures to the general public through the internet as a means of convincing investors to contribute. The essence of this is to reduce information asymmetry, fraud and risk associated with the venture to the investor.

**Small and Medium Enterprises:** Literature review on the definition of Small and Medium Enterprises (SMEs) indicates that SMEs definition varies from country to country as there is no specific definition rather it depend on various parameters such as capital outlay, number of employees, fixed assets values, market share, production capacity, method of technology used, capital employed and management characteristics (Harabi, 2005). In Nigeria, National Bureau for Statistics (2015) defined SMEs based on three classification such as Micro enterprise with staff employment less than 10 and Assets value (excluding land and building) less than ₦5

million. Small enterprises with staff employment between 10 and 49, while the Assets value (excluding land and building) ranges between ₦5 million and ₦50 million. The third classification is Medium enterprises with staff employment ranging between 50 and 199 with Assets value (excluding land and building) ranging between ₦50 million and ₦500 million. The Central Bank of Nigeria (CBN) defined SMEs based on small scale business with total assets value (excluding land and building) of less than ₦1 million with less than 50 employees while the medium scale business are those with assets value (excluding land and building) of less than ₦50 million with a staff strength of 50 to 100 employees. According to Gbandi and Amisah (2014) SMEs in UK were classified as those business with sales value less than £200 million and with staff strength less than 200 while in Japan SMEs is a form of business with sales turnover not more than 100 million yen with a staff strength of not more than 300 employee. Ayozie, Oboreh, Umokoro and Ayozie (2013) reported that in USA SMEs is regarded as independently owned business being operated and finance by small group of people with a staff strength maximum of 1500 depending on the type of industries.

Commercial banks, merchant banks, and development banks are the formal provider of finance to SMEs but in recent time these banks had relents in their effort in providing fund to SMEs. SMEs are seen as playing a pivot role in the economies development of many countries through employment generation, economic growth, entrepreneurship development and product development. Based on this; most governments all over world focus on the development of the SMEs sector in order to enhance economic growth and social development. Besides, SMEs in Asian countries such as Malaysia, India and China had contributed to the economic growth and development of such countries. According to Gbandi and Amisah (2014), SMEs in India accounted for 39 percent of manufacturing output while SMEs accounted for 33 percent in the country's total exports. Even with government support for growth, conducive environment and good regulatory framework, finance still poses challenges to many SMEs and creative ideas initiators in starting up a business in these countries and all over the world (Najah & Jarbou, 2015). SMEs are expected to be used by a responsive government as an important tool to address the challenges of job creation, sustainable economic growth, equitable distribution of income and the overall stimulation of economic development (FinScope, 2010). According to the Organisation for Economic Cooperation and Development (2014), SMEs are crucial for shaping new paths to more sustainable and inclusive growth in the economy because of their role in developing and dispersing innovation and providing employment to the able employable citizen. In the context of this paper SMEs definition by CBN will be adopted since this accounted for over 80 percent of Nigerian businesses.

**Financing Need of SMEs in Sub-Africa and Nigeria:** The SMEs financing difficulties is a common thing in many countries all over world. SMEs are more constrained in raising fund when compared to big companies. The World Bank report shows that 39 percent and 37 percent of small scale and medium scale businesses respectively lack adequate access to fund for business operation and this had led to sudden closure of some of these businesses (Kzazure & Abdullah, 2018). The financing gap combined with the rise of social media and online interactive platforms, has led to the increased popularity

of crowdfunding as a potential alternative sources of finance. Therefore, crowdfunding is a means of enlarging finance for SMEs firm and entrepreneurs by offering financial backing when traditional forms of finance are missing, eliminates geographical barriers to raising finance; serves as path to identify good investment projects, which is a unique way to validate original ideas in front of a specifically targeted audience; and attracts investment by appealing to both financial and non-financial motives of the investors (Pierrakis & Collins, 2013).

