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Exploring the Development History of Cryptocurrency's Impact on Fundraising

Jianzheng Shi[1], Yue Wang[2]

[1]School of Business Singapore University of Social Sciences Singapore

[2]School of Business Singapore University of Social Sciences Singapore

Abstract: ***This paper delves into the transformative impact of cryptocurrencies on the fundraising landscape. It explores the evolution of fundraising methods, from traditional approaches to innovative strategies enabled by blockchain technology. The paper highlights the role of Initial Coin Offerings (ICOs), airdrops, and token standards like BRC20 in democratizing access to investment opportunities and breaking down barriers to entry. It also introduces the concept of Investment Contract Tokens (ICTs), which combine the advantages of Real Estate Investment Trusts (REITs) and securitization, offering novel ways for tokenization of assets. Despite the potential benefits of these methods, the paper acknowledges the challenges posed by the volatile nature of cryptocurrencies, regulatory uncertainties, and the risk of misuse. It emphasizes the need for a robust regulatory framework, investor protection, and market integrity. The paper concludes by underscoring the potential of cryptocurrencies and blockchain technology to redefine money, investment, and fundraising in the digital age, despite the existing hurdles.***

Keywords: Airdrops. Decentralization, Web 3.0 Fundraising. ICO, ICT. REIT

1. Introduction

The world of finance is a dynamic and ever - evolving landscape, continually shaped by technological advancements and innovative practices. In recent years, the emergence of cryptocurrency has introduced a paradigm shift, bringing forth novel methods of fundraising that are beginning to transform traditional financial structures and transactions.

Cryptocurrencies, digital or virtual currencies that use cryptography for security, have been at the forefront of this financial revolution. They offer a decentralized method of transferring value, which stands in stark contrast to the centralized systems that have long dominated the financial world. This decentralization is potentially a game - changer for the fundraising sector, which has traditionally been constrained by various limitations.

One of the most significant innovations in this regard has been the advent of Initial Coin Offerings (ICOs). ICOs are a form of crowdfunding, where companies raise capital by issuing their own digital tokens or coins. This method has gained considerable attention due to its ability to democratize access to investment opportunities, enabling startups and small businesses to secure funding directly from individual investors worldwide (Tapscott & Tapscott, 2016).

Beyond ICOs, other methods such as Airdrops have also begun to make their mark. Airdrops involve the free distribution of new tokens to existing holders of a particular blockchain currency, serving as a unique strategy to incentivize participation and engagement within a cryptocurrency network.

These new fundraising methods stand in stark contrast to traditional approaches, which often involve intermediaries such as banks or venture capitalists and come with substantial administrative costs. Cryptocurrencies bypass these intermediaries, making transactions more efficient and less costly. This efficiency is achieved through the use of blockchain technology, a decentralized ledger that records transactions across multiple computers, ensuring transparency and security (Spenkelink, 2019).

However, as with any significant innovation, the rise of cryptocurrencies and their associated fundraising methods also bring new challenges and considerations. These include regulatory issues, market volatility, and the need for robust security measures. As we delve deeper into this exciting new frontier, it is crucial to understand these complexities and navigate them effectively.

In this paper, we will explore the development history of cryptocurrency's impact on fundraising, examining the transformative potential of these new methods, their advantages, and the challenges they present.

Why Token is a Must

In the era of Web 3.0, tokens serve as the backbone of the decentralized network. They offer a way to design economic incentives and consensus mechanisms, which are key to the operation of decentralized applications. Unlike Web 2.0, which relies on centralized servers and databases, Web 3.0 applications operate on decentralized networks using blockchain technology (Buterin, 2014).

Tokens play a fundamental role in the world of cryptocurrencies and blockchain technology. They are used as a unit of value within a blockchain ecosystem, facilitating transactions, incentivizing behaviors, and fostering engagement.

