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**CROWDFUNDING IN JAPAN**

**Expanding as the Popular Measure to Success and Support**

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**ABSTRACT**

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<b>Name of thesis</b> CROWDFUNDING IN JAPAN. Expanding as the Popular Measure to Success and Support		
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<p>This thesis researched the crowdfunding in Japan. Crowdfunding has emerged as the new measure to collect money. This paper targets to introduce crowdfunding projects in Japan and assist someone who wants to make some ideas for business or refer to the solution for some social problems. This thesis provides the information of various contents regarding crowdfunding and assists to know how crowdfunding operates and how to utilize crowdfunding. In addition, this thesis provides the information of the current Japanese situation. Japan is a major economic power, while confronts severe problems, especially natural disaster and aging society.</p> <p>This thesis researched what types of crowdfunding projects in Japan are performed, and how Japan handles crowdfunding. For this research, documentary analysis in terms of qualitative research method was utilized. Many articles in English contributed to the analysis.</p> <p>The results indicated the role of crowdfunding in Japan is large. Various fundraisers realized their various projects for business or society. Meanwhile, the backgrounds of their projects reflected the Japanese problems. The Japanese government promotes the utilization of crowdfunding positively. The presence of crowdfunding between officials and private sectors has increased. This thesis also described the hometown tax donation system. Hence, this thesis will assist officials and private sectors to refer regarding collecting money.</p>		
<b>Key words</b> Abenomics, aging society, crowdfunding, earthquake, hometown tax donation system, Japan, regional revitalization		

## CONCEPT DEFINITIONS

AoN	All or nothing
EUR	Euro
FY	Fiscal year
FINRA	the Financial Industry Regulatory Authority
FinTech	Financial Technology
GBP	Great Britain Pound
GDP	Gross Domestic Product
JOBS Act	the Jumpstart Our Business Startups Act
JPY	Japanese yen
KiA	Keep it all
LNG	Liquefied Natural Gas
Regtech	Regulation technology
SEC	the Securities and Exchange Commission
SME	Small and Medium-sized Enterprise
the UK	the United Kingdom
the US	the United States
USD	United States Dollar

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## 1 INTRODUCTION

Currently, the environment of financial transaction in the world has been enhanced by the development of the Internet. People can invest and pay smoothly and globally. In addition, the enhanced technologies for finance change the measure to collect money. This new model is crowdfunding. An individual or a company can raise money and realize own project from many people or companies via crowdfunding instead of financial institutions. Additionally, an individual or a company can support for interesting projects via crowdfunding. This thesis will intend to deal with the crowdfunding in Japan.

This thesis aims to introduce crowdfunding in Japan and its background to foreigners. Everyone has the opportunity to be a funder or a fundraiser in terms of crowdfunding. Meanwhile, crowdfunding is still a new measure. The Japanese crowdfunding cases should be utilized as the valuable information. The objective of this document is to show successful crowdfunding projects and support for someone who wants to make some ideas for business or solve some social problems. Japan is a developed country, while Japan has many serious problems.

In the theoretical part, the contents describe basic information of crowdfunding and current Japanese situation. Chapter two represents the basic idea of crowdfunding, the relevancy between crowdfunding and FinTech, the crowdfunding market, the features of four crowdfunding models, and the character of crowdfunding platform. The chapter helps to understand how crowdfunding works and how to utilize crowdfunding. Chapter three describes the Japanese economic conditions and serious problems. It presents the Japanese economic policies with its background. Aging society and natural disaster are represented as the serious problems. The chapter informs people of the Japanese harsh reality and future.

Chapter four describes the methodology and qualitative research. This thesis adopted qualitative research. The method for this research is the documentary analysis. More than 30 articles in English were utilized for this thesis. This document focuses on two research questions: what types of crowdfunding projects are operated, and how Japan deals with crowdfunding.

Chapter five describes the articles and analysis regarding crowdfunding for the above questions. This thesis will intend to inform people of crowdfunding projects for business and society in Japan. Their parts represent also Japanese problems through crowdfunding projects. This thesis will also intend to inform people of Japanese crowdfunding platform, regulation in Japan and the US, and crowdfunding

and the hometown tax donation system. In the Japanese crowdfunding platform part, two major crowdfunding platforms indicate the crowdfunding situation in Japan. The regulation part describes the differences of regulation contents and attitudes for equity-based crowdfunding between Japan and the US. The crowdfunding and the hometown tax donation system part represent the hometown tax donation system and the combination of the hometown tax donation system and crowdfunding. As with the projects, they present problems in Japan.

Chapter six describes the author's ideas based on theoretical and research chapters. Chapter seven represents the conclusion of crowdfunding in Japan.

## **2 OVERVIEW OF CROWDFUNDING**

This chapter is regarding the overview of crowdfunding. Crowdfunding is a relatively new measure to raise money. The concept, intention, role and function of crowdfunding are described to understand what crowdfunding is. This section also contains FinTech as crowdfunding is deeply involved with FinTech. Crowdfunding has mainly four models. The details of their features are represented in this topic. In addition, this chapter describes crowdfunding platform including examples of famous crowdfunding platforms as the existence of crowdfunding platform is essential to utilize crowdfunding.

### **2.1 The concept of crowdfunding**

Crowdfunding is the process of requesting for the ordinary people of contributions that provide startup capital for new venture. With the technology, entrepreneurs and owners of small business can evade business angels and venture capitalists definitely and alternatively present ideas directly to general Internet users, who provide financial support. (Steinberg 2012, 2.) Over and above its charitable utility, online crowdfunding is currently receiving attention all over the world as a model to raise entrepreneurial capital that gives opportunities for small investors who are omitted from traditional investment structure. (Multilateral Investment Fund 2014.) Crowdfunding signifies the raising funds to collect the small contributions from the ordinary people via the Internet. “Crowd” indicates this ordinary people. (National Crowdfunding Association of Canada 2017.) There are some differences of definitions of crowdfunding, but usually they contain the following three key factors: from many to many, raising funds in small amounts, using digital technology. (Global Partnership for Financial Inclusion 2016.)

Within crowdfunding, the promotion for funds is developed to the common people who support a project or company. This performance is referred to as “the crowdfunding campaign”. The crowdfunding campaign is usually operated through a campaign page started on an intermediary Internet platform, which is referred to as “crowdfunding platform”. The beneficiaries of the funding are referred to as “campaigners”, “campaign owners” (European Commission 2014) or “fundraiser” (Cambridge Centre for Alternative Finance 2017). They have to keep their campaign page to aggressively establish an online community supporting for their campaign and to appeal social network services and other online media. The people who provide monetary support to the campaign are referred to as “the campaign backers”, “sponsors” (European Commission 2014.) or “funders” (Cambridge Centre for Alternative Finance 2017).



They can also be referred to as “lenders”, “investors” or “donators” depending on whether the estimated return of the campaign is monetary or not for them (European Commission 2014). Due to the utilization of social media and online platforms, crowdfunding campaigns can approach people over their nearest social connections, mobilize them immediately, and receive the offered funds excluding intermediation of financial institutions. (Savarese 2015.)

The success of crowdfunding campaign requires many factors. First of all, it is important to propose project in an attractive and clear way for the sale of making interest from the public. The utilization of images, logos, and video is highly common and purposes to appeal potential funders. Subsequently, social network ties fulfill a great role, since they increase project visibility and support to expand the information of crowdfunding campaign. This funding mechanism is substantially based on the reciprocal action among individuals, where reliance between the diverse parties is fundamental. (Savarese 2015.) The following figure 1 shows the process of crowdfunding. Firstly, fundraisers develop crowdfunding campaign. Secondly, fundraisers start crowdfunding campaign on the crowdfunding platform. Thirdly, funders provide money to support crowdfunding campaign through the crowdfunding platform. Finally, fundraisers distribute the promised reward to funders if fundraisers proposed the reward. (European Commission 2014.)



FIGURE 1. Simplified crowdfunding process (adapted from European Commission 2014)

## 2.2 FinTech and crowdfunding

Crowdfunding is the section of subcategory of FinTech and also known as “alternative finance” (Jenik, Lyman & Nava 2017). FinTech is the abbreviation of Financial Technology. FinTech is a wide category that expresses the innovative application of technology in the design and provision of financial instruments and services. The utilization of FinTech passes over various business segments and lots of FinTech

companies utilize mobile technologies, big data, and analytics to adopt their products and services to diverse customer segments. (Blake, Vanham & Hughes 2016.)

The following figure 2 illustrates that FinTech has impacted on the fields of the financial sector businesses. Mobile payments, mobile wallets, and Internet banking are representative samples of banking field. They are changing traditional banking for businesses and consumers due to the rapid diffusion of digital innovations. Similarly, insurance policies can be facilitated on a smartphone. Regtech stands for regulation technology (Arnold 2016). Regtech expresses the utilization of new technologies to solve the burdens of regulatory and compliance with further efficiency and effective and effectiveness (Institute of International Finance 2017). Regtech helps companies to utilize biometrics for identity verification, cryptography for customer data protection, distributed ledgers for stabilization of transactions, and know-your-customer policy (Jenik et al. 2017).



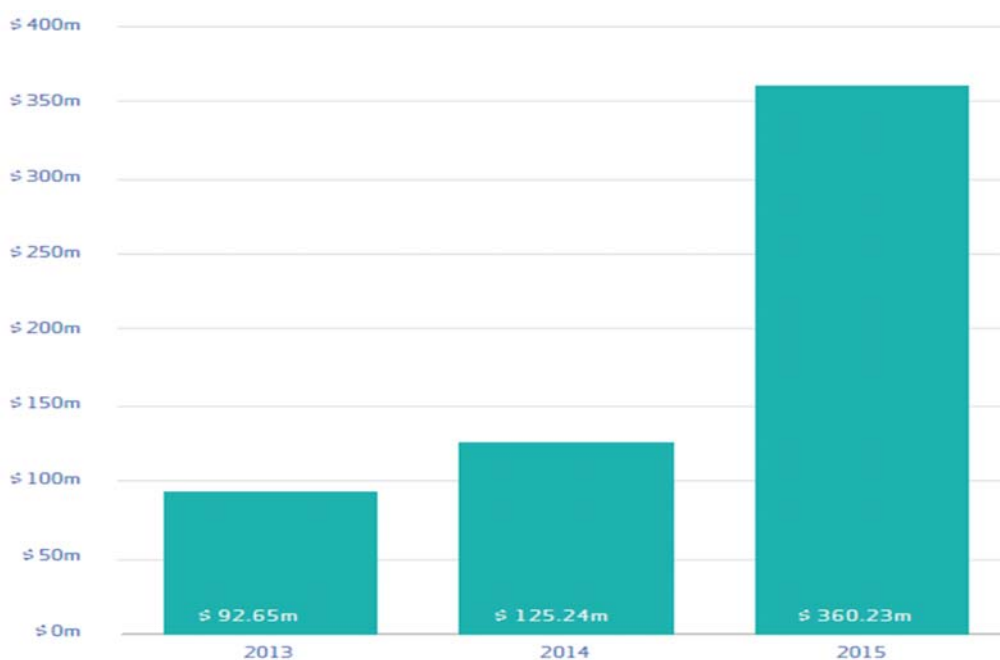
FIGURE 2. Examples of the Area Disrupted by FinTech (R)evolution (adapted from Jenik et al. 2017)

Alternative finance expresses the technology-enabled market-based funding external the traditional financial system and contains online marketplaces for third-party payment platforms, invoice trading, and consumer and business lending (Jenik et al. 2017).

According to KPMG, the market of alternative finance market in 2015 was USD 145.3 billion with the year-on-year growth rate of 264%. (Mead & Wardrop 2016.) Three major areas of alternative finance market are Europe, North America which consists of the US and Canada, and the Asia-Pacific area (Wardrop, Rosenberg, Zhang, Ziegler, Squire, Burton, Hernandez & Garvey 2016). The European alternative finance market in 2015 recorded EUR 5,431 million, increased by 92% from the EUR 2,833

million in 2014. The largest country of alternative finance in terms of Europa was the UK. The UK market volume was EUR 4,412 million in 2015 and accounted for 81% of the European market. (Zhang, Wardrop, Ziegler, Lui, Burton, James & Garvey 2016a.) In the Americas, the alternative finance market volume in 2015 was totally USD 36.49 billion and rose rapidly by 212% compared to the USD 11.68 billion in 2014. The total volume of alternative finance transactions in the US was totally USD 36.17 billion in 2015, growing by 213% from USD 11.56 billion in 2014. As the result, the US in 2015 was the highest total alternative finance market in the Americas and accounted for 99% of overall market volume in the Americas. (Wardrop et al. 2016.)

