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## Acronyms

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<th>Full Form</th>
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<tr>
<td>ANDE</td>
<td>Aspen Network of Development Entrepreneurs</td>
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<tr>
<td>CBRC</td>
<td>China Banking Regulatory Commission</td>
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<td>CSRC</td>
<td>China Securities Regulatory Commission</td>
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<td>CIF</td>
<td>China Impact Fund</td>
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<td>GIIN</td>
<td>Global Impact Investing Network</td>
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<tr>
<td>IAIJT</td>
<td>Interagency Anti-Illlegal Fundraising Taskforce</td>
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<tr>
<td>IRIS</td>
<td>Impact Reporting and Investment Standards</td>
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<tr>
<td>IPO</td>
<td>Initial Public Offering</td>
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<tr>
<td>JOBS</td>
<td>Jumpstart Our Business Startups Act</td>
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<td>P2P</td>
<td>Peer-to-peer</td>
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<td>PE</td>
<td>Private Equity</td>
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<td>PBC</td>
<td>People’s Bank of China</td>
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<td>SE</td>
<td>Social and Environmental</td>
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<tr>
<td>SEC</td>
<td>U.S. Securities and Exchange Commission</td>
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<tr>
<td>SGBs</td>
<td>Small and Growing Businesses</td>
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<td>VCs</td>
<td>Venture Capitalists / Venture Capital</td>
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Executive Summary
China’s open door policy has transformed the country’s economy, but at a social and environmental cost. Chinese Social and Environmental (SE) Small and Growing Businesses (SGBs) can help China face these challenges through economic development, poverty alleviation, and environmental benefits. Yet Chinese SE SGBs are limited by their lack of finance.

Crowdfunding, soliciting small amounts of funding from many people primarily via the internet, provides an alternative to traditional forms of finance. Moreover, it can act as a form of impact investing when targeted towards Chinese SE SGBs, intentionally producing social and environmental (SE) benefits while also increasing the awareness and credibility of the nascent impact investing industry.

Currently, although the Chinese crowdfunding industry is small globally, it still attracts a sizable amount of funds through its loans-based, rewards / donations-based, and equity-based crowdfunding platforms. However, due to concerns about illegal fundraising and a history of careful foreign capital monitoring, the Chinese government still views crowdfunding with negativity and suspicion to a great extent. Future growth of the Chinese crowdfunding industry will depend upon whether this perspective changes.

Among governmental uncertainty, some investors and SGBs view crowdfunding in China optimistically, despite inherent risks and clear areas for improvement. Crowdfunding enables SGBs to utilize different types of crowdfunding for different business stages. Beyond funding, SGBs can also gain additional benefits, such as informal marketing and product feedback, to help provide proof of concept and better target potential customers.

Chinese SE SGBs may find that using U.S.-based crowdfunding platforms can generate more funding. Given the U.S.’s friendly crowdfunding policy environment and its dominance in the crowdfunding market, SGBs can tap into the U.S. crowdfunding market’s available capital as well as participate in its many platforms. Chinese SE SGBs may also find a crowdfunding niche if they target Chinese diaspora and the SE community.

Despite the challenges, crowdfunding offers a viable and innovative new way for Chinese SE SGBs to gain access to finance, especially on a moving forward basis.
Introduction

SGBs in China could play an important role in solving the country’s environmental and social problems but financing constraints have limited their capacity in this regard.
China has been transformed into the world’s second largest economy since its economic reform and opening policy was implemented in the late 1970s. With a GDP of over USD 8 trillion and growth rate of close to 8%, China continues to generate high economic growth rates with rising levels of affluence.

However, China’s growth comes with serious social and environmental (SE) concerns. Over the past thirty years, China’s GINI Index (a common measure of economic inequality) increased by 45%. Social unrest has also been rising, with Chinese officials reporting a 750% increase in social incidents within a ten-year span. Moreover, China is the world’s top emitter of greenhouse gases due to greater production demands and growing energy needs. An analysis by the China Impact Fund (CIF) and New Ventures China assessed the economic cost of environmental degradation to China. Within five years, it rose from USD 85 billion to USD 160 billion. Rising economic growth will continue to exacerbate income inequality and environmental degradation without focused interventions.

While the Chinese government is actively addressing these issues through their 12th Five-Year Plan and poverty-reduction initiatives, China’s Small and Growing Businesses (SGBs) also play a significant role in meeting these SE challenges. According to a Small Enterprise Assistance Funds study, investment in SGBs “can result in significant economic development and poverty alleviation.” Among the study’s surveyed firms, over 70% of new jobs generated from SGBs went to low-skilled workers. Furthermore, CIF found that SGBs in key green industries promoted environmental benefits such as greenhouse gas reduction and energy conservation.

Yet Chinese SGBs face severe financing constraints that limit their capacity. Banks are reluctant to lend to SGBs due to perceived high risk. According to China’s National Development and Reform Commission, over half of requested loans were denied to SGBs. Government funding to SGBs is limited because of strict eligibility
requirements and favouritism towards large state-owned enterprises. Moreover, a survey conducted by the Economic Research Institute for ASEAN and East Asia found that the probability of being refused financing for a Chinese SGB decreases as its size gets larger. Funding and investment are available but it is restricted to larger businesses.

It is not just Chinese SGBs that face difficulty accessing finance, but SGBs around the world. The World Bank Enterprise Surveys, taking data from over 30,000 firms in 135 counties, found that more than 30% of all SGBs identified access to finance as a major constraint. Even in the U.S., many small businesses have difficulty receiving funding and investment. When applying for credit, half of U.S. small businesses received none or only some credit. Moreover, in developing nations, micro-financing institutions consider SGB financing needs too large, further reducing financing sources for SGBs.

Lack of financing for SGBs has significant country effects including diminished innovation and economic development. A study conducted by Ayyagari, Demirgüç-Kunt, and Maksimovic (2007, 2008) found a positive association between use of external finance and innovation. Using this result, the World Bank in their Policy Research Report Finance for All (2008) concluded, “access to and use of financing… favorably affect firm performance...If entry, growth, innovation, equilibrium size, and risk reduction are all helped by access to and use of finance, it is almost inescapable that aggregate economic performance will also be improved.” Access to finance is important not only for SGBs but the economic, social, and environmental benefits provided to a nation.
Crowdfunding and Impact Investing

Impact investing is a brand new concept in China and crowdfunding may have the potential to help raise awareness of it.
Crowdfunding provides a new viable option for SGBs as an alternative source of financing through small internet-based funding. Moreover, crowdfunding targeted towards SE SGBs can act as a form of impact investing with benefits especially pertinent within developing nations such as China. By purposefully generating SE benefits, crowdfunding also builds a path towards increasing awareness and the credibility of impact investing.

3.1 Definition of Crowdfunding

Crowdfunding originated from the word “crowdsourcing”. Jeff Howe, a Wired magazine writer who first coined the term, describes crowdsourcing as “the act of taking a job traditionally performed by a designated agent (usually an employee) and outsourcing it to an undefined, generally large group of people in the form of an open call”. Derived from its parent term “crowdsourcing”, crowdfunding is: An open call to people to provide small amounts of funding, usually in exchange for some kind of reward.

Crowdfunding is simultaneously an innovative and disruptive force. By sidestepping traditional financing systems such as banks and venture capitalists (VCs), fund seekers can appeal directly to the internet “crowd” for financing and investment. Crowdfunding internet platforms have sprung up, allowing fund seekers to “call out” or campaign to the “crowd” for their projects by funding incentives offered: lending, rewards / donations, and equity.

Through these platforms, people worldwide have recognized and capitalized on this opportunity, transforming crowdfunding from a small idea into a global phenomenon. With over 500 active crowdfunding platforms around the world in 2012, estimated funds raised through crowdfunding platforms increased from USD 1.5 billion in 2011 to USD 5 billion in 2013, a 240% rise in just two years.

With its growth and increasing global recognition, crowdfunding opens new options not only for SGBs, but also for impact investing – to intentionally promote SE benefits through investment.
3.2 The Impact Investing Industry

Impact investing, as defined by the Global Impact Investing Network (GIIN), is:

“... investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances.”

By differentiating itself from traditional philanthropy, which incorporates gift-giving grants usually to non-profit organizations, impact investing combines profit incentives with SE benefits. This combination is especially attractive for developing nations such as China with its rapid economic development, coupled with growing social unrest and environmental degradation.

Globally, impact investing has made impressive growth and development over the years. In 2013, the impact investing industry reached USD 36 billion, with over 2,000 investments growing in worth from USD 4.3 billion in 2011 to USD 8 billion in 2012, almost doubling within a year. Moreover, greater government support and infrastructure developments within the U.K., U.S., and Australia have facilitated impact investment, as well as the establishment of the Impact Reporting and Investment Standards (IRIS) to promote transparency.

However, impact investing faces several challenges that threaten its viability. A report prepared by Martin (2013) from the Impact Economy cites the “lack of track record of successful investments as the main concern, followed by too few established players active in social impact investing...” Such challenges pose a problem for the sustainability of the nascent industry, particularly within China, which stands to benefit greatly from impact investment.

3.3 Impact Investing in China

Impact investing is a new and unknown concept with little presence within China. Moreover, from an earlier CIF study Creating the Chinese Dream (2012), interviewed investors mostly cited financial return as their primary focus compared to SE motivations. Aside from development-focused organizations such as the International Finance Corporation and the Asian Development Bank, China has only a handful of self-identifying SE impact investors. A few are gaining early traction by establishing an on-the-ground presence, but actual impact investing remains small. More needs to be done to expand the impact investment industry.
Over-hype of impact investing may be contributing towards the industry’s lack of presence in China. As detailed earlier, impact investing lacks a track record of proven successes. Without this, impact investing risks being perceived as “all talk and no action” - a particularly dangerous perception within a culture which encourages “less talk and more action” (君子讷于言而敏于行). Consequently, impact investing may lose vital support from Chinese policy makers, the business community, and the public.

However, with the potential to catalyze China’s development, the impact investing industry should not be limited. Along with its clear contributions towards China’s SE sectors and the economy, impact investing has deep connections within Chinese traditional culture. This is shown through the cultural concept of 仁 meaning “benevolence or humanity” especially towards the disadvantaged, and the Chinese proverb (穷则独善其身, 达则兼济天下) signifying “the underprivileged should maintain integrity; the wealthy should contribute to societal well-being”.

