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## The Crowdfunding payment bottleneck – can BitCoin be a solution?

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Munich, 05.03.2014

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## **Abstract**

The purpose of this research will be to empirically determine whether using Bitcoin as a peer-peer currency payment option will help resolve the payment challenges being faced in Crowdfunding platforms. Payment processing companies such as Paypal and amazon payments seem to concur that there are challenges in processing payments raised from Crowdfunding platforms to their accounts. As companies promise to institute corrective measures that might take a while before they become operational and resolve the existing challenges, this study proposes to recommend an alternative payment solution, Bitcoin, which is a rather new virtual currency concept that aims to resolve the current challenges.

## Introduction

### Background to the study

This study resonates around a rather new concept that has recently received much attention but no investigations and research. The study has been necessitated by the fact that many fundraisers and payment processing companies such as Paypal and amazon payments seem to concur that there are challenges in processing payments raised from Crowdfunding platforms to their accounts. The decentralized nature of Crowdfunding platforms makes it difficult to use conventional systems to process payments. The witness of of recent tense exchanges between payment processors, ideally Paypal, with crowdfunded creators, has contributed to the deterioration of already strained relationships in the Crowdfunding spectrum. Such exchanges have involved crowdfunded creators such as; Red Thread Games, Yatagarasu: Attack on Cataclysm, and Lab Zero Games. (Klepek, 2013), in his article, 'Crowdfunding's Secret Enemy is Paypal' explains the bottlenecks that have been experienced in Crowdfunding platforms:

*"We want to reiterate that supporting these campaigns is an exciting new part of our business," said a Paypal representative. "We are working closely with industry-leaders like IndieGoGo and adapting our processes and policies to better serve the innovative companies that are relying on Paypal and crowd funding campaigns to grow their businesses. We never want to get in the way of innovation, but as a global payments company we must ensure the payments flowing through our system around the world are in compliance with laws and regulations. We understand that the way in which we are complying to these*

*rules can be frustrating in some cases and we've made significant changes in North America to adapt to the unique needs of crowd funding campaigns. We are currently working to roll these improvements out around the world."*

This clearly shows that there are challenges in payment processing in the Crowdfunding platforms, due to the need to comply with laws and regulations by payment processing companies. Bitcoin as a platform that faces fewer if any laws and regulations due to its decentralized nature and no costs of transactions raises the desire to understand how its use in Crowdfunding platforms will help deal with the existing bottlenecks in payments processing, a factor which serves to diminish the attractiveness of Crowdfunding as an ideal platform to raise financing capital.

### **Research Problem**

This study intends to determine how use of Bitcoins as a payment processing platform will help alleviate the problems that are inherent in other conventional payment options such as Paypal, amazon payments, WePay and wire transfers. The desire to use Bitcoins is as a result of the disadvantages that are inherent in other payments options that are available and used by various Crowdfunding platforms. For instance, Unglue.it was forced to suspend all active fundraising initiatives on its platform as a result of amazon payments suspending its payment processing activities for the Crowdfunding platform. This most obviously had an effect on the funding initiatives and the fundraisers felt the effects.

Kickstarter has also been quoted as saying that amazon payments were its only credit card payments processor due to the flexibility it provided, a feature that lacked in all other payment processing companies. For instance, amazon payments only allows for transactions to be made in only the US currency. Thus users who are non US citizens and wish to make contributions in a Crowdfunding platform have to pay extra costs such as the currency conversion fees before they can make their contributions via amazon payments. This might make them shy away from making contributions. Users of Paypal also encounter a number of setbacks in using it as their payment solution in a Crowdfunding undertaking. The complexity of opening a Paypal account and the length of time it takes a user to undergo a legitimacy verification by Paypal before funds can be transferred to their preferred accounts is cumbersome. The extra scrutiny from Paypal is not attractive with Crowdfunding users and provides a major bottleneck in payment processing of Crowdfunding undertakings.

