

# Tapping the Potentials of Crowdfunding as a Financing Mechanism for Entrepreneurship Ideas in Nigeria

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## Abstract

Crowdfunding as an emerging financing method for SMEs and creators of innovative ideas is gaining ground around the world but it is yet to be fully appreciated in the Nigerian market. Thus, the aim of this paper which is exploratory is targeted at providing an insight of its potential, opportunities, and challenges for the Nigerian entrepreneur. The methodology was a review of the extant literature and information gathered from other secondary sources on the concept to determine its practicability in Nigeria. It is true that with several constraints and associated risks, it may not be practicable to start the implementation of all known crowdfunding models in the country, but the conclusion is that there is no better time than now for the implementation of the Donation and Pre-order models to pilot crowdfunding for entrepreneurial activities in the country.

**Keywords:** Crowdfunding, Fundraisers, SMEs, Startups, Creative ideas, Donor/Backers, Crowdfunding platform, etc

## Introduction

There is a funding crisis for start-up entrepreneurs, creators of innovative ideas and SMEs in Nigeria, which require a collaborative, proactive solution by all stakeholders if these firms and individuals are to contribute to the economic development of the country continuously. Successive governments at all levels in the country in acknowledgment of the strategic role of these people and institutions have initiated different intervention funding programmes for the continuous growth of the economy, yet there is no observed change in the situation. On the contrary, Funso et al. (2015) argue that availability of funds is no longer the issue but lack of awareness and basic education on the part of operators to access the available sources of funds. No doubt, if these firms and individuals are well funded, they constitute the major employers of labour in the private sector.

The perception about the existing funding gap is attributable to some stringent lending conditions from banks vis-à-vis the inability of traditional fund providers such as business angels, venture capitalists and family, and friends to adequately provide the needed funding and assistance. In emerging African markets, banks are reluctant to extend loans to start-ups for lack of collateral and the associated high risk of default. In Nigeria, a World Bank report suggests that only 14 percent of small to medium-size enterprises, or SME's, have access to bank loans or overdraft protection. In an attempt to address this problem, promoters of SMEs and Start-up entrepreneurs' efforts to continually bootstrap is not yielding the desired results. The general funding crisis has led to most of these firms and ideas failing within two to three years from the day of opening doors for business or could not see the light of the day; a situation that has led to the inauguration of several commissions inquiring into the possibility of an alternative funding approach to alleviate the fears of prospective entrepreneurs.

One funding option that is being contemplated is the concept of crowdfunding, which is an online way of raising a small amount of money from several individual donors/backers into a pool for the purpose of financing a business idea or a project. Crowdfunding offers what other traditional funding sources are not capable of delivering because it democratizes access to the capital needed to commercialize and distribute innovation, (Mollick & Robb, 2016). The collection of two or more financial donors/supporters to a given project or idea is the crowd, (Belleflamme, et al., 2013). Crowdfunding as a technique of funding small businesses and innovative ideas is gaining ground in the USA, Canada, and Europe, etc. but the concept is profoundly unattractive in Nigeria. Crowdfunding success lies primarily in trust, which often flows through some form of community, geographical boundary or shared values. Ironically, trust is relatively absent in both business and everyday life of most people in the country, thus making it difficult for the financing innovation to stand the test of time. Backers play a crucial role in the understanding of crowdfunding potentials, (Stanko & Harnard, 2017); and until entrepreneurs and backers, build a culture of trust, the fears people perceive regarding crowdfunding will continue to prevail and prevent the funds available from this funding innovative to deepen entrepreneurship development in the country.

Nigeria as a country is known for its internet usage in Africa. Therefore, with a deliberate government policy to encourage entrepreneurs' in Nigeria, the potentials for crowdfunding are inexhaustible. However, the use and success of crowdfunding both significantly on the willingness of entrepreneurs to tap from the funding mechanism and the crowd to back/support innovative ideas by making small contributions by way of investment or donations. Therefore, the question this paper seeks to discuss is "whether Nigeria can promote crowdfunding as a financing approach for small businesses and creative ideas?"