The total market volume of alternative finance in the Asia-Pacific area reached approximately USD 102.8 billion in 2015. China was the largest country of alternative finance not only in the Asia-Pacific area but also in the world. The China market volume was USD 101.69 billion and grew greatly by 319% compared to the USD 24.3 billion in 2014. China accounted for 98.9% of the total market volume of alternative finance in the Asia-Pacific area. Meanwhile, the alternative finance market of the Asia-Pacific area excluding China was USD 1.12 billion in 2015, while grew highly by 313% from USD 271.94 billion in 2014. (Zhang, Deer, Wardrop, Grant, Garvey, Thorp, Ziegler, Ying, Xinwei, Huang, Burton, Chen, Lui & Gray 2016b.)



GRAPH 1. Online Alternative Finance Market Size in Japan (\$USD) (adapted from Zhang et al. 2016b)

Japan ranked the second largest country of alternative finance market volume in terms of the Asia-Pacific area in 2015. In addition, as can be seen from the above graph 1, Japan recorded the growth of alternative finance market across 2013 to 2015. The total amount of alternative finance market in Japan was USD 578 million between 2013 and 2015. In 2015, the market volume in Japan was USD 360.23 million with the annual growth rate of 188% from USD 125.24 million in 2014. (Zhang et al. 2016b.)

### **2.3 The types of crowdfunding**

Crowdfunding classified roughly four types depending on the forms of return to a contributor: Donation-based crowdfunding, reward-based crowdfunding, loan-based crowdfunding, and equity-based crowdfunding. These types can be distinguished into two models: Non-financial return models and financial return models. This financial return indicates for a contributor. Donation-based crowdfunding and reward-based crowdfunding are classified into the non-financial return models. Meanwhile loan-based crowdfunding and equity-based crowdfunding are classified into the financial return models. (Cambridge Centre for Alternative Finance 2017.)

The strong point of non-financial return model for fundraisers is that there is no equity dilution or long-term financial obligations. Whilst the weak point of non-financial return model for fundraisers is that no participation of the funders as typically only funding is provided and restricted reviews during the campaign. (European Commission 2014.) On the other hand, the strong point of non-financial return model for funders is that fewer risks than financial return model. (MIF 2014.) Whilst the weak point of non-financial return model for funders is that there are less opportunity for exhaustive due diligence and no financial reward in regard to the success of venture or campaign. (European Commission 2014.)

Meanwhile loan-based crowdfunding and equity-based crowdfunding are classified into the financial return models (Cambridge Centre for Alternative Finance 2017). The strong point of financial return model for fundraisers is that there is no equity dilution in profit sharing model or lending model. Whilst the weak point of financial return model for fundraisers is that the passive investors or observers likewise uninvolved venture capital. The strong point of financial return model for funders is that financial return model is a vehicle for untraditional investors to fund premature start-ups or SMEs at any ticket size with minimal troublesome. By contrast, the weak point of this model for funders is changing regulation clauses in various countries. (European Commission 2014.)

Whether the form of the return is the financial reward or not has an effect on the financial regulation. In one example, Financial Conduct Authority (FCA) in the UK regulates loan-based crowdfunding and equity based crowdfunding, meanwhile FCA does not regulate donation-based crowdfunding and reward-based crowdfunding. (Financial Conduct Authority 2017.)

### **2.3.1 Donation-based crowdfunding**

Donation-based crowdfunding is that a fundraiser does not pay the financial or material return for a contributor who supports a project (Cambridge Centre for Alternative Finance 2017). Funders contribute to the projects for private motivations with philanthropy, usually because of sharing values and interests with the fundraisers. This type of crowdfunding is used mainly in the non-profit sector to help diverse elements such as politic, society and environment. (Savarese 2015.) In some case, funders obtain a simple thankful word, a special message, or even a tangible item such as a mailing card. While, the payment is substantially a donation. The history of donation-based crowdfunding is longer than equity-based crowdfunding and loan-based crowdfunding. (Financial Times 2017.)

The strong point of donation-based crowdfunding is smaller risks than other crowdfunding types. The risk of this type is the deceitful campaigns and as any e-commerce systems have risks of cyber security as well as all types of crowdfunding. (MIF 2014.) The weak points of this type are that funders do not obtain the security interest from fundraisers and it is difficult for businesses as fundraisers to collect substantial capital. (World Bank 2013.)

### **2.3.2 Reward-based crowdfunding**

Reward-based crowdfunding is that a contributor who pays money to support is expecting to receive the non-financial reward, product or service from a fundraiser in return. (Cambridge Centre for Alternative Finance 2017). For instance, musicians who want to release an album offer funding for studio time by campaign the advanced or signed copy of the album to funders who contribute to the campaign. Frequent measure in terms of reward-based crowdfunding is to propose superior rewards for bigger contributions. In one example, small contribution is rewarded with the preselling copy of the recorded album, conversely large contribution leads to the concert tickets to see the artists as that fundraiser. (MIF 2014.)

The strong point of reward-based crowdfunding is that businesses as fundraisers may also use as the measure to estimate demand for new products or services in the market before providing them. By starting a funding campaign for new products, businesses can restrict the reviews of products and reward funders with the early model. Simultaneously, this enables businesses to collect feedback on functionality, product design, and overall quality. They may also obtain the better viewing of suitable pricing and avoid heavy problems before launching production in earnest. Enhanced recognition of market demand leads to expand profitability and customer satisfaction, whereas preventing the risk of reputational damages due to the faulty product launch. On the other hand, the weak point of this type is that funders face the fulfilment risk whether fundraisers will execute their promise to send a reward in return for contribution. (MIF 2014.)

There are two types in terms of rewards-based crowdfunding used on the crowdfunding campaigns: All or nothing (AoN) and Keep it all (KiA). AoN is the fixed type that fundraisers hold the funds only if the target amount is achieved within the campaign period. The representative AoN platform is Kickstarter. Meanwhile, KiA is the flexible type allows fundraisers hold the collected money in spite of the target amount and the remaining period. Indiegogo is the famous KiA platform. (Austin 2016.)

### **2.3.3 Equity-based crowdfunding**

Equity-based crowdfunding is also known as "Investment-based crowdfunding". Equity-based crowdfunding is that a contributor who puts money into financial instrument of a fundraiser such as new business or venture is expecting to receive the dividends, the rights of voting, and the right of capital in winding up. (Australian Taxation Office 2017; FCA 2017.) Even through it is still being in the cradle, equity-based crowdfunding platforms have already developed into various business models which are affected by the related regulation. (GPFI 2016.)

The returns of funders are connected to the future success of fundraiser's business under this type. Hence equity-based crowdfunding has the potential for larger rewards as the increasing of the value of their equity along their success of business. Meanwhile, there are also larger risk to funders. For instance, in the bankruptcy, funders have a tendency to be inferior to obligee in line for repayment. This places raised significance on the internal organizational capacities, regulatory systems, law environment for the feasibility of these crowdfunding systems. Equity contracts claim precise terms defining available exit strategies for funders. According as the growth of business, it moves in accordance with the continuity of

funding and will probably ask for financing from other investors such as angel investors or financial institutions. For the sake of lubricating this changes without declining the value of initial equity of funders, funders have to prepare specific options for terminating the contract. (MIF 2014.)

The strong points of equity-based crowdfunding are that there are the possibility of sharing profit of the start-up, the potential of that profitability is unlimited, and comparatively lots of investors might be attracted. The weak points of this type are that there are possibility of loss of investment, the regulation regarding crowdfunding investment might be complicated, and funders are subordinate to creditors in the bankrupt case. (World Bank 2013.)

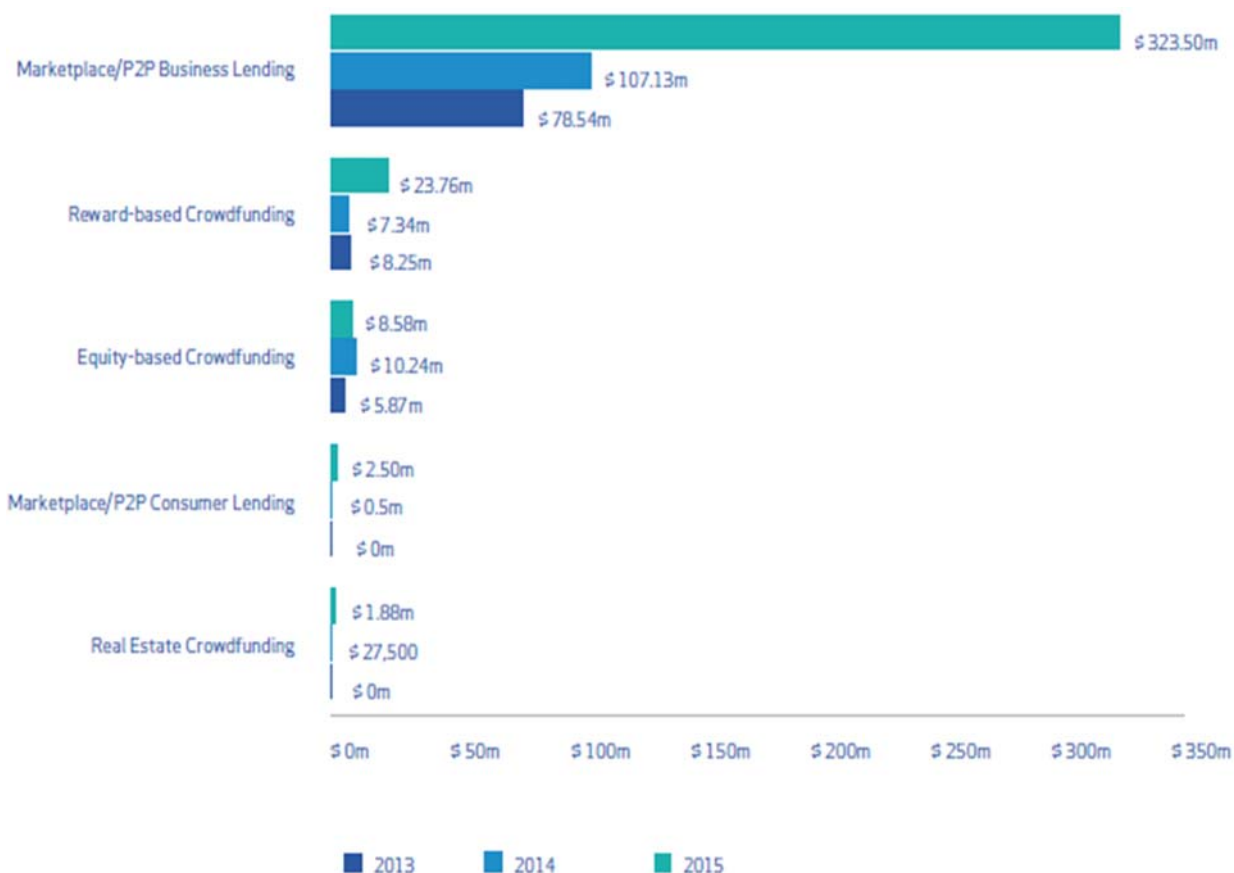
### **2.3.4 Loan-based crowdfunding**

Loan-based crowdfunding is also referred to as “Debt-based crowdfunding” or “peer-to-peer lending”. Loan-based crowdfunding is that a funder who lends money to a fundraiser is expecting to repay the loan principal and pay interest from a fundraiser. (Australian Taxation Office 2017; FCA 2017.) The platform of this type ordinarily earns its profits and covers its costs, including fundraiser screening and debt collection, from charges and fee such as administration fee to either the funders or the fundraisers or to both. (GPMI 2016.) The subcategories of loan-based crowdfunding are distinguished by the character of funders and fundraisers. For instance, P2P Consumer Lending means that individual funders lend money to individual consumers. In contrast, P2P Business Lending means hat individual funders lend money to businesses. (Zhang et al. 2016b.)