### 3.4 Crowdfunding for Impact Investing in China

Crowdfunding can help spread impact investing within China. The country’s rapid development of internet finance coupled with the largest number of internet users in the world makes crowdfunding accessible to SGBs. Crowdfunding, especially targeted towards SE SGBs, will not only aid China’s economy and SE sectors, but increase awareness of impact investing within the country.
Although P2P loans are large, China's crowdfunding market remains small and fragmented but there is a strong interest among entrepreneurs to explore it from different directions.
The current Chinese crowdfunding market is sizable despite its relatively new presence. According to Zero2IPO, a Chinese PE/VC market research company, over 1,400 investments have been made through Chinese crowdfunding platforms with total funding raised at CNY 188 million (USD 30.6 million) just within the first half of 2014. Of these, over 400 investments were made through equity-based crowdfunding platforms, pooling CNY 156 million (USD 25.4 million) for seed-stage and early-stage start-ups. Nearly 1,000 projects posted on reward/donations-based crowdfunding platforms have successfully reached their financial goals with CNY 32 million (USD 5.2 million) having been raised. Notably, the top three Chinese internet companies - Baidu, Alibaba, and Tencent - have shown strong interest and intention to enter the crowdfunding market.

China has three main types of crowdfunding platforms based on incentives provided to investors: loans, rewards/donations, and equity.

### 4.1 Loans-Based Crowdfunding

For our research, we consider loans-based crowdfunding as a type of the peer-to-peer (P2P) lending, as it brings together borrowers and lenders directly rather than through a banking intermediary. However, many crowdfunding studies, global or China-focused, have not considered P2P lending as part of crowdfunding. The grey area of P2P lending and its subsequent exclusion from studies explains why these transactions are usually not included in market sizing exercises when it comes to China. Due to loans-based crowdfunding’s superior interest rates and principal guarantee, it is a popular form of crowdfunding in China. Estimated P2P loans in 2013 were about CNY 70 billion (USD 11.4 billion), more than three times higher than in 2012.
Case Study: Project Nongfu

Project Nongfu is a social initiative that supports rural villagers through P2P lending. Its mission is to connect the urban population to support entrepreneurial efforts by the rural population through lending programs. Project Nongfu has already connected over 372 urban lenders to 427 rural borrowers with accumulated loans of about CNY3.64 million (~USD 607,000).

Initiated and executed by the Institute of Rural Development Service at Ka La Qin County in Inner Mongolia, Project Nongfu was founded by Winnie Kao in 2009 out of a concern for the Chinese rural population. With many of China’s migrant workers seeking employment in the cities, they also leave behind their children, families and elderly in the rural provinces. While there are remittances from migrant workers and donations from NGOs, those rural villagers left behind suffer from a lack of job security and regular income that negatively impact their livelihoods. Small businesses initiated by these rural villagers can help improve their well-being and revenue streams. Project Nongfu’s loans from urban residents provide much needed capital to support these rural villagers.

Project Nongfu has been a success, achieving a 100% recovery rate while charging a 7.5% annual interest rate. About a third of their loans go to small businesses, a third to animal husbandry, and a third to plantations. Their average annual investment size ranges from CNY6,000 (~USD 1,000) to CNY30,000 (~USD 5,000) per loan. Of concern, inflation has increased the average loan size from CNY2,000 (~USD 333) in 2003 to CNY30,000 (~USD 5,000) in 2013. Project Nongfu charges lenders a 1% service fee, and borrowers a 1% service fee with a 0.3% collection fee per month to support operations.

Currently, the organization is registered as an NGO and adheres to relevant governmental regulations, including registration with the Civil Affairs departments, and submission of regular reports. However, due to several bad microloans in the late 1990s, the Ministry of Agriculture remains conservative about their current interactions with microfinancing. As a result, Project Nongfu has experienced difficulty in their engagements with the government, even requiring the help of governmental friends to register their NGO status. To date, P2P lending and microfinance in China remains a vague and grey area; although the government is slowly accepting it as an inevitable trend. To manage this risk, the government is regulating the industry and limiting the number of P2P and microfinancing organizations that are allowed in particular within Chinese society.

For the future, Project Nongfu is working on a “last mile transparency program” to provide more borrower information to lenders. Meanwhile, they plan to work with additional P2P lending organizations to increase their collective outreach and funding base within 2-3 years. Currently, most of the funding for Project Nongfu comes from the founder Winnie Kao, with only 20-25% from donors, and 3-5% from the service fees. Additionally, there are plans for Project Nongfu’s seven registered county offices to expand to twelve offices by the end of 2015.

Although Project Nongfu faces several challenges such as funding difficulties, trust issues, and bureaucratic regulations, it seems that Winnie Kao and the rest of the Project Nongfu staff are up to the task. “We believe that the government and society would need to work hand in hand to provide fair financial opportunities for the poor. China needs hundreds of thousands of families to guard and to contribute towards a prosperous rural area. Investing in rural microfinance invests in the future of millions of rural children left behind as well as the future of millions of the elderly. Project Nongfu offers a healthy urban-rural financial circulation to make it easier to invest into this future,” as Winnie reflects.
4.1.1 CreditEase

Launched in 2006, as one of China’s top P2P platforms, CreditEase is considered one of the largest loans-based crowdfunding platforms in the country. The company is backed by Morgan Stanley’s private equity arm for Asia and consequently even the founder Tang Ning has been named “Outstanding Chinese Communist Party Member”.

In 2012, CreditEase had 15,000 employees in over 70 cities. Additionally, the company has already attracted more than 50,000 investors and 250,000 borrowers. With a total loan value between USD 2 billion to USD 3 billion, the company has been growing substantially at more than 50% annually.

CreditEase grew from concerns about China’s inadequate credit system, as expressed by Tang Ning, “Without credit many people will suffer.” As a result, the company’s mission strives to link borrowers and funders to help aspiring individuals reach opportunities. CreditEase and IDG Capital Partners have established in 2013 a USD 100 million fund for Chinese domestic start-ups that are creating innovative financial services technology.

4.2 Rewards / Donations-Based Crowdfunding

While loans-based crowdfunding platforms are popular, Chinese rewards / donations-based comprise the majority of crowdfunding platforms in China. As rewards / donations-based, these platforms offer material perks, such as products, publications, and downloadable videos and music, in exchange for funding. Two of the largest and most well-known platforms are Demohour and Zhongchou.

4.2.1 Demohour

Launched in May 2011, Demohour is considered the first rewards / donations-based crowdfunding platform in China. The platform is open to projects within design, technology, music, cinema, games, and public services.

Demohour has received over 7,000 applications, among which more than 700 projects have been posted with 50% meeting or exceeding their funding goal. Some projects have raised over CNY 1 million (USD 170,000), ranging from CNY 1.2 million to CNY 1.8 million (USD 200,000 to USD 300,000). Famous projects include the animated film One Hundred Thousand Bad Jokes, and a Wi-Fi plus socket called Smart Plug.

Despite being China’s first crowdfunding platform, Demohour is transforming itself more into an E-commerce platform for intellectual hardware than a crowdfunding platform. Evidence of this shift began in July 2013 when the company stopped collecting service and application fees to encourage entrepreneurial ideas dedicated towards design, technology, venture capital, and media coverage. To further their new direction, Demohour partnered with Xiaomi Inc. and Visual China Group, two Internet tycoons, and received CNY 1 million (USD 170,000) from each to catalyze Chinese entrepreneurial development. The company has also finished Series A financing by Matrix Partners and intel Capital, adding several additional million CNY to their endeavours.
4.2.2 Zhongchou

Zhongchou is considered the largest Chinese crowdfunding platform, open to many different industries such as technology, design, events, film, publication, and music. It is one of the most influential crowdfunding platforms in China, with more than half of crowdfunding investment funded through Zhongchou. Over CNY 30 million (USD 5 million) has been raised through the platform through the contributions of over 100,000 investors towards more than 2,000 projects.

The company is supported financially by UCF Group, a well-established online finance service provider. Unlike Demohour which was funded by VCs, Zhongchou has been able to rely on UCF’s guidance and industrial experience to better target new market niches while sidestepping developmental pitfalls and dead ends. As a result, Zhongchou holds a large pool of projects, including the popular Happy Boy film, and the co-launching of love insurance with Chang An property and Liability Insurance Ltd.

4.3 Equity-Based Crowdfunding

Equity-based crowdfunding platforms offer a more efficient method of providing access to finance for SGBs compared to loans-based or rewards/donations-based. By exchanging shares of equity for funding, project campaigners often receive larger amounts of funding, with 68% who used equity-based crowdfunding receiving USD 50,000 or more. Three major equity-based platforms in China are AngelCrunch, Dajiatou, and Yuanshihui.
Company Interview: Jianchao Wang, Founder of Green Earth

Green Earth is a waste management company headquartered in China’s Sichuan Province. It leverages IT methods and processes to help reduce garbage pollution and decrease the associated environmental harm during garbage disposal.

CIF: Have you ever had any experience with crowdfunding portals? Have you ever heard of crowdfunding before?

JW: So far I haven’t had much experience with crowdfunding, but I do know some crowdfunding platforms, such as Kickstarter, a portal based in the U.S., as well as Demohour and AngelCrunch, which are founded in China.

CIF: Would you like to share some of your viewpoints with us on the emergence of this new funding mechanism?

JW: It is definitely good news for entrepreneurs, particularly for start-up founders, since there are more financing options available at the early stage. They can pick the most appropriate one based on their needs, such as amount of financing, and freely adjust their financing method along the development chain. I believe that crowdfunding will make great contributions to the growth of start-ups.

CIF: From your perspective, what do crowdfunding projects share in common?

JW: Crowdfunding projects usually do not ask for much in capital. It would work better in attracting individual investors if it is easy for the public to pick it up. In other words, not much professional knowledge is required to understand the core idea of a project.

CIF: When, do you think, is the best time for equity-based crowdfunding to step in to assist start-ups with fundraising?

JW: Start-ups have to deal with many challenges at the early stage, including the financial one. Individual angel investors are hard to reach at this stage. Equity-based crowdfunding probably can help start-ups with pressing financial needs by filling a capital gap and build a solid foundation for connecting with institutional investors in future.

CIF: What other value, in your view, does a crowdfunding platform bring along, in addition to reaching the fundraising goal?