## **An Overview of Crowdfunding**

Crowdfunding is a child of circumstance traceable to the financial crisis that hit the USA in 2007 – 2008, which later became a global crisis. The financial crisis brought about a funding gap due to the unwillingness of banks to provide capital to SMEs, start-up entrepreneurs, artisans, etc.. It, therefore, increased the enthusiasm to search for alternative source of funding for these class of firms; crowdfunding became the option. Crowdfunding is coined out of the concept of crowdsourcing, which largely depends on the crowd for ideas, feedback, and solutions to corporate ideas (Howe, 2008). In crowdfunding, the collection of money from the public for the promotion of a business or some social activities is the primary objective, which is facilitated by the social networks. This innovative approach of soliciting for funding suggests that entrepreneurs no longer depend on a small group of sophisticated investors but can raise money from a large group of small donors. In a crowdfunding campaign, each donor provides a small amount of money into a pool through a specialist intermediary - a crowdfunding platform which may take the form of donations, lending, rewards, and equity purchases. Younkin & Kashkooli (2016) opine that “Crowdfunding may succeed in raising money within and across networks, but efforts to use crowdfunding to generate recurring revenue are less likely.” As a campaigner achieves the initial funding goal, except there is prudent use of the resources, backers may not be willing to support a project with further donations/support continually. Research evidence suggests that human behavior is affected by intentions. It is also a fact that having the resources or capacity to carry out the intentions also influences human behavior. The case of supporting or backing a project by way of investment or making donations in a crowdfunding transaction is not an exception.

Crowdfunding is rapidly growing in recent years, attracting an estimated \$34.4 billion worldwide in 2015 alone, (Salman, 2016). Crowdfunding could be a significantly viable and scalable alternative source of funding for startups and small businesses, charities and other creative projects in Nigeria if properly harnessed. Even in its nascent phase, Crowdfunding by World Bank estimates has the potential to hit \$2.5 billion by 2025 in Africa. Research evidence such as this presents an active and viable market for a country like Nigeria with vast internet penetration, a depository of creative ideas and talented individuals.

Belleflamme et al., (2014) argue that “Crowdfunding is an open call, mostly through the Internet, for the provision of financial resources either in the form of donation or in exchange for the future product or some reward to support initiatives for specific purposes.” All crowdfunding campaigns for entrepreneurial activity comes with compensation, may be monetary or non-monetary (e.g., recognition, voting rights). The latter comprises many types of crowdfunding practices. The focus of this paper is on two common types of crowdfunding initiatives - pre-ordering and donation-based, and their practicability in the Nigeria. A review of crowdfunding for entrepreneurial activities in the global context suggests that these two types of crowdfunding are workable with or without rules in Nigeria. An attempt is made in this paper to provide a real-case example for one of the two models in subsequent sections. Regarding the returns from crowdfunding, no empirical study exists in the country so far to the best of my knowledge.

The evidence from recent research papers suggests that crowdfunding is not only a fundraising strategy; it is a mechanism for testing the acceptability of possible idea, (Wheat et al., 2013). Crowdfunding helps to build a community of supporters and relationships, (Lehner, 2013; Gerber et al., 2013). It is also about experimenting new ownership structure, (Harrison, 2013). It is about identifying potential demand for a proposed product and creating public awareness of new products in the early stages of development, (Mollick, 2014). Also, crowdfunding help to expand the network of potential clients/funders both geographically and socially, (Agrawal, et al., 2013; Mollick, 2014)

There is no or little research into crowdfunding in Nigeria due to its infancy in Africa. The recency of crowdfunding notwithstanding, the general estimate is that entrepreneurs raised over \$32.3million using the funding approach in 2015, (appsafrika, 2016) from Africa-based crowdfunding platforms. Elsewhere, researchers have conducted several types of research (Mollick, 2014;) regarding the funding innovation. Similarly, researchers have also carried out several types of research why business angels and venture capitalists finance SMEs.

