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Crowdfunding in Post-Modern Times

Madhav Kyatsandra[1], Sofiane Fekrache[2], Puneet Batra[3], Aman Sharma[4] and Ogumwomoju Peter[5]

[1]Student M.Sc. MOTIS, ESIEE Paris
Paris Area, France
madhav.kyatsandra@edu.esiee.fr

[2]Student M.Sc. MOTIS, ESIEE Paris
Paris Area, France
sofiane.fekrache@edu.esiee.fr

[3]Student M.Sc. MOTIS, ESIEE Paris
Paris Area, France
puneet.batra@edu.esiee.fr

[4]Student M.Sc.MOTIS, ESIEE Paris
Paris Area, France
aman.sharma@edu.esiee.fr

[5]Student M.Sc.MOTIS, ESIEE Paris
Paris Area, France
ogunwomoju.peter@gmail.com

Abstract

More and more projects and social initiatives are being funded outside the traditional channels of the financial system. Interest in crowdfunding is growing significantly, and our market study comes as a result of this trend to shed some light on this new and fast evolving industry. While successful projects continue to be launched on various crowdfunding platforms, it is our duty to lay emphasis on the advantages and disadvantages brought about by this new fund-raising technique.

In this study, we strived to report that equity, lending, donation and rewards-based crowdfunding open new possibilities for funding more entrepreneurs and other causes in boundless markets. We also worked to bridge crowdfunding with the academic context through a student oriented survey on crowdfunding and the content's report, which has for objective, to inform and educate students and professionals of the potentials and benefits they may find.

Crowdfunding has the potential to help boost existing efforts to create entrepreneurial cultures and ecosystems in remote areas. Governments, through incentive legislations and NGO's, through public information and mentorship, have an ongoing role to play to act as sponsors in encouraging the creation of these revolutionary models of funding.

Keywords: *Crowd funding, equity, reward, donation, lending, legislation, backers, investors, project, fundraising.*

1. Introduction

Crowdfunding is a bye-product of the global Economic Meltdown which prevented projects from being sponsored by Organizations and Financial Institutions. To continually improve on innovative minds, a concept was sought to raise capital ethically to finance a project. Alas! Crowdfunding was birth.
The concept has helped quite a number of Innovators, Inventors and Entrepreneurs as the case may be in realizing not just the capital to launch their product(s) but also the support of the market and most importantly feedbacks from the market. It also serves as a tool which brings the product to the acceptance of the potential consumers before it being launched.
Crowdfunding proves its importance in that it has successfully given birth to a wide range of ideas and has become a steady source of wealth for individuals and organizations in just its early years. More so, it is pretty easy to start a campaign.

Objectives of this Study

- Provide a synthesis of the use of crowdfunding as used to fund cultural, business and creative projects
- Show characteristics of crowdfunding business models, campaign and platforms used to raise funds especially.
- Identify the contributing factors to the success and failure of crowdfunding projects
- Highlight the risks and the opportunities, and provide recommendations
- A Study on the Legal aspects of crowdfunding in US and France
- Highlight the options offered by crowdfunding to students, either as budding entrepreneurs to raise funds or as investors or donors to invest in projects, companies, and cultural and creative industries.

2. Crowdfunding

The late 19th century saw the creation of one of the world's most recognizable landmarks with the gift of the Statue of Liberty by the French to the US. While the French paid for the construction and shipping of the statue, it was down to the US to fund the base upon which it would stand. With the statue ready to leave France, the Americans were still well short of the $300,000 needed to build the base and erect the statue. Running short of time the American Committee (responsible for raising the funds) teamed up with newspaper owner Joseph Pulitzer to launch a campaign to invite citizens to donate even small amounts to help in the funding of the pedestal, offering donors miniature replicas of the statue in return. This 19th century crowdfunding campaign raised $100,000 in just five months, contributed to one of the most popular attractions in the world and illustrated the financing power of a large crowd when tapped for funding.

While the American Committee were lucky to have Mr Pulitzer and his paper to publicize their plea for donations, others wishing to access so many people would have had no such help. This, however, has changed in recent years with the rise of social media and the new ease with which communities can form and interact online.