According to (Klepek, 2013), Crowdfunding's biggest enemy is Paypal. He goes further to explain how Paypal as an online payment processing system has had problems with fundraisers in Crowdfunding platforms, thus crippling the online fundraising projects, one after another raising a major public outcry. Paypal further has regulations on the transfer of funds raised in Crowdfunding platforms to overseas bank accounts outside the US, users thus are forced to use only US based bank accounts to effect transfer of Crowdfunding funds, something which adversely affects Crowdfunding as platform for raising money to finance various investment projects.

## **Significance of the study**

The fact that Paypal's management has come out publicly and admitted the challenges in clearing Crowdfunding initiatives, and has promised to review the challenges, only helps to reiterate the existence of payment processing bottlenecks in Crowdfunding initiatives. This study seeks to examine the payment options available on Crowdfunding platforms, their failure to act as effective and efficient payment processing systems and make a recommendation for the adoption and consequent use of Bitcoins as alternative payment solutions in these platforms.

Since no significant amount of research has been carried out on the payment bottlenecks inherent in the Crowdfunding platforms, the results from this research will provide desired contributions into the limited amount if any, of empirical studies aimed at determining how the payment challenge in Crowdfunding can be resolved through the use of alternative payment options.

## **Research objectives**

The objectives of this research study were to provide sufficient and relevant information and insights to the possible ways through which use of Bitcoins would help reduce the challenges presented by using other payment processing systems such as Paypal, amazon payments and wire transfers. The objectives of the study include the following;

- whether using Bitcoin as an alternative payment platform to the existing payment processing options would help reduce the setbacks being experienced in payment processing in Crowdfunding undertakings.

- to determine the general and average payment provisions set up by various Crowdfunding platforms.
- to determine the general payment provisions set up by the various payment processing options being currently used by the Crowdfunding platforms to transfer funds.
- how the regulatory and tax environment have or will impact on the money seeking party.
- to observe the obstacles and risks brought about by the changing regulatory environment of Crowdfunding initiatives.
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### **Research Questions**

The study undertook to provide answers to the following research questions;

- Will the use of Bitcoins as an alternative payment processing platform help to reduce the bottlenecks presented by the available payment processing systems?
- What is the general payment provisions set up by various Crowdfunding platforms to raise their revenues?
- What are the general payment provisions set up by various payment processing solutions providers used in Crowdfunding platforms to process payments?
- What obstacles and risks arise from the changing regulatory environment of the Crowdfunding platforms?

Providing answers to these questions will help provide information and insights into the challenges inherent in conventional payment processing systems and recommend the



use of Bitcoins as an alternative towards making payment processing in Crowdfunding platforms more efficient and less costly for the fundraisers.

## **Literature Review**

### **Understanding Crowdfunding and Bitcoins**

According to (Gajda and Mason 2013, pp. 5), Crowdfunding refers to a collective resource-pooling mechanism instituted to raise finances needed by individuals, companies or organizations. The (Financial Conduct Authority (FCA), 2013), defines Crowdfunding as a way in which people and companies can raise money through online interactive platforms to finance their activities. The mechanism works by the Crowdfunding platforms providing an online channel to connect project owners with potential individuals or entities that have an interest and are willing to fund such projects. They enable a conglomeration of rather small amounts of capital contributions in a limited time-frame, from many individuals and entities present in online social and business networks, and share a common interest in a specific idea, project or business (Gajda and Mason 2013, pp. 5). These individuals range from family members, friends, local community members and even strangers who have an interest in their business venture.

There are four types of Crowdfunding platforms that are commonly identified; Equity based Crowdfunding, lending based Crowdfunding, reward based Crowdfunding and donation based Crowdfunding (Crowdsourcing.org, 2012). These Crowdfunding platforms connect a project initiator, otherwise referred to as the fundraiser with

potential donors or contributors on the Internet. The contributors of funds may receive financial or non-financial rewards and gifts in return. The financial reward is generally conditional and depends on the success of the project (Gajda and Mason 2013).

