

FROM CHARITY TO INVESTMENT: Perspectives on the New Financing Parameters of Entrepreneurial Projects in Developing Countries

Original Scientific Article

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This exploratory article aims at discussing the implementation of crowdfunding projects organized by charitable organizations for the funding of developing country based entrepreneurial projects. The recourse to this type of financing is known to be structurally related to an inability of the promoters of such projects to use bank loans or venture capital. Crowdfunding, and increasingly equity crowdfunding specifically, is indeed based on trust mechanisms similar to the rationales for the use of donations by similar project bearers and non-profit organizations (NPOs) in the past. Classical regulatory mechanisms usually presented in the context of charitable organizations seem ineffective when applied to the crowds supporting these projects, mainly because of the low financial commitment of resource providers from supporting communities and their atomicity. Beyond the issue of identification of stakeholders present during the emergence of such crowdfunding projects, it is the question of the regulation and effects of potentially deviant behaviors in this transition period from donation to equity based crowdfunding that is discussed. Therefore, reducing the organizational involvement of NPOs, crowdfunding platforms could offer a set of control mechanisms in this economic context, but also operate an actual change in financing leverage operations for emerging countries' projects.

Key words: crowdfunding, governance, development, developing countries, communities, charitable organizations, platforms, social entrepreneurship, prosocial projects

JEL Classification: M13, G39

1. INTRODUCTION

CHARITABLE ORGANIZATIONS HAVE A LONG history of using donations to support projects destined to enhance the economic situation of people in developing countries. This support has been and still is either oriented toward purely social or entrepreneurial projects, as well as mixtures of both. Whereas purely social projects are by nature funded through donations, entrepreneurial ones, being destined to become self-sustainable or at least 'sold' to potential supporters as being so, offer room for more reciprocal relationships over time.

By the end of the 1990s, these phenomena started to be considered under the umbrella term of social entrepreneurship (Mair and Marti 2006). Far from representing a unique form of economical endeavors related to social needs, this term covered over time a wider and wider range of realities, from micro-finance to bottom-of-the-pyramid approaches. It is indeed notable that while some forms of social entrepreneurship considered in the academic literature were directed toward populations from the outside, some others were emerging from the social actors themselves. At the same time, distinctions can be made between approaches aiming at local development (prosocial projects) and others more cynically looking at ways to transform poor people in developing or emerging countries into valuable customers for multinational corporations. Regardless of the type of goals pursued by projects it is interesting to note that in the past five years the focus has turned toward the roles of actors interactions, including entrepreneurs, systems, networks and partnerships between all of them (Philips, Lee, Ghobadian, O'Regan and James 2015).

Accompanying the emergence of social entrepreneurship and the need for interactions noted above, some charitable organizations have made the use of impact-investing practices, regular investment operations chiefly destined to offer positive societal impact (Bugg-Levine and Emerson 2011), their main way of

62 funding development projects, and started to use existing successful crowdfunding

platforms as a way to take care of the operations themselves and benefit from their expertise and infrastructures (Hemer 2011).

This renewed interest of charitable operations in funding practices involving not only acts of generosity from funders but also the perspective of returns in a standard entrepreneurial way, can be seen both as a method allowing the legitimacy of the projects to be unquestionable and potentially to attract a specific part of donors under modern-world notions of making the developing country entrepreneurs accountable for their projects (Chaboud and Caseau 2016).

This enlarged set of interacting actors, with less discretionary control exerted by non-profit organizations, which were historically at the source as well as in command of operations, evidently poses the question of the modalities of the establishment of this accountability and its effects on the success of such crowd-funded entrepreneurial development initiative.

2. LITERATURE REVIEW

2.1. Crowdfunding

Commonly described as a method for funding projects by a large number of people, crowdfunding is classically seen as a way to circumvent the problems nascent and small enterprises face when they want to access capital from traditional channels. In this sense, most definitions of crowdfunding presented in the academic literature (see e.g., Schwienbacher and Larralde 2012; Belleflamme, Lambert and Schwienbacher 2013) are related to the notions of limited abilities from the fund seekers, described as mostly being individuals, start-ups, and small firms (often lacking collateral), to reach venture capital and bank support. This definition could also be linked to the Minsky's proposition (1986, 229): "everyone can issue money". One of the core definitional components of crowdfunding is, therefore, a focus on the financial need of companies. This focus on the financial aspect is reflected in the seminal definition from Lambert and Schweinbacher, stating that crowdfunding can be broadly defined as "a call, mostly through the use of Internet platforms, for financial resources, in form of donation or in exchange for future products, or any other form of reward and/or voting rights" (2010).

