

Crowdfunding and New Possibilities of Startup Business in Palestine

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Abstract: This paper attempts to shed light on the concept of crowdfunding and to determine its chances of success in supporting startup projects in the Palestinian economy. Crowdfunding, a relatively new idea, is an online initiative to collect donations or funds for specific projects through designated websites or specific platforms. Crowdfunding involves collection, distribution, and management of such funds. This article attempts to make an in-depth study of this concept by analyzing the types and characteristics of crowdfunding and the economic implications of using such funds to finance projects. It tries to articulate the incentives and disincentives that crowdfunding faces in the Palestinian market and the risks inherent in the practice. The study concludes that despite the caveats about using this method of financing small projects, it is considered a mechanism that can drive the Palestinian economy into a new era; a fully organized crowdfunding process may help the Palestinian economy to discover new opportunities.

1. Introduction

The rapid changes that have taken place in the Internet since the beginning of the current millennium have clearly affected different aspects of our lives. They have led to a clear change in the way people interact with each other, enabling others to access knowledge. With a large number of university graduates entering into the labor market each year, the young Palestinian economy, despite its small size, is also witness to this paradigm shift. The statistics of the Palestinian Ministry of Education indicate that the number of university graduates exceeded 200,000 in 2016[1], which was more than what the market could absorb. Therefore, policymakers needed to consider ways to create jobs for the unemployed graduates, in addition to supporting entrepreneurs.

At the same time, crowdfunding platforms were considered as a qualitative leap to help entrepreneurs to obtain funding through novel methods. Previously, they had faced difficulties to access funds for their projects. This has prompted many individuals to go online to find alternative means to overcome bureaucratic difficulties in obtaining loans.

The possibilities look different in the Palestinian economy. Although lending institutions do sponsor small projects, they follow traditional lending policies characterized by high interest rates. No registered project has so far relied on crowdfunding through the Internet. However, some charities have relied on donations to set up businesses in the last two decades. The idea of crowdfunding is totally different. It provides individuals with an opportunity to participate in the project's decision making. Sometimes, it goes beyond the popular perception of such projects [2].

Crowdfundig dates back to 2008 and describes a process that taps into funds, ideas, or moral sources to form creative initiatives [3]. The term also describes a more complex system of outsourcing charitable or creative ideas from institutions or individuals with an open appeal through the Internet for work contributions toward financing processes by arousing sympathy for the campaign [4].

Crowdfunding is a form of financing multiple projects through individual initiatives without the support of surrounding banks and traditional lending institutions. The Internet provides a great opportunity to identify and disseminate information about the project and related aspects among shareholders. The term crowdfunding is often used to describe attempts to find a link between

potential investors and supporters through modern communication channels in order to achieve its goals. Crowdfunding serves to transform ideas into reality. It also provides investors with an opportunity to support small and medium enterprises [5].

Crowdfunding is placed within the economic context to exploit the potential of social media and other platforms on the Internet. These initiatives are centered around many players, including investors who support the project, platforms that run the process, and initiators with a vision. In this game, the public gets a rare chance to support a project, providing free funding in some cases, driven by a deep faith in the players and the importance of the cause and considering its impact on society from a social or economic perspective [6]. This approach may be extended to other goals, either political or religious.

2. Crowdfunding objectives

The practice of crowdfunding facilitates the provision of capital for various purposes. One can say that crowdfunding has different objectives—investment, lending, reward, and so on.

2.1 Investment objectives

Investors exploit these platforms to invest in capital and share the profits in return for their investment. This includes voting rights and ownership. This type of investment tries to combine assets and institutions in order to create a larger institution. In return, investors are assured of future profit opportunities [7].

These investment models have been selected as profit-taking criteria for investors, who provide top-notch financial investment for the enterprise, organize the project, and provide technology. Although this type of investment is slow to produce financial difficulties, it has managed to provide reasonable profits for many projects over the years.

2.2 Lending objectives

Crowdfunding enables entrepreneurs to obtain loans bypassing traditional lending methods, including banks. Companies, such as Zoba [8], employ this method to provide microfinance or social finance. Microfinance, that is, small funds distributed among low-income people, is often channeled through nonprofit platforms as social lending for investment subject to specific rules. The funds are then returned with interest. Hence, group lending can be regarded as a challenge to traditional lending methods.

2.3 Donation objectives

The donation objective has received wide attention with the emergence of social media communication. Donations are collected mostly for humanitarian purposes through separate social networking sites.

2.4 Reward objectives

Crowdfunding donations with a reward objective involves provision of goods with symbolic prices to encourage donors to make donations through Internet platforms. These are mostly for educational or creative projects for the development of the community.

Differentiating between the various objectives is important. Sometimes, if the targeted amount is not collected, all donations are returned to the donors after deduction of costs. In some cases, donors are informed that if part of the amount is collected, the initiator has the right to retain the amount, together with discounts charged by the platform [9].

3. What motivations drive crowdfunding

Crowdfunding depends on close cooperation between a group of key players, entrepreneurs, investors, and platforms through which these funds are mobilized. It is worth noting that the process of leveraging crowdfunding to finance these initiatives must consider the motivations behind this

process.