### Threat

Crowdfunding as an online web platforms for raising fund by SMEs from potential crowd investors is a new innovation around the world. It faces enormous threat such as:

1. SMEs inability to compensate or return investors fund where the platform operator do not guarantee the success of the project (Bergamini, Navarro & Hilliard, 2017)
2. Lack of proper evaluation of risk and value of projects
3. Lack of appropriate skills by crowd investors in assessing risk and value of projects
4. Challenges of asymmetry of information between fund contributors and creative ideas initiators.
5. Risk of cyber-attacks or online fraud due to online payments by investors which lack secrecy.
6. Risk of default by SMEs on the crowdfunding platform due to sudden closure of the crowdfunding platform thereby leaving the investors and borrowers at a loss.
7. Raising huge sum of money through equity crowdfunding can lead to money laundering.
8. Risk of liquidity as the capital market for investors fund becomes non-available when compared to other form of traditional sources of finance for SMEs.
9. Lack of specific disclosure requirement by SMEs by law as compared with publicly quoted companies.
10. Risk of ideas being stolen or lost when revealed to investors which can be replicated and executed by other parties.
11. Lack of means to protect ideas by SMEs through patents and rights.

### Opportunities

Problem of sourcing for fund by SMEs and creative ideas initiators and various stringent policies set by banks in financing start-up business had resulted to the opportunity of embracing crowdfunding. Some of these opportunities are:

1. It provides opportunity for social interaction and individual connection for future benefit
2. It reduces cost and time required to raise fund as through the social media platform millions of individual could be reached all over the world and the projects can be seen and appraise.
3. It often much simpler fund raising alternatives.
4. It measure the marketability of projects at early stage by reaching the accredited investors who intend to invest.
5. It created an opportunity for new portfolio investors as documents and other related information relevant

to the project are kept online for investors peruse and decision making.

6. It enhances fund raising without giving up large portion of equity interest in SMEs
7. It enable risks to be spread to potential investors.
8. It leads to creation of job through projects funded and its economic added value.
9. It build and enhance project awareness even before the completion of the project.

### Theoretical review

The study adopts the social exchange theory and technology acceptance model.

**Social exchange theory:** Social exchange theory proposes that social behavior occurred as a result of exchange process. The essence of this exchange for an individual is to maximize benefit and minimize costs. The theory stipulates that individual weigh potential benefit against the risk associated with social relationship (Rusbult, 1963). Homans (1958) stated that during the period of social interaction, the type of merchandises exchange is the various social behavior of individuals. Interaction is synonymous to social behaviour where an action carried out by one person is rewarded or punished based on the action undertaken by another person, therefore irrespective of the action behaviour, it could be stated that the two people surely interact. This interaction reward could either be tangible or intangible. The higher the individual's compensation than the interaction cost, the better for continuous interaction whereas if the interaction cost is higher than the compensation value, individual will stop the interaction (Organ & Konovsky, 1989). The theory can be used to explain the cost/benefit analysis in respect of online activities engaged by users. In crowdfunding, promoters may trade off the perceived advantages such as innovative products and sharing ideas against the perceived costs such as product quality which does not meet expectations, delayed product delivery and patent infringement which affects their attitude, trust and commitment toward crowdfunding projects. Homans (1958) posits that communication and trust are the basis of interaction models between people by which the social exchange theory postulate. The study uses social exchange theory to explain exchange behaviors between individuals and groups by considering crowdfunding promoters as individuals and new entrepreneur teams as groups, whereby mutual communication, trust and commitment are established through crowdfunding platforms to facilitate social exchange behaviors and benefit.

**Technology Acceptance Model (TAM):** Fred D. Davis in 1985 proposed Technology Acceptance Model (TAM) through his doctoral thesis at Massachusetts Institutes of Technology (MIT), USA. He anchored on the previous work of Fishbein and Azjen (1975) who formulated the theory of reasoned action. The model was designed to show how individual accept and make use of technology in decision making. The theory is based on how users faced the challenges of new technology. The decision to adopt this new technology depends on three factors and these are perceived usefulness, perceived ease to use and individual attitude towards usage. Davis (1986) stated that perceived usefulness is based on individual believe that technology will enhance activity performance, perceived ease to use is individual believe that technology will enhance freedom from physical effort whereby technology is seen as

alternative better option than its substitutes. Besides, perceived usefulness and perceived ease to use is seen to drive the attitudes toward the usage of technology in decision making which is a determinant factors in accepting technology.