Crowdfunding

Want to start your own business or have a great idea for tomorrow's next million-dollar invention? Congratulations – crowdfunding gives you the power to bring entire businesses and better widgets to life overnight. But what is crowdfunding exactly? How does it compare to crowdsourcing? And more importantly, how can you use it to provide venture capital for any project or start up? In this study, you'll find some industry trends, crowdfunding categories, case studies, suggestions and so on.

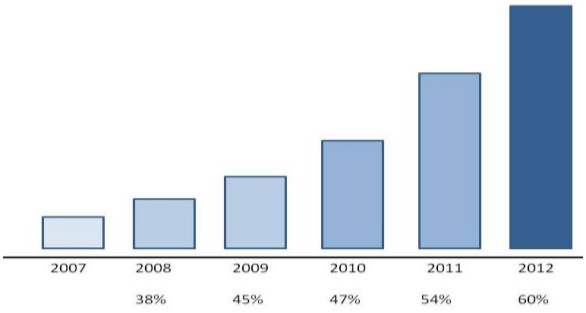
The good news for aspiring inventors and start-ups is that with the right project and assets to convey your vision to potential backers, and a detailed understanding of how to engage with today's audiences, anyone can make their dreams become a reality. Better yet, you too can participate in this exciting new means of funding, and launch nearly any promising new project or business. Let's begin by taking a deeper look at what crowdfunding means, and how exactly the field works.



Crowdfunding is the practice that consists on asking the general public for donating or investing money to constitute the start-ups capital for new ventures. Using the technique, entrepreneurs and small business owners can bypass venture capitalists and angel investors entirely and instead pitch ideas straight to everyday Internet users, who provide financial backing. (At the same time, you will also gain early validation of project concepts and the projected scope of target markets.) Using services like Kickstarter or IndieGogo, project carriers

essentially build web pages that host information, photos and promotional videos on products, projects or services they're looking to get funded. Viewers are then offered special rewards in exchange for pledges that support their efforts. In addition to equity or a share of profits, benefits from backing a project can often take the form of exclusive merchandise, advance access to new releases, or more personal incentives. In the case of a movie for example, donating $20 might get you a copy of the DVD, $50 a signed poster, and $500 an executive producer credit. For a larger donation), you might get a personal handwritten thank you note from the director, invite to an exclusive launch party, or even a bit part in the movie itself. In terms of rewards in the cultural and social sector, some platforms just thank their donors but most crowdfunding platforms give some kind of rewards to contributors in the form of e.g. CDs, t-shirts, and access to artists.

Being part of a community and a communication process with the project initiators is often an important impetus for crowd funders to support a project. Only in the field of commercial start-up, financing crowd funders are considered as investors and therefore expecting financial return. Nevertheless, the number of crowdfunding platforms is growing especially in the field of music production where donors are promised financial rewards, and the equity based model due to the improvement and loosening of financial regulations in many developed countries. The figure below shows the annual growth in number of crowdfunding platforms worldwide.



Source: www.crowdsourcing.com

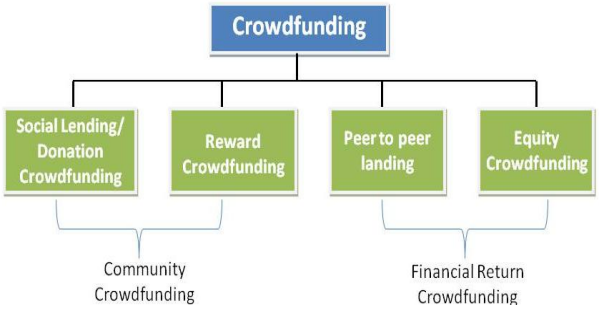
Social media plays an important role for the development of crowdfunding. Facebook, Twitter, and blogs are important tools to communicate information about crowdfunding projects to potential contributors and possibly convert social capital into financial capital. The interactive web empowers users to create content and to distribute and discuss it.