While the use of crowdfunding as an umbrella term is useful in describing this fragmented fundraising phenomenon using marginal contributions from

a large number of individuals, the reality of practices shows a wide variety of organizational and legal arrangements. Crowdfunding can feature pure donations, reward-based support, and equity distribution among others, the decision to use one or another of its variants depending on both the situation of the entrepreneurs, their specific industry, project or emerging opportunities, as well as the preferences and habits of the concerned crowd (Kraut and Resnick 2012; Schwienbacher and Larralde 2012; Belleflamme, Lambert and Schwienbacher 2013). Therefore, the control mechanisms between donors and the project leader tend to vary, most of the actions of these entrepreneurs being linked to the necessity to obtain a decision of funding by sufficiently numerous supporters, tending to exert soft-control type pressure through communication on social media (Gerber and Hui 2013).

2.2. Crowdfunding and control

The diversity of forms that the projects submitted to the crowd can take, and regulatory uncertainty characterizing crowdfunding, make these issues at once the more meaningful and complex to solve. Crowdfunding projects have idiosyncratic characteristics, in terms of scope, that structure their financing and communication with their stakeholders. In this sense, perceived values shared within the community of funders / users, to which the project developer must belong, serve as control mechanisms within the meaning of Charreaux (1997) and Bessière and Stephany (2015). Due to the low individual financial contribution, no crowdfunder can claim the legitimacy to exercise a formal and direct control over decisions taken by the project promoter (which can equate to a contractor leader, using a syndication to finance the start of its activity). The risk of opportunism practiced by entrepreneurs is maximum, the main threat residing in the spoliation of the contributors (Wray 2011). Moreover, the very notion of accountability is not universal among the participants in a project of crowdfunding, and directly related to legal and local conditions (regulations vary from country to country, but also from a level of funding to another) (Bibow 2010).

2.3. Crowdfunding and charities

64 Donation campaigns organized by charitable organizations and crowdfunding operations are rather similar in their need to access to a large crowd of potential supporters to secure the effective engagement of some of them in order to raise the needed funds. Therefore, non-profit organizations aiming at linking socially

oriented projects and their potential supporters naturally started using the power of Internet based mobilization tools, with organizations such as the Red Cross, for example, being the most apt to virtuously employ crowdfunding (Hemer 2011). This linkage between charity, funding, responsibility and monitoring is to be connected with both the continuous efforts from the world of nonprofit organizations to engage in capacity building to better perform on their core missions (Minzer Klerman, Markovitz and Fink 2014). Some authors noted that organizations possessing the necessary knowledge tend to create their own crowdfunding Internet spaces and tools in many sectors (Belleflame, Lambert and Schwiendbacher 2013), but such is not the case for non-profit crowdfunding operations which are mostly happening through existing specialized (e.g. Firstgiving or Causes) or general platforms (e.g. Kickstrater or Indiegogo). While well-versed in fundraising, non-profit organizations see in crowdfunding, and the existence of well-established platforms, an occasion to outsource what was a core function for them in the past, enabling them to both save time and money while keeping control of the campaigns themselves. One of the problems that may emerge from this outsourcing trend is the reduction of peer to peer engagement as web based platforms naturally tend to retain most intermediary roles (Ashta and Assadi 2010). While the marriage of convenience between prosocial non-profit organizations and crowdfunding platforms seems fruitful, with an estimated \$1.5 billion a year raised by charities through crowdfunding, this situation creates a risk of blurring the lines between purely prosocial and for-profit ventures. Such a risk can be exemplified by the increasing recourse to crowdfunding by pharmaceutical companies starting to crowdfund clinical trials, appealing to donors for what will eventually both help curing patients and generate money (Stockton 2015). Hints about the nature of each project may in this sense be a separator between success and failure as in the context of prosocial lending lenders respond differently to the narratives about the venture itself, positively in the case of discourses depicting it as an opportunity to help others, and less positively it is framed as a business opportunity (Allison, Davis, Short and Webb 2014).

