The Social Impact of Crowdfunding

A social impact measurement study for “crowdfunded” projects


Author: João Rodrigues
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Presentation Structure

• Introduction
• Literature Review
• Research Questions
• Case Study
• Teaching Notes
• Conclusion
Introduction (I)

“How do I put together the resources I need?”

“How do I get the MONEY I need?”
How do I put together the resources I need?

How do I get the MONEY I need?

Savings

Loan

Ask
Introduction (I)

“How do I put together the resources I need?”

“How do I get the MONEY I need?”

Savings  Loan  Ask  Crowdfunding
Introduction (II)

“How can Social projects benefit from Crowdfunding?”

“How do social projects measure impact?”
Research Questions

RQ #1- How has **crowdfunding** emerged and how is it evolving in Portugal?

RQ #2- How do social entrepreneurs **measure social impact** and for what purpose?

RQ #3- How can social projects apply and benefit from the **Expected Return methodology**?
“Who is the social entrepreneur?”

The Social Entrepreneur

Not-for-profit individuals who assume the importance of the market forces without losing the focus in a social mission, balancing between these two aspects (Boschee, 1998)
Crowdsourcing

“The act of outsourcing a task to a “crowd”” (Howe, 2006)

“(…)using the expertise of the agent, which is the basis of outsourcing. Some crowds have agents that, over the years, accumulated some level of knowledge and problem solving skills which can be valuable to corporations or individuals.” (Afuah and Tucci, 2012)

**Pros**
- Specialized communities
- Cost-efficient
- Co-creation of knowledge

**Cons**
- Difficult to control
- Distance affects quality
The power to start or accelerate a project with a small amount per contributor, which, multiplied by many investors, will allow the entrepreneur to achieve the desired financing value. (Kuppuswamy and Bayus, 2013)

Crowdfunding

Crowdsourcing applied to the financing of projects or companies

The power to **start or accelerate a project** with a small amount per contributor, which, multiplied by **many investors**, will allow the entrepreneur to achieve the desired **financing value**. (Kuppuswamy and Bayus, 2013)

<table>
<thead>
<tr>
<th>Crowd (Investors)</th>
<th>Project (Promoters)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assess project acceptance</td>
<td>Test a brand/project/product</td>
</tr>
<tr>
<td>Input to the future of project</td>
<td>Receive feedback</td>
</tr>
<tr>
<td>Support something they believe</td>
<td>Get the needed funding</td>
</tr>
</tbody>
</table>
Every year philanthropists grant billions of dollars (...). They often do so without assessing (...) the effectiveness of the organizations they fund. (Brest, Harvey and Low, 2009).

“Why is it important?”

Funders’ requirements have become more demanding (Ellis, 2008)

The nonprofit sector is becoming increasingly professionalized (Hwang and Powell, 2009)

Current economic crisis and that decreases the allocation of private and public resources (Ebrahim and Rangan, 2010)

Important and Needed
Literature Review (V)

“How do I spend the money I need?”

1) **No common metric**

There is still the need to have a common metric to make comparisons and to provide social impact results to investors (Brest, Harvey and Low, 2009)

2) **No data/measurement**

There is a lack of common measures, quality data and the cost of measurement. (Tuan, 2008)

3) **Subjectivity**

Doing good is a matter of societal values about which there may be little or no consensus (Kanter and Summers, 1994)
Literature Review (VI)

“How do I spend the money I need?”

Solution proposed:

1) Social Cost-Benefit Analysis

2) Social Return on Investment

Converts social returns into money

Problems:
1) How can I assume prices for social costs and benefits?
2) Is it meaningful to use discount rates on social impact?
3) Do NGOs have a completely monitored system to collect data?
Literature Review (VI)

“How do I spend the money I need?”

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Converts social returns in money

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Expected Return Model
(Brest and Harvey, 2008)

<table>
<thead>
<tr>
<th>Mission</th>
<th>Social objectives</th>
<th>Cost</th>
<th>Benefit per dollar invested</th>
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Convert money in social return
Research Questions

RQ #1- How has crowdfunding emerged and how is it evolving in Portugal?

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RQ #3- How can social projects apply and benefit from the Expected Return methodology?
Case Study (I)

“How do I get the money I need?”

