



# Peer group analysis, campaign comparisons and analytics of crowdfunding platforms

Master's in Finance  
Capstone Project Summary

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Budapest 2020

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## Introduction

A very noticeable phenomenon at the same time in the financial sphere and social relations has recently become an original scheme for raising funds for the implementation of their projects by a wide variety of people: inventors, scientists, specialists from various industries, and finally, ordinary people who decided to realize their ideas and desires with the money collected from the same ordinary people who, for whatever reason, these same ideas and desires seemed interesting and deserving of spending on them a relatively small amount, not burdensome for your budget. The emergence of such a scheme was made possible thanks to the active development of information technologies, primarily the Internet, which, in turn, gave rise to a boom in social networks and communities. The availability of technical capabilities inevitably led to the practical feasibility of a fundamentally new and, as world practice has already shown, a very promising way of financing projects, called crowdfunding.

## Types of crowdfunding

For a relatively short period of existence of crowdfunding, several of its types have developed.

Initial development was mainly associated with non-investment schemes: a gratuitous model, when funds were transferred in the form of a donation (donation-based crowdfunding), as well as with a model based on some kind of reward: non-financial or reward-based crowdfunding. The more complex forms were lending-based crowdfunding and equity crowdfunding, and the other, albeit close, term "crowdinvesting", reflecting the investment aspects of these types, was actively used. The development of its joint-stock variety required preliminary refinement of legislation, which was first implemented in the United States, and then started in Europe and other countries, in particular in New Zealand, Canada.

The first type of crowdfunding - a variant based on cash donations - does not imply any preferences by donors, other than moral satisfaction if the idea is successfully implemented; therefore, it is

preferable for users in that it does not imply acceptance of any obligations by them. At the same time, the altruism of donors has its limits, which holds back the possibilities of this option and narrows the range of projects that can be financed in this way. The most illustrative examples of its use are charity events in the social and medical fields, as well as environmental projects.

The second, actively developing from the very beginning and very popular type of crowdfunding involves a certain reward for the sponsor. There are two forms of entrepreneurs requesting financing: in exchange for pre-ordering a product or for a share of future profits. Analysis of the activities of crowdfunding platforms shows that material rewards are usually represented by goods or services for sponsors, such as various storage media with audio and video recordings, photographs, and music tracks; the ability to receive information from the cloud file storage; software suitable for personal use (for example, mobile games); technical devices, etc. Concerning cash compensation, it can be determined according to the well-known royalty scheme as a share of future project revenue, but this approach is rarely used in this model.

The third type of crowdfunding - debt - according to world statistics, absolutely prevails in terms of the amount of funds raised. In this case, small-volume loans are attracted from individuals (therefore, the term “public lending” is used). Borrowers can be both private individuals (a scheme called P2P - peer-to-peer lending) and startup companies (P2B - lending by individuals to business projects). For the latter, this option may be preferable to contacting the bank, since venture firms usually do not meet the standard requirements of banks (meaning the lack of a good credit history, liquidity and sufficient security; in addition, the originality of the innovation project itself can also be a negative factor).

The essence of yet another type of crowdfunding - equity crowdfunding - accurately conveys the following definition: this is a form of financing, in which entrepreneurs get the opportunity to sell a certain amount of shares, hoping to attract a large group of investors by campaigning on an online

platform on the Internet that provides funds for transactions (legal basis, pre-selection, the ability to process financial transactions, etc.)

### Problems of crowdfunding and the risks of its participants

The attraction of financing by companies in different ways is associated with significant obligations, as well as with risks that they, as well as their investors and creditors, are forced to assume.

Crowdfunding in this sense does not change anything (except for its donation-based model).

For entrepreneurs, there is a risk that new ideas voiced on crowdfunding platforms (especially those related to the implementation of technological projects) may be borrowed by other companies and implemented by them independently. At the same time, the advance protection of industrial intellectual property rights (obtaining a patent for inventions, utility models, etc.), which it would be desirable to carry out, in this case, may be difficult because the patenting process is a long and expensive procedure. Yes, and any serious projects require much more money than those that can be collected on domestic platforms, the overwhelming majority of them lacking the desire for technical innovation and its support, as well as the fear of getting involved over time in any financial adventure. Therefore, for such projects, the crowdfunding form of their support can be mainly additional, provided that there is (or will appear in the future) the main funding channel, representing the main amount of funds. The use of crowdfunding as a method of co-financing projects (indicating this fact) can also be considered as a competitive advantage in raising funds.

There is a risk for investors themselves, because it is difficult for them to determine how successful a project can become, what are its prospects, not to mention the possibility of fraud by its authors.

The platforms on which the projects are presented, of course, cannot be responsible for their technical feasibility, and even more so for economic results. At the same time, one of the significant reasons for the fact that so far there have been almost no serious problems are the desire of the site

moderators to work closely with the proposed projects and their authors beforehand to make sure their intentions are serious.

The most acute consequences of a failed project can be in the case of debt and equity crowdfunding, not without reason, as noted above, considerable attention is paid to regulating the latter in the world. Debt crowdfunding is already being applied, which is facilitated by mutual lending platforms: operating under the P2P scheme (lending to each other's citizens), as well as the P2B scheme (lending to firms by individuals). However, the regulation of this market is also absent. The status of the respective sites, their responsibility to their customers is not defined either.

### Conclusion

The emergence of crowdfunding as a fundamentally the new model of collective financing of projects in various spheres of public life was made possible thanks to the wide development of information technologies and the Internet, which contributed to the emergence of all kinds of social communities. Project initiators can be both individuals (inventors, specialists from various sectors of the economy), and companies, such as innovative start-ups. Recently in the world more and more often there are situations when not only the initiators of projects but also sponsors (especially in investment models) are legal entities; however, the study showed that the practice of crowdfunding platforms regarding potential sponsors varies.

Given the existence of crowdfunding in its various manifestations, it can be defined as a way of raising funds to finance projects of individuals and organizations on an irrevocable, debt or stock-based basis within the framework of an investment or non-investment model from an unlimited circle of individuals and organizations through special Internet sites. They play a crucial role in its organization and establish the rules by which the process of interaction between sponsors (and depending on the characteristics of the chosen model — investors, lenders) and project initiators.

The development of investment models of crowdfunding, the complication of associated risks for both sides of the process required the development of a regulatory framework for them. The appearance of the corresponding domestic bill necessitates a serious discussion of the proposed regulatory concept. However, it seems an absolute contradiction, on the one hand, the identification of crowdfunding with retail financing, and on the other hand, the consideration of the acquisition of tokens of the investment project as its option. Investments in cryptocurrency and support for projects in various areas of life and business are different, these are mainly other projects (more precisely, products of these projects), other money, other motivation for investors (donor sponsors are out of the question here), and, finally, other money (and not even money at all: cryptocurrency and tokens are a specific product). Based on this, we believe that ICOs and investments in tokens are inappropriate to assign to the crowdfunding sector.