The strong points of loan-based crowdfunding are that the rate of return is agreed on between funders and fundraisers in advance, the secured status may facilitate fundraisers to collect funds and lenders as funders are superior to equity holders in the bankrupt case. Whilst the weak points of this type are that the high failure rate of venture contains alike risk of loss of equity investment, funders might be subordinate to senior creditors. (World Bank 2013.)

The following graph 2 shows market volume by type in Japan between 2013 and 2015. P2P Business Lending was obviously the largest model of crowdfunding in Japan. The total amount of P2P Business Lending between 2013 and 2015 was USD 509 million and accounted for 88% of total market volume between 2013 and 2015. Subsequently, the second largest type between 2013 and 2015 was Reward-

based crowdfunding. In the period 2013 to 2015, Reward-based crowdfunding was raised totally USD 39.35 million and accounted for 7% of the total market volume in Japan. (Zhang et al. 2016b.)



GRAPH 2. Total Volumes by Model in Japan 2013-2015 (\$ USD) (adapted from Zhang et al. 2016b)

## 2.4 Crowdfunding platform

Crowdfunding platform is the web portal that gives access to the information of campaign and pay attention to the chances of economic and social impact investment. Innovations in online and technologies for mobile banking allow this platform to transmit money of individuals from the crowd to the campaigns they would like to help or invest in. They provide an online forum where funders can remark on campaigns, request information, and follow the progress of the crowdfunding raise, allowing the crowd to severally observe and check campaigns. (MIF 2014.)



At the present time, hundreds of various crowdfunding platforms are existent. The increase of utilization of crowdfunding platforms represents the upper level of connection among people. Actually, the determination to fund a campaign is not only based on financial analysis, but is particularly based on feelings, social ties and the sharing of values and interests. This type of connection is something that people are continuously seeking and is the motor of success for these platforms. (Savarese 2015.) Meanwhile, crowdfunding platform has the risk of business failure itself. More than 4,000 platforms in the world have already smashed own businesses. (Cambridge Centre for Alternative Finance 2017.) Representative platforms in the world are categorized into the following two sections: non-financial return type and financial return type.

#### **2.4.1 Platforms for non-financial return type**

In 2001, ArtistShare was established and started first campaign in 2003. ArtistShare is the first crowdfunding platform for artists. (ArtistShare 2016.) The founder of ArtistShare is Brian Camelio and known as the pioneer of contemporary crowdfunding. He built a state-of-the-art website and software application for the creators to raise money and support for their campaigns via their fan bases. This became the model case of crowdfunding and harbinger for lots of modern crowdfunding platforms. (Global Crowdfunding Convention 2017.)

The most distinguished donation-based crowdfunding platform is CrowdRise. (Savarese 2015.) In 2010, CrowdRise was established in the US by Edward Norton, Shauna Robertson, Robert and Jeffrey Wolfe. (CrowdRise 2017a.) CrowdRise has handled over 1.5 million charities and Barron's selected the CrowdRise community as a "Top 25 Best Global Philanthropist". (CrowdRise 2017b.) In the reward-based crowdfunding case, the most popular platforms are Kickstarter and Indiegogo. (Savarese 2015.) In 2009, Kickstarter was founded in the US by Charles Adler, Perry Chen, Yancey Strickler. (Kickstarter 2017a.) More than 13.8 million funders on Kickstarter have raised money, and over 134,000 projects has been successful with more than USD 3.4 billion pledged funds thus far. (Kickstarter 2017b.) On the other hand, Indiegogo was established in the US by Danae Ringelmann, Eric Schell, Slava Rubin in 2008. (Indiegogo 2017.) Since 2008, totally over USD 1 billion has been collected from 8 million funders on Indiegogo (Volastro 2016).

### **2.4.2 Platforms for financial return type**

Lending Club and Funding Circle are the most renowned loan-based crowdfunding platforms. (Savarese 2015.) Lending Club was founded in the US by Renaud Laplanche in 2007 (Burns 2014). Funding Circle treats with the loan-based crowdfunding for businesses and end consumers. More than 1.5 million fundraisers have collected over USD 28 billion from 150,000 funders through Lending Club. (LendingClub 2017.) In contrast, in 2010, Funding Circle was founded in the UK by Andrew Mullinger, James Meekings, Samir Desai (Irrera 2016). Funding Circle deals with the loan-based crowdfunding for businesses centered on the US and Europa. 71,000 funders on Funding Circle have lent more than USD 4 billion to support 32,000 SMEs. (Funding Circle 2017.)

The most famous equity-based crowdfunding platforms are Crowdcube and FundedByMe. (Savarese 2015.) Crowdcube was launched in the UK by Darren Westlake and Luke Lang in 2011. (Crowdcube 2017.) More than 450,000 funders have raised totally GBP 358 million for more than 590 fundraisers through the Crowdcube platform. (Trajkovska 2017.) In 2011, FundedByMe was established in Sweden by Arno Smit and Daniel Daboczy. FundedByMe deals with not only equity-based crowdfunding but also reward-based crowdfunding. Since 2011, over 463 fundraisers have raised money with over EUR 39 million from over 93,000 funders. However, reward-based can be offered across the world, whilst equity-based crowdfunding can be offered only in Europe. (Trajkovska 2017; FundedbyMe 2017.)

### **3 BACKGROUND OF JAPAN**

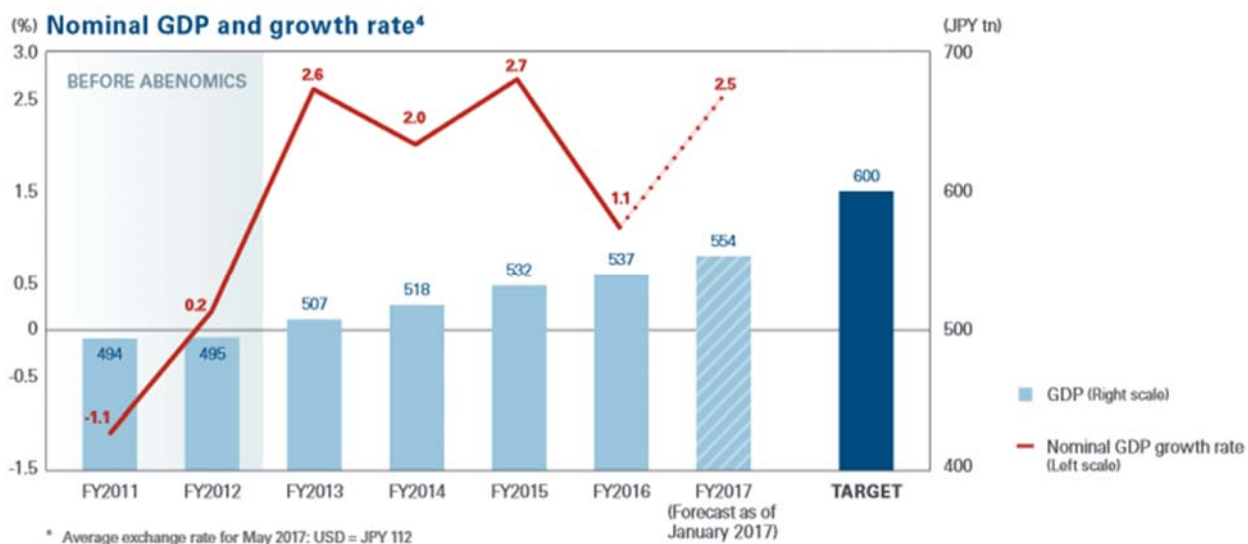
This chapter is regarding the background of Japan. The Japanese economic scale and the primary economic policy are described as the basic information in this chapter. In addition, the number of SMEs indicates the economic structure, and its trend shows the problem involved in Japanese economy. Aging society is understandable topic regarding the structure of Japanese society and social problems. Overly, this chapter describes the Great East Japan Earthquake in order to show Japan is an earthquake. The damages have continued for a long time.

#### **3.1 Japan's economy**

The Gross Domestic Product (GDP) in Japan recorded approximately USD 4.9 trillion in 2016, and was ranked third in the world (World Bank 2016). Currently, Japan has encouraged “Abenomics” since 2013. Abenomics refers to the economic policies of Prime Minister Shinzo Abe. Abenomics consists of the three “policy arrows”: aggressive monetary policy, flexible fiscal policy, and growth strategy. Under these three arrows, Abenomics aims to overcome deflation and stabilize economic recovery. (Government of Japan 2017.)

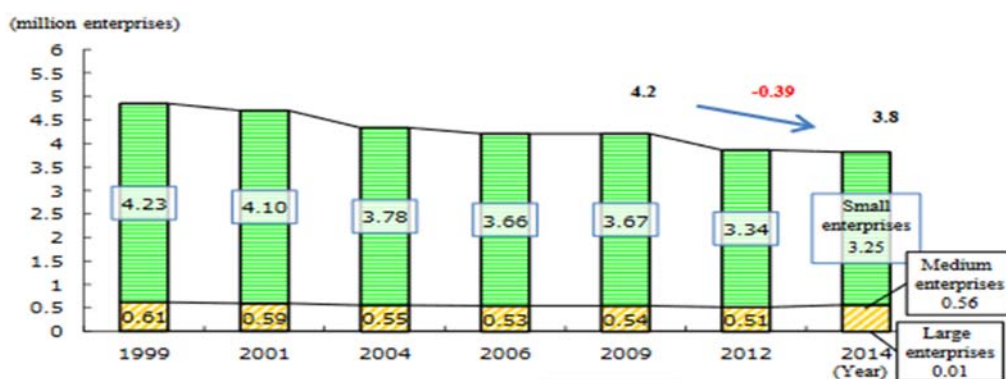
The background of Abenomics is struggling deflation for 20 years. In the 1990s, Japan's economy stagnated due to the burst of stock market and property bubbles. Consequently, companies concentrated on cutting debt and transferring manufacturing to overseas, salaries stagnated and consumers reduced spending. Once deflation arose, consumers started to expect prices to decline and they prolonged spending for the sake of saving money. That preserved the problem and run on the cycle. In addition, the ageing population is now deteriorating the problem. (Breene 2016.)

Graph 3 shows the nominal GDP and growth rate in Japan from fiscal year (FY) 2011. In FY 2011, the growth rate of the nominal GDP was minus, -1.1%. The nominal GDP in FY 2011 and FY 2012 were under JPY 500 trillion. Meanwhile, since launching Abenomics, the nominal GDP has grown steadily. The nominal GDP growth rate during Abenomics has fluctuated, but surpassed the records before Abenomics. In FY 2016, the nominal GDP recorded JPY 537 trillion and the growth rate of the nominal GDP recorded 1.1%. Abenomics targets that the nominal GDP will reach JPY 600 trillion in the future. (Government of Japan 2017.)



GRAPH 3. Nominal GDP and growth rate (adapted from Government of Japan 2017)

The number of large enterprises in Japan is approximately 0.011 million, meanwhile the number of the SMEs in Japan is approximately 3.809 million and accounts for 99.7% of total number of enterprises. Graph 4 shows the falling trend of the total number of enterprises in Japan. The decrease number of enterprises from 2009 to 2014 was 0.39 million enterprises. In 2016, the number of bankruptcies was 8,446, whereas the number of business exits was 29,583 and hit a record high. (The Small and Medium Enterprise Agency 2017.)