Crowdfunding platforms usually include provisions for collecting funds in a dedicated account opened in its name with an accountholder. These funds are, in principle, not paid to the beneficiaries until the donations or contributions have reached the pre-determined target set for the project (Gajda and Mason 2013). This is usually similar to conventional payment services provided by financial institutions that collect money on behalf of their accountholders. They usually assign and enlist the services of collection of funds on behalf of third parties to an authorized payment services provider. It is also a common practice for some Crowdfunding platforms to allow contributions to be made and in return provide compensation to the contributors in-kind, such as gifts that are in the form of goods or services.

It is widely recognized that Crowdfunding grew as a natural extension of online communities that was driven by an increase in online social networking sites such as Facebook, Twitter, Skype among others. Crowdfunding has become so popular due to factors such as tremendous advancements in information technology, mammoth growth of online channels and increasing consumer dissatisfaction with traditional providers in the wake of the banking crisis. Crowdfunding gives the fundraisers a perfect platform to gather support from online communities and fuel their new business ideas and undertakings (Gajda and Mason 2013). Crowdfunding platforms help fundraisers to build a strong following of willing contributors and a payment solution to ensure that the

contributed funds, whether in terms of donations or investments are received by the fundraisers. The platforms also provide a feedback and collaborative discussion engagements with potential contributors and investors thus increasing their preference levels to conventional ways of raising investment capital. Fundraisers usually post information about their ventures or business ideas and engage in a massive promotional campaign to spread the word and engage with like-minded individuals. Contributions can come in the form of pledges and/or investments (Gajda and Mason 2013).

### **Understanding the Bitcoin virtual money payment system**

Bitcoin is a form of digital/virtual currency that is created and held electronically by individuals who transact businesses on the Internet. It is thus a form of online currency used to pay for online transactions. Bitcoin as a digital currency is not controlled by any single individual or institution and thus is regarded as a decentralized currency. It is an electronic payment system founded on mathematical proof. It is created digitally, by a community of people who use exceptional computing power in a distributed network (CoinDesk, 2014). The process of creating Bitcoins is referred to as 'mining' (CoinDesk, 2014). These miners make use of complex computer hardware installations and software programs that follow a mathematical formula to produce Bitcoins.

The growing popularity of Bitcoins as an alternative online payment currency can be attributed to a number of reasons. First, the inherent features of Bitcoin as a virtual currency set it apart from ordinary fiat currency that is in use in the conventional

financial transactions. These inherent features include; decentralization, no transaction fee, easy Bitcoin address setup, fast, transparent and secure. Bitcoin transactions are sent from and to electronic Bitcoin wallets, and are digitally signed for security (CoinDesk, 2014). Bitcoin transactions be to be verified by Bitcoin miners thus offering inbuilt security features that enhance their acceptability as convenient and effective virtual currencies. Anybody wishing to make use of Bitcoins in settling online transactions needs to have a Bitcoin address, and a private key.

However, considering that Bitcoin usage was recently introduced as an alternative virtual currency to replace or rather support available payment mechanisms in online transactions, it has yet to be totally accepted and assimilated into the payment system. Some countries have actually banned the use of Bitcoins and other crypto-currencies as alternative payment framework due to uncertainties surrounding its legality and usage. The implications that come about as a result of using Bitcoins as an alternative payment framework has made many government agencies and currency regulators apprehensive. This can be explained by its ability to allow for anonymous usage, making it a potential instrument for money laundering. Of particular concern with the regulators is the decentralized nature of the virtual currency. According to (Coindesk, 2014), FBI, a law enforcement agency has expressed its concerns against Bitcoin usage, drawing significant comparisons between it and other centralized digital currencies such as eGold and WebMoney. Its decentralization makes it prone to be used in illegal transactions that cannot be easily traced.

Although there seems to be a number of challenges and risks of using Bitcoins as an effective alternative virtual payment framework to help alleviate the payment bottleneck that exists in a majority of Crowdfunding platforms. The Crowdfunding sector has grown in the recent past and presents a favorable environment for technological innovation in alternative financing models capable of attracting capital contributions and funding that has the prospects of exceeding conventional and accredited funding models in the financial and securities markets and making investing in startups an achievable reality.

