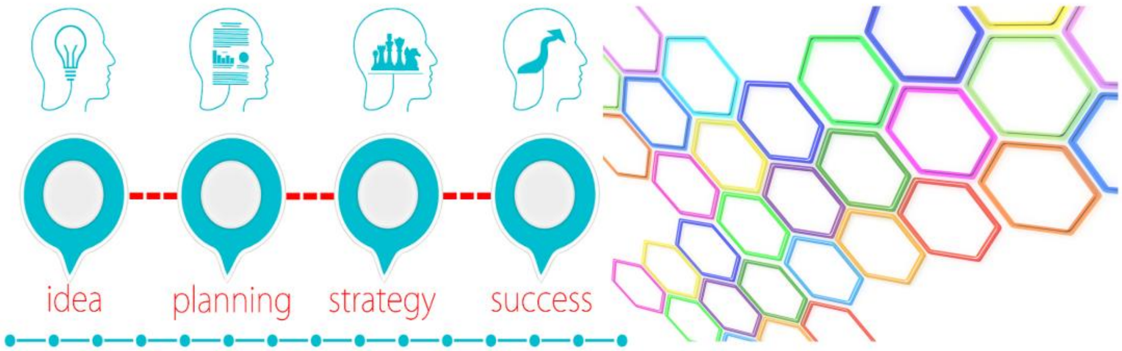

Crowdfunding – A Modern Way of Acquiring Funding PART 2

In the previous publication we discussed some examples of existing Donation-Based Crowdfunding and Rewards-Based Crowdfunding platforms. Now let us have a look at Equity-Based Crowdfunding and Debt-Based Crowdfunding.

Equity-Based Crowdfunding

Equity-based crowdfunding allows an investor to partly own the business they are investing in. These investors trade the capital to gain company shares and receive a financial return, such as a dividend on their actual investment. There are often times when the investors also earn a profit in return for their real investment.
There are a few popular Equity-based crowdfunding examples we will mention such as Quirky, Invesdor, Symbid, SeedUps, Eureeca, Wefunder and PeerReality (* see Important note at the end of the article):

- Quirky is one of the most recent examples of an equity-based funding platform. It enables the inventors, influencers, and the global community to interact with each other, create awareness of the project, and acquire financing.
- Invesdor is a digital platform that provides different companies to connect for fundraising and investment opportunities. It is a global platform and has a license to work with 28 counties that are part of the European Economic Area agreement.
- Symbid is a Dutch platform that was founded by Korstiaan Zandvleit and Robin Slakhorst. It is one of the first funding platforms -that also has an equity side available- throughout the world.

- SeedUps focuses more on and enables tech start-ups to acquire initial capital or early investment funding by connecting it to different investors throughout the world.
- Eureeca is a platform that has been successful throughout the world and is in its expansion stages. It has become a case-study for numerous crowdfunding platforms because of its successful business model.
- WeFunder is a crowdfunding platform that links different startups with potential investors. It has helped in raising investments of more than $9.8 million so far.
- Similarly, PeerReality is another platform that works as an intermediary between the startup and the investor to help the startup acquire capital for launch or expansion.

Debt Based Crowdfunding

People often wrongly don't realize they should carefully consider the differences between debt instruments thru debt-crowdfunding and equity-based crowdfunding. There are some similarities between both categories, but a significant difference that sets them apart, (just as there is a significant difference in investing in debt or equity securities on a securities exchange) is that with equity-based investments the investors normally look to receive a dividend in return on their actual investment. And again, this is totally dependant, of course, on both the profit (results) of the company and of the dividend policy of a company.

However, with debt instruments, the repayment and interest terms are mostly fixed from the start. The business has to follow those terms and make the payments accordingly.

Some examples of successful Debt-based crowdfunding platforms include Prosper, Lending Club and Kiva (*):

- Prosper is an online peer-to-peer marketplace where entrepreneurs can connect with an investor to acquire funding for their business. It is an alternative to traditional lending and allows a borrower to choose the best lending option.

- Lending Club is another example of an online marketplace that connects a business with different institutions to help acquire the funding it needs.

Kiva is a very particular platform. In addition to being used as a donation-based platform, Kiva also provides a crowdfunding platform for debt instruments. It enables different investors to set their investment as a nonprofit organization, which is loaned out to various projects. However, the platform itself does not charge interest for its services. The platform and its employees receive compensation from different corporations, individuals, and national institutions in the form of loans, donations, and financial grants. It works in over 40 countries and gives emphasis on businesses with female owners. The platform also offers loans for economic development and to fight poverty.

Final Thoughts

Crowdfunding is clearly a new mechanism of acquiring funding to launch or grow a business. Typically, this funding is obtained with the help of online platforms. Different companies can present their business ideas to numerous investors at the same time.

Unlike conventional methods, these investors can also be a member of the general public and not necessarily a financial institution. The investment amounts can differ according to the requirement of the business and the capability of the lender. A common attractive characteristic is that often the minimum investment amounts are very low, thus enabling the larger public to participate in something they really like or belief in. These donation-based, rewards-based, equity-based, and debt-based crowdfunding platforms have seen enormous success in the past few years and it is interesting to see up to what degree they are moving towards taking over the conventional financing system.

In the next publications we will look some more to equity-based crowdfunding and then especially from a general perspective: looking at the risks, rewards, and regulations that come with such investment opportunities. We will also explore a case study to obtain insights into opportunities and challenges that leads to a successful functioning platform.

(*) **IMPORTANT NOTE:** the mentioning of the platforms in this publication is by no means to be interpreted as a favorite choice or promotion of one platform above any other platform by the DCSX and simply intends to give some examples. Other similar platforms can be easily researched on the web.

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