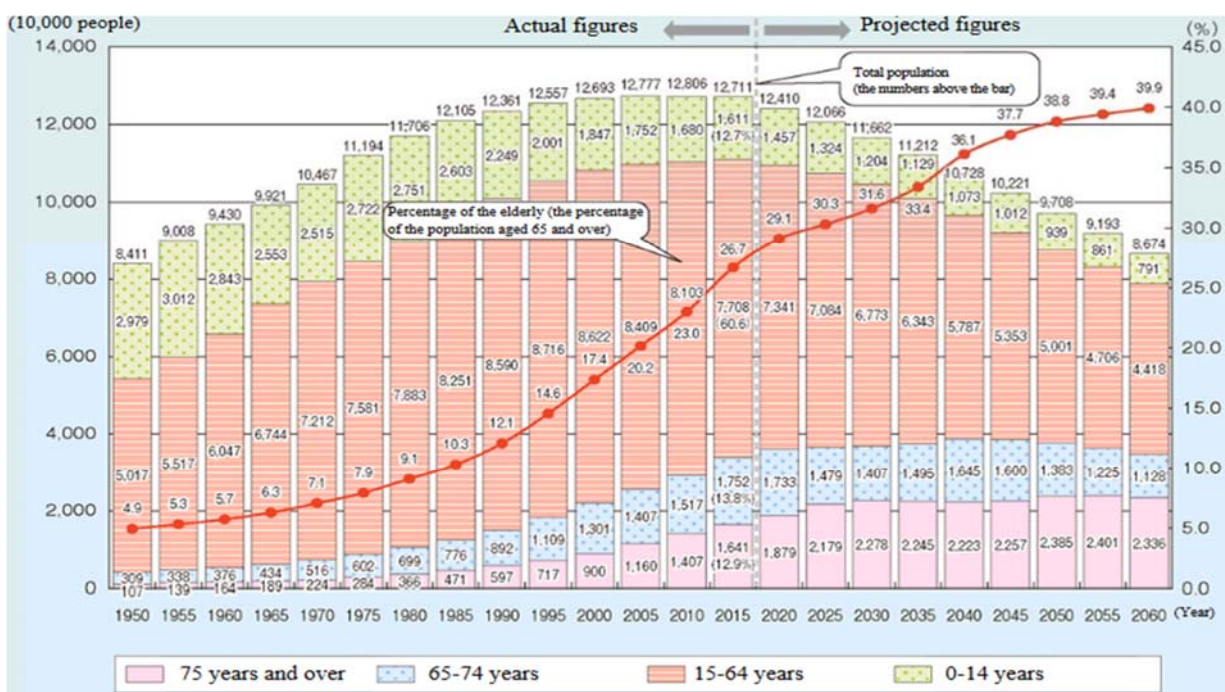
GRAPH 4. Changes in the Number of Enterprises (adapted from Small and Medium Enterprise Agency 2017)

This tendency is deeply affected by the aging population. With the increase of the aging population of SME business owners, lots of SMEs in Japan confront the time when they must transfer their businesses

to the next successor. More than 300,000 SME business owners will become 70 years old within five years, 60% of them have not still decided their successors. Even the half of business owners in seventies have started to prepare for their business succession. (Ministry of Economy, Trade and Industry 2017.) In FY 2015, approximately 26,700 businesses went out of business voluntarily because business owners could not find their successors or confronted the unclear business prospect (Kajimoto 2016).

### 3.2 Aging society

The total Japan's population in 2015 was 127.11 million people. The number of elderly people aged 65 and over was 33.92 million and accounted for 26.7% of total Japan's population. The life expectancy at birth in 2014 was 80.50 for men and 86.83 for women. (Cabinet Office, Government Of Japan 2017.)

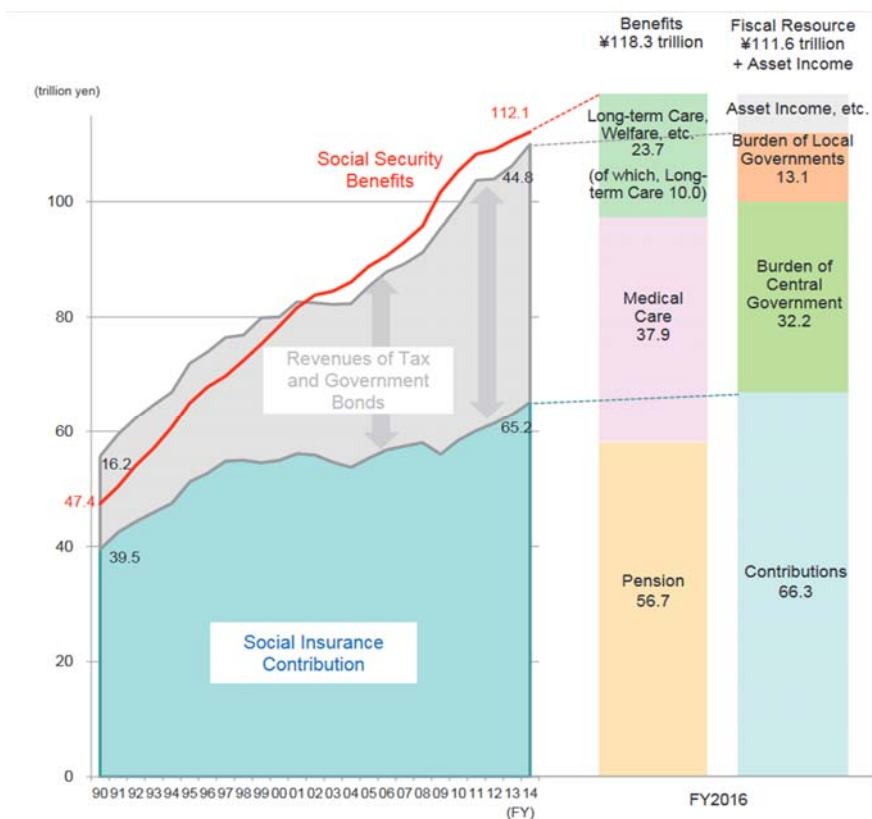


GRAPH 5. Trends in Aging and Estimations for the Future (adapted from Cabinet Office, Government Of Japan 2017)

Graph 5 shows aging trend and the estimated population in the future. The depopulation in Japan has started since Japan recorded the highest population at 128.06 million in 2010 and will continue going forward. The total population is expected to decline less than 100 million in 2050 and reach 86.74 million

in 2060. Whilst the ratio of elderly will continue to climb. The elderly population will record the highest point of 38.78 million in 2042, but the percentage of elderly population will continue to rise. The ratio of the elderly population in 2060 will record 39.9%. In other words, 1 in 2.5 people will be elderly people in 2060. In addition, the life expectancy at birth is expected to continue to extend. In 2065, the estimated life expectancy at birth is 84.19 years for men and 90.93 years for women. (Cabinet Office, Government Of Japan 2017.)

The social security expenditures for medical care, pension, and long-term care in Japan has increased greatly due to the rapid progress of aging society. This increase speed is faster than the growth of the corresponding social security contributions. Meanwhile, the social security system in Japan is based on a social insurance, the difference between the insurance benefits and the contributions has grown annually, and has been covered by national and local governments. The fiscal deficit has been caused due to the increase of this burden annually. As can be seen from the following graph 6, the amount of social security benefits in FY 2016 was JPY 118.3 trillion and greater scale, compared to JPY 47.4 trillion in FY 1990. (Ministry of Finance 2017.)



GRAPH 6. Increase in Social Security Benefits (adapted from Ministry of Finance 2017)

Japan consists of 47 prefectures. Among them, Akita prefecture was the highest ratio of elderly people at 32.6% in 2014. Overly, Akita prefecture will record the highest percentage of elderly at 43.9% in 2040 as well. (Cabinet Office 2017.) In addition, Japan is the low level of fertility rate. The shrinking fertility rate and aging population connect to decline the country's possible labor force and increase social benefit costs. The number of births in Japan was 976,979 and dropped less than 1 million in 2016. This was the first time since records started in the 19th century. Japan aims to improve the fertility rate per female to 1.8 in a bid to soften the shrinking population, but the fertility rate was 1.44 in 2016. (Ujikane & Nonomiya 2017.)

Each developed country is urbanizing and aging, but Japan is the fastest country. According to a 2014 book by Hiroya Masuda, a former governor of Iwate Prefecture of Japan, estimated that 896 municipalities will be extinct by 2040. He estimated that many municipalities will face the number of young generation falls deeply, as the ratio of elderly people increases. In addition, lot of young generation in rural areas migrate to metropolitan areas and do not return. Japanese municipalities are in the predicament how to manage their administrations with fewer tax revenue, and how to offer services for the more and more poverty population with fewer laborers. (Semuels 2017.)

### **3.3 Earthquake-prone country**

Japan is an earthquake-prone country. The Great East Japan Earthquake incurred on 11 March 2011. The earthquake was a 9.0 magnitude and set up huge tsunami. The north-eastern area, which are Miyagi, Iwate, and Fukushima Prefecture, were massively damaged. Miyagi Prefecture recorded 9,512 deaths, Iwate Prefecture recorded 4,670 deaths, Fukushima Prefecture recorded 1,605 deaths, and 66 deaths in other areas. As the result, the earthquake caused totally 15,853 deaths, 6,023 injured people, and 3,282 missing. Furthermore, the destroyed buildings were approximately 300,000 buildings, and additional one million buildings were damaged due to the earthquake, tsunami, and conflagration. The estimated economic cost of damage is totally JPY 16.9 trillion, and the estimated cost for reconstruction is over JPY 23 trillion over 10 years. The estimated volume of debris was massively 25 million tonnes. However, 5% of them had been disposed and 72% of them was placed at temporary sites yet in 2012. As the factors of this delay, it is hard to find locations for incinerators in affected fields and the disinclination in other prefectures to receive the waste in the midst of fears of radioactive pollution. (BBC 2012.)

Tsunami caused the Fukushima nuclear disaster. Three reactors at the plant of Tokyo Electric Power Co (TEPCO) in Fukushima Prefecture melted down due to the wave of tsunami. The estimated costs related to the Fukushima disaster is JPY 21.5 trillion for reparations and the disposal and storage of polluted soil. The electrical power costs for consumers will be higher for this heavy burden in long term. (Obayashi & Hamada 2016.) Currently, the progress of decommissioning the Fukushima Daiichi Nuclear Power Station of TEPCO is still ongoing. This work is related to the elimination of fuel from the buildings and demolishment them. The work for reduction of detrimental effects of the radioactive substances on the human organism and the environment by eliminating fuel debris and storing them stably will be continued. The estimated period to complete its work is 30 to 40 years. (Agency for Natural Resources and Energy, Ministry of Economy, Trade and Industry 2017a.)

In June 2012, approximately 347,000 people were evacuate at a peak period. Meanwhile 123,168 people evacuated yet in February 2017. Evacuees are expected to stay in evacuation because of delays in the construction of reconstruction housing, the arrangements of area for it and other durable housing, and because of the affects of the nuclear disaster. Evacuation orders which were published by the Japan government for 11 municipalities of Fukushima Prefecture have been removed or are scheduled to be removed in 9 municipalities of them. However, the rest of 2 municipalities still continue the situation completely under evacuation orders. (Mainichi 2017.)

Energy situation in Japan is also impacted by the earthquake. Japan is poor in resources, and depends on the import of fossil fuel from overseas. Before earthquake, the dependency on fossil fuel from overseas in FY 2010 was 62% of the energy sources for electricity generation. Liquefied Natural Gas (LNG), which is one of fossil fuels, accounted for 29.3% of total energy sources, whereas nuclear power accounted for 28.6% of total energy sources. The import amount of LNG was under JPY 4 trillion. However, nuclear power plants were shutdown after the earthquake. LNG-based thermal power plants generated furthermore electrical power to stabilize the supply of electric power. Hence, great quantities of LNG was increasingly imported from overseas. The dependency on fossil fuel from overseas in FY 2014 was 88% of the overall energy sources, and LNG accounted for 46.2 % of the overall energy sources for electricity generation. The import amount of LNG increased gradually after 2011. The import amount of LNG recorded less than JPY 8 trillion in FY 2014. In FY 2015, the import amount of LNG declined and was less than JPY 6 trillion because of a remarkably decline in the price of the crude oil. However, that amount was three time as the import amount in FY 2010. Consequently, the increase of import of LNG contributed to downturn in account balance, and Japan recorded a trade deficit. (Agency for Natural Resources and Energy, Ministry of Economy, Trade and Industry 2017b.)