### **The Benefits of Crowdfunding platforms to fundraisers**

The benefits that accrue to the fundraisers who use Crowdfunding platforms are usually dependent on the preferred Crowdfunding platform, the type of Crowdfunding they engage in and the structure of their project promotion campaign on a particular platform. Such benefits include: Favorable funding terms; reduced transaction costs; product, price and market substantiation through open customer feedback and peer review systems present in platforms that have inbuilt interactive platform capable of supporting exchange of knowledge, ideas and information. Interactive platforms also provide a dedicated consumer and word-of-mouth marketing base obtained through an early engagement with potential customers and supporters of the project; diversified sources of funding; due diligence and quick background checks on entrepreneurs and projects using publicly available information on social networks and other media as well as information from commentaries and feedback on the project on Crowdfunding platforms; professional and expatriate advice from the crowd or individual co-investors as well as risk sharing.

### **The issue of payment provisions and rates set by Crowdfunding platforms**

Crowdfunding platforms are businesses that are run and operated with the intent of earning profits. It thus becomes necessary that they charge users of their platforms for the services they offer to them. One way to generate revenue is by charging a fee to the company raising capital or to those investing in that company (Gajda and Mason 2013, pp. 9).

(Gajda and Mason 2013, pp. 10) note that, most Crowdfunding models have embraced a fee charging framework where, the company raising capital is charged a transaction fees averaging 5% if the set target is successfully reached. In addition to charging transaction fees, most Crowdfunding platforms also charge a listing fee of up to 5% as well as a fixed annual, monthly or one-time sum labeled as compensation for due diligence, legal and/or compliance costs (Gajda and Mason 2013, pp. 10). There are several Crowdfunding platforms that exist on the Internet to enable entrepreneurs and fundraisers to access funding for their businesses and causes. Each has its own payment provisions targeting either the person seeking to raise funds or the contributors of such funds. This information has been tabulated in the Appendix (table 1).

### **Regulatory and possible tax effects on the money seeking party**

According to the (Autorité de contrôle prudentiel (ACP) & the Autorité des Marchés Financiers (AMF), n. d), Crowdfunding platforms operators may have to comply with banking and financial regulations and, as such, meet certain capital, authorization or registration requirements, depending on their method of choice. Some of these areas

are under the exclusive authority of either the ACP or the AMF; others operate under the joint authority of both regulators (ACP & AMF, n. d). The type of business conducted will determine which requirements apply. As the (FCA, 2013) notes in its consultation paper, *“our present rulebook was not designed with Crowdfunding in mind, so in this CP we are consulting on a revised approach to regulating firms that operate investment-based Crowdfunding platforms or market unlisted equity or debt securities”*. This shows that currently, in most countries, there is no outright regulatory regime or legislation specifically targeting Crowdfunding platforms. (Feldman, 2013), identifies the complexity of operations of Crowdfunding platforms as one aspect that exposes them to several different regulatory regimes. These regulations usually target aspects such as banking regulations, securities regulations, payment services regulation and anti-money laundering. For instance, (Feldman, 2013) further notes that Crowdfunding platforms such as WiSEED, Finance Utile, Anaxago, and SmartAngels are registered as financial investment advisers, considering they provide investment advisory services. It has thus been left to the platforms to decide on which rules or legislation govern them and register accordingly with the regulatory authority concerned.

Most governments have identified the potential of Crowdfunding platforms to spur economic growth and are putting in place regulations aimed at stimulating market efficiency and transparency. An example is the French government. (Crowdsourcing.org, 2014) indicates that previous regulations on Crowdfunding in France only allowed companies to fundraise up to €100,000 for equity. After consultations with the Crowdfunding professionals, the government raised that amount

to €1 million per Crowdfunding Company. In the US, the American Jobs Act was enacted to cater for the high economic potential bearing Crowdfunding subsector. There has also been much focus from regulators such as the Securities and Exchange Commission (SEC), the Financial Crimes Enforcement Network (FinCEN), and individual banks on Crowdfunding activities.