JW: Many creative products are presented on crowdfunding portals, which will boost the formation of the entrepreneurial environment in China. Thinking on behalf of entrepreneurs, crowdfunding can help them to lock down a group of people who are interested in their ideas, and hence these early investors may become the first group of loyal customers later. Based on the feedback from investors, improvement of products or services can be made. On top of that, crowdfunding investors with diverse backgrounds may provide additional resources to their supported start-ups.

CIF: What challenges does a start-up have to face, particularly if they take equity-based crowdfunding, this very specific financing model, into practice?
JW: They may encounter some operational issues. It is also pretty hard to estimate the initial value of a start-up.

CIF: Do you think equity dilution, due to equity-based crowdfunding activities at the early stage, will be a great concern to entrepreneurs?

JW: It depends on the attitude that an entrepreneur holds. If a start-up is at a stage when funding is urgently needed but cannot be obtained from traditional funding streams, then equity-based crowdfunding may be accepted as an alternative.

CIF: One feature of crowdfunding is the high requirement of project transparency. In other words, you need to upload a detailed project description explicitly stating your business strategy online. Do you think project creators will hesitate to use crowdfunding due to this transparency requirement?

JW: That can be a concern. But if project creators are eager to get more support from the crowd, it is a must to reveal as much of your project information as possible to your potential funders. Although there may exist risks of being duplicated, for products that have been patented, it is do-able to demonstrate it without having the core technology released.

CIF: Thanks for your time and participation.

JW: No problem.
4.3.1 AngelCrunch

Launched in 2011, AngelCrunch is one of the top financing platforms for Chinese early-stage SGBs due to its ability to raise large amounts of capital for projects. With over 700 qualified angel investors as potential project investors, over 22,000 registered SGBs have submitted 7,000 projects. Total capital raised for projects has been more than CNY 200 million (USD 32.6 million).

Well-known projects supported by AngelCrunch investors include Didi Dache, a Chinese taxi-hailing smartphone application which received CNY 15 million (USD 2.4 million), and Huang Taiji, a retail food booth serving traditional Chinese breakfast which received CNY 3 million (USD 0.5 million).

AngelCrunch has provided the necessary capital to help many SGBs grow and develop. Critical factors for its accomplishments include information transparency and comprehensive consultancy and management services. These have provided clear communication channels, smoothing information and knowledge exchanges. The company has also enhanced their credit application, bypassing China’s inadequate credit system to help their investors manage credit risk. Lastly, AngelCrunch has adopted a Leading and Following co-investing mechanism to allow new investors to follow the decisions of leading ones. In all, these factors have better positioned AngelCrunch’s participants, both project campaigners and investors, with the necessary information, services and channels to make smart investment decisions.

4.3.2 Dajiatou

Dajiatou is self-described as the “Chinese Angelist”. The company supports internet, mobile technology, hardware and software, biomedical, cultural, environmental protection, and energy projects.

Similar to AngelCrunch, the company adopts a co-investing mechanism between Leading and Following investors. Dajiatou encourages investments as low as 2.5% of a project’s financing goal, making it easy for many Chinese citizens to join and participate. This has opened the doors for individuals to become angel investors through Dajiatou.

4.3.3 Yuanshihui

Backed by the UCF Group, Yuanshihui provides a financing platform to SGBs and start-ups, calling itself a “venture capital fund” and a “one-stop equity crowdfunding platform”. In addition to financial goal planning, Yuanshihui works with entrepreneurs as they progress along their development chain. Such services include providing the latest industry information and contacts, assisting with extensive media coverage, and providing financial valuation, forecast, and consultancy services.

Yuanshihui has the highest overall success rate among all equity-based crowdfunding platforms as of early 2014. With nearly 300 active investors registered in Yuanshihui, project campaigners have access to a capital pool of CNY 120 million (USD 19.6 million). Similar to Zhongchou, UCF Group’s backing of Yuanshihui provides the company with considerable advantages, such as a strong financial management team and capital support, compared to its peers.
Crowdfunding Regulations in China

To a large extent, ambiguity on crowdfunding in today’s China stems from regulatory measures that wait to be well defined.
While China’s crowdfunding market is growing, much depends heavily on the Chinese government and how it will respond to the crowdfunding phenomenon.

Governments tend to see crowdfunding in two contrasting ways. First, crowdfunding can be a source of economic growth and innovation through job creation and entrepreneurship. By allowing SGBs access to finance, crowdfunding can foster economic productivity. However, crowdfunding can also be risky concerning fraud, business failure, and unmet delivery promises. Many countries are apprehensive about whether crowdfunding is actually general solicitation - raising money through mass communication by advertising an offering. Consequently, regulations on crowdfunding tend to reflect aspects of these two perspectives.

Unlike the U.S., crowdfunding in China is at its beginning stage and consequently viewed with negativity or suspicion. As a new concept in China, crowdfunding is neither regulated nor well-defined. Moreover, with the rise of shadow banking and internet finance, the Chinese government seeks to stem unregulated activity by pursuing illegal fundraising to mitigate associated fraud and risk. Such actions originate from China’s foreign investment history where the government carefully monitored and controlled the amount of foreign capital entering the country. As a result, crowdfunding operates on unclear legal boundaries that have prompted China’s crowdfunding platforms to take a cautionary approach amid the government’s strong stance against illegal fundraising.
5.1 Setting the Stage for Crowdfunding: Foreign Investment in China

The Chinese government’s cautionary approach stems from its history of foreign investment. When China first initiated its open door policy, foreign investors flocked to the country, taking advantage of its low labor costs and developed infrastructure. However, the Chinese government carefully managed incoming foreign capital, directing funds towards advancing the country’s economy in specific sectors. The Catalogue for the Guidance of Foreign Invested Enterprises (the Catalogue) issued by the State Planning Commission and the State Economic Trade Commission highlighted key industrial sectors where investment was encouraged or discouraged based on the state’s development agenda.

Since 2007, the Chinese National Development and Reform Commission revised the Catalogue restricting foreign investment on traditional export-manufacturing sectors and incentivizing investors towards funding higher value industries. For example, in 2010, the Catalogue was revised to encourage investment in high-end manufacturing, technology, services, alternative energy, conservation and environmental protection sectors.

China’s oversight of foreign investment has fostered strict monitoring of any incoming capital to carefully direct funds towards the proper economic industries. Except for limited programs such as Qualified Foreign Institutional Investors, China has done little to open its financial markets to the outside world.

5.2 The Battle against Illegal Fundraising

Coupling China’s careful oversight of incoming capital and the rise of shadow banking and internet finance, the government has grown increasingly concerned with fraud and risk, particularly illegal fundraising. In 2013, China suffered the second-highest record of illegal fundraising cases, with more than 3,700 cases and a recovered CNY 6.4 billion (USD 1 billion). The problem is pervasive with illegal fundraising reported in over 87% of cities in 31 of China’s provinces, and involving industries such as agriculture, forestry, real estate, technology, environmental protection and equity investment. Consequently, illegal fundraising has attracted the serious attention of the Chinese government. The China Banking Regulatory Commission (CBRC) has proposed action to reduce “fundraising supermarkets” and “fundraising companies” by building firewalls between agencies, improving banking staff management, and facilitating communication between business administration departments. Moreover, to combat this financial threat, in 2008, the Chinese government created the Interagency Anti-Ilegal Fundraising Taskforce (IAIFT).
The punishment for illegal fundraising is harsh. As reported by Miao Youshui, deputy chief judge of the Supreme Court Criminal Division, since 2011, over 4,000 criminals have been punished with some receiving five years or more in jail time or even the death penalty; the offences are stricter compared to other economic-related criminal cases, reflecting China’s strong resolve to limit illegal fundraising. The severity of the penalties is exemplified by a few highly publicized and controversial cases, such as Zeng Chengjie who fundraised for real estate. Zeng Chengjie, dubbed “China’s Bernie Madoff”, deceived more than 57,000 investors resulting in a loss of over CNY 2.8 billion (USD 0.5 billion). He was executed without his family even being notified.

5.3 The Effects of China’s Anti-Illlegal Fundraising Policies on Crowdfunding

Concern about illegal fundraising and crowdfunding’s unclear legal status has hindered crowdfunding development in China. Although each of the three types of crowdfunding platforms (loans, rewards / donations, and equity) has different regulations, the Chinese government’s suspicion with crowdfunding has limited the growth of crowdfunding in China despite acknowledgement of its advantages. As expressed by Liu Zhangjun, IAIFT director-general, crowdfunding “advance[s] financial innovation and the market mechanism”; however “[Crowdfunding] has the special characteristics of raising funds from the public, and therefore should be governed by current laws and regulations.”

5.3.1 Loans-based Crowdfunding

The CBRC has targeted loans-based crowdfunding and its P2P lending structure for stricter regulations. The IAIFT has reported that the CBRC is drafting rules to regulate P2P activities, highlighting that P2P has already “led to a number of defaults and bankruptcies” with some even fleeing with the clients’ money or using a Ponzi scheme-like repayment system. Not surprisingly, the Chinese government views loans-based crowdfunding and P2P development negatively. This has had an effect on many loans-based crowdfunding platforms. As expressed by Winnie Gao, founder of the loans-based crowdfunding platform Project Nongfu, the strict regulations have made it difficult for the organization to operate, and the lack of trust among stakeholders keeps Project Nongfu from expanding its loans.
5.3.2 Rewards / Donations-based Crowdfunding

Rewards / donations-based crowdfunding has not attracted a lot of regulatory attention compared to loans-based or equity-based crowdfunding. However, amidst regulatory uncertainty and to deter association with illegal fundraising, China’s rewards / donations-based crowdfunding platforms employ strict risk control measures and emphasize only physical rewards rather than dividends, interests, or stocks.¹⁰

5.3.3 Equity-based Crowdfunding

Equity-based crowdfunding is closely associated with illegal fundraising and strictly scrutinized by the Chinese government, with heavy consequences for those deemed lawbreakers. In one related incident in late 2012, the start-up Meiwei Media raised CNY 380,000 (USD 62,000) by selling membership cards with a hundred company’s shares. The China Securities Regulatory Commission (CSRC) froze Meiwei Media’s Taobao¹¹¹ account and ordered the company to return the money.¹¹²

The IAIFT is particularly watchful for activity among PE firms. In 2013, IAIFT suspected over fifty Chinese PE firms of illegal fundraising activity, estimating more than 100,000 people and about CNY 16 billion (USD 2.6 billion) involved. As stressed by Liu Zhangjun, IAIFT director-general, “There is always illegal fundraising activity involved in private equity firms.”¹¹³

