A Tale of Three Musketeers of Alternative Finance: Stagnating Microcredit, Growing P2P Online Lending and Striving for Slow Money

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ABSTRACT
In the aftermath of the funding problems that swept the world after the 2006-2008 financial crises, people took the initiative to find alternative sources of funding by bypassing the conventional financial institutions. Alternative finance links individuals who have extra funds with those who need them. While different types of alternative finance seem to address similar issues, as a function of solidarity and cooperation in a demanding market, they have not experienced the same performance. Why? This paper aims to provide insights to answer this question. Three types of alternative finance are considered: microcredit (microfinance), P2P online lending (crowdfunding), and slow money.

KEYWORDS: Microcredit, P2P online lending, slow money, rationale, customer value, revenue stream, technology, governance

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Since the financial crisis, conventional institutions have suddenly decided to lend less, particularly to small and medium enterprises (SMEs), reducing their exposure to worthless debt and risk. Small firms lack access to debt and equity capital markets and are more likely to experience difficulties in obtaining external funding in crisis periods. Banks pledge 40% of their resources to multinationals, 20% to derivatives, 13% to interbank loans, and only 17% to the local economy (Mortier 2013). Small enterprises in the USA were hit harder than large firms in terms of securing bank credit during the 2008 financial crisis (Mills, McCarthy 2014). European SMEs that generally struggle to access finance in normal times had a bigger challenge to deal with during the financial crisis (EUROPEAN CENTRAL BANK, 2014). Consequently, countries with a high prevalence of SMEs recovered more slowly (Klein, 2014).

For new entrepreneurs, banks preferred projects using known technologies (Gjelsvik, 2017). All this means that high-risk projects using new technologies by potential disruptors do not easily access finance.

In the face of these banking and financial problems, people took the initiative to find new sources of funding. These alternative finance solutions link individuals who have extra funds to those who need them outside the conventional financial system (Baeck et al., 2014; Zhang et al., 2016). Alternative finance distinguishes itself with features such as an absence of lengthy application forms, low documentation, almost no collateral and/or minimum credit score requirements, high approval rates, and fast funding, even for cash flow and asset finance needs.

Solidarity and cooperation are common to many types of alternative finance such as asset funding, cash flow funding, crowdfunding, crypto-currencies (Bitcoin), slow money, pension fund investments, social impact bond, etc. While these different types of alternative finance seem to address similar issues in a demanding market, they have not experienced the same performance. Why? We endeavor to address this question.

We believe that the results of this research can be useful from different angles to scholars, practitioners, and policymakers interested in the issues of funding and/or supporting social projects and micro economic ventures. For many SMEs, access to alternative finance means the difference between success and failure. Identifying the factors of success (microfinance, crowdfunding) and struggle (slow money) can efficiently enhance the vitality and sustainability of alternative finance to support economic growth and social welfare.

The remaining part of the paper is structured as follows. First, we formulate the research inquiry in a more precise manner. Second, we briefly...
explore the literature on microcredit, P2P online lending and slow money as types of alternative finance. Third, we compare our three types of alternative finance with regard to the rationale and components of a business model. Fourth, we discuss similarities and differences between our selected modes of alternative finance. The conclusion is the last section of this paper.

**Research inquiry**

Microcredit, P2P online lending and slow money are among the strands of alternative finance that cover a range of very different models (Baeck et al., 2014). However, they do not demonstrate the same performance and do not follow the same pace of growth. This research aims to address this paradox in the field of alternative finance: Why do three different types of alternative finance such as microcredit, crowdfunding and slow money reveal dissimilar fortunes?

The former is stagnating after exponential growth, the second is developing rapidly, and the latter is struggling, while they all share similar business visions.

Are they merely in three different quadrants of the BCG (Boston Consulting Group) Matrix classification: cash-cows, stars and problem-child? Broadly, the BCG matrix, like any other strategic matrix, evaluates the performance of products according to external and internal dimensions. Our analysis will focus on the internal dimension (within an organization).

**Review of literature**

To respond to our research inquiry, we initially review the literature to explore the peculiarities of the above modes of alternative finance.

**Microcredit**

Microcredit means providing poor entrepreneurs with small loans for their productive activities. The rationale is to give financially excluded individuals the opportunity to borrow through non-traditional methodologies such as social collateral, simplified documentation, weekly rather than quarterly frequency of payments (Armendáriz, Morduch, 2010; Ashta, 2016; Yunus, 2003), and perspectives of larger loans in the case of the fulfillment of repayment.

Providing funds through solidarity and/or cooperation is not a new concept. The movement of microfinance dates back to Jonathan Swift, who commenced microcredit with the Irish Loan Funds in the 1720s, Friedrich
Wilhelm Raiffeisen, who initiated the village-bank movement in Germany, reaching two million farmers by 1901, Alphonse Desjardins, who encouraged the “Caisse Populaire” movement in Quebec, or even traditional trust groups in different cultures all around the world.