2.4. Crowdfunding and developing countries

This match between the fundamentals of charitable organizations, prosocial projects, and crowdfunding is also to link with the growing importance of this form of access to capital for developing countries where it is considered as a vital

financing opportunity (Marom 2013). Indeed, with the recent development of impact investing, a solution being related to traditional investment (including legal means of control) and taking into account the environmental and social impact of such an investment, crowdfunding seems to offer several positive solutions to the question of the effects of external sources of funds for SMEs and the concerns for sustainability of policy makers. The social dynamic necessary on both sides of the investment equation present in crowdfunding operations is fundamentally originating from the nature of investing when it is seen as destined to make a difference at the societal level (Stryjan 2006; Nilsson 2008; Bugg-Levine and Emerson 2011). In practice, the effects of the social dynamic generated through funding campaigns are multiplied as the conditions of success related to crowdfunding for prosocial projects allow and impose at the same time a series of conditions supposed to generate a virtuous circle (Ghatak and Guinnane 1999), with notably the existence of a real value chain linking investors and entrepreneurs and the actor's consciousness of how this value chain would positively impact society (AVCA 2014). On the more macro scale, investment campaigns destined to have prosocial effects from their beginning were found to have a potentially high impact in this context as offering the best conditions for inclusive business development (Ngoasong, Paton and Korda 2015). It is at the same time notable that these conditions and effects are not limited to actions led by charitable organizations. To the opposite the dynamic enabled by the choice of crowdfunding is even appearing more robust, as other forms of social entrepreneurship have also flourished since the early 2000s (Austin, Stevenson and Wei-Skillern 2006).

3. EMPIRICAL SETTING

This section will briefly present two typical projects involving crowdfunding, charitable organizations and entrepreneurial projects in developing countries. The use of these cases is destined to propose to the reader real-world examples to offer a clearer understanding of the notions discussed in this article as well as presenting the parameters of 'normal' entrepreneurial prosocial projects as present on crowdfunding platforms. The selection of the two projects in question, destined to offer illustrative elements to the discussion on elements presented in the literature review presented above, has been made according to several criteria chosen to offer a fruitful. These criteria were the funding success of the project, the use of a

crowdfunding platform, the fact that these projects are presented as allowing the creation of local sustainable businesses, the access to some metrics of the projects and the platform on which they were publicized, such as the average number of participants and amounts, and finally the existence on the platform itself of a space allowing actual funders to comment the project.

3.1. Examples of non-profit crowdfunding campaigns

3.1.1. Fair Trade Sewing Center

The first project presented here has been set up by a California based charitable organization named the Peace Exchange. Using Kickstarter, a well-known crowdfunding platform, this organization launched this campaign between March and June 2015 with a goal of \$14,300, representing twice the amount of the average campaign on the platform. The project was about the opening of a Fair Trade Sewing Center in Democratic Republic of Congo, Africa. The narratives offered to potential funders pertained to the notion of helping local populations and included chiefly elements about the people targeted by the initiative (children and women) and the local conflict and problematic economic situations. Entrepreneurial elements were nonetheless present with the mention of the initiative as a way to “providing Fair Trade wages to the women, to sell products in the US and allowing the women to contribute back into their communities”, exemplifying clearly both the entrepreneurial and the prosocial nature of this project (Kickstarter 2016a).

This project was finally funded by 112 contributors, raising a total of \$15,115. It was based on a reward mechanism, a standard practice for projects present on Kickstarter, with contributions up to \$200 featuring no reward but directly financing material and machines destined to open the sewing center, funders offering sums above \$500 receiving one fair trade product (which only attracted 3 donors), and those going up to \$1,000 enjoying a symbolic reward in the form of a plaque with the name of the contributor in the sewing center (6 donors chose to contribute to this amount). Although present, few comments were made on the campaign’s dedicated page, mostly praising the creators of the operation with the exception of one funder asking about the status of promised rewards, who did not receive an answer, at least publicly. For 44 of the supporters it was a first funding on Kickstarter, the 68 others having backed other projects before on the platform.

3.1.2. Saheli Design

The second project was created by Jackie McCosker, an Australian women's empowerment and social change activist living in India. Using Kickstarter as well, McCosker launched this campaign between March and May 2015 with a modest goal of \$1,500 destined to fight India's gender issues by allowing local women to launch a fashion label "celebrating the power of femininity and showing the world just what veiled ladies can achieve" (Kickstarter 2016b). The discourse toward potential funders was centered on women empowerment narratives and the opportunity for supporters to shop for locally crafted fashion accessories while making a difference for local women.

In accordance to its modest size, the project was finally funded by 60 individual contributors, raising a total of just above \$2,000 (still more than 30% above its initial goal). It was entirely offering fabric products handmade by local women as rewards (with the exception of backers engaging a symbolic \$1, only receiving a "thank you" mention on social media and the project's website, which was also offered to people investing more). Each of the funding steps were limited and available on small numbers (7 available slots for the \$30 step, 10 for the \$50 step, and finally 10 for the \$100 one). The rare comments made on the project page on Kickstarter were all praises for the operation, with mentions of the women empowerment aspect of the project. The majority of contributors, 49 of them, were supporting a project on Kickstarter for the first time, 11 were returning backers.