There is however, a potential benefit for the traditional mediators as well - they can use crowdfunding to find innovative ideas and use the "wisdom of the crowd" to estimate the success of a start-up or a project in the creative industries.

The nature of the social web is quite informal. Crowdfunding is successful because it transfers models of informal co-operation to the world of financing and leads to democratization and transparency in financing. Crowdfunding is an interesting example of how social capital can be transferred into real cash. More money seekers can start a venture and more people can support projects or even become investors with a small amount of money and with a variable risk.

Types of Crowdfunding

Crowdfunding can be divided into four categories: donation based crowdfunding, reward based crowdfunding, lending based and equity based crowdfunding



Source: www.crowdsourcing.org

Donation Based Crowdfunding

Donation crowdfunding denotes solicitation of funds for social, artistic, philanthropic or other purpose, and not in exchange for anything of tangible value. For example, In the US, Kickstarter, Indiegogo etc. are some of the platforms that support donation based crowdfunding.

Reward Based Crowdfunding

Reward crowdfunding refers to solicitation of funds, wherein investors receive some existing or future tangible reward (such as an existing or future consumer product or a membership rewards scheme) as consideration. Most of the websites which support donation crowdfunding also enable reward crowdfunding, e.g. Kicktstarter, Rockethub etc.

Lending Based Crowdfunding

In Peer-to-Peer lending, an online platform matches lenders/investors with borrowers/issuers in order to provide unsecured loans and the interest rate is set by the platform. Some Peer-to-Peer platforms arrange loans between individuals, while other platforms pool funds which are then lent to small and medium-sized businesses. Some of the leading examples from the US are Lending Club, Prosper etc. In peer-to-peer lending, there is no investor protection by way of a compensation scheme to cover defaults in this market as there is with deposit guarantee schemes for bank deposits.

Equity Based Crowdfunding

In consideration of funds solicited from investors, equity shares of the company are issued. It refers to fundraising by a business, particularly early-stage funding, through offering equity interests in the business to online investors.

Market

The modern crowdfunding is an Internet based way for organizations to raise money in the form of either donations or investments from individuals. This new form of capital formation emerged in the wake of the 2008 financial crisis in response to the difficulties faced by early-stage enterprises in generating funding. In less than a decade, crowdfunding has spread across the world.

Crowdfunding began as an online extension of financing by friends and family.

According to the Crowdfunding Industry Report by Massolution, in 2012 there was $2.7 Billion raised online via crowdfunding[1]. In 2013 an estimated $5.1 Billion was crowdfunded online. In 2014 a host of different crowdfunding sites are further accelerating the rapid industry growth (1).

Kickstarter, one of the biggest players in Crowdfunding alone had $529 Million raised in 22,252 projects with 3.3 million people backers[2].

Trends

- Crowdfunding is seeing huge growth and is set to grow exponentially in the coming years.
- Lot of innovative products are being funded, those that are considered too risky and unconventional for traditional investors to put their money on.
- Artists and film-makers are financing their movies & music projects through crowdfunding.
- Individual investors are being more cautious now and are not blindly investing in un-realistic projects as they did in the previous years which led to so many failed crowdfunding campaigns.

3. Advantages and Disadvantages of Crowdfunding

Thousands of small companies, independent artists and entrepreneurs now use crowdfunding to raise capital for their projects. The process is simple: a person seeking money submits a project and the

[1] http://research.crowdsourcing.org/2013cf-crowdfunding-industry-report
[2] https://www.kickstarter.com/year/2014/data

public can pledge money to any idea that they want to see succeed. Dozens of crowdfunding companies have sprung up, including both general-purpose sites, and those focused on funding specific types of projects. These companies, through their popular websites, now fund everything from scientific research to music albums to films, and individual donations can range anywhere from five bucks to several thousand dollars.

Advantages of Crowdfunding

The advantages of crowdfunding can basically be in two broad categories which are:

1. Financial advantages
2. Non – Financial advantages

Financial Advantages refers to the monetary rewards a project can derive from funders to kickstart or execute the intended project.