**Empirical review:** Fatoki (2014) in the study financing options for new small and medium enterprises in South Africa concluded that new SMEs is vital to solving the problem of high rates of poverty and employments in South Africa. The failure rate of new SMEs is very high due to lack of funding by banks. The study suggested that one of the alternative means of sourcing for fund by SMEs is crowdfunding while the government should provide a good regulatory environment that will enhance the operation and management of crowdfunding. Zhao, Chen, Wang and Chen (2016) in the study determinants of backers funding intention in crowdfunding: Social exchange theory and regulatory focus, concluded that crowdfunding had turned out becoming a popular financing channel worldwide but rather the success rate of crowdfunding project is less than 50%. The study suggested that projects proponent should not only attract more visitors but to understand funding intention which leads to the success of the fundraising project. Furthermore, Golic (2013) studies the advantage of crowdfunding as alternative sources of finance for SMEs. It was concluded that crowdfunding serves as alternative sources of financing new small business that will enhance country's GDP while Paschen (2017) reported that crowdfunding has a role to play as a means of enhancing business start-up capital.

Mollick (2013) in the study the dynamics of crowdfunding: An exploratory study concluded that crowdfunding allows the founder of ventures to fund their effort by sourcing fund from large number of individuals (crowd) using the internet without any standard financial intermediaries. The study suggested that personal networks and underlying project quality are associated with the success of crowdfunding and that environmental and business geography is very relevant to project proposed and fundraising success. In addition, Anthony and Harry (2015) in the study SMEs firm performance-financial innovation and challenges concluded that SMEs have become a pivot force of sustained, rapid and healthy development of Nigeria economy. The study suggested that one of the ways of improving SMEs in Nigeria is to increase and improve financing provision through the crowdfunding. Furthermore, Soreh (2017) also sated in the study of awareness and attitude towards crowdfunding in Nigeria, that the new funding innovation is yet to be appraised by entrepreneur as a new form of finance. This is because the crowdfunding awareness is very low at 24% as reported by the respondents while most of the respondent cannot identify any crowdfunding operating in Nigeria. The study suggested that crowdfunding is a possibility in Nigeria if people become more positive regarding the concept and having attitudinal change toward it as a means of funding SMEs and new innovation ideas. This was also corroborated by Iddris (2019) on the role of crowdfunding in promoting microenterprises innovation, and thereby stated that crowdfunding awareness is key to being accepted as sources of finance for financing creative ideas.

Munyanyi and Mapfumo (2016) in the study factors influencing crowdfunding plausibility in post Hyperinflationary Zimbabwe concluded that crowdfunding is viable alternative means of financing entrepreneurship in

Zimbabwe at the time of hyperinflationary period. In addition, Barbi and Bigelli (2017) reported that with advent of crowdfunding becoming popular and growing in usage for financing start-up business, it might become a main sources of financing new and existence business in near future. Furthermore, Berndt (2016) studied crowdfunding in Africa context and concluded that there are few numbers of users appraising crowdfunding while information about it still remain scanty. In addition, Suhali and Palil (2016) in the study crowdfunding with waqf based reported that crowdfunding is still at infancy stage with less emphasis for discussion by academicians. The study concluded that waqf as a powerful instrument for community development should embrace crowdfunding technology for fund raising. In line with this, Yu *et al* (2017) recognized crowdfunding campaign as a mechanism of promoting business growth and development through alternative sources of finance.

### Methodology

The study employed exploratory research design whereby relevant literatures in the field of accounting and finance relating to the subject matters were reviewed, conclusion drawn and recommendation made.