## **Types of Crowdfunding campaign**

Various researchers have identified some distinct crowdfunding models, and each comes with different kinds of returns to individuals who invest or support a firm or idea.

**Equity Crowdfunding:** This is the crowdfunding model in which the entrepreneur/fundraiser solicits for donations in exchange for shares (or an equity stake) in a venture or idea. The investor/donors stake may be in the form of shares in the project for dividends or voting rights (Hemer, 2011); equity crowdfunding will challenge VCs and Business Angel financiers in the future, (Vulkan, Åstebro, & Sierra, 2016). With regulatory constraints as highlighted in previous paragraphs, it would be impracticable to think of the model now until the necessities are put in place. In equity crowdfunding model, investors may or may not decide to become customers at a later stage. In like manner, funders’ may wish to transfer their ownership interest at some future

point through an acceptable exit strategy.

**Donation-based crowdfunding:** As the name implies, though considered to be most common, the donor back/support a product or person with the varying amount of money to enable the campaigner to bring it to market or help to solve a problem, (Kuti, & Madarász, 2014). In return for such a donation, they may receive a thank you or at best a special mention or some physical item. Usually, the pledge amount of money is a gift not subject to refund or other attendant conditions. Donation-based crowdfunding is working well at an acceptable pace in the country, especially for health related cases though not without attendant issues. It implies that the same trend could be replicated for entrepreneurial activities if the necessary awareness is built.

**Loan-based crowdfunding or peer-to-peer lending:** Under this crowdfunding model, an entrepreneur gain access to short-term funds from the crowd with the intention of paying back with interest. The duration of the contract and the rate of interest is determined and mutually agreed by the crowd-funders and the fundraiser through the platform.

**Reward-based crowdfunding:** Under this model, the fundraiser solicits for funding from the crowd for a pre-defined reward, it could be T-shirt or some form of recognition. Such donation/support has nothing to do with ownership in the venture or project. With this arrangement, the crowd gets the satisfaction of helping, with minimal risk, and no expectation of any high return. For example, they could receive the product before the product hits the open market.

**Royalty-based crowdfunding:** This model requires crowd-funders investing their money and getting a share of the profits of the project. For example, if the investment is towards launching a debut music album, backers would receive a share of the sales of the album.

**Product Pre-order crowdfunding model:** Under this model, campaigners pre-sell their product early, at a lower price, in exchange for a pledge.

In summary, with crowdfunding as a funding innovation, entrepreneurs can raise funds in the form of equity, debt, donation, or by way of calling on buyers to pre-order a product, etc., (Ahlers et al., 2012; Agrawal et al., 2013; Mollick, 2014;). The goal is to ensure that business ideas/projects are appropriately nursed to fruition. From the above, it is a clear that Crowdfunding campaigns can take several forms suggesting that a reasonable understanding of an entrepreneur's choice of a particular form of crowdfunding is strategic for fundraising, especially now that the concept is in its trial stage couple with attendant regulatory constraints in the country. Harrison (2013) opines that no matter the model of crowdfunding and the focus on business or project funding, the concept brings funders and promoters together directly thereby dis-intermediating the finance market. A fundraiser's ability to understand what the audience may require is a gateway to building confidence and meeting the funding goal in schedule time.

### **Crowdfunding benefits and risks**

No matter the model of crowdfunding a campaigner employ, the funding innovation comes with benefits and risks. On the benefits, Indiegogo (n.d); Cichy & Gradoń (2016) and others catalog that the mechanism enables people with ideas to raise funds and brings them to life. The Beehive design, Flow Hive project is an example in which campaigners for a funding goal of \$70,000 only raised \$2.1 million in one day on Indiegogo.

Crowdfunding helps to validate an idea and guess the size of the market and audience. This was the case of the Jibo Social Robot concept, a pre-order campaign in 2014 that campaigners raised \$3,632,895 which caught the attention of venture capitalists and went on to raise \$16m in Series A funding.