The increase of import of fossil fuel had a negative effect on electric power costs in Japan. The following graph 7 shows changes in electricity rates. The electricity rates for homes and industries had increased gradually after 2011. In FY 2010, the electricity rate for homes was 20.4 yen/kWh. Meanwhile, the electricity rate for homes in FY 2014 was 25.5 yen/kWh, increased by approximately 25%, compared to the electricity rate in FY 2010. This electricity rate was the highest rate between FY 2010 and FY 2015. In FY 2015, the electricity rate for homes was 24.2 yen/kWh and declined by approximately 5%, compared to the electricity rate in FY 2014. However, that price was higher than the electricity rate in FY 2010. The tendency of electricity rates for industries was similar with the electricity rates for homes. In FY 2010, the electricity rate for industries was 13.6 yen/kWh. Meanwhile, the electricity rate was 18.9 yen/kWh, and increased by approximately 39%, compared to the electricity rate in FY 2010. In FY 2015, the electricity rate declined and was 17.6 yen/kWh, while that rate was higher than the rate in FY 2010. This increase of electric power costs had worsened household finances, and had brought pressure on business conditions of SMEs. (Agency for Natural Resources and Energy, Ministry of Economy, Trade and Industry 2017b.)



GRAPH 7. Changes in Electricity Rates (adapted from Agency for Natural Resources and Energy, Ministry of Economy, Trade and Industry 2017b)

## 4 METHODOLOGY

Methodology refers to a series of the flow regarding how research progresses. Methodology contains the procedures, methods, and techniques which are utilized for collecting and analyzing empirical data. (Eriksson & Kovalainen 2016, 328.) Methodology is related with how we are in touch with the world. Methodology indicates the practical character regarding how we are in touch with the world. Methodology involves systemizing principles that offer the process for leading the research design and research process. In some cases, methodology is referred to as the philosophy of methods. The focus of methodology is to represent how an ascribed problem or issue can be researched. Method is focused by methodology as the specific way. (Eriksson & Kovalainen 2016, 16-17.) Method refers to a theoretically known technique or way to collect and analyze empirical data (Eriksson & Kovalainen 2016, 328). Methods are usually classified into methods of data analysis such as thematic analysis and methods of data collection such as interviews (Eriksson & Kovalainen 2016, 17).

### 4.1 Qualitative research

Qualitative research is related with understanding and interpretation. Qualitative research approaches are to understand reality as socially constructed, namely, developed and interpreted via cultural and social meaning. In addition, in some qualitative research approaches, the data collection and analysis are conscious to the cultural and social context with the aim of a holistic understanding for ascribed researches. This document aims to explore crowdfunding in Japan, crowdfunding are related with cultural and society deeply. Therefore, this document adopted qualitative method. (Eriksson & Kovalainen 2016, 4-5.) Qualitative data are diverse, namely, there is not only one kind of qualitative data. Qualitative data is any information which can be obtained that is not measurable data. The common characteristic point of qualitative data is that the verbal, audio, textual, and visual material admit of interpretations and statements and does not concentrate on measurements. (Eriksson & Kovalainen 2016, 82-83.)

Reliability refers to a tool of evaluating the quality of the measurement procedure utilized to collect data. The measurement procedure demands reliable in order to be considered that the results of research study is valid. (Lærd Dissertation 2012.) Validity is utilized to determine which a research study truly measures what it was tried to measure, or how truthful the result of research study is. A lot of research ways and

styles have their own examines for reliability and validity established in to their basic methodologies and procedures. (BCPS Independent Research Seminar 2017.)

Documentary analysis is one of qualitative research methods (Research Rundowns 2009). Documentary analysis refers to gathering data from existent documents excluding having to inquire people through survey, interview or observe their action. Documents are tangible substances, which are the recorded ideas or facts. Generally, people think of materials, which are produced or written on paper, for instance, newspaper articles, government policy records, brochures and conference proceedings. Materials in other media can become the object of documentary analysis, including movies, music, photographs and websites on the Internet as well. Documents can disclose regarding the people or organization that created them and the context of society in which they appeared. (Skillsyouneed 2017.)

#### **4.2 Data collection**

For this research, the author searched online articles related to crowdfunding and collected them as the data. Basically, their contents were related to crowdfunding in Japan. Meanwhile, the contents of some articles were related to the regulation for equity-based crowdfunding in the US in order to compare the regulations in Japan and the US, and other some articles were also related to the hometown tax donation system in order to describe the information regarding that. After the data collection, the author classified them depending on the contents of themes and analyzed them for research.

All articles were written in English. The following table 1 shows the source of article, article title, and published year. The sources of articles were not only Japanese media, but also foreign media. The sources of articles are as follows: Asahi Shimbun, CNBC, Financial Times, Japan Times, Japan Today, Kyodo News, Meet Startup, Newsweek, Nikkei, Reuters, and Telegraph. The articles were compiled by sub-categories. Totally, 33 articles were utilized for this research.

TABLE 1. The articles for analysis

Section name	The source of article	Publish date	Article title
5.1 Crowdfunding projects for business in Japan	Japan Times	23/05/2014	Law enacted to promote ‘crowdfunding’ for startups
	Asahi Shimbun	19/12/2016	Struggling cedar wood industry branches out to liqueur in Kyoto
	Nikkei	08/05/2016	Robots helping to keep Japanese farms alive and thriving
	Japan Times	12/01/2016	Hokkaido women prove you don’t need to marry a farmer to become one
	Asahi Shimbun	18/07/2017	Letter opener that allows users to be temporary samurai warrior
	Japan Times	27/01/2015	Crowdfunding helps revive quake-hit small businesses in Japan
	Asahi Shimbun	19/08/2017	Sniffer doggy robot plays dead when detecting a foul odor
	Telegraph	26/05/2016	Japanese engineers say their flying cars will be in the air by the Tokyo Olympics
	Asahi Shimbun	06/01/2017	Financiers said ‘no’, public said ‘yes’, to hit anime movie
5.2 Crowdfunding projects for society in Japan	Reuters	17/10/2017	Japan’s “Blade Library” offers joy of blade running to amputees
	Kyodo News	23/09/2017	Tokyo's dementia restaurant serves up joy and laughter
	Asahi Shimbun	23/05/2017	Crowd-funding essential to cover float parades in Kyoto Festival
	Japan Times	29/03/2017	Plans for Kyushu ‘spamusement park’ progress after campaign raises necessary funds
	Asahi Shimbun	29/07/2017	Grab your towel, Beppu hot spring amusement park is now open

(continues)

TABLE 1. (continues)

	Asahi Shimbun	19/06/2017	Replica of famed sword gifted to quake-stricken Kyushu shrine
5.3 Crowdfunding platform in Japan	Financial times	07/01/2016	Female entrepreneurs flock to crowdfunding site in Japan
	Meet Startup	06/09/2016	Japanese crowdfunding platform reaches out to Taiwan startups
	Japan Today	27/01/2017	Crowdfunding: An attractive way of securing research funding in Japan
	Japan Times	02/11/2014	Crowdfunding leader wants others' dreams to come true
	Japan Times	28/10/2015	Yahoo Japan, Dentsu to launch auction-based fundraising service
	Nikkei	02/04/2017	Japan wades into crowdfunding world
5.4 Regulation in Japan and the US	Japan Times	23/05/2014	Law enacted to promote 'crowdfunding' for startups
	Japan Times	17/04/2014	Cabinet OKs bill that would push crowdfunding
	Nikkei	17/06/2014	Securities industry to create new market for unlisted startup shares
	Reuters	01/08/2012	With crowdfunding, experts urge caution before businesses raise funds
	CNBC	05/07/2017	Can you get rich by investing in a startup? How to do it — and the pros and cons of crowdfunding
	Newsweek	16/05/2016	The Crowdfunding Catch: Government Regulations
	Reuters	28/02/2017	U.S. crowdfunding offers new capital source, SEC finds
5.5 Crowdfunding and hometown tax donation system	Japan Times	04/12/2017	Tax donations for Yamagata city's squid fleet surge amid North Korean threat

(continues)

TABLE 1. (continues)

	Japan Times	10/01/2017	Town near Fukushima No. 1 raising funds to bring in doctors for lone hospital's 100 patients
	Japan Times	04/07/2017	Donations under hometown tax payment program hit record ¥284 billion in 2016
	Japan Times	20/10/2014	Hometown 'tax' donations system catching on
	Japan Times	27/10/2017	Crowdfunding for Japan's hometown donation programs may help revitalize local communities

## 5 CROWDFUNDING IN JAPAN

This chapter is regarding crowdfunding in Japan. In each sub-category, the articles related to the theme of each sub-category are introduced, and after that, the analyses are described based on their articles. First sub-category shows the different fundraisers proposed various projects and collected money for their own businesses from funders via crowdfunding. Second sub-category represents the private sector and local government raised money for society through crowdfunding. Third sub-category shows mainly the cases of famous crowdfunding platforms in Japan and the trend of Japanese crowdfunding platforms. Fourth sub-category represents the contents of regulation for equity-based crowdfunding in Japan and the US. This topic utilized the regulation in the US to compare with Japan. Final sub-category shows the function and trend of the hometown tax donation system, and the combination of crowdfunding and the hometown tax donation system.

### 5.1 Crowdfunding projects for business in Japan

Sanrio Entertainment has proposed the right to date with Hello Kitty to people who contribute JPY 100,000 via crowdfunding for a summer festival at the company's Sanrio Puroland amusement park in Tokyo. Funders via the campaign on the Internet will obtain rewards depending on the amount of their contributions. The right to date the lovely mascot during 20 minutes will be admitted to at most five people. The money raised will be utilized for equipment for the place of the Puroland festival. According to Sanrio officials, the target of the fundraiser is to grow the integrated feeling between the firm and fans in order to lead the festival to success. Other rewards contain a set of a mask and a sensu, which is a folding fan, proposed to at most 30 funders who raise JPY 5,000, and the right to pass a night at Puroland admitted to only one group of at most 5 funders who totally contribute JPY 2 million. Any corporation or other business organizer that contributes JPY 1 million will be able to call Hello Kitty for a regional festival. (Japan Times 2017a.)

Kitayama sugi, Japanese cedar trees, have been utilized to build tea houses for a long time, while the aromatic tree is currently a key material for a more potent potable. Fruit Liqueur Freaks LLC, a fruit liquor manufacturer in Nakagyo Ward of Kyoto, has developed a flavoring liqueur with Kitayama sugi in order to encourage the traditional but expensive constructing material. Tomoiki Sekine, the operator of the nokishita711 bar, suggested the idea of this liquor. He felt attraction to the unique aroma and

beautiful of the cedar, and offered his friend Ryota Anezaki, the top manager of Fruit Liqueur Freaks, the advice to use the cedar for making liquor. Currently, businesses dealing with the tree are relying on the beverage industry due to the rapidly reduction of production of the tree. According to the Kyoto city office, 238,000 Kitayama sugi trees were traded in the peak period of FY 1989, whereas the record in FY 2015 was only 17,000. Money was collected using crowdfunding to make the liqueur based on a full-scale, and totally 83 bottles have been ordered from 46 people funders. (Soeda 2016.)

Telefarm, the venture company in Ehime, has fulfilled a key role in introducing new guideline to agricultural land left abandonment for over 10 years in the mountains around the Ozu city, Ehime Prefecture. The cost of recondition for the land, including the elimination of tree roots using heavy equipment and other work is approximately JPY 1.3 million. However, the money did not collect from the conventional sources of financial institution such as banks or agricultural cooperatives. The project fascinated 140 funders, who are currently looking forward to see the results of their contributions to the reconditioned land. Money was collected for three months via crowdfunding. In accordance with the tech-oriented approach, the Internet and its potential of connection any number of people in the world are supporting to make new connections of funding for the agriculture in Japan. (Nikkei 2016.)