Non – Financial Advantages can be in any of the followings:

a. It will help Project initiator or innovator to show there is an audience or market for their product

b. Provides the mechanism to understand and restrategise in the case of an initial unsuccessful campaign

c. It provides an opportunity for individuals to be a shareholder in a project of their choice

d. Provides initiators with instant access to feedbacks

e. It serves as a Marketing tool – being an easy way to reach numerous channels, crowdfunding provides a good way to introduce a venture's overall mission and vision to the market. The users in the various channels are important for viral marketing as they have the ability to share and spread the word to their connections.

f. It provides an opportunity to pre-sell a product or concept that they haven't yet taken to market

Disadvantages of Crowdfunding

a. Time – There is a chance that a Project might not attract the necessary funds to kickstart the project on time

b. No Secrecy - Such a public display of an idea risks others copying it

c. If the target amount isn't reached, potential investors get their money back and the business goes away empty handed

d. A strong, established existing network is vital to the success of a project. Without it, even the best ideas don't get backing

e. By putting less of their own skin in the game and no longer facing investors one-on-one, entrepreneurs lose out on the truly valuable step of convincing others. Entrepreneurs collect less pointed feedback from critics so their early business models aren't honed as well.

Opportunities

Proponents of the crowdfunding approach argue that it allows good ideas which do not fit the pattern required by conventional financiers to break through and attract cash through the wisdom of the crowd. If it does achieve "traction" in this way, not only can the enterprise secure seed funding to begin its project, but it may also secure evidence of backing from potential customers and benefit from word of mouth promotion in order to reach the fundraising goal.

Another potential positive effect is the propensity of groups to "produce an accurate aggregate prediction" about market outcomes thereby placing financial backing behind ventures likely to succeed.

A benefit for companies receiving crowdfunding support is that they retain control of their operations, as voting rights are not conveyed along with ownership when crowdfunding.

Risks

Still, even though the model has matured beyond its misguided beginnings, four key risk areas remain for anyone who submits projects to crowdfunding

websites. Crowdfunding also comes with a number of potential risks or barriers.

Reputation – failure to meet campaign goals or to generate interest result in a public failure. Reaching financial goals and successfully gathering substantial public support but being unable to deliver on a project for some reason can severely negatively impact one's reputation.

IP protection – many Interactive Digital Media developers and content producers are reluctant to publicly announce the details of a project before production due to concerns about idea theft and protecting their IP from plagiarism.

Donor exhaustion – there is a risk that if the same network of supporters is reached out to multiple times, that network will eventually cease to supply necessary support.

Public fear of abuse – concern among supporters that without a regulatory framework, the likelihood of a scam or an abuse of funds is high. The concern may become a barrier to public engagement.

4. Crowdfunding in Modern Financial Law

This chapter focuses exclusively on the crowdfunding legislations ruling the industry in two countries, USA and France.

We decided to study the US market in consideration to its importance and to its role as a catalyst of the crowdfunding activity. The US market constitutes, by far the biggest crowdfunding market and it is at the root of the emergence of this industry. The complexity of the US market resides in the existence of many states with different legislations, synchronizing a federal law will require legal compromises and political negotiations to satisfy the particularities of each state. This complexity may result in a competitive disadvantage in the race to attract the highest number of crowdfunding platforms.

Currently, the US market constitutes the main source of data on crowdfunding trends and host the largest number of crowdfunding sites. The figure 1 gives us a general idea along with the number of crowdfunding platforms in the world as of the year 2012.



Figure 1- Number of Crowdfunding Platforms, 2012

Source based on Crowdsourcing.org Directory of sites as of April 2012.

As a second choice, we decided to study the crowdfunding industry in the French legislation. Our decision was motivated by the fact that our study is intended to be published in France and we tailored it so it can be useful for student in general We are also hoping that future crowdfunding entrepreneurs among ESIEE students will find our study of interest.

a. The legal aspect of crowdfunding in the USA

Under the influence of the White House and the Crowdfunding Exemption Movement, the US congress passed a bill called, Entrepreneur Access Capital. It was one of the bills that were designed to energize funding activities for small businesses, boost economic activities and stimulate innovation. It was passed in November 2011 and represented the first official US bill on equity crowdfunding.