Modern microfinance is however symbolized by Muhammad Yunus, founder of the Grameen (rural) bank in 1976. He started the initiative by giving a loan of $27 to 42 women in a village in Bangladesh. Although most modern microfinance institutions operate in developing countries, there are also many that operate in the developed countries.

Microcredit now covers 211 million borrowers (Reed et al. 2015). Indeed, viewing the fast growth of microfinance, one wondered how this growth could be financed (Dieckmann 2007) and retail financing was thought to be a solution. This would mean that ordinary people would finance microfinance institutions. This situation brings the concept of microcredit closer to that of P2P lending in crowdfunding.

**P2P Online Lending in Crowdfunding**

The term crowdfunding derives from crowdsourcing, which refers to the aggregation of many small contributions to support solutions. Crowdfunding is a mechanism by which a project initiator launches an open call for soliciting and collecting small amounts of money from a large number of individuals (a crowd) around the world, who are typically not professional financiers, within a specified time limit, through Web 2.0 technologies-based platforms, without the intermediation of conventional financial institutions.

All individuals or social project initiators, such as artists, churches, charitable organizations, civic groups, creative or entrepreneurial ventures, firms, political parties, etc., whose projects do not fit the pattern required by conventional financiers, can resort to crowdfunding platforms to raise funds.

Crowdfunding is at the vanguard of the alternative finance movement (Baeck, Collins, Zhang, 2014) and is progressing at a double-digital rate. A number of studies report the rise of crowdfunding in recent years, and anticipate its progress in the future. The INFODEV-WORLD BANK (2013) estimated that the crowdfunding market would be between $90 and $96 billion by 2025, roughly twice as much as the global venture capital industry in the early 2010s. Indeed, these estimates were surpassed in 2015, when China alone had online alternative finance platforms with deals of over $100 billion, three times as large as the USA, which had been the global leader until recently (Zhang, Deer, Wardrop, Grant, Garvey, Thorp, Ziegler, Ying, Xinwei, Huang, Burton, Chen, Lui, Gray, Akhtar and Anthonisz 2016).
Platforms such as Kiva started in about 2005 and promoted the concept of lending to the microfinance institutions of developing countries. In 2005 Zopa also started to provide lending to borrowers in developed countries. In the United Kingdom, alternative finance lends more to SMEs than clearing banks lend on overdrafts. The figures for investment derived from alternative sources have surged by 91 per cent, from £492 million in 2012 to £939 million in 2013, and the market still has huge potential for future growth (Baeck, Collins, Zhang, 2014).

**Slow Money**

Slow money originated from Slow Food. The Slow Food movement started in Italy in the 1980s and progressively expanded worldwide to promote regional producers and local biodiversity as an alternative to fast food and industrial farming. Inspired by the movement, Woody Tasch published a kind of manifesto (2009) called “Inquiries into the nature of slow money: Investing as if Food, Farms and Fertility Mattered”. The idea consisted of linking local entrepreneurs and investors to enable a wide array of local food actors such as farmers, distributors, processors and specialized Internet platforms to obtain financing directly, instead of complicated securitizations. Ashta (2014) describes slow money as a patient investment in the slow food sector, as opposed to fast money products such as derivatives and securitization, known for their high velocity and profit maximization.

Woody Tasch’s initiative of supporting sustainable local food systems gave birth to the Slow Money Alliance, started in California in 2009. Subsequently, different states created their own chapters such as Slow Money NYC (slowmoneynyc.org) and Slow Money Maine (www.slowmoneymaine.org). We look in more detail at these two cases for the purpose of this research.

Slow Money NYC has raised $300,000 over the course of a few years to fund local food and farm businesses through Foodshed, a group of angel investors focused on sustainable food. Slow Money NYC is also a trustee for Kiva Zip for local investment missions.

Slow Money Maine (http://www.slowmoneymaine.org) convenes gatherings six times a year to connect farmers and fishermen and philanthropist investors to match each other’s needs and to act as a catalyst for the flow of funds and technical assistance to a wide array of food businesses. During the first five years, it raised more than $10 million in 277 transactions to 76 businesses in the form of loans, grants and equity investments.

Nevertheless, slow money has been slower to grow than microcredit or crowdfunding.
Research methodology

We undertake a comparative analysis to identify the reasons for the difference in performance of microfinance, crowdfunding and slow money.

Some authors have already compared these types of alternative finance. However, they have tended to consider them in parallel streams. Firstly, Alijani et al. (2016) and Assadi and Ashta (2014) have worked on comparing the specific attributes of microfinance and crowdfunding and explored whether offline mechanisms of group norms in microfinance can be replicated in online P2P lending platforms. Secondly, Jayashankar et al. (Jayashankar et al., 2016) have compared slow money and microfinance in terms of evolutionary theory and biological criteria such as size of offspring, lifecycle, growth strategy, production, parental investment, niche specialization, niche construction, cooperative ties, diversity of species, and feedback loop/information sharing. Thirdly, a start has been made on comparing slow money with crowdfunding by analyzing how they attract people, and their similarities and differences (Jung, 2016).