A woman who wants to become a farmer has conventionally had only two ways for the agricultural business in Japan: being born into a farming household or marrying a male farmer. It is difficult for females to lease agricultural land or borrow cash to purchase a farm due to the male-oriented society of country. Two young promising women are challenging this. Haruna Takano and Eri Sawai will launch their own farm with the assistance of supporters in spring 2016. They will establish Tokachi Girls Farm, which is the five-hectare arable land in Obihiro, Hokkaido. They collected money to meet the lease of their land through crowdfunding. Takano said they tend to be recommended to marry into a farming household when young females want to work in agriculture. In addition, Sawai said it is difficult for young females to lease agricultural land because people consider they will close farming after marriage. They make a plan to produce farm products such as corn, potatoes and asparagus. They will collaborate part of the harvest with crowdfunding funders who support them to meet the JPY 500,000 lease of the land per year. (Watanabe 2016.)

For the deskbound executive who images becoming a samurai while cutting through reams of letter, Nikken Cutlery Co., a cutlery manufacturer, has the suitable thing. The Katana Letter Opener is the reproduction of traditional Japanese swords called as "katana", and has an edge pattern marked on the sword to make the product more real looking. The letter openers have two designs, based on the theme



of legendary blades. The price of product is JPY 3,456, equivalent to USD 31, with tax. The company relied on a crowdfunding platform in February 2017 to collect money to progress the project. It collected approximately JPY 16 million, greatly exceeding the initial target of JPY 1 million. Females accounted for 40% of over 3,000 funders. A lot of them are affected by a famous online game that swords are personified. (Yoshizumi 2017.)

When the 18-meter tsunami destroyed his soy sauce plants in 2011 and an employee was dead, Michihiro Kono felt hopeless regarding the prospects of the company that his family established two centuries ago. After three years, his plants are operating once more and sales have retrieved to approximately 70% of what they were before the record earthquake struck Rikuzentakata, Iwate Prefecture. Kono says the source of the investment for reconstruction is cash from crowdfunding. He is the president of Yagisawa Shouten Co., and employs 32 workers. He has collected JPY 150 million through two funds formed via Music Securities Inc., an investment and musician management corporation in Tokyo. According to its web site, the funds provide shares at JPY 10,000 each, half of it counted as a contribution and the rest of it counted as an investment, which might or might not pay dividends. His credit quality improved, and Yagisawa Shouten could obtain a loan from banks. According to website of Music Securities, it has collected JPY 1.08 billion to support fund for earthquake rebuilding efforts through approximately 40 funds. (Oh 2015.)

A venture company developed a doggy robot with a sensitive nose that keels over when a doggy robot smells at a stench. The approximately 20-centimeter length robot, called Hana-chan, has a sensor in her nose. She measures the range of smell and responds with three stages of actions depending on the grade of the smell. She snuggles up to owners when she sniffs the smell, which is not so bad. When she sniffs a mild bad smell, she wags her tail as a reaction. Meanwhile, when she detects a foul smell, she keels over, as if Hana-chan is shocked by the fetid aroma. The venture company developed the robot by utilizing toy dogs on the market and equipping with devices after obtaining approval from the toy manufacturing company. Next Technology LLC, led by Takashi Takimoto, launched the project. This venture company receives orders, develops robots to supply the demand from firms and other entities and sells them. Currently, the development team is concentrating on an ability of sprinkling deodorizing spray to be installed in the robot. With this function, she can roam around a room and sprinkle deodorizing spray in places where she detects a foul smell. At the end of 2016, the company launched the crowdfunding project on the Internet to fund for the development of the device that the estimated amount was JPY 500,000, equivalent to USD 4,517. By the end of February, the project collected closely JPY 600,000. The company intends to progress its development in collaboration with a deodorant manufacturer to

develop Hana-chan, which installs the new mechanics and keeps the current size. Next Technology plans to provide Hana-chan with her current performance for funders who pay JPY 20,000 or more. The company hastens to produce the robots for those 20 funders. (Okumura 2017.)

A team of young Japanese engineers is developing a flying vehicle and aim to launch it by the 2020 Tokyo Olympics. The futuristic vehicle, named as Skydrive, is equipped with three tires, a motor and four rotors. The flying car can take off and bring down vertically from public roads without the need of a landing strip. Skydrive measures only 9.5 feet by 4.3 feet and argues to be the smallest flying vehicle in the world, with a target maximum speed of 62 mph, whilst flying up to 32 feet above the ground surface. Tsubasa Nakamura is leading a team of approximately 20 engineers and designers from across the automotive industry in Japan to develop the new generation flying car. The target is to offer a new type of individual transport in part to support evacuation from the collapse due to Japan's earthquakes. According to the website of the team, their vision is to start a new generation in which everybody is able to fly freely. They are developing the smallest flying vehicle in the world based on vertical taking off and landing (VTOL) system and it is able to fly anywhere and anytime. In 2014, Nakamura started the project for flying car by creating a small prototype with a toy motor. After collecting over JPY 2.6 million, equivalent to GBP 16,000, through crowdfunding, he could develop the first full-size prototype in 2015. Recently, the competition for the launch of the first commercial flying vehicle in the world has overheated, with the increase of number of global corporations investing in the technology for futuristic flying. (Demetriou 2016.)

Financiers did not have an interest in “In This Corner of the World” by Sunao Katabuchi, whilst the public had, and finally the movie filled cinemas across the country due to crowdfunding and word of mouth. On November 12, “In This Corner of the World” released in 63 movie theaters in Japan without a main distributor. According to Taro Maki, the producer of film, the budget of this film was small, total amount of costs was JPY 250 million, equivalent to USD 2.13 million, and it could not purchase TV advertisements. In spite of the insufficient exposure, positive impressions expanded by word of mouth via social networking services such as Twitter. The movie recorded the fourth rank in total number of audience among all the movies on screen at the time, and the sales recorded JPY 500 million for 4 weeks from the release. The total number of screening theaters is planned to reach 195, over threefold, compared to the movie started with. First time, there were not firms that wanted to invest in producing this movie. Maki said companies did not appear the positive reactions for the proposed project. The project team determined to try and create a pilot movie for promotion by collecting money via crowdfunding when they completed the draft and storyboards. When they requested crowdfunding via the Internet in

March 2015, they collected approximately JPY 40 million from 3,374 funders in two months, mostly twice as much as target amount. After the opening film in Japan, they launched another crowdfunding campaign, which aims to collect money to cover the costs of travel and accommodation for the director to participate in international film festivals. In only two days, approximately JPY 25.66 million was collected, over twice as much as target amount. (Goto 2017.)

As can be seen from the above articles, the scale of Japanese fundraisers are individual, SMEs, and large company. The successful projects do not relate with the difference of company scale. Crowdfunding is utilized by the primary industries, the secondary industries and the tertiary industries. The Yagisawa Shouten Co. case shows the damages of earthquake are serious and SMEs can collect over JPY 100 million. The Nikken Cutlery Co. and the animation movie cases indicate that culture contents have significant impact. In addition, the animation movie case shows social network services contribute largely to the success of crowdfunding project. Tokachi Girls Farm case appears that crowdfunding breaks the sexual barrier and promotes the advance of women in society. The Fruit Liqueur Freaks LLC case shows the primary industries have declined and crowdfunding is effective measure to support for obtaining the new demand. As the similarity points, almost all fundraisers are business-to-customer companies or business-to-business companies that are close to business-to-customer companies, and basically, the target amounts of many projects are several hundreds of thousands or millions of yen.

## **5.2 Crowdfunding projects for society in Japan**

The Blade Library in Tokyo allows people to try on prosthetic blades for running for a small admission. According to an official at the Ministry of Health, Labor and Welfare, the blades, which are expensive thousands of dollars each, usually do not meet the qualification for government subsidies in Japan because they are not regarded as essential to everyday life. People can try 24 prosthetic blades in the Blade Library paying a daily admission of approximately JPY 1,000, equivalent to USD 9. Xiborg is a Japanese firm that operates research and development regarding artificial limbs for runners, and opened the library. The company raised more than JPY 17.5 million, equivalent to USD 156,300 via crowdfunding to open the building. (Funakoshi 2017.)

In the Tokyo pop-up restaurant, all waiters and waitresses have dementia. Meanwhile, the customers consent to their mistakes. Shiro Oguni, a Japanese TV director, is the original proposer of “The Restau-

rant of Order Mistakes”. His target is to heighten consciousness of dementia and vary recognition regarding the symptom. In June, the pop-up restaurant first opened, and had a second operation for three days from 16 September. It seems only natural that Japan plays leading role in facing the problem due to rapidly aging population and an increasing number of dementia patients. Dementia expresses an extensive category of symptoms affecting the brain, including loss of memory and declined judgment due to damage to nerve cells. Meanwhile retarding the progress of the symptoms is possible, there is no measure to remedy or establish treatment to determine the underlying causes. Alzheimer's disease is the most common case of dementia. As the country considered having the largest aging population, the Japan`s government and private sector are enhancing efforts to cope with the rising costs of providing health and nursing care to people with dementia. In addition, they are strengthening measures to prevent traffic accidents due to the aged drivers with dementia and intending to monitor people with the affliction who disappear. According to government statistics, the number of elderly people more than 65 years with dementia is estimated to increase from approximately 4.62 million in 2012 to 7 million by 2025. The 17 waiters and waitresses worked in rotation on 16 September. The operation during three days in September was made possible by the approximately JPY 12.9 million, equivalent to approximately USD 115,000 that was raised via crowdfunding. Approximately 300 people visited, mostly those who supported in the crowdfunding project, and the restaurant fulfilled occupancy every day. (Masangkay 2017.)

The group responsible for the crowning part of one of premier festivals in Japan has relied on crowdfunding to meet large costs of the annual festival. The Gion Matsuri Yamahoko Rengokai wants to assure the safety for visitors and cover costs of insurance during the “yamahoko” float parade, which is the featured attraction of the Gion Festival annually. According to Yoshihiro Kishimoto, the chairperson of the Gion Matsuri Yamahoko Rengokai, another target of the crowdfunding campaign on the Internet is to make people recognize that enormous expenses for the festival safe and secure are incurred. The Gion Matsuri Yamahoko Rengokai, based in the Nakagyo Ward of city, started to appeal funds via Makuake. The project offers five options, which are the price range from JPY 3,000 to JPY 100,000, equivalent to USD 27 to USD 896, with tax. The offered rewards depend on the amount of funded. They contain a “chimaki” amulet and "sensu" folding-fan usually provided only for those directly related to the festival. At first, the group designated to collect JPY 3 million via the campaign, but that target has already been overtaken. The group said organizers of the Gion Festival ask not only a police presence, but also private guards from a security firm, to supervise the thousands of visitors for the duration of the Yamahoko Junko grand parades, as well as the “yoiyama” for each parade during three days in the evening. Operating costs for the parades were JPY 40 million in 2016. According to officials, it was hard to meet those

costs simply based on bounties by city offices and money from municipalities that perform parades. (Sato 2017.)

Beppu city in Kyushu is one of the largest hot-spring tourist sites in the world. In 2016, Yasuhiro Nagano, the Mayor of Beppu, promised to launch a “spamusement park” in an uploaded video on the Youtube if the number of views of video recorded over 1 million views. The video shows males and females of all generations who wear towels and enjoy at the planned park. (Japan Times 2017b.) The target was accomplished in only three days. City officials relied on crowdfunding and other to implement the project. The project has raised JPY 82 million, equivalent to USD 740,800 since February 2017. Funders who paid JPY 8,000 or more for the project are admitted to enter the amusement park. The admission tickets for the day are not in trade. Beppu Rakutenchi, a traditional park, had been changed into the amusement place with the theme of bathing for bathers during just three days. It launched on the 29th of July. Bathers to “Yu-enchi”, the spamusement park, are able to take a merry-go-round that the horses and carriages are transformed into bathtubs or a roller coaster with seats, which are overlaid with bubble. The city official forecasts that approximately 12,000 people will enter Yu-enchi for the three days. (Onaya 2017.)