In April 5th of 2012, with bipartisan support in the congress along with support from technology giants

such as Google and AOL, the president Barack Obama passed a law to legalize and frame crowdfunding of start-ups called the **Jumpstart Our Business Start-ups Act (JOBS Act)[3].** The law was intended to help new business ventures to raise money and encourage individual investors to participate in funding of small businesses.

The United States have set a series of regulations to restrict who is allowed to fund a project through crowdfunding and how much they can contribute. These regulations are meant to protect unexperienced investors from risking their investment in an industry that presents a high activity risk. Due to the high level of failure of new business ventures, many investors lose their savings and ended up not getting back the principal invested.

The Title III of the JOBS Act exempts certain crowdfunding activities from the registration requirements and the compliances to the federal securities laws. It is known as the "Federal Crowdfunding Exemption". It also enables non-accredited investors to invest in companies via crowdfunded offerings.

In order to fall under the exemption for equity crowdfunding for instance, an offering should not exceed the amount of $1 million and the number of the shareholders cannot exceed a total of 2000 or 500 non-accredited investors. Passed these numbers, the offering will have to go public and register with the SEC.

The four types of crowdfunding are legal in the USA, and equity crowdfunding was legalized on April 5th, 2012 by the JOBS Act bill. The New York based Securities Exchange Commission (SEC) was designated by the government to enforce crowdfunding legislation. However, due to the high cost of compliance and complicated regulations set by the SEC in October 2013 for equity crowdfunding platforms and project carriers, in addition to the restrictions for the individual investors, the proposed rules, known as the "Proposed Crowdfunding Regulations" have raised a number of complaints and criticism and the bill has remained unused since then.

Despite the proposition to lift the ban on general solicitations to advertise the sale of stocks, this is still illegal due to non-application of the law. A project for another bill called JOBS Act II, supposed to address all the critics expressed by the opponents is in progress. In the meantime, different legislations were established in multiple states and offer exemptions and incentives to promote crowdfunding in local state markets.

As of November 2014, several US states have already established their own intrastate crowdfunding exemptions. Their motivation was to facilitate the creation of micro enterprises and by doing so, creating jobs and reducing unemployment. Thirteen states ([4]) have intrastate crowdfunding exemptions in place and fourteen states ([5]) are in various stages of enacting/considering sponsored legislation regarding such intrastate crowdfunding.

The lending crowdfunding model is very dynamic and offers competitive interest rates for projects carriers. Platforms like Lending Club facilitate crowdfunding loans to individuals or start-ups at much lower interest than the traditional borrowers. This model is legal in has been around for years, the risk is repayment default. Every site has their own default policy and the investors should be aware of it before investing their money.

[3] https://www.sec.gov/spotlight/jobs-act.shtml

[4] Alabama, Colorado, Georgia, Idaho, Indiana, Kansas, Maine, Maryland, Michigan, Minnesota, Tennessee, Texas, Washington and Wisconsin. Source: http://crowdfundinglegalhub.com/2014/06/25/state-of-the-states-list-of-current-active-and-proposed-intrastate-exemptions/

[5] Alaska, Arkansas, California, Connecticut, Illinois, Kentucky, Missouri, New Mexico, New Jersey, Pennsylvania, South Carolina, Utah, Virginia and Washington D.C. http://crowdfundinglegalhub.com/2014/06/25/state-of-the-states-list-of-current-active-and-proposed-intrastate-exemptions/

The US crowdfunding market is for sure dynamic and, has currently the highest growth rate in the world. But because the equity model cannot operate in the US scale right now, competitive countries like France, with a competitive legislation are gleaning parts of that market. It is important for the US that a harmonized federal law passes and be applicable in all states in order to maintain its competitive advantage and reassure crowdfunding actors.

b. The legal aspect of crowdfunding in the France

Despite the reputation of France as a country of long and slow bureaucratic procedures, our research showed that the legal system they set in place to cover crowdfunding activities is flexible with many incentives to stimulate the SMEs to develop internationally, especially in Africa. The French government is thinking to encourage French SMEs, through tax incentives, to raise money using equity crowdfunding platforms then use the funds raised to finance expansion activities in African countries. The same tax incentives are also offered to individual investors. For instance, an investor can deduct the amount invested, up to 9000 Euros from their annual income taxes.

