



# Chapter 3

## Lending Crowdfunding and Regional Development: An Empirical Study

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### ABSTRACT

*By analysing the operations of a lending crowdfunding platform in Portugal, the investigation aims to study the potential contribution of CF for entrepreneurship and regional development. The results reveal that small organisations are especially prone to use CF as a financing strategy, regardless of their seniority, as well as ventures that have a moderated risk profile. However, coastal regions have been more dynamic on CF use than interior located ventures, since most of the operations were realized on the littoral of the country. The results suggest that interior organisations that use CF could have more financing difficulties that led them to look for new fundraising solutions, since they typically have higher size than coastal located organisations, although the risk rating is quite similar. The CF loans period is also shorter. The average interest rate charged is quite similar between both type of locations, although a higher variability exists in the funding conditions of interior organisations. The average offer per investor is also higher in the interior case.*

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## INTRODUCTION

The term crowdfunding (hereafter CF) derives from the concept of crowdsourcing and could be characterized as the collective cooperation of people who pool their money together to support efforts initiated by others. In the digital world, CF can be defined as an open call for raising funds, essentially through the internet, in the form of exchange for some sort of reward to support private initiatives.

CF has grown very quickly (Yu *et al.*, 2017). According to the World Internet Development Report 2017 “CF was started in 2001 and then began to grow explosively. Database of Forward Information Co., Ltd. shows that from 2010 to 2016, the CF saw the annual compound growth rate of over 80%. Its scale reached US\$198.96 billion in 2016, and it is anticipated to reach US\$300 billion by 2025, with US\$96 billion in developing countries” (Chinese Academy of Cyberspace Studies, 2019, p. 145).

Researchers have highlighted the importance of CF as an emerging topic from different perspectives (Butticè, Colombo, & Wright, 2017; Harrison, 2013; Hu, Li, & Shi, 2015; Kitch, 2013). However, the role of CF platforms on regional development has received little attention from scholars, regardless the increasing number of entrepreneurs that use these platforms to different purposes (Cho & Kim, 2017; Brown, Boon & Pitt, 2017).

The ability of digital technologies to provide almost instantaneous data gathering and feedback, computationally validate contributions and the ability to reach both broad and niche groups through loose networks have all been particularly important for entrepreneurship. This type of platforms has been growing rapidly and changing the dynamics of entrepreneurship as they attract attention and create opportunities for raising capital from individuals and investors across the world (Mollick, 2014).

The study of this type of financial instrument in the context of the regional development is important as investment and financing are two relevant topics for the initial stages of the new venture and the robustness of the less developed regions. To our best knowledge, the literature on CF suffers from a lack of contributions on the benefits of these new platforms for entrepreneurship that are at the core of the regional dynamism. The objective of the paper is to address this gap by examining the potential contributions of CF for the development of entrepreneurship and the dynamism of the regions.

The chapter is organized into six parts. First, we present the concepts of CF, the main types of CF and advantages that provide this innovative external financing mechanism. Specifically, we emphasize how CF might attract investors for different projects from different geographical origins inside and outside the country. After that, in line with the research inquiry, we cover two sets of literature. one focuses on the disparity of economic development among different regions; the other assesses the impact of entrepreneurship on regional development. The next section explains the

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