3.1 Startup motivations

Crowdfunding provides an opportunity for entrepreneurs to obtain funding at a low cost of capital, access creative ideas, and examine the marketing methods. Internet platforms provide information about the project, and investors obtain an accurate view that ultimately determines whether or not the project is within their area of interest [10]. It provides a quick communication channel to post questions about the project and offers ordinary people an opportunity to participate in project activities unrestrained by geographical boundaries. It estimates the largest possible number of donors and others, offers free reviews and consultations, and provides early feedback faster than traditional methods.

3.2 Investment motivations

This motivation may take a number of directions, including participation in stocks and profits, including decision-making and policymaking within the institution. It is marked by an interest in the expected future profits, but not necessarily a desire and ambition on the part of the investor to obtain a future fee. These motivations can be summed up as a mixed bag of several things, including the investor's commitment to social responsibility [11]. Some shareholders see the success of this project as a kind of self-realization and desire to direct social change away from future financial projections. This generates a kind of satisfaction among the public over its ability to change reinforced with a deep sense of self-worth associated with the ability to contribute to this project without expecting a return.

3.3 Platform motivations

It is important to note what incentives are in place to encourage those who run this process. These institutions are primarily profit-seeking organizations. It appears that their objective is to associate as many people as possible with the project and ultimately obtain full funding. The returns come mostly from fees for the operations that support the funding process. Hence, the role of supervisors on the site is centered on the ability to build a large structure of processes to attract donors. At the same time, they must provide a protection net for donors and entrepreneurs against fraud and deception [12].

4. Obstacles for crowdfunding

The process of crowdfunding faces many obstacles, including the fear of falling into the traps of scammers, intellectual property issues, and infringement of others' rights. At the same time, some investors are puzzled about the projects and feel embarrassed by their inability to clearly understand these projects. Some have the fear of theft, while others raise questions about ownership rights. These sites could be vulnerable to intruders who intend to launch projects without regard to others' property rights. It is therefore important that the entrepreneurs consider the financing aspect of these projects and protect their intellectual rights with a sense of seriousness.

A further issue arises if this process is not properly organized. Donors would themselves refrain from contributing to these projects. The fear of project failure on the part of donors could enhance these concerns.

Some projects have a time frame for raising funds. This raises concerns whether a project could be fully funded within the specified period. Collecting donations involves the risk of funding shortfalls, requiring re-planning and searching for alternative funding sources.

There are fears of fraud and deception. Financiers may be cheated, and financial problems could occur from fraud through fake platforms. These platforms can not only collect donations illegally but also obtain sensitive information about the investors or donors.

Another risk is the mentality of fear and expected failure of small projects or unique ideas, causing potential investors to avoid financing these initiatives. A misunderstanding can make it difficult to persuade others to fund these projects.

The laws regarding the extent to which enterprises and projects can be financed through crowdfunding differ among countries. In 2012, crowdfunding became a legitimate means of financing in the United States, although it sometimes seems a difficult and mysterious process [13].

5. The possibilities of crowdfunding in Palestine

It is estimated that the Palestinian economy, slowly recovering from the effects of the recession in 2014, expanded by 8% during the first quarter of 2015, with the most notable achievement being the reconstruction of the Gaza Strip. Unemployment remains high at 27%. Given the continuing constraints on its competitiveness, the economy can expect a medium-term growth rate of 3.5%. With subsidies falling below expectations and the possibility of more conflicts, negative risks to growth and employment opportunities continue to dominate the economic outlook [14]. Hence, crowdfunding of the Palestinian economy could lead to both problems and opportunities.

First, the cyber laws of the country continue to face obstacles, despite the electronic criminal law introduced in mid-2017, because of the political factors involved in, for example, placing restrictions on the freedom of expression. With serious enforcement of laws through the judiciary, crowdfunding creative projects could assure some protection for all players in the process [15].

Second, the e-payment culture is not gaining much acceptance. Despite attempts to promote the use of the Visa card, Mastercard, or some local cards, public acceptance is still slow, raising questions about the success of crowdfunding sites. It is very important that government agencies, and particularly citizens, encourage electronic payment operations through permanent media campaigns, in addition to providing a safety net for citizens, and ensure that all operations are carried out under the umbrella of the law.

The culture of distrust in e-payment is still prevalent in the Palestinian sector, especially since these sites are relatively new. Hence, the work of any fundraising platform may seem suspicious, even if it has noble goals. This seems to be related in one way or another to the first reason. The government or non-profit bodies known to citizens or major economic institutions could possibly adopt these projects. This could reduce citizens' fears.

Due to the tense situation in the Palestinian territories, these sites may be viewed as a means of financing the Middle East conflict, exposing the operators of these projects to risk. However, these sites may obtain legal certification and licenses from the authorities to avoid the suspicion that they provide a channel for the transfer of money for undesirable purposes.

Citizens can also take advantage of some international sites to promote these projects, although this seems to theoretically open the door to more donors from among the shareholders. However, this raises questions about the ability of the creator to convince the public outside Palestine to support a relatively remote project in an area characterized by political tensions in general.

6. Conclusion

The rapid changes in the global business environment have opened the doors to crowdfunding finance, providing a glimmer of hope for small financiers. Although crowdfunding is limited to certain groups, it has made progress as an important source of funding, though not at the same pace as in the economies of the West. However, it faces a number of obstacles that cannot be ignored, especially with regard to the legal environment, deception, and money laundering. Serious consideration of these issues could lead to the construction of a crowdfunding model.

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