The current French legal framework for crowdfunding activities was established in May 30, 2014 (Ordinance n°2014-559 of 30th May 2014)[6] and its application is scheduled for October 1st, 2014. The goal of the law as seen by Fleur Pellerin, then Minister of the digital economy and SME's in the French government, is to make of France a favorable place for crowdfunding initiatives and transform it on an international hub for alternative fund raising and participative financings.

The law offers exceptions to the securities public offerings and created two new specific regulatory statuses for crowdfunding platforms:

- Conseiller en Investissement Participatif (CIP) which gives in English *Crowdfunding Investment Advisor*

This is specific to the Equity Crowdfunding platforms. They are forced by law to have a minimum control over the projects to be funded through their sites and over the person/organization who is offering the project. From the legal point of view, these platforms are governed by financial and monetary regulations and they must comply with some regulations before starting their activities on the French market. The May 2014 law frees the CIPs from any obligation of approval from a supervisory authority like AMF.

The CIPs have to be legal parties established in France. They cannot receive funds from the investors (except for their fees) and they are not allowed to receive securities issued by companies offering projects through their platform. CIPs have also to adopt a certain number of actions such as complying with good conduct rules, protecting the investors by providing them with adequate information, being supervised for anti-money laundering and anti-terrorist regulations.

Fundraising through an Equity Crowdfunding platform is not considered as a traditional public offering therefore, a prospectus is not necessary. This is true when the offering amount does not exceed 1 million Euro. In such cases, the new regulations require a document of 4-6 pages about the activities and financial situation of the organization raising money.

The exemption from a traditional public offer comes with certain restrictions for organizations raising funds and protection for investors. The new law took up the amount that can be raised from 300,000 Euros to 1 million Euros per project per year. A fundraising entity can offer for funding as many projects as they want. Each project can only raise a maximum of 1 million Euros.

6 http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000029008408

A SAS (Société par actions simplifieé) can now use an equity crowdfunding platform to raise money which was not possible before this new law.

- Intermediaire en Financement Participatif (IFP) which gives in English *Crowdfunding Intermediary*

They are Debt and Donation Crowdfunding platforms. Comparatively to the Equity Crowdfunding platforms (CIPs), they are less restricted by law and their legal entities do not have to be established in France. They propose projects financing with loans from lenders. The IFP's can transfer funds from lenders to borrowers but they need to get authorized by the Banque de France and obtain a licence to do so under a simplified regime. Can only be considered IFP a legal entity but not a person.

The maximum an investor can lend to one project is 1000 Euros per project and per year. A project carrier can take out a loan of maximum 1 million Euros. The interest rate can freely be defined by the fundraising entity.

In its effort to be the leading country in the crowdfunding activities (1), France emerged as the first country to implement legislation on a high scale and with high clarity. This enterprise was made possible by the direct involvement of the current government in order to revive the French economy through leveraging the capacity of the country to produce small companies, and create wealth from innovation. The legislation addresses the issues related to both the protection of the investors and the entrepreneurs. According to CrowdfundingInsider (2), France consolidated its reputation of an innovative country as they acted quickly and efficiently on the crowdfunding industry by setting a favorable legislation framework.

With this new legal framework, France intends to play a key role in the word of crowdfunding. By positioning itself as a platform for international crowdfunding, many actors from in-development countries, attracted by the legal protection offered to them, will establish crowdfunding platforms in France and benefit the local economic activity.

5. Contributing factors to the success and failure of crowdfunding projects

It is measured as a ratio between the amount pledged and the funding goal at the end of the funding period (Success Ratio). Outcome ratio below the value of 1 indicates non-successful funding, whereas outcome ratio of 1 or above indicates successful funding.