**KICKSTARTER**

- Online communities
- Everyone can donate or submit projects
- Only if the amount requested is reached, you get your money

“Is it working?”

Launched in 2009

843,000,000$  5,000,000 supporters  50,000 projects

- Creating jobs
- Opportunity for everyone
- Putting companies to live
- Changing the loans dependence

43% success rate
Case Study (II)

“How do I get the money I need (in Portugal)?”

Since 2011

"To empower Portuguese entrepreneurs and philanthropists to achieve their projects’ full potential" (PPL Mission)

Results until August 2013:

€275,000 collected
7,700 project supporters
95 projects successfully financed
Case Study (III)

“How do I get the money I need (in Portugal)?”

Amount collected per category

<table>
<thead>
<tr>
<th>Category</th>
<th># Supporters</th>
<th># Candidates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurship</td>
<td>1113</td>
<td>92</td>
</tr>
<tr>
<td>Social</td>
<td>381</td>
<td>77</td>
</tr>
<tr>
<td>Technology</td>
<td>440</td>
<td>43</td>
</tr>
<tr>
<td>Education</td>
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<td>55</td>
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<tr>
<td>Music</td>
<td>1279</td>
<td>97</td>
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18 categories in total
Case Study (IV)

“How do I get the money I need (in Portugal)?”

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€0  €10,000  €20,000  €50,000

18 categories in total
To address this social focus:

1) high demand for social projects;
2) BES social corporate responsibility objectives;
3) PPL’s need to segment the offer (cannibalization)

Results:

<table>
<thead>
<tr>
<th></th>
<th>PPL</th>
<th>BES Crowdfunding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projects Submitted</td>
<td>932</td>
<td>100</td>
</tr>
<tr>
<td>Projects Published</td>
<td>241 (25%)</td>
<td>46 (46%)</td>
</tr>
<tr>
<td>Projects Financed</td>
<td>95 (45%)</td>
<td>24 (65%)</td>
</tr>
</tbody>
</table>
Case Study (VI)

“How do I get the money I need (in Portugal)?”

Paradigm change

Before crowdfunding

Social entrepreneur

Society

Banks, Sponsors, CSR

After crowdfunding

Social entrepreneur

Society
Case Study (VII)

“How do social projects measure impact?”

Behavioral change

\[ \text{Scarcity} \quad + \quad \text{Crowdfunding control (direct and indirect)} \quad = \quad \text{Impact measurement} \]

“Why is it important?”

**External motivations**
(pointed before measure):

1) Negotiation power
2) Ratios’ promotion
3) Project awareness

**Internal benefits**
(pointed after measure):

1) Internal efficiency
2) Performance improvements
3) Historical tracking
Case Study (VIII)

“How do social projects measure impact?”

**Expected Return Model**
(Brest and Harvey, 2008)

**Convert money into social return**

Benefit in a perfect world x likelihood of success x philanthropic contribution

Cost ($)

**Benefit per dollar invested**

**Pros**

The mission transformed in return
Flexibility
Simplicity
Comparable between projects with same mission

**Cons**

Assumptions based
Lack of objectivity
Simplicity
Case Study (X)

Practical Analysis

“Helping children and their families in all the process after cancer has been diagnosed.”

Identifies needs

Action plan and execution

Family support
Emotional support
Social support
Leisure activities
Case Study (XI)

Practical Analysis

Social support

Food needs – “O cabaz” project

8 Families 3 Months 24 baskets Average cost of €60

Total cost = €1,440

Merchandising Companies CSR

BANCO ESPIRITO SANTO

BESCROWDFUNDING
Case Study (XII)

Practical Analysis

PROJECTO O CABAZ – PROGRAMA DE APOIO ALIMENTAR ÀS FAMILIÁRIS DE CRIANÇAS COM CANCRO

APOIAR JÁ

OBJETIVO:
€1440

PROGRESSO: 162% Total
€2339 angariado | 161 apoiadores

RECOMPENSAS
Apoie com 1 € e obtenha
Declaração de agradecimento individual e personalizado a cada um dos doadores, a ser enviado por e-mail ou por correio para os próprios.