Furthermore, in December 2013, the CSRC issued new initial public offering (IPO) and information disclosure rules.¹¹⁴ The CSRC also cracked down on illegal activities occurring within the sales of certain high returning funds by ordering relevant companies to change their practices.¹¹⁵ As stated by the CSRC, “An IPO shall be suspended if the issuer and underwriter use information other than that publicly disclosed in the prospectus during a roadshow… Investors who are not capable of pricing in offline subscriptions, or those who failed to offer reasonable prices, shall be blacklisted by the Securities Association of China and prohibited from book-building in the upcoming listings.”¹¹⁶

Recently, bank executives have also called on regulators to restrain internet finance companies based on concerns about security, volatility, and liquidity risks.¹¹⁷ China’s central bank, the People’s Bank of China (PBC), along with regulators have investigated internet finance companies such as Yu’E Bao from Alibaba and developed regulations for products from these companies. Such regulations aim to provide adequate amounts of risk disclosure and prevent illegal fundraising. As stated by a PBC official, “The goal is not to crack down on the sector, but to foster its healthy development.”¹¹⁸
Crowdfunding offers SGBs advantages not available from traditional forms of financing but there are risks to be considered and plenty of room for improvements.
Despite governmental regulations and restrictions, many SGBs and investors express optimism for the Chinese crowdfunding market. On the supply side, investors surveyed for this report believe that while the crowdfunding market lacks adequate regulations and services, crowdfunding offers real potential to aid with SGBs’ needs. On the demand side, while there are clear benefits to crowdfunding, SGBs should be aware of the risks before deciding whether this new method of financing is right for them.

The CIF team for this report conducted surveys with primarily three groups of stakeholders: SGBs, impact-leaning individual investors, and Chinese diaspora. Survey results are found in Appendix 9.1.

6.1 Supply Side Perspectives

6.1.1 Advantages of Different Crowdfunding Platforms

Investor surveys, research and interviews for this report noted the advantages of different crowdfunding platforms based on SGBs’ needs and business stages. Crowdfunding types are not mutually exclusive and SGBs should consider combining models based on their product or service features, as well as their market, capital and promotion needs.

**Loans-based Crowdfunding**

Loans-based crowdfunding is good for larger projects, acting as a supplementary method of conventional equity funding. Because it is debt-based, if the project goes bankrupt, debt holders will receive repayment first. This security may make it easier for SGBs to raise funding.

**Rewards / Donations-based Crowdfunding**

Ideal for enterprises producing on a small scale, rewards / donations-based crowdfunding provides start-ups with the necessary capital to test potential markets, start manufacturing, and test demand. Since many crowdfunding platforms and projects are centered around creative SE products, SE SGBs can use crowdfunding to build and strengthen customer bases.

**Equity-based Crowdfunding**

Equity-based crowdfunding is good for large scale projects, same as loans-based crowdfunding. Project campaigners can connect with investors who will support and provide financial backing at an early- or growth stage. SGBs can use crowdfunding to attract subsequent venture capital, showcasing their crowdfunding experiences as proof of concept and the value of their business.

6.1.2 Areas for Improvement

Surveyed investors expressed five areas of improvement for the crowdfunding industry targeted towards the Chinese government, crowdfunding platforms, and crowdfunding advocates. These actions will increase the credibility and viability of crowdfunding for Chinese SE SGBs. Special actions should be taken to advance equity-based crowdfunding and clearly separate it from illegal fundraising.
Areas of Improvement for All Crowdfunding Platforms:

Establish Legal Status and Increase Legitimacy for Crowdfunding

Crowdfunding should be clearly defined and granted legal status. Given its nascent nature, crowdfunding’s negative association with illegal fundraising will hinder wider acceptance of crowdfunding. Granting crowdfunding legal definition will decrease crowdfunding’s negative perceptions. Additionally, the Chinese government should permit project promotion through public solicitation and advertisement under certain conditions. Crowdfunding is different from traditional forms of finance and requires less supervision given the industry’s nature.\textsuperscript{120}

Improve Management and Information Disclosure Systems

Greater management and information disclosure systems are necessary to protect project campaigners and investors. Amount of information disclosed should differ depending on company funding goals. Moreover, investors should be better protected from fraud and collusion. Adoption of better management systems such as records management, or oversight from institutions or industry associations can help standardize rules and systems for crowdfunding platforms.

Prepare Remediation for Possible Breaches

Investors should be able to file lawsuits when there is an agreement breach from a crowdfunding project. A legislative body should issue relevant regulations using Civil Law, Contract Law, and Company Law as references.

Areas of Improvement Specifically for Equity-Based Crowdfunding:

Create New Regulations to Supervise Equity-Based Crowdfunding

New regulations should be created to specify restrictions and requirements on participate in an equity-based crowdfunding platform. The U.S. Jumpstart Our Business Startups Act (JOBS Act) issued in 2011 offers a reference point for formulating new regulations. Suggested restrictions include an upper limit of capital received by individuals, a maximum investment amount, and required registration in a government managed database.

Allow Only Qualified Investors into Equity-Based Crowdfunding Platforms

Only qualified investors should be allowed to participate as an investor for equity-based crowdfunding platforms. A qualification test can be introduced, using the Securities Investment Fund Law registration system of accredited\textsuperscript{121} investors as an example.\textsuperscript{122} Registered investors must have basic financial knowledge and possess adequate assets to pass the evaluation test.
6.2 Demand by SE SGBs

6.2.1 Benefits

Aside from access to finance, crowdfunding’s participatory and inclusive nature offers SGBs advantages not available through traditional forms of financing.

Informal Marketing

SGBs can use crowdfunding for informal marketing. Utilizing crowdfunding’s interactive nature, SGBs can foster relationships with investors. Through these relationships, investors are more likely to promote SGBs and their crowdfunding project campaign within their own networks. In addition, a study by Gerber, Hui, and Kuo (2013) found that many project campaigners value crowdfunding’s ability to build relationships that could result in long-term loyalty and support. These low-cost, word-of-mouth marketing and publicity are perfect for cost-constrained SGBs.

Timely Market Feedback and Precise Customer Targeting

By encouraging investor suggestions and feedback from crowdfunding, SGBs can quickly validate their ideas and products, and target their market accordingly. Such timely feedback will lower production costs and better identify the customer base. Moreover, as reported by Schwienbacher and Larralde (2010) and Agrawal, Catalini, and Goldfarb (2013), receiving such valuable marketing information can help determine customers’ willingness-to-pay.

Low Systematic Risk from Investors

Crowdfunding investors usually decide to support a project campaign based on their personal preferences, interests and expectations. Typically such micro-decisions do not reflect industry trends; hence, there is low or zero systematic risk involved.

Alternative Funding Source from Individuals and Communities

Crowdfunding offers an alternative financing source to bootstrapping, loans, and VC that allows individuals within a community to contribute to a project. Given that loans and VC have become more restrictive, successfully raising capital through crowdfunding may help SGBs convince banks, venture capitalists, and angel investors to further fund their business given its support from a community.

Lower Financial Risk

Products do not have to be manufactured before SGBs receive funding. This greatly reduces the initial capital to be raised, as well as the risk of not being able to estimate market demand. Consequently, SGBs may be able to better achieve, manage, and maintain positive net cash flow.
6.2.2 Risk factors

Despite the benefits, SGBs must carefully weigh their funding needs and current business stage against the risks. These risks could undermine the business through loss of legitimacy, creative control, reputation, and even the idea itself.

Unclear Crowdfunding Regulation

As a recent phenomenon in China, crowdfunding lacks clear regulations and legal definition. This may put SGBs who use crowdfunding platforms at risk of being perceived as participating in “illegal” activities if crowdfunding is deemed unlawful or detrimental by the government. This scenario is more likely for equity-based crowdfunding which has been negatively associated with illegal fundraising.

Limited Decision-Making Power

Involvement of a large number of investors may limit creative control and decision making power of an SGB. Investor interests may differ from that of the SGB, potentially resulting in an internal conflict. This is also supported by Agrawal, Catalini, and Goldfarb (2013) who cite that because SGBs cannot control the type of investors contributing to their campaign, investors with particularly strong visions or opinions may steer power away from the SGBs.125

Reputational Risks

If an SGB fails to meet its project deadlines or quality commitments, investors may lose confidence in the venture. Agrawal, Catalini, and Goldfarb (2013) mention that some campaigners lack the logistics and supplier experience to realistically meet set milestones or control costs.126 As a result, SGBs may lose reputation which could be detrimental for early-stage businesses.

Plagiarism

On crowdfunding platforms, SGBs post detailed descriptions of their project campaigns, often showcasing early development of products and concepts. Such publically available information risks being plagiarized and copied by others, especially in a China context where intellectual property rights are not necessarily well respected and enforced.
Located in the Chaoyang District, Beijing, Swan Port aims to provide its customers with various services such as a coffee shop, a cafeteria, a mini museum, a library, and a screening room. What differentiates Swan Port from the others is its continuous support towards environmental protection and social services projects.

CIF: What are some potential risks that crowdfunding users have to be aware of?

WYH: Basically, there are two types of risk. One is the company’s credibility; the other is its internal communication and management. We have used a pre-paid method, which is quite similar to crowdfunding, to raise funds for the operation of the Youth Environmental Review. Although the money that has been raised in this way is not at great volume, we are obliged to deliver our journals to readers on time. Otherwise, our credibility will be questioned, which is devastating for start-ups. The notable operational risk is generated from the high cost of internal communication. Since many people get involved in the management as investors, the working efficiency will be affected to some extent.

CIF: Are you positive of the future of the crowdfunding industry?

WYH: In general, crowdfunding is a good way to raise funds. It will certainly reduce entrepreneurs’ financial dependence on traditional venture capitalists.

CIF: What kind of crowdfunding projects are you attracted to?

WYH: I would like to follow projects with positive social impacts. If a project is created solely for satisfying personal desire or financial gains, I do not think I will invest in it.

CIF: What is your attitude towards equity-based crowdfunding activities?

WYH: I would like to participate once I have enough information about the project creator. Knowing that person is very important to me. I will not invest easily only based on a project description posted by a crowdfunding platform.

CIF: Do off-line activities help?