Contributing factors for success of crowdfunding projects

- **Direct Social Ties**
  Direct social tie is a personal relationship between a decision maker and the party about whom the decision is being made. Information transfer through social connections and social obligations between both parties are the two main mechanisms through which social ties affect venture funding decisions.

  The number of previously established direct social ties of the project carriers favorably affects the project success.

- **Reputation**
  Reputation provides information to the investors about the project carriers' skills, expertise and possessed abilities to bring the project to its launch.
  Previously established positive reputation of the entrepreneur favorably affects the project success, whereas negative reputation withdraws investment interest and unfavorably affects the project success.

- **Community Membership and Involvement**
  Higher project carriers' membership and social involvement within the online community favorably affects the project success.

- **Credibility**

  Credible image of the project carrier is more likely to be accepted by potential investors and favorably affects the project success. The message is more likely to be accepted when the source has credible and familiar image.

- **Project duration**

  It is the number of days the project was opened for funding. The degree of exposure that a pitch receives over the course of the funding process, are positively associated with awareness and attention-building. This does not mean that longer projects are more likely to receive funds.

  The longer duration coincide with decreasing chances to successfully reach the funding goal because potential backers interpret long durations as lack of confidence. More time does not create more urgency. Instead it makes it easier for backers to procrastinate, and sometimes they forget to come back at all.

- **Pricing of the rewards**

  The reward acts as a strong motivation to contribute to a specific crowdfunding project. The lower value rewards attract more total contributions; higher-priced rewards raise a higher percentage of total funds.

  Kickstarter points out that lower-priced rewards might increase involvement, which can lead to more momentum and higher awareness, as additional supporters not only fund but also promote the project but some crowdfunding platform recommend avoiding lower tiers, as they are statistically insignificant.

- **Other factors**

  - Friends and family contribute a substantial part of the pledges.
  - As the respective size of the project increases, it becomes more important to go beyond funding from Crowdsourcing platforms.
  - Supporters that are strongly or weakly tied to creators are more likely to support their campaign than others.
  - Individuals of the crowd are more likely to be motivated to participate in crowdfunding by the possibility of interacting with fellow crowdfunders, and displaying their efforts on publicly visible profiles.
  - Very low and high-priced rewards tend to be of emotional value.
  - The most popular rewards tend to be products, which have higher material value and therefore also higher production costs and lower gross margins than other reward types.

Factors that result in the failure of crowdfunding projects

- **A lack of emotion associated with the project**

  A lack of emotional connection or a passionate drive is not very compelling. Project carriers believe in their idea and assume the excitement rather than sharing it to its full extent.

- **The product or project is already being pursued by someone else**

  This could happen maybe because there are too many participants or the idea is already stolen by someone else because of the non-patenting nature of the crowdfunding projects. The result would be a few investors will compare the founder's campaign to others if they exist.

  A highly differentiated product that provides high value to the project's target market will

generate much greater interest from potential investors.

- **Delivering an inconclusive message**

  Unclear goals and a lack of concrete objectives confuse the potential investors about how realistic the expectations of the project founders are.

- **Unrealistic financial goals**

  The project carriers sometimes ask for too much or too little. If they ask for too much, the potential investors might think they are greedy and if they ask for too little, the investors would doubt if the project carriers know what they are doing.

  The project founders need to see how much money, other projects in their field have been able to raise and if their range of success compatible with their project's needs.

- **Slow to update**

  People just don't contribute money to crowdfunding campaigns but they also contribute time and attention. It's important to encourage backers to check back and check back often.

  Not indulging in posting updates all along the way may result in loosing potential investors.

- **No Clear Budget**

  Asking for a specific amount of money is not the same thing as knowing how that money needs to be most efficiently spent.

  Outlining the project's itemized budget lets potential backers know where their money is going, and sharing the budget is a major stepping stone that separates the projects that just look interesting from the projects that actually stand a logical chance of producing their envisioned results.

- **Creativity**

  It is the key to making a memorable campaign. In this attention economy whoever can attract and hold the attention of the crowd, wins.