Enactment of new legislations brings with it additional costs on the part of Crowdfunding platforms. These costs are likely to be passed on to the fundraisers, thus having a negative impact in the Crowdfunding sector. Although regulation is desirable, its overall implications need to be considered closely. There has not been adequate academic research into this subject of the impact of regulations and tax requirements on Crowdfunding, and this paper will strive to find out these effects. The regulation of Bitcoin usage has also been reported by a number of regulatory bodies in various countries. FinCEN for example has published guidelines with regard to the use of virtual currencies such as Bitcoins in transactions settlement (CoinDesk, 2014). The US Internal Revenue Service (IRS) argues that taxpayers can receive income in form of digital/virtual currency from a virtual economy and could be required to report it as taxable income (CoinDesk, 2014). This has the implication that many fundraisers will be required to report amounts raised on Crowdfunding platforms as income for taxation matters. This may have a negative impact on the attractiveness of raising finances from such platforms due to the tax burden it poses.



According to (Gajda and Mason (2013, pp. 3), the current investment environment is characterized by a lack of adequate investable deals and frustrated entrepreneurs due to the challenges in raising adequate investment funds and capital. They express their optimism that Crowdfunding will provide a solution to this problem of information asymmetry that brings about a mismatch between available investment projects and funding.

### **Scope, limitations and assumptions of the study**

For our study to achieve its set objectives, we will make some assumptions that will be necessary so as to enable us manipulate and analyze collected data so as to arrive at various conclusions. Such assumptions will include the belief that all responses given are true and objective. During the study, we will also assume that the timeframe chosen is not too far in the past and respondents will be able to recall all material facts and information sought. The limitations in this study will stem from the time constraint, as we will confine our study to transactions carried out within a particular timeframe. We will also study a sample of the Crowdfunding undertakings within the identified timeframe, as it will be practically uncalled for to consider all Crowdfunding undertakings within the set timeframe.

### **Research Design, and Methodology, Data Collection and Analysis**

We carried out a qualitative research that involved use of qualitative collective survey evidence using a systematic random sample. The survey involved use of interviews and questionnaires for a period of one month. The questionnaires were sent to the

respondents, comprising central figures in the Crowdfunding industry such as fundraisers and platform operators. This ensured that information was collected from different players to understand the shortcomings of the payment processing solutions from the viewpoints and experiences of all the parties involved. They were required to fill out the questionnaires and return them for analysis. 78% of all questionnaires sent were successfully returned and their results analyzed graphically. We made follow up interviews with those who did not return the questions and were able to get the required information. Face to face and telephone interviews were also carried out to seek clarifications and insights to the responses given. This enabled us to corroborate the information collected from the questionnaires as well as obtain information from those who were unable to fill the questionnaires. We also used data collected from other sources such as blogs, comments made from users of Crowdfunding platforms regarding payment processing as well as information from the Internet.

## **Results and findings**

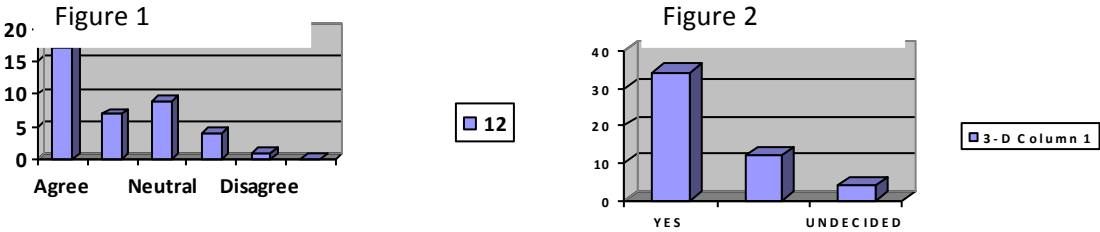
### **Fees and charges**

Crowdfunding platforms generate revenue through charging fees on the users of their platforms. From the information collected from Table 1, it is clear that most Crowdfunding platforms have embraced a fee-charging framework where, the fundraiser is charged a transaction fees averaging 5% if the set target is successfully reached. Some also charge a listing fee of up to 5% as well as a fixed annual, monthly or one-time sum. These findings are supported by (Gajda and Mason 2013, pp. 10).