WYH: Active interactions between investors and a start-up team play an important role in building up investors’ confidence and trust in entrepreneurs. Some activities, such as off-line meetings and product demonstrations, will help investors gain a better understanding of the project as well.

CIF: Thanks for your time and support.
Green Channel is a triple-bottom-line, eco-friendly SGB in China, with a focus on recycling and youth education. The company generates positive social and environmental impacts via design and sales of gifts, stationery and packaging solutions made from recycled paper. Ecofroggy is the chief brand for its recycled paper products.

**CIF**: Have you ever had any experience with crowdfunding portals? Have you ever heard of crowdfunding before?

AY: Yes, we participated in a global green Social Enterprise contest a couple years ago, and one of the key requirements was to crowdfund $8,000 for ourselves. We successfully did that via the internet. Actually we were the only winner from mainland China in this regard. For our business, we also used Zhongchou in China and Kickstarter in the States, two crowdfunding platforms, later on.

**CIF**: Why did you choose this relatively new fundraising mechanism?

AY: In China, we used crowdfunding for a recent charity project since we believed it would be good to us from a branding perspective. We chose Kickstarter primarily because we found it helpful to conduct a new product trial via its platform.

**CIF**: How would you rate your crowdfunding experience on a scale of 1 to 5 with 5 being very satisfied?

AY: In China, crowdfunding for SGBs has potential but is still quite challenging for a number of reasons, including lack of regulatory rules and regulations and inefficiency of some of the platforms, so I would give it a 3 rating.

**CIF**: Based on your overall crowdfunding experience, would you like to recommend it to other SGBs who are at the early stage of their business for their general development/fundraising purpose? If so, do you have any insights regarding using these platforms that you would like to share with them?

AY: Even though crowdfunding platforms still have its limitations for Chinese SGBs, I would still recommend it to other SGBs given that it is a new alternative of seeking financing that they very much need. Besides, based on our experience, crowdfunding platforms, if they are used correctly, can certainly help SGBs raise their brand awareness and bring in potential business opportunities. In a way, using crowdfunding can also help encourage team work at an SGB and more efficiently build up an extended business network.
Case Study: Aka Farm

Started by Elaine Jiang in 2012, Aka Farm is different from most agricultural businesses, designed to not only offer an outdoor sanctuary for Beijing families, but help supply the city with fresh, organic vegetables. As part of its core values, Aka Farm eliminates the use of chemical fertilizers and conserves their transportation and energy needs to encourage sustainable production. This aligns with the Aka Farm’s mission: to live in harmony with the nature and respect the land.

More than just a farm, Aka Farm also offers Beijing residents nearby with opportunities to become a farmer themselves. Residents can plant their own vegetables and start a garden; they are even able to stay overnight to continue self-cultivation of their land. Children are also encouraged to visit and learn more about the natural world through exploration of the farm. The farm also hosted a wide range of free activities on quarterly basis including art venues, nature lectures, fishing, climbing and many others. Notably, Aka Farm created the China International Children’s Nature Education Promotion Center to arrange camping and nature activities.

Although Elaine had sound IT tech support and management, Aka Farm only managed to break-even in the first year of its operation. As a result, starting from early 2014, Aka Farm decided to use crowdfunding to expand its business. To Elaine, there were good reasons to crowdfund. The farm’s initial lack of funds limited marketing opportunities and prevented the farm from expanding and becoming more competitive. The traditional financing options from VCs and banks were difficult, and crowdfunding provide a new way to solve their financing problems without potentially risking loss of ownership.

Aka Farm launched two rounds of crowdfunding, utilizing their network through WeChat, a Chinese equivalent of WhatsApp, and other targeted channels. The farm offered 198 shares valued at CNY 9,800 (~USD 1,598) each. Apart from “owning” a piece of land at the farm and receiving dividends, anyone who becomes a shareholder will enjoy free delivery of vegetables every week for three years. The Aka Farm management team continued to have dominant ownership, with 60% of the farm, and managed its daily operations and strategic development. Individual shareholders could not participate in company management, but are welcome to offer suggestions and feedback.

Members of Aka Farm received the crowdfunding positively, with many applying to become a shareholder. To Elaine, this echoed her ideal of the consumer as an investor. The more vested a consumer is with the business, the more they will consume what the business has to offer. In this case, shareholders are more likely to spend time at the farm with families and friends at the farm, increasing farm sales and spreading the farm’s mission: to live in harmony with the nature and respect the land.

Crowdfunding seems to provide a perfect solution for Aka Farm. By allowing farm members to become “real farmers”, the financial needs of the farm could be met while also instilling a strong sense of agricultural harmony and sustainability in its members.
U.S. Crowdfunding Opportunities

Though certainly not the path of least resistance, US-based crowdfunding platforms could be a choice for Chinese SGBs.
Although crowdfunding is a potentially powerful financing alternative for Chinese SE SGBs, the current Chinese crowdfunding industry is still considered relatively underdeveloped. In contrast, the U.S. is the crowdfunding industry leader with 191 crowdfunding platforms and raising 59% of all global crowdfunding funds. Chinese SE SGBs may find using U.S.-based crowdfunding platforms to be fruitful for their financing.

7.1 U.S. Crowdfunding Policy Environment

With the world’s largest crowdfunding industry, the U.S. has widespread crowdfunding activities in all three major crowdfunding categories (loans, rewards / donations, and equity). Subsequently, crowdfunding has attracted the U.S. government’s attention, especially that of the U.S. Securities and Exchange Commission (SEC). With a mission “to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation”, the SEC has already issued regulations to sectors of the crowdfunding industry.

For loans-based crowdfunding, the SEC requires that platforms, such as Prosper and Lending Club, register with the SEC in accordance with the Securities Act of 1933. Moreover, these companies must also provide a regularly updated prospectus to the public. Reasons for the increased scrutiny come from an increase in loans-based crowdfunding activity, especially after the financial crisis.

While there are established regulations for loans-based crowdfunding, there is little governance for rewards / donations-based crowdfunding such as Kickstarter and IndieGoGo. Current concerns revolve around taxes. Most funds raised are considered income, although depending on the project campaign, the funds may also be identified as a non-taxable gift. Moreover, sales tax may apply depending on the location of the campaigner and the investor.

Equity-crowdfunding has experienced substantial regulatory movement. In 2013, the SEC released a proposal on crowdfunding under Title III of the JOBS Act. The JOBS Act enables equity-based crowdfunding platforms to sell small quantities of securities to individual unaccredited investors, with companies able to raise up to USD $1 million in a year. Prior to the JOBS Act, the required registration with the SEC made equity-based crowdfunding campaigns too expensive for many people. By expanding the number of shareholders permissible without registration and allowing unaccredited investors, more people can participate. By loosening the rules for equity crowdfunding, the JOBS act opens the doors for small businesses to access capital and finance. As estimated by the Coleman Fung Institute for Engineering Leadership (2013), the JOBS Act could increase the U.S. crowdfunding market from USD 184 million to USD 4 billion, a 2,074% rise.

It is clear there is significant movement in the U.S. crowdfunding industry. Although uncertain, especially regarding tax implications of crowdfunding, the U.S. policy environment has created a crowdfunding-friendly regulatory system to help nurture small business growth.
7.2 Crowdfunding Opportunities in the U.S.

By targeting U.S.-based crowdfunding platforms, Chinese SE SGBs can strategically focus their fundraising efforts towards audiences such as the Chinese diaspora, and the SE communities. Chinese diaspora living in the U.S. may be receptive and willing to invest into Chinese SE SGBs. Moreover, the SE communities are already familiar with crowdfunding, contributing 30% and 6% to social, and energy and environmental causes respectively in 2012. 

For Chinese SGBs entering the U.S. crowdfunding market, companies should target rewards / donations-based or equity platforms rather than loans-based. Rewards / donations-based crowdfunding platforms encompass the majority of crowdfunding platforms in the world, comprising of 72% in 2012. Additionally, although equity-based crowdfunding comprises only 4% of the total global crowdfunding funds raised, it has also obtained the most funds per project, with over 75% of projects raising over USD 25,000 and over 40% raising over USD 100,000. Rewards / donations-based and equity-based crowdfunding platforms offer the most opportunity for Chinese SGBs entering the U.S. market.

With the currently long delays of the SEC final regulations on the JOBS act, Chinese SE SGBS may want to initially consider entering U.S. rewards / donations-based crowdfunding platforms. With platforms such as Kickstarter and IndieGogo taking the majority of crowdfunding activity in the U.S., these platforms offer the best entry point for Chinese SE SGBs. However, because Chinese SE SGBs are international, they may face difficulties accessing and utilizing U.S.-based platforms. A feasibility study for this report investigated the ability of Chinese SE SGBs to enter U.S. rewards / donations-based crowdfunding platforms through three key components: Accessibility, Burden, and Funding.

Findings indicate that it is feasible for Chinese SE SGBs to use U.S.-based crowdfunding platforms. The study found that Chinese SE SGBs should have no difficulties in accessing U.S.-based crowdfunding platforms. However, while the time burden for Chinese SE SGBs is equivalent to that of U.S. campaigners, the funding goal success rates are lower.
Gooshii (故事), meaning ‘Story’ in Chinese, is a new online social media interactive story-telling platform. It seeks to capture the journey of life by showcasing each individual’s adventures. By allowing users to present their stories visually and through audio, Gooshii creates an interwoven network of fascinating and diverse lives. Users are constructing different versions of the same stories - starting from the same point, but reaching many unique, exciting and inspiring conclusions.

Although Gooshii plans to be an international platform for people around the world, China is the company’s first destination, requiring USD 1 to 3 million to officially launch and operate their platform in the country. The Gooshii team is ready, with approximately two-thirds of Gooshii’s team having a Chinese background.

CIF: Do you know about the concept of crowdfunding, which is a relatively new funding mechanism to support start-ups like you?

HZ: Yes. I first heard about it at a party hosted by IndieGogo in Toronto last year. However, my understanding of the overall crowdfunding mechanism, for quite a while, just stayed with the rewards-based model, because of the information gathered at that party. I used to treat crowdfunding as a way to support start-ups which did not require much capital - mostly as a community project. And I thought it would not be an appropriate nor efficient way to seek funding in our case, until another crowdfunding model - equity-based model - was brought up by a friend.

CIF: Have you ever used or taken a look at any crowdfunding website?

HZ: Not at this moment, but I will certainly do it later, particularly the equity-based crowdfunding platforms, considering our capital requirement.