Campaigners are able to gather insights from experts who are potential customers. The case of the Misfit Shine fitness device is a glaring example. Feedback from the audience helped the creators to hit the market with a simple device which the audience wanted and needed instead of offering it with either a sports band or a leather band. The device that eventually hit the market was a tested and validated offering.

Crowdfunding is one best means to effectively build awareness for an idea. Crowdfunding campaign introduces a project/idea to a global audience thereby growing the market potentials exponentially. The Solar Roadways campaign which attracted 49000 backers was a major talk of the world as it was mentioned in President Obama's 2015 State of the Union Address.

On risks, Crowdfunding is speculative thus the major risk associated with a crowdfunding transaction is the project creator's risk which can be decomposed into:

- i. His expertise on the idea, ability to produce the good or service and the capability to ship the reward to backers
- ii. Would the product hit the market at the expected time and described quality
- iii. The fundraisers' complimentary skills in the successful management of the business or idea on achieving the target funding goal
- iv. If the funding goal is not achieved, is there any possibility of backers' been refunded their donations or investment
- v. Is there any contingency plan in place to accommodate more backers should the funding goal is exceeded

- vi. Is the platform on which the project is listed sincere to prospective backers in terms of vetting the project strictly in accordance with terms and conditions to guarantee backers' confidence
- vii. Will the platform process and disburse the funds raised strictly in compliance with terms and conditions.
- viii. Whether rewards would come with all described features and of the best quality.

Finding answers to the questions above are the several risks crowdfunding researchers has identified as it relates to different campaign environments irrespective of the model used.

### **Techniques of promoting Crowdfunding**

Research evidence suggests that there is no uniform approach in promoting crowdfunding as a means of financing start-up entrepreneurs, small businesses, innovators, etc. In a comparative study, Sima & Lorenta (2015) identified the following as some of the ways crowdfunding are being promoted by the different countries:

- i. Creating a legal framework for crowdfunding
- ii. Undertaking conscious efforts determine to explain the workings of concept to entrepreneurs
- iii. A conscious effort is made to explain how crowdfunding works to potential investors
- iv. Supporting and promoting crowdfunding platforms
- v. Supporting successful crowdfunding campaigns
- vi. Creating an overview of what is a good crowdfunding platforms for entrepreneurs.

The implication is that countries attempt to promote crowdfunding by consciously building standards/best practices consistent with their peculiar circumstances. As the phenomenon continues to gain acceptance as a financing technique around the world, it is clear; all countries are going for crowdfunding to make it work and release its abilities to foster innovations and job creation; Nigeria cannot be an exception. It is interesting to observe that one country's attitude towards the rules on crowdfunding may be different and the strategy to take them into effect is different as well. Evidence suggests that some countries prepare the rules and make crowdfunding work with the aim of perfecting the rules when it is already working, whereas other spend much time on developing the rules before allowing crowdfunding practices. Since there is no one perfect way to make this novelty work, following others' successful choices and learning from own and others' experience is not a bad approach.

### **The Future of Crowdfunding in Nigeria**

Crowdfunding as a financing innovation for SMEs and creative ideas are attracting massive attention in the developed world. If Nigeria can appreciate the concept entirely, she can as well benefit from its potentials as a country. What is needed is to understand how the concept works and the respective roles of stakeholders, especially government regarding rules and regulation and further providing the enabling technological infrastructure required for its smooth operations. As a country, should this process is managed efficiently, it is likely that the country can leapfrog to the comity of nations considered to be facilitating entrepreneurial finance for SMEs to drive the economy.