The need for tokens arises from the decentralized nature of blockchain technology. They serve as a consensus tool that allows disparate participants to interact and transact with one another in a secure, transparent, and trusted manner. Tokens are the building blocks of the decentralized internet, also known as Web 3.0, a paradigm shift from the current centralized Web 2.0. In Web 3.0, tokens provide users with more control over their data and facilitate peer - to - peer interactions without the need for intermediaries (Mougayar, 2016).

Tokens have also reshaped the fundraising landscape. They have democratized access to investment opportunities through Initial Coin Offerings (ICOs), enabling startups to raise capital globally, bypassing traditional intermediaries such as banks and venture capitalists. This can be observed in successful ICOs such as Ethereum in 2014, which raised 18 million dollars, and more recent ones like EOS in 2017, which raised over 4 billion dollars (Chohan, 2017).

Furthermore, tokens offer unique possibilities for engagement and incentive mechanisms. Through tokenization, assets, services, and even intangible values can be digitized and exchanged on the blockchain, providing novel ways for organizations to engage with their stakeholders.

Despite these advantages, tokens are not without their challenges. Regulatory ambiguity, market volatility, and potential misuse are among the critical issues that need to be addressed. Nonetheless, the transformative potential of tokens, particularly in fundraising, cannot be overstated.

ICO: Initial Coin Offerings

An Initial Coin Offering (ICO) is a pioneering fundraising method where a company creates and sells a new cryptocurrency to raise funds. This approach has emerged as a significant innovation in the world of finance, particularly within the blockchain and cryptocurrency sectors.

ICOs can be seen as a hybrid of Initial Public Offerings (IPOs) and crowdfunding. Like IPOs, they involve the issuance of tokens in exchange for capital. However, unlike IPOs, which are typically reserved for institutional investors and high - net - worth individuals, ICOs are open to the public, thereby democratizing access to investment opportunities. This openness allows startups and projects to tap into a global pool of potential investors, significantly broadening their fundraising capabilities.

However, ICOs also have their unique features and considerations. They offer the potential for high returns, given the explosive growth some cryptocurrencies have experienced. However, this potential is accompanied by a high level of risk and volatility, given the nascent and unpredictable nature of the cryptocurrency market. Famous cases like Ethereum and Tezos have underscored both the potential and risks associated with ICOs. Ethereum's ICO in 2014 raised 18 million dollars, and Tezos raised over 232 million dollars in 2017, demonstrating the immense fundraising potential of this method (Adhami et al., 2018).

Recently, variations of ICOs, such as Initial DEX Offerings (IDOs) and Initial Exchange Offerings (IEOs), have emerged. IDOs and IEOs are conducted on decentralized and centralized cryptocurrency exchanges, respectively. These variations offer their own set of benefits and drawbacks. For instance, IDOs provide higher decentralization and accessibility, while IEOs offer increased investor protection and regulatory compliance.

The success of an ICO is influenced by various factors. These include the quality of the project, the experience and credibility of the team behind it, and the design of the token. The token design involves crucial decisions about the token's functionality, distribution, and economics, which can significantly impact the ICO's outcome and the token's subsequent performance (Chen, Z., Daugherty, T., & Johnston, E. ", 2022).

As ICOs continue to evolve and mature, they represent a fascinating area of study within the broader context of cryptocurrency's impact on fundraising. Understanding the dynamics of ICOs and their variations can provide valuable insights into the future of fundraising and the ongoing evolution of the financial sector.

Airdrops

In the dynamic world of cryptocurrencies, airdrops have emerged as an innovative fundraising and marketing strategy. An airdrop involves the free distribution of new tokens to existing holders of a specific cryptocurrency. This method is often employed by various projects to widen the distribution of their tokens, incentivize participation in their networks, and foster a sense of community among users.

The concept of airdrops is rooted in the principle of decentralization, a cornerstone of blockchain technology. By distributing tokens freely to a wide array of users, airdrops can help to ensure a broad and decentralized distribution of tokens. This can contribute to the security and robustness of the network, as a more decentralized network is less vulnerable to attacks and manipulation.