To the best of our knowledge this is the first paper that links the three types of alternative finance and searches out elements of their business models to explore their peculiarities compared to mainstream finance and the reasons for their uneven performance.

In line with the exploratory nature of our inquiry, we adopt the research method of case studies that scrutinize a limited number of real-life situations to provide comprehension (Stake, 1995) and insights (Eisenhardt, 1989) on foundations and relationships (Yin, 1993). This method is also pertinent for finding categories to design questionnaires for further data collection (Galunic, Eisenhardt, 2001) and for building theory (Bonoma, 1985; Eisenhardt, 1989). In this approach, the principle for selecting cases is neither size nor representativeness nor randomness. The principle is variation, richness, and the insightfulness of cases (Eisenhardt, 1989; Patton, 1987). Yin (2013) recommends one or more of the three justifications for selecting a case: critical, extreme, or unusual cases.

In this research, the cases are from different types of alternative finance. They represent variation, richness, and the insightfulness of alternative finance as we have explored them in the preceding section of the literature review. We compare them in terms of rationale and the elements of business models to explore whether they can explain the differences in performance of these modes of alternative finance.

While there is an extensive literature on vision and mission, to evaluate the respective business models we adopt Assadi’s (2016) theoretical model,
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which contains four components: customer value proposition (CVP), revenue stream, infrastructural technologies and competencies, and governance. For each element of comparison, we explore the similarity and difference between our models of alternative finance.

For microcredit and P2P lending, the analysis is mainly based on the relevant literature. For slow money, because of its relative newness, we thoroughly review the founding book of the movement, Inquiries into the nature of Slow Money (Tasch, 2009), the scant existent literature (Ashta, 2014; Ashta, Bratu, 2013; Jayashankar et al., 2015), and the related websites through fifteen states in the United States and one in France. One of the co-authors of this paper played an entrepreneurial role in introducing slow money to European French-speaking countries. Therefore, through direct experience and meetings with key people in the worldwide slow money movement, this co-author contributed to our understanding and analysis of the phenomena.

Principal results and analysis

In this section, we will present and compare the results of our research into cases of the different types of alternative finance. As already mentioned, five categories have been adopted for this comparative analysis: rationale, customer value proposition, revenue stream, technological infrastructure, and governance.

Rationale: Vision and Mission

The guiding line in this section is the following question: Do the rationales explain the difference in performance of microcredit, P2P online lending, and slow money?

A review of the mission and vision statements of leading MFIs shows that many of them cater to the poor or those on a low income, to women, rural areas, the disabled, marginalized sections of the population, or workers (Ashta, 2016). A large number of microfinance researchers have examined the question of mission drift in microfinance, debating whether it is losing its social mission in its quest for financial sustainability (Brière, Szafarz, 2015; D’Espallier et al., 2013; Labie et al., 2015; Saab, 2015; Serrano-Cinca, Gutiérrez-Nieto, 2014). It is generally considered that the average loan size has been increasing, but that this increase is owing to income growth and inflation, and after controlling for these, the average loan size as a percentage of GNI per capital has remained fairly flat (Ashta, 2016).
The crowdfunding platforms typically specialize in one or more types of fundraising between solicitors and contributors: donation-based, equity-based, reward-based crowdfunding, and debt-based crowdfunding, also referred to as credit-based, loan-based, or crowd lending. We focus on the lending type of crowdfunding that involves requesting resources from lenders in exchange for reimbursement and interest. Lenders typically know the terms, including the purpose of the loan, the range of interest rate, the length of the loan and the assessed credit rating of the borrower, in particular on the for-profit platforms. A debt-based crowdfunding project can be both profit- or non-profit-oriented. In 2005, Kiva and Zopa, respectively, created the first not-for-profit and for-profit P2P credit-based platforms. Hundreds have joined them since then.

For the sake of our comparative analysis, we mainly consider Kiva for the case of the not-for-profit P2P lending platform. We believe the rationale that drives the not-for-profit credit-based platforms like Kiva is similar to that of the leading MFIs as explained above. The institutional mission of Kiva is based on the belief that lending to the poor—and not giving charity—will have a positive impact on poverty eradication. This platform facilitates the collection of interest-free loans from the contributors in the developed countries to finance microfinance institutions (MFIs) which, in turn, lend money to micro entrepreneurs who do not have access to conventional borrowing. Kiva, like its homologous platforms, offers more competitive interest rates, more flexibility and more options to secure resources than conventional institutions, so that the financially excluded can receive non-collateralized loans.

However, as in the case of microfinance, one might warn against the drift in Kiva’s mission of not-for-profit P2P lending. Kiva habitually targets the second tier of the largest MFIs and does not address the most profitable since their financing needs are too high for Kiva to be interested. However, the smallest and most needy MFIs are not primarily addressed by Kiva.