  The crowd-funding platforms report that the more creatively presented projects have higher success rates—beyond 55%

- **Complicated business concept**

  Crowdfunding may not be right for those founders who have a complicated business concept that people may struggle to understand.

  They need to be able to explain their business idea in a way that is clear, concise and engaging if they want to attract investors on a crowdfunding website.

Suggestions for crowdfunding process improvement

To prevent fraud, money laundering, losses and failures in the investment based crowdfunding, it is essential to follow regulations and steps to establish mitigation tactics. Improving the crowdfunding experience for the fundraiser or the investor is a matter of everyone. From governments to the educational institutions, the contributions of all actors in a society are needed.

To be improved	Description	Suggestions
Fraud	All securities market experience frauds	• Background checks for issuers • Mandatory auditing, financial disclosures and business reviews • Requiring all-or-nothing financing (prevents fraudsters from raising money and then disappearing when donors ask difficult

		questions) • Using social media to spread the word and prevent fraudulent activities communication about offerings • Requiring all crowdfund raising to take place on portals that are registered with a national regulatory body that oversees securities • Providing investor education to learn how fraud has been perpetrated in the past so that investors can identify it in future • Establish a constellation of trust
Failure	Crowdfunding platforms cannot guarantee investments from failure	• Offering of education materials to investors about portfolio diversification as a means to prevent total loss of investments
Failure	Project carriers do not always have the skills needed to create, run, and raise capital for a business	After incorporating the crowdfunding in the academic world • Create education programs about how to build a business • Create education programs about how to raise money from the crowd and follow through with a plan once
Investor's losses	Many of the businesses raising money are start-ups with high level of risk	Limiting the amount invested a single project within a single period of time. For instance, non-accredited investors in the US face more restrictions on the amounts they can invest
Protection of innovation	There is no 100% safe ways to protect an idea unless it is patented	The amount of information to be shared by the project carrier should show the added value to the investors without jeopardizing its business model or innovative production process
Role of crowdfunding	Development of crowdfunding in in-development countries	Governments must first work on expanding Internet/mobile web access and promoting social media adoption Improve the IT infrastructures and promote the importance of online entrepreneurship among the local population Establish an investor protective but flexible legislation framework

Table 3

6. Conclusion

The structure of this project imposes to conclude by covering two aspects, technical and methodological.

On the technical aspect, we conclude from our study on the purely technical market study that we conducted during the last three weeks, and through our research and contact with various crowdfunding actors, we remark that crowdfunding is a revolutionary tool that, in a similar ways with the

micro-credit of Muhammad Yunus[7], has the potential to change the modern finance and stimulate development in small and underdeveloped communities.

There is a powerful hype of crowdfunding in social media but it is very important for individual investors and start-ups to look into it deeply before stepping in. Our study shed some light on a growing business phenomenon that can, in a blink of an eye, swing an idea to a business or a successful campaign to failure. As a reaction to the exponential growth of crowdfunding, governments and policy experts worldwide are considering the possible impact of crowd investing and trying to set new regulations, empower new technologies, and equip entrepreneurs and individual investors with sufficient information to promote the perennial appeal of crowdfunding.

Our market study is meant to serve as a guide to any student considering the topic of crowdfunding.

In the way we conducted the project, we successfully achieved our integration and transformation from a group to a team through positive attitude, constructive feedback, frank communication and commitment to one's another values. To smooth the process of knowing each other and establishing trust, we set a number of ground rules to which we stuck from the early stage in the project. In addition to these ground rules, we agreed to take into consideration our various profiles [8] in order to combine our strengths and tackle our weaknesses. For instance, in adopting this strategy we tasked the members with good coordination skills to keep everyone focused and motivated despite our project was facing resisting external factors.

This strategy helped overcome various obstacles both internal and external to the team. The problems encountered ranged from conflict on the work methodology to the lack of maturity of crowdfunding.

[7] Short bibliography of Mohammad Yunus http://www.grameen.com/index.php?option=com_content&task=view&id=329&Itemid=363

[8] Belbin, EMBTI, IAPP, A/S and TPCL

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