CIF: What is your top concern when presenting your business plan to investors?

HZ: Whether we have a clear market niche from our investors’ perspective, which will refer to the question of project profitability.

CIF: As an entrepreneur, do you have concerns of equity dilution due to equity-based crowdfunding activities at the early stage?

HZ: Actually it is not on our list of concerns. In contrast, we would like to have more than one investor take the predetermined shares. In this way, we will be less likely to weaken our decision power regarding the company’s operations. Crowdfunding is, in fact, a good way to help us so we won’t be fully controlled by one dominant investor, which is more important for us to expand our business.

CIF: To attract investors, one feature of crowdfunding is the high requirement of project transparency. In
other words, you need to upload a detailed description that includes your project and business strategy. Do you have any concern about it?

HZ: Not at all. Usually most of the “Chinese versions” of social media apps are created following those that have already been widely accepted and used overseas, such as QQ to ICQ, RenRen to Facebook, and Sina to Yahoo. Although ideas and concepts might be duplicated, the core component of a company - its people - cannot be easily obtained. On top of that, we will quickly adjust our plans with market changes. With this confidence, we do not have a big concern of exposing our ideas onto a public platform. Corresponding to that, we will take quick actions to enter both Chinese and Canadian markets and update our services to satisfy local needs.

CIF: When do you think is the best time for crowdfunding to come in to assist start-ups with fundraising?

HZ: From my perspective, two timelines can be followed. The first one is to get the funding as early as possible along the innovation and development chain. However, in our case, the building of the customer base is equally weighted. As long as a loyal group of customers has been developed, and the market has been secured, it will not be a problem to obtain the capital needed. Therefore, the second option is to wait until the launch of the first version of the so-called Minimum Viable Product (MVP). With something visible at hand, we believe, it will increase the possibility of our investors to be convinced. We are currently working on the development of our MVP, in which the major funding resource is from internal fundraising with support from friends and families. However, one problem that we are facing now is the high turnover rate of core members of our team, due to the lack of subsequent funding. How to balance those two options is something we are trying to figure out as well.

CIF: What other value, in your view, does a crowdfunding platform create, in addition to fundraising?

HZ: It can greatly support the development of creative ideas, as well as lower the bar to convert innovative ideas into tangible products. It encourages the cultivation of the entrepreneurial spirit.

CIF: Do you have any expectation of crowdfunding platforms service-wise?

HZ: How much capital, including initial and subsequent capital, can be raised is still our major expectation, while services, such as one-on-one consultation with experienced experts in the industry, are welcomed as well.

CIF: Do you have any other concerns regarding the crowdfunding mechanism?

HZ: Since some individual investors registered with crowdfunding platforms may not be professional investors, it may be possible for them to act as short-term and return-driven individuals.

CIF: Thanks for your time and participation. I hope crowdfunding can be a way to help you fill your funding gap.

HZ: Thank you.
Crowdfunding does have potential in China but Chinese SE SGBs should think through their strategy before jumping into it.
Despite the challenges, crowdfunding has the potential to take off in China. With its ability to contribute economically, socially and environmentally, crowdfunding may become part of renewed economic reforms in China to propel the development of SGBs, particularly those in the SE sectors. As it becomes a more widely recognized form of financing throughout the world, crowdfunding will eventually solicit a re-evaluation by the Chinese government and a gradual disassociation with illegal fundraising. Although China is expected to continue to monitor incoming capital, it will make more allowances for crowdfunding over time due to its potential to provide much needed financing for capital strapped Chinese SE SGBs seeking opportunities.

Recommendations for Chinese SE SGBs

Chinese SE SGBs willing to venture into the crowdfunding market should carefully assess their next steps. Several recommendations have surfaced throughout this report’s research and interviews:

**Personal and professional networks play a powerful role in crowdfunding**

Chinese SE SGBs should have a strong network of professional and personal contacts. Many interviewees for this report expressed heavy reliance on their networks to get immediate funding, word-of-mouth marketing, and presence in the crowdfunding market. As expressed by one interviewee, “It’s easy to fool oneself into thinking that you can just launch a campaign and people will find it… you have to make a lot of effort to get the word out… we all emailed professional contacts in addition to personal contacts…it was a PR blitz.” Especially if Chinese SE SGBs decide to enter the U.S. crowdfunding market, they can ask contacts to help navigate the U.S. marketplace and identify cultural expectations. Chinese SE SGBs will greatly benefit from a strong network.

**Any campaign should have a consistent, clear and strategic marketing plan**

Concurrent with having a strong professional and personal network, several interviewees highlighted how marketing contributed to their campaign success with one even referring to crowdfunding as a “big marketing campaign.” One interviewee stressed the difficulty of coordinating press and media coverage, yet acknowledged the payoff it yielded in maximizing campaign visibility. Another interviewee attended public events to promote their campaign and target potential contributors. As small businesses, Chinese SE SGBs will need to rely on a strong marketing plan to publicize themselves and their campaign.
Chinese SE SGBs should carefully decide how to position their campaign

Investors can be viewed either as customers that “pre-order” campaign rewards, or as supporters of a communal and charitable purpose. Choosing a positioning angle depends on the Chinese SE SGB’s short and long term goals. An SGB can design their campaign to reflect themselves as a company selling a product, or as a force of good promoting a social mission and “thanking” investors with rewards. For one interviewee, as part of a nonprofit, they had positioned their campaign as the latter. Although successful at reaching their funding goal, the interviewee also talked about the advantages of being able to “sell” a product saying, “…I think that would be a lot easier to crowdfund…because it’s just like buying a product in advance…the money that I’m paying for something and the product that I’m getting in return is worth that money.” Chinese SE SGBs will need to plan cautiously since their decision may affect future campaigns. Crowdfunding may not be a one-time opportunity, but it may offer additional benefits, if the campaign is planned and leveraged well, that could provide more than money, such as marketing, publicity, and proof of concept.

Crowdfunding is generally a high time commitment with no guarantee of success

Many interviewees expressed the large time burden required to manage their campaigns, one calling it “very labor intensive method of fundraising.” Of those that found crowdfunding to be easy, their funding goal or the total amount received was small, about USD 5,000 or less. Hui, Gerber, and Greenberg (2012) remark on the time consuming nature of crowdfunding and the variety of skills needed. As one interviewee described, “Definitely a job. There’s nothing easy… You have to put a lot of effort into crafting it, putting it together well, and spreading it, and promoting it and pushing - persevering until the end…” Chinese SE SGBs that crowdfund should be prepared for a possible time commitment of a year or longer devoting long hours a day to sustain the campaign.
Differences with Chinese Crowdfunding: Gathering the Crowd vs. Gathering the Capital

Crowdfunding differs in China compared with the U.S. While U.S. project campaigners use crowdfunding mainly to fundraise,\(^1\) in contrast Chinese project campaigners use crowdfunding for marketing – to gather the crowd rather than gather the funds.\(^2\) On Chinese crowdfunding platforms, pre-sales, marketing and advertising components have been enhanced to reflect this demand. A prime example includes Feng Wang, a Chinese rock star, who launched a crowdfunding campaign in July 2014 to promote his upcoming Beijing concert. Crowdfunding is not only a low-cost alternative to conventional marketing channels, it also helped garner media attention and fan participation. With Feng Wang’s low funding goal of merely CNY 3,000 (USD 500), it is clear that the rock star had greater goals than funding.\(^3\) Another example features the CEO of Qihoo 360,\(^4\) Hongyi Zhou, who marketed and released a book through crowdfunding as a reward for his “investors”. Although other rewards were given such as a dinner and conference invite, Hongyi Zhou, similar to Feng Wang, capitalized on crowdfunding’s marketing and advertising features to promote his book rather than raising capital.\(^5\)\(^6\)

While crowdfunding is growing in popularity, it remains small in China’s financial market. During the first half of 2014, Chinese crowdfunding platforms have raised a total of CNY 188 million (USD 31 million), much lower than the CNY 500 million (USD 81.5 million), the amount raised through Alipay, an online money market fund, during their first quarter of 2014.\(^7\)\(^8\) A possible reason for crowdfunding’s limited presence may be a lack of trust between Chinese internet users. By its nature, crowdfunding requires trust and social participation. Therefore, Chinese crowdfunding platforms may have to provide oversight and supervision to protect project investors and foster greater trust among the internet population.

Witnessing the potential of crowdfunding and seeking to create those bonds of trust, a TV show and crowdfunding website platform, The Makers, has recently hit the screens. A “maker” first posts their project onto the website to attract funding and attention. If it garners enough interest, The maker is then invited to the show to pitch their idea and demonstrate their product in front of professional investors, industry experts, and pop icons who offer commentary, questions, suggestions, and insights. The show acts as a catalyst to propel a project in front of a live audience, often times receiving substantially more media attention and funding compared to projects that were not featured. As the first TV-based crowdfunding program, The Makers has addressed a major challenge in the Chinese crowdfunding industry by helping to reduce the distance between the “makers” and investors through information transparency.\(^9\) Indeed, with the popularity of the show, many projects posted by makers are able to reach their funding goals within the stipulated 6-week time limit.

(Endnotes)

1 U.S. crowdfunding platforms show impressive capacity in gathering money from the crowd. Kickstarter itself has successfully raised a total of over USD 1.2 billion dollars for its 60 thousand projects.
2 Marketing fees in China account for a big portion of the costs when a new product is entering the existing market.
3 The actual amount of money raised for Feng Wang’s concert in Beijing was almost CNY 30,000 (USD 5,000), ten times higher than its funding goal.
4 Qihoo 360 is a Chinese Internet firm providing Internet and mobile security products and services. As of December 2013, Qihoo 360 had more than 475 million internet users, and 467 million mobile users.
Appendices
9.1 CIF Survey Infographics

Figure 1-1
Figure 1-2

Motivations for using crowdfunding platforms

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovative financing mechanism</td>
<td>29.9%</td>
</tr>
<tr>
<td>Creative product</td>
<td>29.9%</td>
</tr>
<tr>
<td>Interesting projects/activities</td>
<td>24.7%</td>
</tr>
<tr>
<td>Helping project creators</td>
<td>13.4%</td>
</tr>
<tr>
<td>Others</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Note: 1. A total of 67 answers have been received (multiple answers are allowed).
2. Respondents are individual impact-investing investors in China.