The position of this paper is that crowdfunding is workable in Nigeria if proper attention and orientation are created to increase awareness and a deliberate policy put in place towards addressing the following factors:

Regulatory framework need not be a constraint: There are Legal constraints regarding crowdfunding in Nigeria. Section 22 of CAMA (2000) as amended restricts private companies to transfer shares or invite the public to subscribe to its shares. Section 22 (2) provides that "Every private company shall by its articles restrict the transfer of its shares." While Section 22 (5) provides: "A private company shall not unless authorized by law invite the public to subscribe for shares or debentures of the company or deposit money for fixed periods or payable at call whether or not bearing interest."

In Nigeria, no individual or business can solicit investment from the general public either by ways of subscription to shares or by making deposit –with or without interest - without legal authorization as entrenched in the specified provisions of CAMA (2000) as amended, and the Investment and Securities Act, 2007. The provisions of these laws presuppose that some models of Crowdfunding campaigns, especially equity, and lending-based models which require individuals and firms to solicit money from the crowd for entrepreneurial activities fall within these two regulations and attendant rules, therefore not practicable. Crowdfunding in its infancy, the country's SEC is finding it difficult to craft rules for its implementation, thus compelling the institution to come out open that it is not supporting crowdfunding for now.

However, it is evident that countries such as the USA, France, Netherlands, and the like were able to explore the potentials of crowdfunding to finance SMEs and Innovative ideas before putting in place Regulatory frameworks such as the US JOBS Act. In a similar manner, crowdfunding is making waves without attendant regulatory frameworks in other countries. These experiences are replicable in Nigeria. The potentials of the financing innovation are such that the citizenry expects regulatory authorities to collaborate and provide a policy for its active take-off while waiting for the amendment of the affected legislations, legislate on new legislations and attendant rules. Crowdfunding can function as a financing innovation for SMEs and Start-ups in Nigeria

with or without regulation. What is required is a template of best practices by establishing criteria for protecting backers, financial and operational transparency, financial control, security of information and payments, the functionality of platforms, and operational procedures. These steps would go further to assist in fraud prevention and detection and usher in the needed confidence among individual funders and pave the way for regulation to achieve maximum benefits. In the midst of the perceived funding gap, Crowdfunding may be an alternative source of financing to SMEs in Nigeria, and this is the right time to review existing legislations and put in place the needed regulatory framework to bring the new product to the country's financial services sector.

**Crowdfunding requires massive awareness campaign:** For crowdfunding to take its position in Nigeria in entrepreneurial finance, this paper proposes several all-inclusive workshops to educate all stakeholders – policymakers, funders, and entrepreneurs on the benefits of the industry, and the different crowdfunding models. These gatherings will provide a platform to discuss on how to guide and protect the financial interest backers/funders, exposure, and diversification of funders and investees across multiple crowdfunding business models. The essence is to take precaution around fraud, risk explanations and eventually test backers' knowledge.

**Encourage Research:** For the industry to flourish, institutions of higher learning and the government should encourage academic and third party research. The position of this paper is that crowdfunding campaigners and platforms operators should be encouraged to provide data sets to further research. Crowdfunding industry at this infant stage should anchor on transparency and openness, and once done, public awareness and research will drive competition and innovation in the industry.

**A Reliable and secure payment system is required:** Social media penetration and Internet usage are high in Nigeria as the country ranks high as one of the largest internet users in the world. It presupposes that the market for crowdfunding all things being equal can flourish well should the enabling technological environment is provided. What is required is the existence of a reliable and secure payment system that backer/funders would not be scared of identity theft and other related fraudulent activities.

**Crowdfunding must focus on trust management:** Trust is the confidence one party has on another which tends to improve reliability and build integrity (Morgan and Hunt, 1994). It is that cognitive and social behavior which reduces complexity and enables people to cope with the different levels of uncertainty and risks, (Luhman, 1979 as cited by Haichao et al., 2016). Trust help to build interpersonal relationships in social and business life. Yu et al., (2015) argue that in a crowdfunding campaign, funders do not have adequate information capable of reducing uncertainty due to the complexity of online transactions, hence are likely to apply shortcuts mentally. Chung, Zhang, Dong & Shin (2015) argue that "Lack of trust is a barrier to the adoption of electronic services" and for internet-related transactions, it bothers on an individual's perception of the institutional environment. Trust is the panacea to reducing uncertainty in crowdfunding.