### DISCUSSION AND CONCLUSION

Crowdfunding is spreading to emerging market in the world. InfoDev (2013) posits that an emerging market potential will have up to US\$96 billion a year by 2025 in crowdfunding investments in developing countries. The recent interests in social networks and websites visitation have contributed to the rising number of crowdfunding. Social networks and other online technology tools are particularly used for creating awareness of project for a large number of people very quickly and also means of spreading messages virally amongst online users (Collin, 2014). In 2017, Kickstarter funded over 117,000 projects costing over \$2.8 billion while in 2014, the same platform had funded 3,846 film and video projects as displayed in the site web. Some SMEs all over the world appraised the use of crowdfunding as alternative source of finance for start-up business and in 2014 the sum raised was up to \$16 billion while in 2015 \$35 billion. According to Fundly.com (2018) crowdfunding has become an important sources of finance for individual business start-up and this had enhanced over 270,000 jobs and contributed \$65 billion to world economy. The North America is the largest region in the world for crowdfunding market with crowdfunding revenue of \$17.2 billion. This was followed by Asia region with revenue of \$10.54 billion. The Europe, South America, Oceanic and Africa had crowdfunding revenue of \$6.48 billion, \$85.74 million, \$68.8 million and \$24.16 million respectively. While the crowdfunding markets exhibit rapid growth in Europe and Asia but in Africa region, it shows a very low growing rate due to lack of awareness and level of technology (Kazaure& Abdullah, 2018).

The Chinese crowdfunding market as a country at present is the largest in the world. This is not surprising, knowing that China is the second largest economy in the world, it has the largest internet user base and also the Chinese alternative finance market is largely unregulated. The first crowdfunding platform appeared in China in July 2011, and after 5 years of rapid development, the number of various crowdfunding platforms in China had reached 332 by the end of 2016. In

2015, RMB 11.424 billion (about \$101.69 billion) was successfully raised by crowdfunding platforms in China, an upsurge of 305.1% over RMB 2.82 billion in 2014. Amongst various kinds of crowdfunding, equity-based crowdfunding is favored by capitals. China's alternative finance market grew from USD \$5.56 billion in 2013 to \$101.7 billion in 2015. China delivered over \$100 billion in alternative finance, including peer to peer lending and crowdfunding, in 2015. (source:<https://www.reportbuyer.com/product/3226800/china-internet-crowdfunding-and-wealth-management-industry-report-2017.html>). In Zimbabwe, an important factor which significantly influences the operation of crowdfunding is the strong active social network platform such as twitter, Facebook, whatSapp and LinkedIn (Munyanyi & Mapfumo, 2016). Munyanyi and Mapfumo (2016) in the study factors influencing crowdfunding plausibility in post hyperinflationary Zimbabwe concluded that four factors drives crowdfunding, these are strong active social network, easy reliable payment system, a passionate audience and a funding gap whilst a lot of work is required to be done in order to improve the regulatory framework in Zimbabwe. The Investors in Zimbabwe are willing to invest in entrepreneurial ventures, with active and strong use of the social media, there are payment alternatives that can be employed by using crowdfunding platforms and there is a funding gap in the economy with regard to entrepreneurial ventures and small to medium enterprises. These factors drive the inevitability of the launch of crowdfunding as a source of entrepreneurial financing in Zimbabwe.

Crowdfunding as a means of finance for SMEs is a new concept in Nigeria and its awareness is very low among individual, professional and creative ideas initiators with no existing database and laws regulating its implementation for entrepreneurship activities. The most successful campaigns are for the sick which is health related fundraising through the Television and Radio network with a designated bank account. This is against the conclusion of Abushaban (2014) who argue that developing countries especially in Africa facing funding challenges for SMEs and innovative creative ideas may greatly benefit from Crowdfunding as the approach is capable of creating the desired positive impact on these deprived societies. The timely intervention with a policy on best practices and subsequent appropriate legislations would help in reducing certain shady deals that would further douse the fears in the minds of potential promoters, speed the awareness process so as to exploit the potentials associated with the funding mechanism. In Nigeria, crowdfunding faces the following challenges such as non-existence of crowdfunding database, lack of laws and regulation on operation and implementation for funding SMEs activities, the Securities and Exchange Commission (SEC) has no regulatory support for crowdfunding due to highlighted provision of Companies and Allied Matter Act (CAMA) 1990. Soreh (2017) stipulated that Nigeria host about nine crowdfunding platforms with several listings with indigenous site such as Naturfund, Imeela, Donate-ng, Funmilowo but with no evidence of SMEs funding. Besides, the only successful entrepreneur financing through crowdfunding in Nigeria were those listed on Indegogo and Kickstarter, although the campaigners are non-Nigerians. According to Jegelericiute and Valanciene (2015) different countries promote crowdfunding using different approach and some of these approaches are legalizing framework for crowdfunding, promoting crowdfunding platforms, enhancement of crowdfunding campaign, proper

