

# Crowdfunding

## For many people, Crowdfunding is the new fundraising kid on the block: But what does it mean, and how can it be used?

This simple guide helps to explain some of the common terms used in Crowdfunding.

### Some history

The first online crowdfunded project is thought to have occurred in 1997. Rock band Marillion were unable to afford to tour after the release of their seventh album so American fans used the then fledgling internet to raise \$60,000 so they could play in the US.

Although the band wasn't involved in the first round of fundraising, they have since used the same techniques to successfully fund the production of their following three albums. Since then, this marketplace has grown substantially but for many it is still a new and untried idea.

### What is it?

Crowdfunding is a way of raising finance by asking a large number of people each for a small amount of money.

Traditionally, financing a business, project or venture involved asking a few people for large sums of money.

Crowdfunding switches this idea -using the internet to talk to thousands – if not millions – of potential funders. Typically, those seeking funds will set up a profile of their project on a website platform.

They can then use social media, alongside traditional networks of friends, family and work acquaintances, to raise money.

### Donation or reward crowdfunding

People invest simply because they believe in the cause.

Rewards can be offered (this is why the concept is often referred to as Reward crowdfunding), such as acknowledgements on an album cover, tickets to an event, regular news updates, free gifts and many others – the list is endless.

Returns are considered intangible. Donors have a social or personal motivation for putting their money in and expect nothing back, except perhaps to feel good about helping the project.

Example of these sites include:

[www.banktothefuture.com](http://www.banktothefuture.com)

[www.fundit.buzz](http://www.fundit.buzz)

[www.crowdfunder.co.uk](http://www.crowdfunder.co.uk)

[www.justgiving.com](http://www.justgiving.com)

[www.pleasefund.us](http://www.pleasefund.us)

### Debt crowdfunding

With this type of Crowdfunding, Investors receive their money back with interest. Also called Peer-to-Peer (p2p) lending, it allows for the lending of money while bypassing traditional banking methods or banking institutions.

Returns are financial, but investors also have the benefit of contributing to the success of an idea they believe in.

In the case of microfinance, where very small sums of money are lent to the very poor, most often in developing countries, no interest is paid on the loan and the lender is rewarded by doing social good.

Example of these sites include:

[www.abundanceinvestment.com](http://www.abundanceinvestment.com)

[www.simplebacking.co.uk](http://www.simplebacking.co.uk)

[www.fundingknight.com](http://www.fundingknight.com)

[www.trillionfund.com](http://www.trillionfund.com)

### **Equity crowdfunding**

Here, people invest in an opportunity in exchange for equity. Money is exchanged for shares, or a small stake in the business, project or venture. As with other types of shares, (not including Community Shares) success brings an increase in share value. A lack of success means that shares could lose value.

Example of these sites include:

[www.crowdcube.com](http://www.crowdcube.com)

[www.downingcrowd.co.uk](http://www.downingcrowd.co.uk)

[www.seedrs.com](http://www.seedrs.com)

[www.propertypartner.co.uk](http://www.propertypartner.co.uk)