When confidence and trust become the bedrock of a relationship in two or more persons, risk levels tend to reduce through interpersonal interactions, (Wang et al., 2004). Trust is strategic in online commerce because the parties in trade can barely know or identify each other. The entire communication and bargaining process resulting in payment are transactions via a computer, or a handheld device enabled by ICT. The case of crowdfunding is not different and even requires more caution, especially in a country like Nigeria where people may likely come up with all manner of scam-projects to defraud individuals and organizations. There is no rigorous due diligence process in a crowdfunding campaign. Prospective backers rely on the information campaigners provide via the platform. Therefore, it is pertinent that a confidence building process is a necessary prerequisite in considering crowdfunding as a financing innovation for SMEs and innovative ideas. Crowdfunding platforms must lead in this process and take the task seriously.

**Guide the Promotion of crowdfunding platforms:** The first step Nigeria as a country requires in the drive to make crowdfunding an acceptable financing innovation is to set standards for an individual or group of individuals who are willing to float crowdfunding platforms. These should include background checks on prospective promoters; platforms are to be model specific; the mechanism for protecting intellectual property rights (IPR) must be clear; strategies to protect investors/donors; a mechanism for initiating due diligence on the venture and projects it accepts for crowdfunding campaigns. The country's reliance on international crowdfunding platforms such as Kickstarter, Indigogo, etc. may elude some class of SMEs and creators of innovative ideas to raise the needed funding due to conditions attached in the floatation of a campaign. The above argument does not suggest that indigenous platforms should come up with sub-standard listing conditions.

#### State of Crowdfunding in Nigeria

Crowdfunding for entrepreneurial activities is near absent in Nigeria, and stakeholders are grappling with acceptable best practices and regulatory framework. Be that as it may, there are isolated cases of successful campaigns with some international crowdfunding platforms such as Kickstarter, and Malik for the TomatoJos and Nigeria I-drop Water projects, but not sufficient to say the financing innovation is making in-road into entrepreneurial finance in the country. For a quick appraisal of this financing innovation, this paper takes a critical look at the TomatoJos successful crowdfunding campaign in Nigeria as a case study.

### **The Tomato Jos Case study:**

In a crowdfunding campaign, the donations may be in small amounts of money, what these donations can collectively achieve is potentially significant. In the case of the TomatoJos project, the entrepreneurs/initiators, believe in the power of producing tomato paste with homegrown tomato for consumption, assist local tomato farmers to have a flare of their agricultural produce. Initiated by Two Harvard University graduates, the TomatoJos project in Nigeria is a social entrepreneurship project and launched a crowdfunding campaign on Kickstarter platform in 2014.

Kickstarter as a crowdfunding website allows online visitors to donate towards projects with a stated funding goal. The site processes donations via a secure code payment system. TeamTomatoJos has this to say, “After months of planning, weeks of canvassing, days of agonizing over rewards, 13 hours of shooting and seemingly endless time spent editing our video and infographics, we are proud to launch the Tomato Jos Kickstarter campaign.” TomatoJos exceeded its funding goal of \$50,000.00 as 638 backers pledged \$55,178 within 31 days to help bring the project to life.

Lehner (2013) argue that the pre-order model of crowdfunding is capable of delivering the needed capital for social entrepreneurship ventures, especially in the start-up phase. A crowdfunding campaign is a means of connecting with a community. The campaign provides an opportunity for the project initiator(s) to make their project or idea accessible and further make the community of people realize that even though their donations are in the small amounts of money, it is capable of doing something significantly different in the life of the project.