enlighten of entrepreneur concept workability, and enlighten on administrative working process of crowdfunding to potentials investors. These approaches is based on country's standard and best practices as it fit into prevailing circumstances prevailing in each country.

SME have become the important force of sustained, rapid and healthy development of Sub- Sahara countries economy. There are many kinds of financing sources that can be adopted for financing small and medium-sized enterprises. It is important for SMEs firm to be innovative in choosing correct and appropriate financing sources to solve the company's financial challenge. The study suggested that one of the innovative ways for SMEs firms becoming increasingly important and irreplaceable in promoting economic development is to improve financing provision via crowdfunding. However, there is the need for government to provide the regulatory environment that will support crowdfunding. It is an essential strategy that would assist entrepreneurs to remain much motivated towards promoting his line of work. Also, it will reassure an individual to become a successful entrepreneur. This work will add to the existing literature in the academic area of finance, accounting and entrepreneurship, at the same time offers a springboard that will provide an impulsion for empirical inquiry in this topic. Besides, it offers important information and methods that would help entrepreneurs on how crowdfunding can serve as a source of financial provision and the positive impact on Small and medium enterprises (SMEs) firm performance. Crowdfunding had contributed to the growth of China SMEs which had made the China economy as the second largest economy in the world. The advent of technology being experienced in China is an added advantage couple with the country population. Sub -Sahara countries in Africa can develop in SMEs using crowdfunding financing method. This study contribute to the existing literature on crowdfunding for both the fund seekers and funders in addition to scholars. Crowdfunding is an alternative means of finance available to SMEs and creative ideas for realizing entrepreneurship dream through cheap and fast means of fund raising. The model also serve as a means of testing product prospect and brand awareness. Finally, crowdfunding as alternative sources of finance for SMEs would make capital available for SMEs which creates more jobs and increase country's Gross Domestic Product (GDP).

### **Recommendation**

Crowdfunding awareness is key to its appraisal as alternative means of financing for SMEs and entrepreneur in Nigeria. Awareness means adequate information and better understanding of the crowdfunding concept, regulatory guide, process, benefit and risks associated with its implementation. This awareness is very important to both the fund seekers and investors. Human attitude toward crowdfunding is also germane to its implementation and acceptance. This could either be positive or negative. A positive behavioural attitude indicates acceptance whereas any form of negative attitude shows a sign that leads to rejection. Since crowdfunding awareness is very low in Nigeria according to Soreh (2017) and using it for funding SMEs and other creative ideas is at infancy, therefore proper and better understanding of crowdfunding as alternative sources of finance will enhance start-up ventures and ideas being realised which ordinary would not have seen the light of the day. In addition, Nigeria

should put regulatory framework like US JOBS Act in place in order to explore the benefit of crowdfunding in financing SMEs and creative ideas. Standards should be set for interested parties for the formation of crowdfunding platforms especially with due diligence on the promoters. Nigeria being ranked as one of the largest users of internet in the world require trust management which would build integrity and good relationship on online transactions. Developing the crowdfunding market has the potentials to eradicate poverty in Nigeria. This can be achieved by mobilising funds toward the growing of creative ideas and SMEs. The various rules and regulations to be instituted by the SEC for crowdfunding in Nigeria should be done in protecting the general public interest and this can be achieved by disclosure requirements such as company's financial status, various risks associated with the proposed investments, names of directors and officer of the firm and the purpose of the funds to be raised. All these in addition to the fact that the platforms is dully registered with the SEC.

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