FACEBOOK
Find us on Facebook

Promovido por: Associação Acreditar
Objetivo: 1440 €
Terminado a: 08/08/2013
Localização: Lisboa, Portugal

Muito obrigado pelo seu contributo. Este projeto já se encontra financiado a 100% devido ao envolvimento da sociedade civil. Contudo, encontram-se ainda em aberto outros projetos e necessitários de sua generosidade, pelo que ainda tem possibilidade de poder contribuir para outra causa através do BESCrowdfunding.
Case Study (XIII)

Practical Analysis

Benefit in a perfect world x likelihood of success x philanthropic contribution

Cost ($)

Expected Return = \[
\frac{24 \times 1 \times 1}{1,440} = 0.01(6) = 24 \text{ baskets}
\]
Case Study (XIII)

Practical Analysis

Benefit in a perfect world x likelihood of success x philanthropic contribution

\[
\text{Expected Return} = \frac{24 \times 1 \times 1}{1,440} = 0.01(6) = 24 \text{ baskets}
\]

Cost ($)

But... Extra €899

\[\text{€899} \times 0.017 = 15\]

15 more baskets thanks to crowdfunders = 2 more months of provision

1) Less dependent on partner companies
2) Community involvement
Case Study (XIV)

Practical Analysis

“Contribute to the medical support and care of the population of a small community”

2 teams of 4 volunteers to Mozambique

Medical check-ups
Patient forwarding to specialties
Medical and social training sessions
Home visits
HIV tests forwarding
Case Study (XIV)

Practical Analysis

“Contribute to the medical support and care of the population of a small community”

2 teams of 4 volunteers to Mozambique

Medical check-ups
Patient forwarding to specialties
Medical and social training sessions
Home visits
HIV tests forwarding

Costs:
- Medical equipment
- Living costs of the team
- Travel tickets

2,150 to send 1 volunteer to the field
17,200 to send all 8 volunteers

Companies CSR
Sponsorships on campus
Case Study (XV)
Practical Analysis

MEDICINA MAIS PERTO: MOÇAMBIQUE

INFORMAÇÃO  |  COMENTÁRIOS (3)  |  APOIANTES (79)

Matola, Moçambique  |  Educação

SOBRE O PROJECTO
O que é o Medicina Mais Perto: Moçambique?

O Medicina Mais Perto: Moçambique (MMP.MZ) é um projeto de voluntariado internacional da AEFML em parceria com associações locais moçambicanas.

O objectivo principal é levar apoio médico-social a uma população cujo acesso aos cuidados de saúde é, muitas vezes, barrado por dificuldades tão simples como a falta de transporte, falta de dinheiro para uma consulta ou pelo simples estranhamento face aos médicos.

Parceiros:
- Associação Voluntária das Mães e Crianças Carentes (AVOMACC)
- Centro DREAM of Africa (centro de apoio ao doente HIV+)

2 724€
ANGARIADO

136% do objectivo de 2 000€
79 apoiantes
Terminado a 08/06/2013

Promovido por:
Tomás Neto de Silva
Enviar email

RECOMPENSA
Apoie com 5€ e obtenha
Um postal de agradecimento electrónico +
Agradecimento na nossa página do facebook

Apoie com 10€ e obtenha
Fotografia dos voluntários com as crianças
durante o projeto + Agradecimentos anteriores
Case Study (XVI)

Practical Analysis

Benefit in a perfect world x likelihood of success x philanthropic contribution

Cost ($)

\[
\text{Expected Return} = \frac{1,440 \times 1 \times 0.8}{17,200} = 0.07 = 140 \text{ people impacted}
\]
Case Study (XVI)

Practical Analysis

Benefit in a perfect world x likelihood of success x philanthropic contribution

\[
\text{Expected Return} = \frac{1,440 \times 1 \times 0.8}{17,200} = 0.07 = 140 \text{ people impacted}
\]

2 724 €
ANGARIADO

136% do objetivo de 2 900 €
79 apoiadores
Terminado a 08/06/2013

But... Extra €724
€724 x 0,07 = 50
50 more people impacted by MMP thanks to crowdfunders

1) Less dependent on corporate sponsors
2) University community involvement
Social mission results per dollar invested
Negotiation power increase
Internal quality standards definition through time
Robust analysis of the project due to crowdfunding procedures

crowdfunding is changing how social projects are funded
LO1 – The existing need for entrepreneurs and philanthropists to find and use innovative ways of finance their projects, in particular, using crowdfunding.