The rationale of Slow Money is to spark dialogue and action addressing the questions of where food comes from and where the money goes. The guiding idea is to redefine the investors’ roles and investment functioning as an alternative to Wall Street, with a focus on supporting local sustainable food systems (Tasch 2009). Slow money is socially- and proximity-oriented and encourages consumers to buy from, and investors to support, local businesses. Woody Tasch, the founder and chairman of Slow Money, a nonprofit organization, criticizes the grow-big-and-go-global-fast mode of industrial and capitalist agriculture, and calls for a capitalism that restores biodiversity, soil health and the local economy (Kurland et al., 2012; Tasch, 2009)
et al. (2012) believe that slow money is part of the localization movement with four priorities: independent ownership, local buying, local sourcing, and pragmatic partnering. They also identified other values such as responsibility to workers and the natural environment (Kurland, McCaffrey, Hill, 2012).

We might conclude that while microcredit and P2P online lending provide tools that are sector-neutral by nature, slow money demonstrates a deliberate willingness to change the way local businesses and investors operate, in particular for food-related projects and community development funds.

At the same-time, both slow money and microcredit lend to businesses that operate locally, regionally or at most nationally, while crowdfunding is borderless. Indeed, when comparing microcredit to pioneers such as a German savings bank and cooperative banks, it was found that the success of the pioneers came from mobilizing local savings to invest locally (Schmidt et al. 2016), and indeed it is often felt that this failure to mobilize savings led to the eventual stagnation of microcredit in many countries such as India.

**Customer Value Proposition (CVP)**

Assadi (2016) points out that a CVP is always subjective and includes not only the features of an offering, but also the personal and social values it implies. To value an offering’s CVP, customers take into account the available competing alternatives, along with their relative benefits and costs. With regard to this general definition, we proceed to a comparative analysis to verify whether the difference in the conception of CVP explains the difference in performance of microcredit, credit-based crowdfunding, and slow money.

The essential CVP of microcredit has been to make available credit to poor people who were otherwise excluded by banks. Although interest rates are high, with a global median of about 28% (Ashta, 2016), this credit has been made available at rates significantly lower than those charged by moneylenders (Armendáriz, Morduch, 2010; Ashta, 2009; Rosenberg et al., 2009).

The most common and fundamental CVP that the P2P online lending platforms provide is an alternative source of borrowing and lending to the conventional institutions. With credit-based crowdfunding platforms, access to money has become easier, faster, broader, and sometimes cheaper, thanks to a wider range of lenders. Many SME businesses that had scarce working capital could now access loans and consequently secure their sustainability. The wider access to loans lowers its price. Another CVP is lowering
transaction costs for both prospective borrowers and lenders, thanks to a friendly user interface, clear guidelines, secured privacy, social media, news, and mobile applications. Some websites even filter out requests for loans according to creditworthiness (Assadi, 2016). A third level of CVP that crowdfunding platforms might provide consists of providing services such as coaching to loan recipients.

Slow money also primarily delivers the CVP of an alternative source of funding to conventional banks and financial institutions. According to Marco Vangelisti, the co-founder of Slow Money California, with the arrival of slow money many bureaucratic hurdles for raising funds have been removed. For too long, raising capital in small businesses meant either being at the mercy of banks or a lengthy process with affluent angel investors, involving lawyers and paperwork. However, slow money links project leaders to backers who share the values of local interests. This community of values generally leads to long-term relationships beyond the moment of the financial transaction (Gerber et al., 2013). Microcredit, always, and crowdfunding, often, support campaigns that are originated in communities. However, they are less involved in communitarian social and economic life due to the fact that they are sector-neutral. While they might help entrepreneurs whose ventures are not rooted in the shared communities, slow money always backs ventures that are local and community-based.

Slow money and crowdfunding processes can also provide the CVP for feedback to improve ventures (Belleflamme et al., 2014; Gerber, Hui, Kuo, 2013). Pre-marketing and pre-payment permit firms to launch products with a certain amount of revenue. A process of crowdfunding can reach potential customers (Paykacheva 2014) and actively involve them from the very beginning of the project through various stages of product development (Gorshkov, 2011). Slow money organizations also provide feedback, advice and support through physical encounters, as well as supporting websites and forums. Slow Money NYC’s network of food activists, impact investors and social entrepreneurs encourages discussions (www.thefoodstand.com/spotlight/) on training, advising and coaching. Slow Money Maine has collaborated with more than 24 professionals (active, retired, or semi-retired) on coaching entrepreneurs on a pro bono or fee basis.

Our three types of alternative finance seem to provide similar CVPs for prospect borrowers. However, a significant difference exists in the CVP they provide for contributors. While backers in a crowdfunding process might support all projects around the world, microfinance mainly targets individuals from the community, and slow money backs projects in the neighborhood.
Revenue Stream

Assadi (2016) defines an organization’s income stream as a mode of steady inflow of cash over a period of time. Organizations generally mix different income streams (revenue mix) to finance operations, investments, and to reward shareholders and stakeholders. The sustainability of an income stream depends on the longevity of the CVP it provides. Do the modes of retribution explain the differences in performance of microcredit, P2P online lending and slow money?