Processing payments using Paypal is subject to lengthy and bureaucratic setup procedures entailing ascertaining the legitimacy and proof of identity through detailed KYC processes and anti-money laundering mechanisms. Amazon-payments on the other hand charge 2.9% + \$0.30 per transaction for transactions of \$10 or more. There is a discount offer for donation based crowdfunding at a discounted rate of 2.2% + \$.30 per transaction on transactions of \$10 or more. They also offer micro-payment discounts for transactions less than \$10.

The information collected from questionnaires and interviews showed that most respondents, at 55% tended to consider the issue of charges and fees charged on Crowdfunding sites when choosing which Crowdfunding platform to start a fundraising undertaking. Another 40% said that they considered the past history of payment processors with crowdfunders in choosing what Crowdfunding platform to choose. Another overwhelming 75% said they would prefer the use of a provision free peer-peer currency such as Bitcoin, as an alternative to foregoing the credit card processing and currency conversion fees that many Crowdfunding sites incorporate in their charges and fees. The issue of new regulations and tax implications that most regulatory authorities were implementing and considering also featured in the responses as one factor that will shape the Crowdfunding and Bitcoin subsectors.

**Figure 1: Fees and Charges effect on choice of crowdfunding platform**



**Figure 2: Past History of Payment Processors effect on choice of Crowdfunding platform**

The findings indicate that the charges and fees being charged when payments are submitted by credit cards or by third party processors such as Paypal or Amazon payments are prohibitive and punitive to the fundraiser. The complexity of opening a Paypal account and the length of time it takes a user to undergo a legitimacy verification by Paypal before funds can be transferred to their preferred accounts is cumbersome. The extra scrutiny from Paypal is not attractive with Crowdfunding users and provides a major bottleneck in payment processing of Crowdfunding undertakings. Amazon payments allows for transactions to be made in only the US currency. Thus users who are non US citizens and wish to make contributions in a Crowdfunding platform have to pay extra costs such as the currency conversion fees before they can make their contributions via amazon payments. This might make them shy away from making contributions.

## Regulations and taxes

The issue of new regulations and tax implications that most regulatory authorities have implemented or are considering to implement is also featured in the responses as one factor that will shape the Crowdfunding and Bitcoin subsectors. Regulators are in the driver seat when it comes to writing the rules for Crowdfunding (CoinDesk, 2013) and in most cases only regulatory guides and warnings on the legality of Bitcoins have been issued. In the US the Jumpstart Our Business Startups (JOBS) has been passed, however it left the SEC to sort out the details of Crowdfunding and Bitcoins in a process that is still ongoing. Finland issued a regulatory guide on Bitcoin in September 2013, which imposed capital gains tax on Bitcoins, and taxes Bitcoins produced by mining as earned income (CoinDesk, 2014). The regulators in France held hearings concerning the usage of Bitcoins and other digital currencies in mid-January 2014, thus no regulations have been put in place but rather the existing laws are being used on a case by case basis.

According to the (Autorité de contrôle prudentiel (ACP) & the Autorité des Marchés Financiers (AMF), n.d.), Crowdfunding platforms operators may have to comply with banking and financial regulations and, as such, meet certain capital, authorization or registration requirements, depending on their method of choice. Some of these areas are under the exclusive authority of either the ACP or the AMF; others operate under the joint authority of both regulators (ACP & AMF, n.d.). The type of business conducted will determine which requirements apply. As the (FCA, 2013) notes in its consultation paper, *“Our present rulebook was not designed with crowdfunding in mind, so in this CP*

*we are consulting on a revised approach to regulating firms that operate investment-based crowdfunding platforms or market unlisted equity or debt securities*". This shows that currently, in most countries, there is no outright regulatory regime or legislation specifically targeting crowdfunding platforms. (Feldman, 2013), identifies the complexity of operations of Crowdfunding platforms as one aspect that exposes them to several different regulatory regimes. These regulations usually target aspects such as banking regulations, securities regulations, payment services regulation and anti-money laundering. For instance, he further notes that Crowdfunding platforms such as WiSEED, Finance Utile, Anaxago, and SmartAngels are registered as financial investment advisers, considering they provide investment advisory services. It has thus been left to the platforms to decide on which rules or legislation govern them and register accordingly with the regulatory authority concerned.