Source: China Impact Fund of Dao Ventures

Satisfaction level with crowdfunding services

<table>
<thead>
<tr>
<th>Satisfaction Level</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Satisfied</td>
<td>5</td>
<td>54.5%</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>36.4%</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>9.1%</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>3.3%</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td>1.2%</td>
</tr>
</tbody>
</table>

Note: 1. A total of 33 respondents
2. Respondents are individual impact-investing investors in China.

Source: China Impact Fund of Dao Ventures

Areas of improvement

<table>
<thead>
<tr>
<th>Area of Improvement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing of the platform itself</td>
<td>8.5%</td>
</tr>
<tr>
<td>Stability of platform operation</td>
<td>20.2%</td>
</tr>
<tr>
<td>Impact of the platform</td>
<td>5.4%</td>
</tr>
<tr>
<td>How well projects are categorized correctly</td>
<td>18.6%</td>
</tr>
<tr>
<td>Information disclosure available for projects</td>
<td>21.7%</td>
</tr>
<tr>
<td>Additional services provided by the platform</td>
<td>22.5%</td>
</tr>
<tr>
<td>Others</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

Note: 1. A total of 129 answers have been received (multiple answers are allowed).
2. Respondents are individual impact-investing investors in China.

Source: China Impact Fund of Dao Ventures
Figure 2
A China Impact Fund Study: Chinese Crowdfunding for Chinese Diaspora Study Results

Type of Respondent
- Angel Investors: 8.3%
- Institutional Investors: 3.3%
- Individual Investors: 86.7%
- Venture Capitalists: 1.7%

Industries of Interest
- Energy: 16.8%
- Media: 14.4%
- Environment: 12%
- Entertainment: 10.4%
- Art: 6.4%
- Telecommunications: 6.4%
- Others: 3.2%

Investment Sizes
- < $5K: 58.3%
- $5K - $10K: 16.7%
- $10K - $25K: 10%
- $25K - $50K: 8.3%
- > $50K: 6.7%

Have you ever used crowdfunding services before?
- Yes: 5%
- No: 95%

Motivations for using crowdfunding platforms
- Supporting creative ideas: 50%
- Obtaining financial gains: 25%
- Supporting social and environmental causes: 25%

Which crowdfunding platform(s) have you used?
- Kickstarter: 25%
- Indiegogo: 75%

Satisfaction levels with crowdfunding services
- Very satisfied: 33.3%
- Satisfied: 33.3%
- Not satisfied: 33.3%

Areas for improvement
- Information disclosure available for projects (23%)
- Additional communication/payment services by the platform after project funding (22%)
- Marketing of the platform (30%)

Note: A total of 50 respondents.

Source: China Impact Fund of Diaspora Ventures

Figure 3-1
Have you ever used Chinese crowdfunding platforms before?

No: 100%

What factors have hindered you from using Chinese crowdfunding platforms?

Legal issues: 33.3%
Quality of services provided by the platform: 66.7%

Note/Disclaimer: 1. This section only has 5 people surveyed. People who have tried crowdfunding platforms before are eligible to answer questions in this section.
2. Respondents are mainly Chinese diaspora from the U.S.

Source: China Impact Fund of Dao Ventures

Have you ever heard of crowdfunding before?

Yes: 36.8%
See Blue for more details.

No: 63.2%
See Red for more details.

Note: 1. A total of 57 respondents. 2. Respondents are mainly Chinese diaspora from the U.S.

Source: China Impact Fund of Dao Ventures

What factors have hindered you from using Chinese crowdfunding platforms?

No projects fit my interests: 8.1%
I don’t believe crowdfunding can help me finance my venture: 21.6%
Lack of credibility: 46.0%
Possibly illegal: 24.3%

Note: 1. A total of 37 answers have been received (multiple answers are allowed).
2. Respondents are mainly Chinese diaspora from the U.S.

Source: China Impact Fund of Dao Ventures

Possibility of using crowdfunding platforms to make investments

I won’t use it.

1. 13.9%
2. 11.1%
3. 41.7%
4. 22.2%
5. 11.1%

Note: 1. A total of 30 respondents. 2. Respondents are mainly Chinese diaspora from the U.S.

Source: China Impact Fund of Dao Ventures

What do you need to know to better understand crowdfunding?

Cost and ROI (34.5%)
Success track record (20.7%)
Acceptance by entrepreneurs (19.0%)
Existing regulation and policies (25.8%)

Note: 1. A total of 58 answers have been received (multiple answers are allowed).
2. Respondents are mainly Chinese diaspora from the U.S.

Source: China Impact Fund of Dao Ventures

Figure 3-2
<table>
<thead>
<tr>
<th>Crowdfunding Platform</th>
<th>Type</th>
<th>Main Purpose / Connecting Which Audiences?</th>
<th>Category</th>
<th>Service</th>
<th>Business Model</th>
<th>Fees and Costs</th>
<th>Qualifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>AngelCrunch</td>
<td>Equity</td>
<td>To help startups gain access to initial capital (angel and series A capital) / Start-ups and angel investors</td>
<td>Technology, media, telecommunications</td>
<td>Consulting, marketing, fundraising, subsequent financing</td>
<td>Co-investment from leading investors and following investors</td>
<td>5% service fee of amount financed</td>
<td>Must be a for-profit company</td>
</tr>
<tr>
<td>Dajiatou</td>
<td>Equity</td>
<td>To help startups gain access to initial capital / Start-ups and angel investors</td>
<td>IT, service, entertainment, clean energy, bio-pharmacy, retail, education, travel, beauty</td>
<td>Fundraising, legal services</td>
<td>Co-investment from leading investors and following investors</td>
<td>5% service fee of amount financed</td>
<td>Companies who are not involved in Series A venture capital funding and plan to raise funding between CNY 200,000 to 10 million (USD 30,000 to USD 1.5 million)</td>
</tr>
<tr>
<td>Demohour</td>
<td>Rewards</td>
<td>To support non-mainstream but creative projects / Project creators and general online investors</td>
<td>Design, technology, music, film, food, comics, publication, game, photography</td>
<td>Consulting, fundraising</td>
<td>All or nothing</td>
<td>No application fee</td>
<td>Campaigners must be 18+ Chinese citizens or legal residents</td>
</tr>
<tr>
<td>DreamChina</td>
<td>Rewards</td>
<td>To support creative projects / Project creators and general online investors</td>
<td>Publication, music, film, design, game, technology, non-profit</td>
<td>Fundraising</td>
<td>All or nothing</td>
<td>No application fee</td>
<td>Anyone can join</td>
</tr>
<tr>
<td>Dreamoment</td>
<td>Rewards</td>
<td>To support creative projects / Project creators and general online investors</td>
<td>Design, travel, film, photography, technology, music, art, publication, food, comics, game</td>
<td>Fundraising</td>
<td>All or nothing</td>
<td>No application fee</td>
<td>Anyone can join</td>
</tr>
<tr>
<td>Dreamore</td>
<td>Rewards</td>
<td>To support creative projects / Project creators and general online investors</td>
<td>Art, comics, dance, design, fashion, film, game, music, photography, publication, technology, drama</td>
<td>Fundraising</td>
<td>All or nothing</td>
<td>No application fee</td>
<td>Anyone can join</td>
</tr>
<tr>
<td>Demohour</td>
<td>Rewards</td>
<td>To support independent filmmakers for their micro film production / Filmmakers and general online investors</td>
<td>Film</td>
<td>Fundraising, marketing</td>
<td>All or nothing</td>
<td>No application fee</td>
<td>Preferably, campaigns are 18+</td>
</tr>
<tr>
<td>Zhongzhou</td>
<td>Rewards</td>
<td>To empower individuals with innovative ideas / Project creators and general online investors</td>
<td>Technology, art, film, publication, music, design, photography, travel, game, non-profit</td>
<td>Consulting, marketing, fundraising, investment, incubation, operation</td>
<td>All or nothing</td>
<td>No application fee</td>
<td>Campaigners must be 18+ Chinese citizens or legal residents, and sign up as a registered member</td>
</tr>
</tbody>
</table>

**Tmeng Rewards** To support independent filmmakers for their micro film production / Filmmakers and general online investors | Film | Fundraising, marketing | All or nothing | No application fee | Preferably, campaigns are 18+ |

**Zhongzhou Rewards** To empower individuals with innovative ideas / Project creators and general online investors | Technology, art, film, publication, music, design, photography, travel, game, non-profit | Consulting, marketing, fundraising, investment, incubation, operation | All or nothing | No application fee | An active bank account or financial instrument that receives remittance in Chinese currency is required |
### 9.3 Other Crowdfunding Platforms with a Focus on China

<table>
<thead>
<tr>
<th>Crowdfunding Platform</th>
<th>Type</th>
<th>Main Purpose / Connecting Which Audiences?</th>
<th>Category</th>
<th>Service</th>
<th>Business Model</th>
<th>Fees and Costs</th>
<th>Qualifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fundator</td>
<td>Rewards/ Equity/ Loan</td>
<td>To support creative projects and start-ups / Project creators, entrepreneurs and general online investors</td>
<td>Design, internet, art, social enterprises, fashion, film, dance</td>
<td>Fundraising</td>
<td>Keep it all / All or nothing</td>
<td>No fee applies to unsuccessful campaignanrs</td>
<td>Asia-based projects or companies only</td>
</tr>
<tr>
<td>Potible</td>
<td>Rewards</td>
<td>To support creative projects / Project creators and general online investors</td>
<td>Technology, art, film, music, design, photography, community, game, social enterprise, performance, writing, event, food &amp; drink, journalism, fashion, video, research, craft, comics / graphic novels</td>
<td>Consulting, fundraising, investment, network building, product sale</td>
<td>All or nothing</td>
<td>For successful campaigners, 5% service fee from project total if goal is reached (4% for invitations from previous successful project creators)</td>
<td>U.S. dollar is the only accepted currency so far, while other currencies can be expected to use soon</td>
</tr>
<tr>
<td>SeedAsia</td>
<td>Equity</td>
<td>To scout the hottest start-ups / Start-ups and qualified accredited investors, including high net worth and angel investors, venture capitalists, accelerator, serial entrepreneurs, and investors.</td>
<td>Technology</td>
<td>Consulting, fundraising, network building, subsequent financing</td>
<td>All or nothing</td>
<td>Full refund to investors if the funding goal cannot be reached</td>
<td>Must be a prescreened (early-staged) Chinese and Southeast Asian technology company</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>For each investment, 5% distribution fee of proceeds received by the Special Purpose Vehicle + $250 administration fee.</td>
<td>Has demonstrated traction and preferably has cooperation with reputable Asia-based incubators.</td>
</tr>
</tbody>
</table>
### 9.4 Major Crowdfunding Events