Airdrops, in essence, serve as a form of guerrilla marketing in the cryptocurrency world. By distributing free tokens, projects can create a significant amount of buzz and awareness in the crypto community. This buzz is not just limited to the recipients of the airdrop but often extends to the broader market as news and discussions about the airdrop spread on social media, online forums, and other platforms where cryptocurrency enthusiasts gather.

The allure of 'free money' can be a powerful draw, attracting new users to a platform. These new users, enticed by the airdrop, may become long - term users of the platform, contributing to the network's growth and development. This can be particularly beneficial for new or lesser - known projects that are looking to establish a foothold in the highly

competitive cryptocurrency market. An airdrop can serve as a 'foot in the door' that piques interest and leads to further engagement with the project.

Moreover, airdrops can also serve as a form of reward or incentive for existing users, fostering loyalty and encouraging continued participation in the network. By rewarding users for their participation, projects can strengthen their community and enhance network effects, which are crucial for the success of any cryptocurrency.

Successful Examples of Airdrops

Several high - profile projects have successfully employed airdrops as part of their marketing and growth strategy. One notable example is OmiseGO, a decentralized exchange and payment platform. In 2017, OmiseGO conducted an airdrop, distributing OMG tokens to Ethereum holders. This airdrop not only rewarded Ethereum users but also generated significant attention and interest in the OmiseGO project. The airdrop was widely discussed in the crypto community, leading to increased awareness and adoption of OmiseGO.

Similarly, Stellar Lumens, a platform that connects banks, payment systems, and people, carried out several airdrops, distributing its XLM token to users of various platforms. One of its most significant airdrops involved a partnership with Blockchain. com, one of the world's leading cryptocurrency wallets. In 2018, Stellar announced that it would be distributing $125 million worth of XLM to users of the Blockchain. com wallet. This airdrop, one of the largest of its kind, brought Stellar Lumens to the attention of millions of people and significantly boosted its user base.

Another notable airdrop was carried out by Uniswap, a popular decentralized exchange. In 2020, Uniswap launched its own token, UNI, and airdropped 400 UNI to every wallet that had used its platform. This airdrop, which was worth around $1, 200 at the time (and significantly more at UNI's later prices), was a way of rewarding the Uniswap community for their support.

These examples illustrate the potential of airdrops as a marketing tool. When executed well, an airdrop can generate significant buzz, attract new users, and foster a strong and engaged community. However, it's important to note that airdrops are not a magic bullet and should be part of a broader, well - thought - out marketing and growth strategy.

However, while airdrops can offer numerous benefits, they also come with their own set of challenges and considerations. One of the main concerns is the potential impact on token price volatility. As airdropped tokens are often distributed freely, recipients may have little incentive to hold onto them, leading to potential sell - offs that can cause price volatility.

Moreover, airdrops can also attract regulatory scrutiny. As the cryptocurrency market continues to evolve, it has increasingly come under the radar of regulators worldwide. Airdrops, given their unique nature, present a particular set of regulatory challenges. While they offer innovative ways for projects to distribute tokens and build communities, they also raise complex legal and regulatory issues that are yet to be fully resolved.

One of the main regulatory concerns surrounding airdrops pertains to the classification of the tokens being distributed. Depending on the characteristics of the token and the way the airdrop is conducted, some regulators may classify airdropped tokens as securities. This classification can have significant legal implications, as securities are subject to strict regulatory requirements concerning registration, disclosure, and compliance.

For instance, in the United States, the Securities and Exchange Commission (SEC) applies the so - called "Howey Test" to determine whether a particular asset qualifies as a security. If airdropped tokens meet the criteria of this test - that is, if they represent an investment in a common enterprise with an expectation of profits predominantly from the efforts of others - they could be deemed securities. If a project conducts an airdrop of tokens that are considered securities without proper registration or an applicable exemption, it could face enforcement action from the SEC.