4. DISCUSSION

In line with the elements presented in the literature review above, prosocial projects crowdfunding campaigns set up by nonprofit organizations tend to both propose discourses depicting the entrepreneurial efforts as proposing ways of reaching social goals and as viable entrepreneurial ventures. To do so, organizers of such projects, in their communication role, can frame entrepreneurial narratives either as a business opportunity or as an opportunity to help others. The two examples described in this article are nonetheless not presenting these projects as being for profit, exemplifying the fact the orientation of the linguistic cues used by project bearers are having an effect on the underlying motivation of potential supporters (Allison Davis, Short and Webb 2014).

Atomicity is not that important in these two projects as the number of supporters is limited, in a way which is similar to the numbers featured in prosocial crowdfunding campaigns found in previous studies (see e.g. Chaboud and Caseau 2016) which on average represents around 90 people. It is conversely interesting to note that establishing the real average number of supporters for successful crowdfunding campaigns remains a difficult task, the available figures most of the time simply dividing the number of campaigns by the number of individual funders on the chosen platform, while most campaigns, including the ones presented in this article, are featuring crowdfunders backing more than one project. In facts, projects vary widely on this metric and gathering mere dozens of funders seems to be the minimal requirement for the success of funding, as well as the success of communication about funding, and while prosocial projects are often limited to such numbers, superstar status innovation products manage to gather tens of thousands of supporters (e.g. the Pebble Time smartwatch has been supported by nearly 80,000 people). At the same time, the number of supporters is directly linked to the total amount of money raised. The two campaigns described above clearly show a very small individual contribution, with for example for the Saheli Design case around \$33 and for the Fair Trade Sewing Center an average of around \$134 for each funder. All in all, the atomic effect of crowdfunding is indeed present as the individual share in the project's success, whether considered in percentage of the funding amount or of the total supporter participation.

Interestingly, crowdfunding seems far from having resolved its own contradictions. While the temptation of linking charity and entrepreneurial ventures, seen as sustainable and offering real development perspectives, prosocial crowdfunding campaigns are trapped in between two worlds. Indeed, while the control and responsibility notions behind the narratives offered by these projects may appeal to preconceived preventions against freeriding behaviors in developing countries, they are also directly colliding against one of the success factors of charitable campaigns which is a certain unconditional vision of doing good for the sake of doing good. In this sense, framing projects in financial and investment terms, creates the risk of reducing the positive self-image effect of support for supporters and at the same time reify a much criticized vision of financial inflows as the ultimate, and maybe unique, question behind development. As noted by most research on developing countries and entrepreneurship, the problems facing local entrepreneurship are much deeper than the sole question of access to capital and

require structural changes at both social and economic levels locally as well as an understanding of the incredibly diverse ways of thinking and organizing which characterize informal sector entrepreneurs around the world (Buckley 1997).

It is finally at the level of the fundamental relationship between the network of actors and stakeholders present in prosocial crowdfunding operations that real problems lie. By presenting, as was the source of the questionings behind this article, the question in terms of control and responsibility inside an asymmetric business ecosystem, project bearers are finally only trying to conform to norms that do not effectively apply to their sector. This schizophrenic communication tends in turn to create real problems of coherence of discourse between the call to notions of investment with returns, responsibility, pertaining to a neo-liberal framework, and the adverse effects in terms of engagement of such discourses. The same type of logical flaws are created by the near obligatory presence of rewards offered as counterparts for funding in projects which are still much more about donations than turning such donations into purchases. If 'donors' are expecting rewards then the investment, and prosocial, effect is *de facto* reduced (or, conversely, the rewards are symbolic and then the reasons behind their mere presence becomes questionable). At the same time, control exerted by charitable organizations, or by crowdfunding platforms, are fundamentally disruptive of the responsibility discourse they offer. Consequently, its necessity and presence imply that developing country entrepreneurs may not be autonomous (a classical post-colonial type discourse) and are potentially free riding (a type of underlying thought fundamentally opposing the basic success condition of trust required by the social capital aspect of crowdfunding). Without a doubt, deriving this vision of developing country entrepreneurs of these benevolent campaigns is not the goal of charitable organizations, and crowdfunding platforms, behind them. At the same time, it is necessary to indicate that the ever increasing number of crowdfunded projects, without relating this trend to developing country ones, has shed light on potential fraudulent practices, forcing an increase of the presence of discourses on control, monitoring and accountability, by all actors and notably project bearers and Internet platforms. Nonetheless, the current situation in this regard offer a series of challenges and questions which, without questioning the positive role of prosocial crowdfunding for the support and existence of developing country local entrepreneurial initiatives, remain to be coped with in order to propose both

70 | policy and practical guidelines in this setting.