Microfinance clearly has two different revenue streams from two different clients. The largest and more regular is the interest income from their loans to millions of poor borrowers. The median interest rate is approximately 28%, but 90% of MFIs charge in a broad spread ranging from 14% to 63% per annum (Ashta, 2016). There are of course some outliers who charge no interest and some who charge over 100% per year. Microfinance professionals still consider these high interest rates to be significantly lower than those charged by moneylenders in the respective countries.

The second income stream is subsidies from private donors and public bodies. Although subsidies have been reducing, there seems to be evidence that without subsidies, microfinance institutions would not be so profitable. Besides the direct effect of subsidies on profits, there is evidence that subsidies improve productivity in terms of the number of borrowers per staff member (Hudon, Traca, 2011). Moreover, private donor funding seems to lead to better performance of MFIs through lower write-offs (Chakravarty, Pylypiv, 2015). Subsidized institutions seemed to be more involved with the social mission: they are more often not-for-profit. They reach more women and have lower loan sizes as a percentage of GNI per capita (Cull et al., 2009; D’Espallier, Hudon, Szafarz, 2013). However, the size of subsidies per borrower are smaller for small institutions serving poorer borrowers (Cull et al., 2016).

Loan-based crowdfunding platforms essentially function as market makers for linking prospective lenders and borrowers. Consequently, their principal revenue stream originates in commissions, payable in the case of successful loans. Many crowdfunding websites charge fees between 5 to 10 per cent for financing processing and operations, along with selling regular, additional, and premium products and services, and renting the cyberspace for advertising.

In a slow money process, borrowing entrepreneurs do not pay commission to the slow money alliance. As they have direct relationships with their funders, they might clear their debts in rewards and products instead of reimbursement in cash. From a financial point of view, one of the most
successful achievements for slow money is the introduction of royalties-financing. Investors are repaid on an annual or semiannual basis as a percentage of the gross sales of the business until the initial capital, plus a premium determined in advance, is returned. This mechanism is the exact opposite of credit to small companies, starting with a high interest rate and then decreasing with the success of the fundraising. The investor does not know when the final level will be reached so there is no pre-determined interest rate. Here, the risk premium is fixed and the yield for the investor is better with higher than expected gross company sales. Regarding governance, investors and entrepreneurs are perfectly aligned with the slow money mission.

The types of alternative finance we study show differences with regard to sources of income. While borrowers pay back their debts with or without interest in microfinance and crowdfunding projects, they do not do so in slow money campaigns. Donations are an irreplaceable source of income for slow money platforms, a frequent one for MFI, and a less recurrent one for loan-based crowdfunding platforms.

**Infrastructural Technologies and Competencies**

Infrastructural technologies and supporting competencies are options by which a firm can operate flows of goods, information and money to deliver customer value and construct competitive advantage (Assadi, 2016). Do they explain the differences in performance between microcredit, credit-based crowdfunding, and slow money?

The most important technology for microfinance scaling has been management information systems (Ashta et al., 2015). Microcredit involves giving small loans to hundreds of borrowers by each field agent. Although group lending makes this easier, there is still a lot of monitoring work required to record each and every repayment and follow up on late payments. This is possible because of the development of appropriate MIS software, which enables timely information for decision-making and reporting (Ashta, Khan 2015). While custom-made software is being developed by large MFIs, medium MFIs are using proprietary software (Assadi et al., 2015). For the small MFI, there are now open-source and cloud-based Software as a Service solutions (Bumacov et al., 2015). These cloud-based solutions themselves require a good internet connection and satellite-based networks. Other technologies such as hand-held devices and mobile telephones are facilitating the delivery and reimbursement of microfinance loans. Biometrics is permitting illiterate borrowers to overcome the unique identity problem. Since microcredit concerns millions of poor citizens, governments and donors have got together to make these technologies available.
Assadi (2016) finds that Web 2.0 technologies and the competencies of using them have played a significant role in the development of crowdfunding by reducing the transaction costs between distant peers all around the world. The democratization of social media enables peers to directly interact and transact for loans in faster and more efficient ways than what conventional institutions could offer. The social technologies of crowdfunding platforms have given many financially-excluded, and thousands of non-professional investors, the opportunity to borrow and lend respectively. The evolution and development of internet mobile and wearable technologies and applications will support the CVP even more in credit-based crowdfunding, in the sense that they create more competition between lenders who will only succeed if they can keep pace with borrowers’ needs for cheap and fast loans.