It is an agreeable fact that several startups and creators of ideas are looking at the crowd as a viable source of funding, but the Security and Exchange Commission in Nigeria (SEC) is failing to support the financing innovation citing lack of regulations or provisions of existing regulations inhibiting its promotion in the country. The TomatoJos campaign adopted hybrid crowdfunding model as it was a combination of the pre-order and donations. The entrepreneurs invite consumers to pre-order the product and donations were attached with rewards ranging from seeds of tomato cum instruction to caring for a family farm to recognitions. The model helpTomatoJos project to raise \$50,000.00 on Kickstarter platform.

The evidence from the TomatoJos campaign suggests that the pre-order model is practicable in Nigeria as it tends not to violate the provisions of CAMA (2000) as amended, and ISA 2007. We propose that the amount to be raised through pre-ordering must cover the required amount of capital. The Pre-order model suggests that later consumers will pay a different price when the product is finally on the market. This type of crowdfunding enables an entrepreneur or creator of an innovative idea to discriminate price between those that pre-order – the crowd - and the regular customer, those that choose to wait for purchase considerations only when the product is available in the market. This form of crowdfunding constitutes a unique form of behaviour-based price discrimination because consumers self-select into one group according to their personal preferences.

The packaging of the TomatoJos project was such that it was successful in the absence of regulatory framework or rules, thereby, benefitting massively from the no limitation of geographical boundary associated with crowdfunding. The platform was not Nigeria based suggesting that this financing innovation if appropriately utilized is capable of attracting funders from across the globe for entrepreneurial activities in the country.

### **Crowdfunding – the current drive in Nigeria**

Owing to the bottlenecks regarding the use of international crowdfunding platforms such as Kickstarter, Indiegogo, etc. there is a surge for African based crowdfunding platforms to pilot the growth of crowdfunding in the continent within the last four years. Africa is now a home to over 57 active crowdfunding platforms with projects and raising over \$126.9 million in 2015, (appsafrika, 2016). Nine of these platforms are presumed resident in Nigeria, the question is how active are these platforms for crowdfunding campaigns? The report further suggests that 31.5% Africa-based crowdfunding platforms raise money for social causes; 21% of the money raised goes for business and entrepreneurship projects, while 17.5% of all money raised goes to creative and innovative projects.

As the concept is beginning to penetrate into the fabrics of entrepreneurial finance in Nigeria, the government on its part, instead of encouraging the acceptance of the financing innovation is inhibiting its smooth practice/implementation in the country. The regulatory agency, the Nigeria Stock Exchange in August 2016 has come out to say that it is not supporting crowdfunding for now due to regulatory constraints arising from the provision of CAMA (2004) as amended and ISA 2007. In spite of the position of the country’s SEC, the international community is seeing the potentials of crowdfunding in Nigeria differently. In recognition of crowdfunding potentials in Nigeria, the Next-economy in collaboration with the local partners The Co-Creation Hub, FATE Foundation, Enspire, and Nhub initiated the first Crowdfunding Bootcamp at Yaba, Lagos on November 26, 2016. The platform provides an opportunity for the participants to exhibit creativity and positive energy, with a privilege of talking to experts on crowdfunding and learn the rudiments of setting up campaigns and go live. It is no doubt a welcome development because the organizer’s expectation is that the participants

will lead in the quest to galvanize crowdfunding as an alternative source of funding to both SMEs and creators of innovative ideas. Crowdfunding clinics such as the Lagos Bootcamp would increase awareness and change the public attitude regarding the concept.

### **What do prospective campaigners need to do?**

**Choose a popular platform:** The platform a potential campaigner have to consider should not be limited to the ones based in the country as it was in the case of TomatoJos, which floated her campaign on Kickstarter, a global crowdfunding platform with backers all around the world. The success story of TomatoJos is a reminder that the platform a campaigner elect to launch campaign is a contributing factor in trust management as it does not limit the geographical boundary of donors. Meeting the criteria for launching campaigns may be stringent in global crowdfunding platforms, but being qualified to be listed in such platforms is an indication that it is a supportable idea.