In Asojinja shrine, a replica of a missing sword on a long-term basis was unveiled in a function performed on 17 June 2017 as the emblem of restoration from the post-earthquake. A lot of enthusiastic fans of sword visited the shrine to have a look at the restored the Hotarumaru sword, which is worth a ransom of king. Harutaka Aso, the chief priest of the shrine in central Kyushu, said it is deeply emotive to return the sword back even if it is a restored sword. In April 2016, the central Kyushu was damaged due to successive strong earthquakes. It is said the swordsmith Rai Kunitoshi forged the Hotarumaru in the Kamakura Period between 1192 and 1333. The Aso family, who succeed to the occupation of chief priest at the shrine, had passed down the Hotarumaru for generations until it was missing in the post-war chaos. Fukudome and Koroki, swordsmiths, conceived the idea of forging the Hotarumaru once more and restored the Hotarumaru. The problem was covering the cost of making it, and they relied on crowdfunding via the Internet. The project collected JPY 45.12 million, equivalent to USD 407,000, from 3,193 funders. The Hotarumaru appears in “Token Ranbu,” a famous online game that the traditional swords and blades are personified as the characters. (Kikuchi 2017.)

The above successful crowdfunding projects for society show the social welfare problems and regional activation in Japan. Fundraisers are not only private sectors, but also local governments. The crowdfunding project for dementia attracted attention and was succeeded by its unique idea. The high amount of collected appears the seriousness of dementia problem in Japan and the sympathy with its concept. It

is estimated that the projects based on similar concept will increase going forward. As with the crowdfunding projects for business, the restoration of Japanese sword indicates that Japan is the earthquake country and the culture contents have large effect. As the similarity point, Kyoto and Beppu are originally famous tourist resorts. They have the strong original contents and made the successes of their projects using them. The Beppu case shows the importance of unique idea based on local specialty material. The Kyoto case appears the costs of a great event is very expensive and even metropolis struggles to raise money in order to perform a great event.

### **5.3 Crowdfunding platform in Japan**

In 2011, crowdfunding platforms launched to trend in Japan in 2011, and the number of platforms increased rapidly over 100 within five years (Lin 2016). ReadyFor is one of largest crowdfunding platform in Japan. 40 projects raised fund on the ReadyFor in 2011. After that, the total number of projects in 2015 was more than 1,750 in 2015. (Lewis 2016.) Totally over 5,300 projects has been offered and more than JPY 3.2 billion has been raised successfully through ReadyFor (Sugita 2017).

ReadyFor was launched by Ms Haruka Mera in 2011. ReadyFor is mainly reward-based crowdfunding and adopts all or nothing type. With regard to the flow of fundraising on the ReadyFor platform, firstly a fundraising campaign starts with the fundraiser who provides a proposal including the scheme of project plan and the target amount. If the proposal is agreed, the fundraiser with assistance by a staff "curator", makes the design of the webpage to promote the appeal. Usually, it takes three weeks to list a campaign page on the online. ReadyFor members who view the campaign page and judge the campaign which has the value for support can make a request one or more "tickets", depending on how much they want to fund and become a funder. The funder obtains the right from the fundraiser to receive rewards, which usually differ along the ticket price. These can be anything from a thankful message, an admission pass to a concerned event, campaign-related mailing-cards or goods, or an engagement to exhibit the names of funders in some fashion. Under all or nothing model, the fundraiser gets to receive the net amount of the ticket receipts collected excluding the 17 percent commission fee if the offered amount meets the self-decided target by deadline. If ticket orders are inadequate to meet the target amount by deadline, the campaign and all submitted orders up to that point are discontinued at no expense to the fundraiser or the funders. (Kodera 2014.)

Almost the projects demand the equivalent of approximately USD 40,000, however, projects are expected to improve seriously further eager. Half of the funding which are proposed projects on ReadyFor also come from females, who depicts themselves using social network services for empathic, both to exploring new business conceptions and the barrier confronted by females attempting to collect money through conventional channels in Japanese. They desire to collect money for business or non-for-profit projects through ReadyFor. Mera considers that things have varied much since the earthquake in 2011. She said Japanese society was made to remind largely that it has to collaborate together to perform things and to encourage reform of the country. Almost female fundraisers who utilize ReadyFor are females in their thirties and forties. Those generations left their works due to traditions to leave child birth and care and were not provided the opportunity to restart works when their children started to enter in school. Mera convinces that crowdfunding will take the place of bank loans to obtain capital for SMEs. (Lewis 2016.)

Makuake is also one of the largest crowdfunding platforms in Japan. Makuake is the subsidiary of Cyber-Agent, which is the Internet services group, and was launched by Ryotaro Nakayama in 2013. Over 70,000 members of Makuake view per day and more than 190,000 daily page views are counted. Most of funders at Makuake are between 30 and 50 years old, and the ratio of male to female in terms of funders is six to four. Funders at Makuake pay JPY 15,000 on average, over double the internal average on e-commerce platforms in Japan. Approximately 90% of the products which request for crowdfunding through Makuake are made in Japan and the rest come from oversea ventures. Makuake focuses on supporting to support commercial products. Approximately 60% of the campaigns are finished products such as fashion products, general hardware, IoT hardware, and food. The rest approximately 20% of campaigns are related to catering service and culture contents such as anime, music, and movies. Makuake assort 2 options for fundraisers: "all or nothing" and "all in". In the "all or nothing" case, funds will be returned to funders if a campaign does not attain its targeted amount. Meanwhile, in the "all in" case, fundraisers can obtain whatever they collect money even if they miss targets. Makuake also collaborates crowdfunded goods with retail stores. Isetan, the large Japanese department store franchise, helps to provide crowdfunded goods on shelves. (Lin 2016.)

Yahoo Japan Corp. and Dentsu Inc., a famous advertising company, will start a new fundraising service in 2015. This service aims to support projects collecting money via the sale of secondhand goods. Hotel Okura Tokyo will be the first to utilize, selling a lot of furniture and equipment due to a building reform by auction. The collected money will be utilized for a charity that the hotel supports. The name of this new service is "reUfunding", the key word is "Reuse". The promoters name it a type of crowdfunding.

A spokesperson for Yahoo Japan said reUfunding is different from stereotyped ones in that people can help the project proposer due to making a social contribution simultaneously. ReUfunding can function in one of two measures. One is that project proposers sell off secondhand items via Yahoo Japan Auction and people who want to help their projects take bids. Another is that people contribute their own secondhand items and assent to contribute its profits for the project. The spokesperson said reUfunding conduces to a recycling-oriented society due to encouraging reuse. (Kameda 2015.)

Japan Cloud Capital, a startup in Tokyo, is ready to start the first scheme of equity crowdfunding in Japan. Emerada, a broker for fundraising and investment services on the Internet, is also dealing with a similar project. (Nikkei 2017.)

A lot of crowdfunding platforms have been established in Japan. Even large companies have entered into the crowdfunding platform business. The increase of number of crowdfunding projects on ReadyFor shows the growth of crowdfunding in Japan. Makuake and ReadyFor indicates that the many funders are middle aged and the gender ratio of funders is not difference so much. Mera's interview appears that Japan has the social problem regarding female, while crowdfunding can support the social progress of Japanese women. In addition, Mera's idea regarding bank loans indicates that the size of financial institutions such as banks in Japan will be shrunk by the growth of crowdfunding in Japan. Makuake represents almost fundraisers are Japanese fundraisers and small foreign fundraisers utilize its services. It is considered that almost funders are Japanese funders as well. Makuake and reUfunding represents that large companies know the effectivity of crowdfunding and utilize or collaborate with crowdfunding platforms. Japan Cloud Capital and Emerada indicate that equity-based crowdfunding platforms in Japan are still early stage.

#### **5.4 Regulation in Japan and the US**

In 2014, the House of Councilors established a law to encourage crowdfunding in Japan. Startup entrepreneurs are available to further easily sell unlisted stocks across the Internet to collect money. The instrument redacts the Financial Instruments and Exchange Law to reduce the amount of minimum capital to JPY 10 million from JPY 50 million for enterprises, which can be a broker unlisted stocks in startups for crowdfunding. The instrument restricts a funder's investment in a startup to JPY 500,000 in order to guard against inordinately investment in the high-risk enterprises. (Japan Times 2014a.) The intermediation of capital investment for startups by configuring a fund is also admitted enterprises to



reduce the amount of minimum capital to JPY 5 million from JPY 10 million. (Japan Times 2014b.) A company can collect money up to totally JPY 100 million (Nikkei 2014).

It also lowers information disclosure and other burdens on entities issuing unlisted stocks. The required documents for listing shares will be facilitated to promote startups to list on stock trading. During review of the alteration, the related Diet committees selected a decision emphasizing the Financial Services Agency to properly superintend brokerage firms and discourage investors to support for prevention of deceit sales of unlisted stocks. The agency will reflect the decision in future legislations and legal controls. (Japan Times 2014a.)

By variegating fundraising aims emerging entities suffering to loan money from financial institutions, the Japan Government, Prime Minister Shinzo Abe, purposes to promote their development, believing it will support to strengthen internal demand and surmount deflation over two decades. Taro Aso, the finance minister, said the legislation reform is needed to enforce the provision of risk money and push up the confidence in the Japanese financial market. (Japan Times 2014b.)

Meanwhile, in the US, Barack Obama, the former President, signed the Jumpstart Our Business Startups (JOBS) Act in April 2012. The JOBS Act aims to regulate crowdfunding. (Carlozo 2012.) Subsequently, the JOBS Act came into force that permits anyone to invest at any rate some of their money in certain vetted startup entities in May 2016. Up to that time, only affluent investors could purchase a stake in a small private entity. In this case, vetted denotes that the startup has been listed on an online debt or equity crowdfunding platform that itself has been clarified by the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA) to list startups collecting money. Platform must certify that funds of investors are preserved from robbery or computer accident, and nobody is ensured dishonest acts of transactions. (Wile 2017.)

There are other items of regulation to preserve funders from failing funder's life savings. By FINRA and the SEC, if a funder has below USD 107,000 in the bank account, a funder can invest either USD 2,200 per year, or 5% of funder's annual income or net worth, whichever is smaller. If both funder's annual income and funder's net worth are USD 107,000 or more, funder can invest as far as 10% of funder's annual income or net worth, whichever is smaller. These were the regulation that Congress established for ordinary people without large net worths are invested all money in one entity. The one exception is if a funder utilize a platform that permits a funder to lend money to the entity, in which case a funder

will see regular but smaller returns from payments of interest. A loan differs from an investment, where a funder is not ensured to receive any returns. (Wile 2017.)

One primal reason to be discreet regarding investing in a small private entity is that there is probable no market for exchanging funder`s stocks a funder has invested on one occasion. That denotes that a funder cannot constantly sell stocks to anybody else, even if a funder considers that the value of funder`s stocks has risen up. Compared with a stock or debenture, which have liquid markets such as the New York Stock Exchange, where a funder can sell funder`s stocks to a total stranger who considers it would have even value more later. (Wile 2017.)

Under the JOBS Act, a fundraiser can collect USD 1 million (Knight 2016). Meanwhile, as with a lot of entrepreneurs of small business and venture capital, Republicans in Congress, have criticized the regulation. The reason is that it enforces severe rules on crowdfunding that they say make it serious expensively and make obstacle that might discourage entities from utilizing it. In one example, the regulation orders crowdfunding platform to enroll in the SEC, and entities that utilize crowdfunding to collect money are obligated different financial reporting release requirements. (Lynch 2017.) The following table 2 is tabulated based on above sentences.

TABLE 2. The law for equity crowdfunding in Japan and the US

Law for equity crowdfunding	Japan	The US
Related administrative agency	Administrative agency is the Financial Services Agency (Japan Times 2014a).	Administrative agency is the Securities and Exchange Commission and the Financial Industry Regulatory Authority (Wile 2017).
Related law name	Law name is the Financial Instruments and Exchange Law (Japan Times 2014a).	Law name is the Jumpstart Our Business Startups Act (Carlozo 2012).
Enactment year	Enactment year is 2014 (Japan Times 2014a).	Enactment year is 2012 (Carlozo 2012).
The regulated amount for a fundraiser	Funding amount is up to JPY 100 million (Nikkei 2014).	Funding amount is up to USD 1 million. (Knight 2016).