Crowdfunding is predominately happening on the Internet. A potential entrepreneur can quite easily prepare a message on a computer screen and send it to crowds, while physically meeting investors is a must in a slow money process. Individuals spread the word about campaigns they support. They usually trust the experiences of their peers more than firms’ ads (Paykacheva 2014). The buzz that a crowdfunding platform creates might even attract traditional media such as radio, television and newspapers, which are interested in reporting about original ventures. Influential people within a network can disseminate the message even further and consequently attract more backers. In the same vein, there are similarities between the functioning of crowdfunding platforms and e-commerce, which collects data about users and tracks their behaviors. Highly sophisticated algorithms then enable platforms not only to understand partners but also to impact their borrowing and lending behaviors. Similarly, crowdfunding platforms gather data and generate traffic to lead visitors to different projects rather than any specific one. Traffic generation in a crowdfunding campaign aims to create an ex-ante community on a platform around projects (Beier, Wagner 2014). Schwienbacher and Larralde (2010) point out that efficient communication inside a network is an inherent component of any crowdfunding process. Unknown inhabitants of networks on crowdfunding platforms or through Facebook and Twitter pages might back initiators by disseminating the message and engaging more people (Hui et al., 2014).

This is not the case with slow money, which endorses specific community-related projects and supports face-to-face visits between entrepreneurs and investors. Investors look to support businesses that integrate and develop the related communities. Slow money is “mission money” that chiefly requires a positive impact on the ecosystem, local jobs, and indigenous foods within a pre-existing community. Lenders in slow money projects are not all
professionals or accredited individuals, but are usually part of a community that aims to initiate change and discover new solutions for a capitalist system perceived as having lost its fundamental values. Investment maturities are between 2 to 7 years in most cases, with returns targeted around 3% to 5%.

Slow money’s technological infrastructure for linking initiators and lenders is offline through local communities. Nevertheless, slow money has developed a major internal website on which members can buy “bitcoins” against USD. These “bitcoins” are granted to a slow money entrepreneur during national gatherings once a year, but their value is marginal. For example, in 2014, bitcoins were bought for $100k, but direct money invested by local communities reached $10 million. Furthermore, Slow Money as a brand is part of Slow Movements with Slow Food, but also Slow Media, Slow Science, Slow Travel, Citta Slow, using internet communication tools and social media.

With regard to technological infrastructure, the three cases witness significant differences. While crowdfunding platforms mainly use the Internet and online social media to link borrowers and lenders, microfinance and slow money rely on offline social ties. However, microfinance increasingly refers to information system technology and mobile technology to manage and reduce the cost of small transactions, and slow money adopts bitcoins.

**Governance of Relationships among Participating Parties**

By governance we understand an independent third-party authority, bestowed with a set of in-house values, responsibilities, and the power to oversee and control how a firm is structured and how it manages the interests of, and relations with, different internal and external parties. It aims to encourage some specific behaviors and relations and avoid some others among stakeholders (Assadi, 2016). Does governance of relationships among participating parties explain the difference in performance of microfinance, credit-based crowdfunding, and slow money?

Governance in microfinance and its impact on financial performance and social performance is broadly explored following the call to apply the lessons from governance to microfinance (Labie, 2001). The impact of the for-profit or not-for-profit status on economic and social outcomes is one of the topics researchers have worked on extensively. However, there is no unanimity. Estapé-Dubreuil and Torreguitart-Mirada (2015) show that the legal status is not important, while for Barry and Tacneng (Barry, Tacneng, 2014) NGOs have a better financial performance than banks, NBFIs and cooperatives,
whereas risk-adjusted profitability is better for banks. Ashta and Hudon (Ashta, Hudon, 2012) believe firms which focus too much on financial performance, such as Compartamos or SKS, may do extremely well in the short term, but may suffer in the long term as regulators step in to enforce their social missions.

NGOs seem to perform better on social performance because they manage their human resources fairly, train more in social performance management, have more outreach, as well as a depth of outreach such as smaller loan size and more women borrowers (Estapé-Dubreuil, Torreguitart-Mirada, 2015). Other studies also confirm that NGOs have a lower average loan size (Ashta, 2016) and more lending to women than MFIs with other legal forms (Barry, Tacneng, 2014).

The conventional question of principle and agent in governance has also generated papers. Hartarska (2005) proves that independent directors in boards who are not affiliated to other stakeholders increase both financial (RoA) and social performance (outreach). However, while Mori and Mersland (2014) consider that having donors on the board improves both sustainability and outreach, Hartarska (2005) believes that with donor representatives on the board outreach increases but sustainability drops. Having customers on the board seems to improve financial performance but reduces outreach (Hartarska, 2005).

The quality of regulatory public institutions also impacts microfinance. Microfinance outreach is highly related to Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption (Ashta, Fall, 2012). Where governments are ineffective, NGOs are likely to do better than banks and cooperatives (Barry, Tacneng, 2014). However, the existence of a legal and regulatory framework does not seem to impact microfinance performance (Hartarska, 2005; Mersland, Øystein Strøm, 2009; Tchakoute Tchuigoua, 2014). In fact, government regulation aiming to make microfinance shareholder-oriented, as in Cameroon, may have the impact of focusing only on financial performance rather than on social performance (Akanga, 2016).