Most governments have identified the potential of Crowdfunding platforms to spur economic growth and are putting in place regulations aimed at stimulating market efficiency and transparency. (Crowdsourcing.org, 2014) indicates that previous regulations on crowdfunding in France only allowed companies to fundraise up to €100,000 for equity. After consultations with the crowdfunding professionals, the amount was raised to €1 million per Crowdfunding Company. In the US, the American Jobs Act was enacted to cater for the high economic potential of the crowdfunding subsector. The Act limits the amount that entrepreneurs can raise on crowdfunding platforms at \$1 million (Groshof, 2014). There has also been much focus from regulators such as the Securities and Exchange Commission (SEC), the Financial Crimes Enforcement Network (FinCEN), the ACP and AMF on Crowdfunding activities.

The regulation of Bitcoin usage has also been reported by a number of regulatory bodies in various countries. FinCEN for example has published guidelines with regard to the use of virtual currencies such as Bitcoins in transactions settlement (CoinDesk, 2014). The US Internal Revenue Service (IRS) argues that taxpayers can receive income in form of digital/virtual currency from a virtual economy and could be required to report it as taxable income (CoinDesk, 2014). This has the implication that many fundraisers will be required to report amounts raised on Crowdfunding platforms as income for taxation matters. This may have a negative impact on the attractiveness of raising finances from such platforms due to the tax burden it poses.

### **Bitcoins as a payment-alternative for Crowdfunding platforms**

Some Crowdfunding platforms were found to support more than one payment option so as to attract more contributions from a wider and varied community of contributors. An example is possible that supports both fiat currency payments and Bitcoins. Other Crowdfunding platforms support Crowdfunding only in Bitcoins. These include CrowdTilt, CoinFunder, BitCoinStarter and Backer. Our research also indicates that Bitcoins are still only accepted by a few Crowdfunding sites as a form of payment. Their decentralized nature has raised concerns about value fluctuations and thus unreliable to use Bitcoins as a currency (Groshof, 2014). Bitcoin ATMs that have been developed to ensure that obtaining Bitcoins to settle online transactions is easier and convenient. There are also local over-the-counter trading markets such as LocalBitcoins, where exchange of fiat currency for Bitcoins can take place.

## **Conclusion and Discussion**

Crowdfunding has grown rapidly over the past few years and is expected to continue its growth pattern into the near future. Its recent emergence means that there are few sources of comprehensive data about the industry. Crowdfunding platforms operate within a complex regulatory framework that has evolved often in response to the fear of scandals and fraud incidences. The use of Bitcoins will help address the limitations inherent in many online payment processing systems. Its advantages over such payment processing platforms such as the speed of processing payments, no transaction fees when transferring Bitcoins, lack of chargebacks in Bitcoin transactions, its inherent privacy support platform and not susceptible to inflationary pressures make it an ideal alternative in Crowdfunding payments.

The fact that one is able to buy Bitcoins from regulated Bitcoin exchanges, or directly from Bitcoin dealers and miners for fiat currencies and multiple other virtual currencies, make it possible for the currency to be used as an alternative to conventional payment options. They have also been integrated into the currency exchange system thus making their availability easy. This has shown the level of integration that Bitcoins have undergone and the trend is likely to continue into the near future. Bitcoin usage promises to simplify international Crowdfunding undertakings and could solve the bottlenecks of high charges and fees inherent in using traditional payment options. Their pros over the conventional and traditional payment processing systems are sure to increase their attractiveness and suitability as an alternative solution to the bottlenecks