LO2 – The history, the motivations and the growing results that crowdfunding platforms are achieving in Portugal, in particular PPL and BES Crowdfunding.

LO3 – The benefits for both the entrepreneurs and the society to measure social impact and possible internal and external consequences.

LO4 – Learn how the Expected Return methodology does represent a benefit for philanthropists and what its main limitations are.
TQ1 – What are the reasons behind the appearing of crowdfunding companies and what are the main future trends?

1. The financial crisis that made Banks increase their interests rates
2. The difficulty in obtaining a high-interest loan from a Business Angel
3. The resistance to give away an equity percentage of the firm
4. The appearing of several forms of crowdsourcing (information, IT, etc.) in society
Teaching Notes (III)

TQ2 – What are the main factors that the projects studied (Acreditar and MMP) present as decisive to achieve a successful crowdfunding campaign?

1. Having a concrete mission and objective

2. Fund discrimination

3. The network
TQ3 – What are the internal and external benefits of measuring social impact and how does the Expected Return methodology address them?

External:
1. Ability to present results to institutional investors, gaining negotiation power.
2. Ability to promote project’s results in a structured way and therefore raise support from public funds, institutions and privates.
3. Ability to raise awareness from the public, contributing to the promotion of its cause

Internal
1. Gains in internal efficiency from knowing performance results
2. Ability to compare results among time and other projects
Teaching Notes (IV)

TQ3 – What are the internal and external benefits of measuring social impact and how does the Expected Return methodology address them?

1. Being a performance ratio that can be presented to potential investors
2. Taking into consideration the specific goal of the project
3. Taking into consideration the cost and the benefit per € invested
4. Having the ability to compare in time and among projects with the same aim
5. Taking into consideration the possibility of success (or failure) and the philanthropist contribution (or partners’ contributions)
Conclusions
Conclusions

1. Crowdfunding is changing the social fundraising paradigm in Portugal
Conclusions

1. Crowdfunding is changing the social fundraising paradigm in Portugal

2. The need and importance of social ventures to measure impact
Conclusions

1. Crowdfunding is changing the social fundraising paradigm in Portugal

2. The need and importance of social ventures to measure impact

3. The Expected Return model as an efficient tool
The Social Impact of Crowdfunding

A social impact measurement study for “crowdfunded” projects


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Appendix (I)

Further Challenges

1) Performance measure due to community pressure
2) How demanding will crowdfunders be?
3) Public Internal data?

Limitations

1. Scarce number of projects involved in study
2. Few practical research about Expected Return model

Future Research

1. BES Crowdfunding (reasoning behind)
2. How are results presented? (Measurement, crucial indicators, current results)
Appendix (II)

Assumptions

<table>
<thead>
<tr>
<th>Actividades</th>
<th># de actividades realizadas</th>
<th># pessoas envolvidas em cada actividade realizada</th>
<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultas da Família</td>
<td>80</td>
<td>4</td>
<td>320</td>
</tr>
<tr>
<td>Consultas da Mulher</td>
<td>76</td>
<td>1</td>
<td>76</td>
</tr>
<tr>
<td>Encaminhamento para especialidade</td>
<td>40</td>
<td>1</td>
<td>40</td>
</tr>
<tr>
<td>Formações</td>
<td>40</td>
<td>20</td>
<td>800</td>
</tr>
<tr>
<td>Encaminhamento HIV</td>
<td>85</td>
<td>1</td>
<td>85</td>
</tr>
<tr>
<td>Visitas domiciliárias</td>
<td>20</td>
<td>4</td>
<td>80</td>
</tr>
<tr>
<td>Incentivo retoma dos estudos</td>
<td>30</td>
<td>1</td>
<td>30</td>
</tr>
<tr>
<td>Desparasitação</td>
<td>12</td>
<td>1</td>
<td>12</td>
</tr>
</tbody>
</table>

% Financing (PPL) = 2,724/17,200 = 16%

% Field Work = 100%

a. Financial contribution: Percentage of an individual organization’s contribution relative to the overall philanthropic contribution needed to achieve the outcome.

b. Degree of influence: How essential the investment is to achieving the outcome. This measure can result in philanthropic contribution that is greater than the level of financial share

Financial contribution = 0.16% x 0.25% + 0.75% x 1

Field work – 75%