Relatively little research exists on governance of crowdfunding and of slow money. Crowdfunding and slow money seem to witness differences in regulations for raising funds. In a slow money campaign, contributors can invest or give as much as they want—hundreds, thousands, or even millions of dollars. Investors can support a food business with a one-off pre-payment purchase or through a regular commitment, donate, lend money, or directly invest (Hesse, 2012). There is no limitation to the amount that can be raised. Such is not the case for crowdfunding in many countries. For example, in
France, crowdfunding based on investment is limited to €1000 per contributor and €1 million per project. In the same way, crowdfunding is limited by current regulations on the format of funding, with some legal frameworks simply forbidding equity.

Communities play an important role in the governance of alternative finance. Microcredit, slow money and to a lesser extent crowdfunding campaigns resort to communities to raise funds. In all cases, entrepreneurs look for backers whose values align with their projects. Relationships are often built beyond the financial transaction. However, the affiliated communities are different. The community already exists for microcredit and slow money, and members regularly interact. In a crowdfunding project the community is generally ad hoc and built around spontaneous projects.

It seems that the crowdfunding community does not exist a priori. Money is collected from individuals for different kinds of project, from supporting a social or communal cause to profit-oriented opportunities. Many contributors support projects that are useful for their affiliated communities even if they do not currently live there. However, this is not a non-sine condition. The crowd of supporters in a crowdfunding process can be composed of unrelated individuals or members of communities who share an interest in supporting something specific. Successful projects require an “anchor audience” of friends or relatives who engage in “micro-patronage”, enjoying the association with a successful project and a personal link with an artist or writer.

Agrawal et al. (2011) examine an online crowdfunding campaign by musician artist-entrepreneurs and find an average distance between investors of about 4830 kilometers, suggesting a reduced role for spatial proximity. However, while the online platform seems to eliminate most distance-related economic frictions such as monitoring progress, providing input, and gathering information, it does not eliminate social-related frictions. They find that local investors (“family and friends”) invest relatively early, and they appear less responsive to decisions by other investors within a single round of financing.

Table 1 recapitulates the differences we could identify in our comparative analysis between microcredit, P2P online lending, and slow money.
Table 1 - Microcredit, P2P online lending and slow money in balance

<table>
<thead>
<tr>
<th></th>
<th>Microcredit</th>
<th>P2P online lending</th>
<th>Slow Money</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rationale</strong></td>
<td>Loan for the financially excluded</td>
<td>Loan for the financially excluded</td>
<td>Loan for the financially excluded</td>
</tr>
<tr>
<td></td>
<td>Sector-neutral</td>
<td>Sector-neutral</td>
<td>Food-sector oriented</td>
</tr>
<tr>
<td></td>
<td>Local-oriented</td>
<td>Local-neutral</td>
<td>Local-oriented</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Promotion of biodiversity</td>
</tr>
<tr>
<td><strong>CVP</strong></td>
<td>Alternative source of loan</td>
<td>Alternative source of loan</td>
<td>Alternative source of loan</td>
</tr>
<tr>
<td></td>
<td>Leveraging community</td>
<td>Lowering transaction costs</td>
<td>Leveraging community</td>
</tr>
<tr>
<td></td>
<td>Coaching</td>
<td>Feedback on ventures</td>
<td>Feedback on ventures</td>
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<tr>
<td></td>
<td></td>
<td>Coaching</td>
<td>Coaching</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Premarketing, prepayment</td>
<td>Premarketing, prepayment</td>
</tr>
<tr>
<td><strong>Revenue Stream</strong></td>
<td>Interest income for MFI</td>
<td>Commission on transactions and fees for the platform</td>
<td>Mainly rewards for lenders, specific</td>
</tr>
<tr>
<td></td>
<td>Public and private donations</td>
<td>Possible interest income for lenders, filtering of</td>
<td>reimbursements, donations for organizing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>projects, managing process</td>
<td>alliances, responsibility of risk analysis</td>
</tr>
<tr>
<td><strong>Technological</strong></td>
<td>Information systems</td>
<td>Web 2.0 technologies</td>
<td>Mainly offline local networks</td>
</tr>
<tr>
<td>infrastructure</td>
<td>Mobile telephones</td>
<td>Internet mobile</td>
<td>Bitcoins between some members</td>
</tr>
<tr>
<td></td>
<td>Biometrics (in prospect)</td>
<td>Wearable technologies (in prospect)</td>
<td>Possible Internet, and social media</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td>Ex-ante supporting communities,</td>
<td>Ex-ante and mainly ex-post</td>
<td>Ex-ante supporting</td>
</tr>
<tr>
<td></td>
<td>proximity required,</td>
<td>supporting communities,</td>
<td>communities aligned with the local “raison</td>
</tr>
<tr>
<td></td>
<td>strict regulation</td>
<td>proximity not required</td>
<td>d’être”, proximity required, flexible</td>
</tr>
<tr>
<td></td>
<td>Importance of NGO</td>
<td>Very strict regulation</td>
<td>regulation</td>
</tr>
</tbody>
</table>

Discussing Similarities and Differences between Microcredit, P2P Online Lending and Slow Money

We have already compared the modes of alternative finance, debt-based crowdfunding, and slow money, with regard to five categories: rationale, CVP, revenue stream, technological infrastructure and competencies, and governance (regulations).