Regulatory scrutiny of airdrops is not limited to the United States. Authorities in other jurisdictions, such as China and South Korea, have also expressed concerns about airdrops. In some cases, regulators have even taken steps to ban or restrict airdrops due to concerns about fraud, market manipulation, and investor protection.

Moreover, even in jurisdictions where airdrops are not explicitly regulated, projects must still navigate a complex and often uncertain legal landscape. They may need to consider issues related to tax, anti - money laundering (AML), and know - your - customer (KYC) regulations. For example, recipients of airdropped tokens may be required to pay taxes on the value of the tokens received, even if they did not request or expect to receive them.

In conclusion, while airdrops offer exciting opportunities for projects and users alike, they also present a host of regulatory challenges. As the regulatory landscape continues to evolve, projects considering an airdrop must carefully consider the legal implications and ensure they are following all relevant laws and regulations. This may involve seeking legal advice and closely monitoring regulatory developments in the jurisdictions where they plan to operate.

Despite these challenges, airdrops remain a popular and effective strategy for token distribution in the cryptocurrency ecosystem. By analyzing successful airdrop campaigns and understanding their design criteria, we can gain valuable insights into how to implement effective airdrops. Factors to consider include the selection of

recipients, the number of tokens to distribute, and the timing of the airdrop.

Airdrops represent another innovative fundraising strategy in the cryptocurrency realm. They involve the free distribution of new tokens to existing holders of a particular blockchain currency. This method has been employed by various projects such as OmiseGO and Stellar Lumens to widen the distribution of their tokens and incentivize participation in their networks (Mougayar, 2016). While airdrops can be beneficial in driving network engagement and fostering decentralization, they may also lead to token price volatility and regulatory scrutiny.

They involve distributing free tokens to holders of a specific cryptocurrency. Airdrops can be seen as a form of marketing, driving awareness, and potentially increasing the user base for a new cryptocurrency (Hinzen et al., 2019).

airdrops as a strategy for token distribution in the cryptocurrency ecosystem. We analyze airdrop campaigns of successful projects and propose design criteria for effective airdrops. By examining the impact of airdrops on token value, user adoption, and community building, we provide insights into the benefits and challenges of implementing airdrop strategies (Chen, Lisa; Wang, David", 2023)

Others: BRC20, ICT, etc.

Other than ICOs and Airdrops, there are further fundraising methods worth exploring in the crypto world. The BRC20 token, for example, is a technical standard used for smart contracts on the Binance Smart Chain for implementing tokens, similar to Ethereum's ERC20. ICT (Investment Contract Token), on the other hand, is a novel approach combining the advantages of REITs and securitization with blockchain, offering a new way to digitize assets (Gordon, 2020).

Beyond ICOs and airdrops, innovative blockchain - based strategies offer new dimensions to fundraising. For instance, the Binance Smart Chain's BRC20 tokens represent a technical standard used for creating tokens via smart contracts. The BRC20 standard, which is akin to Ethereum's ERC20, stipulates a set of rules that all tokens on the platform must follow, thereby streamlining interactions on the blockchain (Binance Academy, 2021).

This token standard allows a myriad of possibilities, including the creation of tokens linked to traditional financial assets such as stocks and bonds, or real - world assets like real estate and art. By tokenizing these assets, organizations can break them down into smaller, more affordable units, enabling a wider array of investors to participate in opportunities that were previously exclusive to the wealthy.

Investment Contract Tokens (ICTs) are another emerging innovation. ICTs blend the benefits of Real Estate Investment Trusts (REITs) and securitization with blockchain technology. This amalgamation allows for efficient and transparent tokenization of real estate assets, potentially democratizing access to the lucrative real estate market. ICTs allow individual investors to invest in real estate portfolios, akin to purchasing shares of a company, providing them with a simple way to diversify their investments and generate passive income (Gordon, 2020).