#### 9.4.1 China’s Crowdfunding Timeline

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>China’s largest loans-based crowdfunding platform and P2P website, CreditEase, was formed.</td>
</tr>
<tr>
<td>2011</td>
<td>China’s first rewards / donations-based crowdfunding platform, Demohour, was launched.</td>
</tr>
</tbody>
</table>
| 2012 | China’s first film-exclusively crowdfunding platform, Tmeng, was established.  
China’s first Angel investors-backed equity-based crowdfunding platform, Dajiatou, was launched. |
China Central Television began to report crowdfunding websites.  
China Banking Regulatory Commission published its opinions on P2P. |
| 2014 | Pozible, with the highest success rate among top global crowdfunding platforms, launched their first Chinese project, financing an open-source futuristic robot. |
### 9.4.2 U.S.’s Crowdfunding Timeline

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>Kiva, a U.S.-based microfinance crowdfunding platform, was established.</td>
</tr>
<tr>
<td>2006</td>
<td>U.S.’s first loans-based platform and P2P website Prosper was launched.</td>
</tr>
<tr>
<td></td>
<td><em>Wired</em> writer Jeff Howe first coined the term “crowdsourcing” in his article “The Rise of Crowdsourcing”.</td>
</tr>
<tr>
<td>2008</td>
<td>IndieGogo, a popular rewards / donations -based platform, was established.</td>
</tr>
<tr>
<td>2009</td>
<td>SEC required LendingClub and Prosper, loans-based crowdfunding platforms and P2P lenders, to register securities.</td>
</tr>
<tr>
<td>2009</td>
<td>Kickstarter, the largest U.S. rewards / donations-based platform, was launched.</td>
</tr>
<tr>
<td>2012</td>
<td>President Obama signs the JOBS Act.</td>
</tr>
<tr>
<td>2013</td>
<td>Pebble Watch raised over $10 million on Kickstarter.</td>
</tr>
<tr>
<td>2013</td>
<td>SEC issued proposal on crowdfunding provision under the JOBS act.</td>
</tr>
</tbody>
</table>
1. Includes social, environmental, or social and environmental

2. The Aspen Network of Development Entrepreneurs (ANDE) defines Small and Growing Businesses (SGBs) as commercially viable businesses with five to 250 employees that have significant potential, and ambition, for growth. Typically, SGBs seek growth capital from USD 20,000 to 2 million. SGBs differ from the more traditional characterization of small and medium enterprises (SMEs) in two fundamental ways. First, SGBs are different from livelihood-sustaining small businesses, which start small and are designed to stay that way. Second, unlike many medium-sized companies, SGBs often lack access to the financial and knowledge resources required for growth.


11. All currency conversions from CNY to USD in this report are conducted through the Bloomberg Currency Converter retrieved from http://www.bloomberg.com/markets/currencies/currency-converter/. As of September 13, 2014 the CNY-USD Exchange Rate is 0.163.

12. From years 2004 to 2009.


16. Chinese Small and Growing Businesses (SGBs) are generally defined as having less than 3,000 employees and CNY 400 million (USD 65.2 million). While also referred to as Small and Medium Enterprises (SMEs), the term SGB better conveys the business’s desire to grow and expand.


26. We use the U.S. Small Business Administration definition of “small business”. Differences between U.S. “small business” and Chinese “small and growing business” are small and not relevant for this report.


34. Although donations and rewards are separate funding incentives, the two categories are often paired together.


46. Aside from China Impact Fund, known impact investors and/or intermediaries operating in mainland China include Schoenfeld Foundation, LGT Philanthropy, SOW Asia, Venture Avenue, Lanshan Capital, Advantage Ventures, Synergy Social Ventures, E+Co, Tsing Capital, and Small Enterprise Assistance Fund (SEAF).


58. Sender, H. China needs a robust credit infrastructure. Financial Times. Retrieved from http://www.ft.com/intl/cms/s/0/fc84c4c8-0e13-11e2-8b92-00144feabdc0.html#axzz3CCiBweE0

59. Sender, H. China needs a robust credit infrastructure. Financial Times. Retrieved from http://www.ft.com/intl/cms/s/0/fc84c4c8-0e13-11e2-8b92-00144feabdc0.html#axzz3CCiBweE0

60. Sender, H. China needs a robust credit infrastructure. Financial Times. Retrieved from http://www.ft.com/intl/cms/s/0/fc84c4c8-0e13-11e2-8b92-00144feabdc0.html#axzz3CCiBweE0

61. Sender, H. China needs a robust credit infrastructure. Financial Times. Retrieved from http://www.ft.com/intl/cms/s/0/fc84c4c8-0e13-11e2-8b92-00144feabdc0.html#axzz3CCiBweE0


65. Based on the data released by Demohour in July 2013.


67. One Hundred Thousand Bad Jokes was funded with 5,534 investors and CNY1.37 million (USD 200,000) raised.

68. Smart Plug has successfully attracted 3,754 supporters with total investment at CNY 1.7 million (USD 280,000).


71. Previously, Demohour charged 10% of amount total received by project campaigners as service fee.


79. UCF. Retrieved from http://www.ucfgroup.cn


82. AngelCrunch claims that the aggregate capacity of their registered angel investors to invest is up to CNY 6.5 billion (USD 1 billion).


88. Angelist is an U.S. equity-based crowdfunding platform.


94. About Us. 原始会 Retrieved from http://www.yuanshihui.com/about/about


109. Interview with Winnie Kao from Project Nongfu.


111. Taobao is China’s largest online retail platform with over 7 million merchants and 800 million products.


120. Notably, the Chinese government has already made some efforts to increase the legitimacy of crowdfunding. The CBRC will be offering constructive guidance on equity-based crowdfunding by the end of 2014. Moreover, revision is being made to Security Act rules which may boost the development of the equity-based crowdfunding.

121. High net worth individuals. As defined by the Small Business Administration, “a natural person who has individual net worth, or joint net worth with the person’s spouse, that exceeds $1 million at the time of the purchase, excluding the value of the primary residence of such person; a natural person with income exceeding $200,000 in each of the two most recent years or joint income with a spouse exceeding $300,000 for those years and a reasonable expectation of the same income level in the current year”.


137. Non-accredited investors are those with a net worth of less than $1 million and who earn less than $200,000 in a year (or $300,000 for joint income).


143. forms in the world, we believe it is safe to assume that the majority of U.S. crowdfunding platforms are rewards / donations-based. We were unable to find detailed data to confirm if this is true.


148. Based off of the Alexa Ranking in the U.S. as of 3/22/2014. Alexa is a web information company that provides website analytics and global web traffic estimates. Kickstarter and IndieGogo ranked 365 and 546 respectively. This is much higher compared to the rankings of other U.S.-based crowdfunding platforms. The next highest we saw was Fundly at 8,444.

149. We choose these three components because they were concrete, measurable, and represented basic elements of feasibility. Accessibility is whether U.S.-based crowdfunding platforms allow Chinese and other international campaigners to participate, and the cost of participation. Burden is the time it takes for Chinese SE SGBs to prepare, run and finish a campaign. Funding is the percentage of successfully funded Chinese SE SGBs campaigns that used U.S.-based crowdfunding platforms and the total amount of funding received after taxes and platform fees.
About the Authors

**Tao Zhang** is Founding Managing Director of Dao Ventures, a China-focused impact investment consortium with co-headquartered offices in both China and the US that primarily consist of ACBridge Global Advisors, China Impact Fund, and New Ventures Global. The various entities of Dao Ventures have so far made and/or facilitated investments of over $200 million into China’s environmental small and medium-sized enterprises (SMEs) and SGBs. Tao is Co-Founder and Managing Director of China Impact Fund, a key entity under Dao Ventures, that is considered China's first impact fund that specializes in financing and accelerating SMEs and SGBs providing environmentally friendly products and services as well as companies with an environmental value proposition for the country's Base of Pyramid (BoP) population, primarily those in sustainable land use, clean energy and water access. Tao received a BA from Beijing Foreign Studies University, an MBA from Wake Forest University, and an MPA from Harvard University as a Mason Fellow. He also completed an executive education program in private equity and venture capital at the Harvard Business School.

**Christine Yip** is a Research Analyst at China Impact Fund where she works to help leverage the power of crowdfunding to better support environmental and social SMEs and SGBs in China. Christine has over 5 years of extensive data analysis, research, programming, and writing experience through her work at Mathematica Policy Research Inc., and New Ventures China in Beijing. Notably, she supported the data analysis for New Ventures China’s Impact Report on Green SMEs in China. Christine earned a BA in Economics and Computer Science from Bowdoin College, and a Masters of Public Policy from Duke University.

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**Qin (Iris) Zhang** is an Investment Analyst Intern at China Impact Fund, where she has been focused on the development of Crowdfunding Platforms (CFPs) in China and its potential to support local environmental and social SGBs. Iris has helped research and analyze the landscape of Chinese CFPs and conducted business model analysis and policy analysis. During her internship, Iris conducted interviews with entrepreneurs of CFPs, SGBs that CIF has supported, as well as some venture capital investors in China. Iris received her BA in Business Administration from Renmin University of China.
Dao Ventures & China Impact Fund

Dao Ventures strives to do business and create an impact in harmony with the environment, the people, and the society, the spirit of which is embodied by the Chinese character 道 (Dao).

Dao Ventures is a China-focused, impact-oriented group of companies and affiliates encompassing ACBridge Global Advisors, ACBridge Capital Advisors, China Impact Fund, New Ventures Global and its affiliate not-for-profit program New Ventures China housed at the Beijing-based Institute for Environment and Development. Via its myriad entities and services, Dao Ventures’ focus is to support both SGBs and SMEs primarily in the environmental and technology sectors whose businesses, technologies and/or products can have a positive impact on China and by extension, make China a better place for its ordinary people to live in.

China Impact Fund (CIF), managed by Dao Ventures, is China’s first impact fund that specializes in financing and accelerating Chinese SGBs and SMEs providing environmentally friendly products and services as well as start-up companies with an environmental value proposition for the country’s Base of Pyramid (BoP) population, primarily those in sustainable land use, clean energy and water access.

China Crowdfunding Report

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