**Set realistic funding goals;** Prospective campaigners need to set funding goals that would attract the attention of the consumers in the steep terrain of due diligence. It is imperative to do this because of the existence of information asymmetry. Should the crowd doubt the funding goal, they may feel reluctant to support the project or idea.

**Present a project/idea professionally to the crowd:** Crowdfunding is a unique financing technique thus require those with the technical know how to champion the process. Enlist the services of the specialized platform to promote the campaign and resolve to pay the necessary fee rather than in the name of managing cost ground the campaign.

**Package fitting reward:** The type of reward associated with a given campaign will be the center of attraction to a cross section of the crowd, those that may resolve to back an idea as it may provide satisfaction. It may not be necessary that rewards are in monetary values. Determining the values in a locality and accordingly designing rewards is a gateway to achieving the funding goal.

**Spread the word by involving family and friends.** Campaigners need to realize that the efficient utilization of the power of family and friends in a crowdfunding campaign can not be over emphasized. With a great deal of Internet penetration into the nooks and cranny, the support from family and friends will attract herders to make campaigns' successful.

### **Conclusion**

Crowdfunding is leading the democratization of innovation, entrepreneurship, and entrepreneurial finance by way of giving hope to people who otherwise would have no chance of seeking external funding, let alone having access to it. The funding approach provides an opportunity for new businesses and innovations and brings to a light new wave of investors. It is abundantly clear that there are several small and medium scale businesses and innovative ideas that can benefit from the crowdfunding space in Nigeria. Notwithstanding the type of crowdfunding model a campaigner intends to adopt and the kind of business or idea it tends to finance, crowdfunding beat the conventional finance market as campaigners and backers are brought in contact directly. The development of the crowdfunding industry will ensure the emergence of reliable home-based crowdfunding platforms that would play a more active role as partners in the market and bring to existence models that seem not practicable in the country. Therefore, it will be more beneficial to start to expand research on entrepreneurial finance into crowdfunding. While acknowledging regulatory and other attendant constraints in the immediate implementation of the equity and peer-to-peer crowdfunding models, it would be detrimental to waste time without starting with donation-based and pre-order models that seem practicable.

### **Implications for practice**

The fact is that ideas translate into businesses when effectively harnessed with other factors of production. Good ideas are ideal job creation opportunities as once launched as businesses, human capital development begins automatically as either they are employed or trained to grow the businesses. As more and more ideas translate into small businesses that provide a variety of products and services within a community, thousands of people are likely to have gainful employment. The idea transformation process can only be successful with the availability of money. Crowdfunding present great potentials by allowing the community to support local ideas and in the process create jobs for its own people. There will be income distribution from such jobs as income earners spend incomes earned within the locality in satisfaction of their needs. Crowdfunding is capable of encouraging people to focus on community-based businesses and ideas and help to retain the much needed financial capital within the community. It is capable of bridging the funding gap from traditional sources by allowing the people who are primary beneficiaries of such firms take part in the funding process.

Entrepreneurs and their businesses can only flourish if there are proper management and financing. A country that tends to encourage entrepreneurship and innovation requires capital. But, where regulators stand is such that access to the financial markets and capital are unbearable, entrepreneurs and businesses will not get the

money they need, and those that are passionate about their ideas will move to regions they can access capital to further it. With crowdfunding, an individual with a good idea can find a group of interested persons to help fund it. Nigerian's waiting game to update her securities laws before considering crowdfunding is opening a window for brain drain, as many with good ideas and skills are likely to relocate to other regions and markets where they can access funds and launch their businesses.

Most countries in the world are passing through economic hardship, and Nigeria is no exception; the middle class has virtually eroded, and the bulk of young graduates coming out of the universities are having no guarantee for employment. This is not only a dangerous situation for both political and economic stability but it is a breeding ground for criminality and youth restiveness. Crowdfunding is having the potential of encouraging the community to support their own members in the promotion and growth of new businesses and add value to the living standard of the people.

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