of processing payments in Crowdfunding platforms. However, Bitcoins are faced with volatility risks since there is no fixed exchange rate between Bitcoins and hard currencies. This has a negative impact on the fundraisers, as they may not even know how much they have fundraised in hard currency, thus making them have a preference of receiving payments in ordinary currencies over Bitcoins. Ongoing regulations promise to stimulate the market and enhance efficiency and transparency. The raise of the limit on the amounts that can be fundraised in Crowdfunding platforms in the USA and France to \$1million and €1million respectively is both good and bad news. Its good news since the amounts is higher than previously allowed but bad news for those who have the potential to fundraise well over the set limits. Thus the effect of regulations seems to be a twin bladed machete. Enactment of new legislations brings with it additional costs on the part of Crowdfunding platforms. These costs are likely to be passed on to the fundraisers, thus having a negative impact in the Crowdfunding sector. Although regulation is desirable, its overall implications need to be considered closely. Although Crowdfunding is not likely to replace or even exceed conventional methods of raising finances for investments, there are prospects that its place within the entire financing framework will be novel. It promises to provide a solution to the problem of information asymmetry that brings about a mismatch between available investment projects and funding. However, the actual scale and nature of its implications and outcomes will be depended upon the manner in which it will address the various challenges such as the regulatory environment as well as the payment challenges. Crowdfunding and Bitcoins continue to be controversial subjects at the moment and are therefore subject to considerable future ongoing research.

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## APPENDICES

**Table 1: Crowdfunding platforms, payment provisions and processors**

<b>Crowdfunding platform</b>	<b>Country</b>	<b>Payment provisions/ fees</b>	<b>Payment Processors</b>
Appbackr	USA	Dependent on App price Payment processing fees	Credit Cards
PeerBackers	USA	5% of amounts raised	Paypal
CircleUp	USA	\$500 activation fees Undisclosed % of amount raised Payment processing fees	Credit cards
Razoo	USA	2.9% of total amount raised Payment Processing fees	Credit Cards
Crowdrise	USA	4.95% of amount raised Payment Processing fees	Credit Cards
GoFundMe	France	5% of money raised Payment Processing Fees	WePay Paypal
Sellaband	USA	15% of amount raised Payment processing fees	Credit Cards
PledgeMusic	USA	15% of amount raised No Payment processing fees	Credit Cards
GoGetFunding	USA	4% of money raised Payment processing fee	Stripe, Paypal
Kickstarter	USA and UK	5% if you meet target	Amazon payments

		processing fees	
Indiegogo	Worldwide	4% if you meet target 9% if you do not meet target Payment processing fees: 3% for credit card processing, \$25 wire fee for non-U.S, Currency exchange fees	Paypal, ACH, FirstGiving Wire transfers
RocketHub	Worldwide	4% if you meet target 8% if you do not meet target Payment processing fees: 4% credit card handling	Secure Cheque Digital payments
Fundable	Worldwide	\$179 per month during active campaigns Payment processing fees: 3.5% +30 ¢ per transaction	WePay
Crowdfunder	USA	5% if you meet target Payment processing fees	Amazon payments
Teespring	USA	A flat rate per T-shirt sold Payment Processing Fees	Paypal

**QUESTIONNAIRE**

NAME OF  
RESPONDENT.....  
ORGANIZATION.....  
DESIGNATION.....

Answer the following questions truthfully and clearly to the best of your knowledge

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**Question 1**

Consider the following statement and choose only **ONE** response from the following choices:

**The amount of fees and charges that a particular Crowdfunding platform charges determines which fundraising platform I will choose for my Crowdfunding fundraising project.**

- Strongly agree
- Agree
- Slightly Agree
- Neutral
- Slightly Disagree
- Disagree
- Strongly Disagree

**Question 2**

**Does the payment processor’s past relationship history with crowdfunders determine which Crowdfunding platform you choose?**

**YES**  **NO**

**Question 3**

**Would you prefer the use of a provision free peer-peer currency over other payment options?**

**YES**  **NO**

**Comment on the effects of the regulations on Crowdfunding activities and the tax implications this is likely to have on Crowdfunding undertakings**