Although the possibilities seem endless, the adoption and success of these fundraising methods hinge on overcoming hurdles such as regulatory uncertainties and scalability issues. These strategies necessitate stringent risk management and a robust legal framework to ensure investor protection and market integrity.

The BRC20 token standard is a technical protocol used for smart contracts on the Binance Smart Chain (BSC), similar to the ERC20 standard on the Ethereum blockchain. This standard outlines a set of rules that all tokens on the BSC must follow, ensuring interoperability between different interfaces, including wallets and exchanges.

The BRC20 standard has opened up a world of possibilities for tokenization. It allows for the creation of tokens linked to a wide array of assets, both digital and physical. For instance, tokens can be pegged to traditional financial assets such as stocks and bonds, allowing for fractional ownership and increased liquidity. Similarly, real - world assets like real estate, art, and even intellectual property can be tokenized, breaking them down into smaller, more affordable units. This democratizes access to investment opportunities, enabling a wider array of investors to participate in markets that were previously exclusive to the wealthy or well - connected.

Investment Contract Tokens (ICTs) represent another innovative approach to fundraising in the crypto world. These tokens combine the benefits of Real Estate Investment Trusts (REITs) and securitization with blockchain technology, offering a new way to digitize and invest in assets.

REITs are companies that own, operate, or finance income - generating real estate, and securitization is the process of turning an illiquid asset, like a mortgage, into a security that can be bought and sold. By blending these concepts with blockchain technology, ICTs allow for the efficient and transparent tokenization of real estate assets.

This approach potentially democratizes access to the lucrative real estate market, which has traditionally been dominated by wealthy individuals and large corporations. ICTs allow individual investors to invest in real estate portfolios, akin to purchasing shares of a company. This provides them with a simple way to diversify their investments and generate passive income, while also contributing to a more equitable financial system.

While these innovative fundraising methods offer exciting possibilities, they also present significant challenges.

Regulatory uncertainties around cryptocurrencies and tokenized assets remain a major hurdle. In many jurisdictions, the legal status of these assets is unclear, and there is a risk of future regulatory crackdowns.

Furthermore, these strategies require robust risk management practices. The volatile nature of cryptocurrencies, the potential for market manipulation, and the risk of cyber theft are all factors that need to be considered. A robust legal framework is needed to ensure investor protection and market integrity.

Scalability is another key issue. As more transactions are processed on the blockchain, the speed and cost of processing can become a bottleneck. Solutions such as layer - 2 networks and sharding are being explored to address these issues, but they are still in the early stages of development.

2. Conclusion

In summary, the advent of cryptocurrencies has revolutionized the fundraising landscape, pushing the boundaries of what is possible in traditional finance. New methods such as ICOs, airdrops, and the use of token standards like BRC20 have democratized access to investment opportunities, broken down barriers to entry, and allowed for a more global and inclusive financial ecosystem.

For example, Investment Contract Tokens (ICTs) combine the advantages of REITs and securitization, providing novel ways for tokenization of assets and offering exciting possibilities for the future of investment and fundraising. The potential to democratize the real estate market, traditionally dominated by wealthy individuals and large corporations, is a testament to the transformative power of blockchain technology (Gordon, 2020).

However, alongside these innovations come new challenges and considerations. The volatile nature of cryptocurrencies, regulatory uncertainties, and the risk of misuse are all factors that need to be considered. As the crypto landscape evolves, so too must the regulatory framework that governs it. Ensuring adequate investor protection, transparency, and market integrity is paramount.

Moreover, the future success of these new fundraising methods hinges on the broader acceptance of cryptocurrencies and blockchain technology. As with any new technology, education and awareness are critical to driving adoption and fostering a healthy crypto ecosystem.

Despite the hurdles, the potential benefits of more efficient, inclusive, and globally accessible fundraising methods continue to make cryptocurrencies and blockchain technology an exciting area of research and innovation. These technologies hold the promise of redefining how we think about money, investment, and fundraising in the digital age.

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