5. CONCLUSION

Crowdfunding entrepreneurial projects in developing countries is seen as a vital issue by both researchers and policy makers and there are few questions about the relevance of using such mechanisms in conjunction with microfinance and impact investing. But there are still a number of problems which are to be addressed as the confusion between the traditional means and conditions of control occurring for traditional bank and venture capital funding and the ones allowing the engagement of sufficient levels of social capital required for the success of crowdfunding campaigns.

Crowd engagement narratives are particularly subjected to these confusions as discourses mixing entrepreneurship, helping others (and at least those who deserve it) and obtaining a return on this investment, tend to collide and create adverse effects in the securing of funding by crowds. These difficulties are particularly revolving around the question of offering discourses to everybody at the same time under a wide diversity of simultaneous points of view and dynamics. Among the stakeholders of these projects and campaigns, we can distinguish between people and organizations bearing the projects on one side and potential funders on the other. Project bearers, including local entrepreneurs, mostly view and depict projects in terms of entrepreneurship, under conditions of sustainability through real economic activities, and responsibility. Funders are equally interested in the accountability of project participants for what has to be real entrepreneurial business projects, but the nature of support remains split between opportunities (potentially featuring a return on investment) and the chief reason for supporting these projects, which is about helping others.

These paradoxical requirements, or appeals, create in turn inherent difficulties to crowdfunding in this context. As the capacity to exert control, on what remain very small projects, is a basic promise of organizing actors, conditions of atomicity, if not in number, at least in significance of each supporter's contribution, remain a strong barrier to effective control by funders. In reality, formal control remains in the hands of the most powerful actor, namely the crowdfunding platforms which are in a power position through the design of rules and self-regulation, under pressure of authorities. At the same time, this powerful presence and intermediation through rules of platforms creates threats among which an intervention biasing the positive development effect by the vetting of projects with-

out much capacity to judge of their interest and significance. Additionally to this, platforms through their control mechanisms and mere intermediation are also creating the conditions of disconnection between actors (Ashta and Assadi 2010) presented earlier. At the level of charities, the temptations of control and actions related to the desire to provide evidences of accountability management, mostly through the direct monitoring of project participants from developing countries, create problems of autonomy, opposed to the initial empowerment discourses provided and reminiscent of neo-colonialist views (Memmi 1991) with potentially extremely harmful effects on both campaigns, funders motivations to engage, and ultimately development itself.

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Rezime:***Od milosrđa do investicija: perspektive novih finansijskih parametara preduzetničkih projekata u zemljama u razvoju***

Ovaj rad ima za cilj da otvori debatu o implementaciji tzv. „kraudfanding” (crowdfunding) projekata koje organizuju dobrotvorne organizacije radi finansiranja preduzetničkih projekata u zemljama u razvoju. Posezanje za ovom vrstom finansiranja je strukturalno povezano sa nemogućnošću promotera ovih projekata da dođu do bankarskih kredita ili da organizuju zajednička ulaganja. Kraudfanding i posebno kraudfanding u formi vlasničkih udela se zasnivaju na mehanizmima poverenja koji su važili za projekte sličnih nosilaca koji su bili donirani ili sprovedeni od strane neprofitnih organizacija u prošlosti. Osim zadatka identifikacije vlasničkih udela, koji se stvaraju tokom nastanka i razvoja ovih projekata, postavlja se pitanje regulacije i efekata potencijalno devijantnog ponašanja koje se može javiti tokom tranzicije projekta od stadijuma doniranja do stadijuma stvaranja vlasničkih udela. Stoga, kada neprofitne organizacije smanjuju svoju aktivnost u ovim projektima, kraudfanding platforme mogu ponuditi skup kontrolnih mehanizama u ovom privrednom kontekstu, ali i izdejsstvovati stvarnu promenu u finansijskom leveridžu projekata u zemljama u razvoju.

Ključne reči: kraudfanding (crowdfunding), upravljanje, razvoj, zemlje u razvoju, zajednice, dobrotvorne organizacije, platforme, društveno preduzetništvo, društveno orijentisani projekti

Paper received: 12. 2. 2016.

Paper reviewed: 23. 2. 2016.

Paper accepted: 10. 3. 2016.