The rationale might witness differences between our modes of alternative finance. Being a member of slow money requires time and engagement, while a crowdfunding actor might have for- and not-for profit motivations. Microfinance also bifurcates between for- and not-for-profit MFIs.
Broadly, microcredit, P2P online lending (in particular on the interest-free platforms), and slow money provide CVP for financial inclusion. However, they diverge in the method of how to do so. Length of time is most likely to be one of the major factors in this divergence. Slow money is by definition patient and gives more time and successive chances to the supported entrepreneurs, even if they fail to raise money at the first stage. One of the co-authors’ field studies reports that half the slow money contributors will not stop supporting projects even if the expected return on contribution is not met, or even if a loss in capital occurs. As slow money is a non-profit venture, contributors look for more than financial ROI. This peculiarity might explain the passion of some backers, along with the reluctance of others towards the alternative finance of slow money. Patient capital is different from a long-standing support period motivated by a buzz in a crowdfunding process.

In a slow money process, the community is interested in the impact of the project on the local environment, jobs and food processing. The contributors support slow food investments whose financial returns rely on the mid- and even long-term. In a process of slow money, the supporting community members provide tools, risk analysis and legal forms to support projects, in addition to money. While the same services might also exist in microfinance and crowdfunding campaigns, they are neither compulsory nor permanent.

Another difference is the risk analysis and the investor’s level of comfort in a project. Backers are often left alone to read complex technical documentation and master multipart legal agreements to understand both risk and process. However, the capital issue for them is to understand whether they place their money at high risk or if they can benefit from a certain due diligence provided by the “intermediary” (the crowdfunding platform or the local slow money group). A slow money process progressively goes beyond a simple return or adhesion to a project. It endeavors to explain and to have the contributor understand the way his/her contribution is managed.

Governance of stakeholders might also lead to differences in the cases of alternative finance in our study. One main difference resides in the “spirit” of supporting communities. While credit-based microfinance and crowdfunding campaigns build communities for the ultimate objective of financing (entrepreneurial) projects, slow money promotions operate within already existing communities for developing local food production. Crowdfunding platforms manage communities much more like social media do. As highlighted by Paykacheva (2014) “this directly applies to Maslow’s hierarchy of needs as one of the esteem needs, fulfilled by being accepted and valued by others”. This strict separation between the role devoted to the entrepreneur and the position of the community backing projects gives crowdfunding contributors the possibility to follow a creative production or the launch of an innovative
initiative, for a community or for the environment, without having to engage or interact at all outside of their pledge.

Understanding how the backers perceive these factors should also explain the different performance between crowdfunding and slow money. Slow money success is still slow. One of the reasons, according to our direct experience of the field, is that only a small number of people believe in the necessity of transforming the current food system into a for-profit local food system. Integrating the Internet within the process can also support slow money sustainability. Incorporating more professional contributors is another key way to make people confident in the investment and in the process of slow money.

Conclusion and avenues for further research

The objective of this paper was to find out why different modes of alternative finance, which address the same demanding market of financial inclusion, perform differently. We explored the cases of stagnating microcredit, developing P2P online lending in crowdfunding, and struggling slow money.

We have noticed differences, in particular within the region of governance. Besides these differences, there are also similarities between them in terms of empowering people, bypassing the conventional intermediaries to direct funding between peers, assisting entrepreneurs, and providing marketing backup and advice (Jung, 2016).

Our conclusion is that our alternative finance modes are different but complementary. We believe they can mirror each other’s strengths for mutual benefits. For example, crowdfunding can learn community engagement from slow money projects, and the latter can learn scaling from crowdfunding. Benefiting from one another’s values, methods and tools, crowdfunding and slow money could finally be the start of a new economic paradigm beyond short-term capitalism, portrayed by modern microcredit.

We progressively witness a redefinition of the “smart money” concept beyond conventional banking and capital markets. This is the driving force and the common denominator for all the alternative finance endeavors is the search for a balanced economic model.

New avenues of research might ameliorate, complete and develop this comparative research on microcredit, P2P micro-lending in crowdfunding, and slow money.

One axis of research might explore the new markets and new entrants in the sector of alternative finance. An example could be civic crowdfunding or the popular resort to alternative finance to fund public services which suffer from the scarcity of public budgets.
A second axis might consider the interest that the conventional financial institutions express for these alternative finance modes. The objective is to find out whether the transposition of the financial solutions that are conceived outside of the conventional channel can be transmitted into established institutions’ portfolios. On the one hand, the deep pockets of the mainstream institutions might increase the sources of funding. On the other hand, the spontaneous and autonomous popular “spirit” of alternative finance might disappear.

A third research project might assess the ease and the impact of the adoption of crowdfunding and slow money in the financial systems of developing economies. In this regard, competition or collaboration between global, local and niche alternative finance can also be explored.

REFERENCES


A tale of three musketeers of alternative finance