(continues)

TABLE 2. (continues)

The regulated amount for a funder	Up to JPY 500,000 per startup company (Japan Times 2014a).	If a funder has below USD 107,000 in the bank account, a funder can invest either USD 2,200 per year, or 5% of the annual income of funder or net worth, whichever is smaller. If both the annual income and net worth of funder are USD 107,000 or more, funder can invest as far as 10% of the annual income of funder or net worth, whichever is smaller. (Wile 2017.)
The regulated amount for an intermediater of crowd-funding	A broker which deals with unlisted stock type needs the amount of minimum capital JPY 10 million (Japan Times 2014a). A broker which deals with fund type needs the amount minimum capital JPY 5 million (Japan Times 2014b).	There is no regulation regarding amount for an intermediater of crowdfunding.

As the similarly points between Japan and the US regarding equity crowdfunding, the maximum amount of raising money is almost same. If the rate of USD 1 is JPY 100 simply, USD 1 million is JPY 100 million. In addition, both of them intend to restrain the investment in high-risk companies and protect funders. This indicates that both of them take a cautious stance against equity crowdfunding. As the different points, the regulation for crowdfunding platforms and the view of burden on fundraisers. In Japanese case, setting the minimum amount of capital against crowdfunding platforms. This intends to restrain the bankruptcy of crowdfunding platforms, evade the risk of financial market turmoil, and protect the funder's asset. Meanwhile, the US does not set the minimum amount of capital against crowdfunding platforms. This facilitates market penetration of crowdfunding platforms. Thus, it is estimated that the US aims to promote equity crowdfunding by encouraging the market entry of crowdfunding platforms.

Regarding the burden on the fundraisers, Japan deregulates the responsibility of fundraisers in terms of the information of disclosure and lighten the burden on the fundraisers, whilst the disclosure responsibility is heavy for fundraisers in the US. Additionally, the viewpoint of maximum amount of funding are largely different. In Japan, the amount of funding is limited by the amount per project. While the US adopts the measure that the amount of funding is limited by the amount of annual income and assets of funders. Hence, from the above contents, the tendency of Japanese regulation is simplification, whereas the tendency of regulation in the US is complication.

### **5.5 Crowdfunding and hometown tax donation system**

Sakata city, Yamagata Prefecture, requested for the hometown tax donation, referred to as furusato nōzei, to help squid fleets in the Sea of Japan. The request has obtained an overwhelmingly positive reaction amid the increase of security concerns in Japan. According to the Sakata city office, more than JPY 10 million, double the amount of target, has already been raised through the system, which allows people to donate to the municipalities of their selection for the qualification of tax deductions. According to city officials, the distress of its squid fishermen is believed to have fascinated public notice from the viewpoint of concerns in their areas of operation related to offensive North Korea. 11 fleets set sail from the Port of Sakata every June and they have caught squid for approximately eight months. After they went out fishing this year, the fishermen were compelled to wrestle with several matters in their fishing areas, including the menace of North Korean missiles landing in their areas for fishing and the existence of poachers believed to be from North Korea. In July, the Fisheries Agency patrol ship was pointed a rifle from a crew member of a North Korean boat, which invaded illegally in Japanese territorial waters. After that, the Yamagata Prefecture fisheries cooperative association and other organizations claimed the countermeasures to the national government. In August, the Sakata Municipal Office appealed contributions, offering people to help the squid fishing boat operating at ocean. Government crowdfunding was utilized. A mechanism of government crowdfunding is that municipalities such as towns, cities and prefectures desire contributions through the Internet via the furusato nōzei system. The contributions attained the goal of JPY 5.35 million by the end of August and have since exceeded JPY 10 million with weeks still remain before the deadline for the project at the end of December. The contributions will be utilized mainly to set up a simplified bathing facility for fishermen in the port and pay for rental cars that they utilize for travels town center to refresh and make a purchase during calling at port. The rapid rise of contributions came after the city office raised only approximately 20% of its goal during the one-

month project in May, before the squid boat went out fishing. The platform of the hometown tax donation system is accepting contributions. (Japan Times 2017c.)

The town of Hirono in Fukushima Prefecture has started a crowdfunding project to entreat contributions from the public because only hospital in the town faces crisis due to the death of only one fulltime doctor. The director of the private hospital was 81 years old and died due to a fire at his house on the hospital areas on December 2016. 100 inpatients were left in the hospital. It is the only hospital managing in the Futaba district, which has the damaged Fukushima No. 1 nuclear power plant. The other five hospitals in the field closed due to the Great East Japan Earthquake, tsunami and nuclear disasters in 2011. The crowdfunding project on ReadyFor was launched on Monday and aimed JPY 2.5 million to support finance the cost of calling in volunteer doctors in the town to accomplish duties of the dead doctor by the end of March. The total amount of contributions had already surpassed JPY 3 million as of Tuesday afternoon. The contributions will be utilized to meet the transportation and accommodations expenses of the otherwise unpaid volunteer doctors. Over 30 doctors from over the country have applied to support thus far. The minimum amount of contributions is JPY 3,000 and contributions are tax deduction in part if they utilize the hometown tax donation, which is referred to as furusato nozei system. (Japan Times 2017d.)

Hometown tax donation system refers to a donation that people apply to the local or prefectural municipalities of their choice. Hometown tax started formally in 2008 to support the revitalization of regional economies. Local governments that people select are not necessary to have to be their own hometown unless the part of name is hometown. They are able to select almost any municipalities that they want to support. Its relation with tax comes from the fact that contributors have the qualification for deductions in their income and resident taxes, which are mostly large enough to offset the amount of contributions. A lot of local governments repay the generosity of contributors by sending them original local products in return, in the hopes of collecting more donations. The contributions in 2011 soared because people were anxious about inhabitants in the Tohoku region after the Great East Japan Earthquake in March 2011. One reason of popularity of the furusato nozei is that donors obtain local specialty products in return. Another reason is that donors are able to select how their contributions are utilized. Meanwhile, the furusato nozei has the upper limit depending on the income per year and family structure of contributors. While the basic regulation is that the higher the ordinary tax payment of contributor, the contributor can claim the more deductions. In belief, the contributor who earns high income can obtain more benefit. In one example of the furusato nozei, a person who earns JPY 7 million per year and does not marry is able to assert a tax reduction of JPY 48,000 for a JPY 50,000 contribution. (Osaki 2014.) The

amount of its donation excluding JPY 2,000 is deducted from the national and local income taxes of the contributor. In belief, if the contributor receives the gift in return with the worth of over JPY 2,000, the contributor obtains benefit. (Japan Times 2017e.)

According to the Ministry of Internal Affairs and Communications, the amount of tax deductible donations by the furusato nozei in FY 2016 was JPY 284.4 billion and reached a record high. Contributions increased by 1.7 times compared to FY 2015 because the online procedures was simplified and promoted more people to make use of the system. Meanwhile, the growth rate of contributions in FY 2016 decreased from the 4.3 times in FY 2015 because the maximum amount of permissible tax-deductible contributions was twofold in FY 2015. The number of contributions in FY 2016 was totally 12.7 million and increased by 1.8 times compared to in FY 2015. Miyakanojo city, Miyazaki Prefecture, collected JPY 7.33 billion and was top of recipient of contributions in FY 2015 and FY 2016. In Miyakanojo case, the gifts in return were local specialty items such as beef and alcohols. Local governments that suffered damage by natural disasters tend to see the number of contributions rise sharply. Kumamoto city collected under JPY 3.7 billion and ranked in sixth after the strong earthquakes hit Kumamoto city in April 2016. Meanwhile, the ministry has required local municipalities to abstain from proposing expensive rewards in the midst of concerns that only financially practicable local governments will be able to attract funders, which will run counter to the purpose of the system. A lot of local governments send contributors regional products such as vegetables, meat, and sea products in return for contributions, whilst some municipalities propose coupons and personal computers, which can be turned into money. In response, approximately 90% of around 200 municipalities that rank among the winners for the amount of contributions collected announced their plans to change their approaches. (Japan Times 2017e.)

In an endeavor to invigorate communities, the Ministry of Internal Affairs and Communications released plans to help local municipalities, including permitting the utilization of crowdfunding for the furusato nōzei system. Launching in FY 2018, the ministry will provide special grant tax to municipalities that utilize part of the tax revenue from the furusato nōzei system to support through subsidies for starting a business in local. The ministry will also offer financial support to local municipalities that attempt to utilize tax revenue from the hometown donation system for new programs that promote people to migrate to their regions, including campaigns to repair old houses or programs to introduce works to expected inhabitants. The ministry will gather a list of best approaches related to campaigns with the furusato nōzei system in early next year. Seiko Noda, Minister of Internal Affairs and Communications, called on local municipalities to utilize positively the new support program. (Japan Times 2017f.)

As can be seen from above articles, the hometown tax donation system is a unique taxation system. The increase of the amount of contributions describes its popular. Many local governments that utilize the hometown tax donation system obtain tax revenue across the country using local specialty goods. In belief, local municipalities can advertise their local specialty items. The primary sector products are representative example of the gifts in return. The hometown tax donation system promotes the management of primary sector and the consumption of its products. Meanwhile, the hometown tax donation system has the disadvantages. Some return present cases are not operated suitably due to overheat competition of returning gifts, municipalities cannot stabilize the estimated tax revenue. The case of Hirono town describes the serious aging problems and the scars left by the natural disasters are still visible. Sakata city shows the recent national security problems in Japan and the negative effect on the primary sector. In addition, the first failed project and this successful project in Sakata city indicates the importance of the topicality.

The article regarding the Sakata city case refers to the system of government crowdfunding. To sum up, government crowdfunding consists of crowdfunding and the hometown tax donation system. A local government proposes crowdfunding project for problems or something ideas in own area to collect money as part of the hometown tax donation system. A contributor donates for the project via the hometown tax donation system and obtains something gift in return. Crowdfunding platform such as ReadyFor in the project of Hirono town and the platform for the hometown tax donation system provide government crowdfunding service. Government crowdfunding is expected to the synergistic effect of crowdfunding and the hometown tax donation system. This might be a chance for the featureless and low-profile local governments. The hometown tax donation system and crowdfunding are that local governments which have the name recognition of regions or local specialty products have the power of success. Conversely, it is difficult for featureless and low-profile local governments to collect money through the hometown tax donation system. Meanwhile, in the case of government crowdfunding, the featureless and low-profile local governments might be possible to collect money depending on the quality of projects.

The combination of crowdfunding and the hometown tax donation system will be utilized for the financial support policy of the central government regarding the hometown tax donation system. This financial support policy will order indirectly the targets to deal with local depopulation. It is estimated that this model will grow because of the deterioration of the rural depopulation and financial support from the central government. In belief, the competition between municipalities to collect money will grow sharply. The local governments will need to be required further planning of ability going forward.

## 6 RECOMMENDATION

Regarding the Japanese crowdfunding platforms, the strong points of them are that the government promotes crowdfunding and Japan is the great economic scale. Meanwhile, as the weak points of them, Japanese platforms are not famous in overseas and the utilization of Japanese crowdfunding platforms by foreigners is small size. The opportunity points of them are that crowdfunding in Japan and overseas has grown and equity based crowdfunding in Japan has still a short history and there is chance for crowdfunding platforms that do not provide equity based crowdfunding services to access in the market. Meanwhile, the threaten points of them are that the famous foreign crowdfunding platforms access in the Japanese market, and the number of Japanese customers and potential Japanese customers in the future will decrease due to the depopulation.

In this research, almost all articles for analysis are from Japanese media and the foreign articles regarding crowdfunding in Japan are very few. This indicates the outgoing power of Japanese crowdfunding to overseas and the sense of existence of Japanese crowdfunding in the world are weak. In addition, Makuake shows the utilization from overseas is very small, this indicates that Japanese crowdfunding platforms depend on the Japanese people. In belief, the fundraisers depend on them as well. Japanese crowdfunding platforms should build the system that the people from various countries can utilize their services and promote the financial inflow from overseas in order to expand their own businesses and the opportunities of success of fundraisers. For instance, Japanese crowdfunding platforms should translate the sentences on the website into foreign languages such as English, Chinese, and French. Overly, more transaction settlement services of foreign companies should be available to funders for payment. The fundraisers who utilize reward based crowdfunding need to consider regarding the case of rewards for foreign funders in order to attract attention from foreigners. In short, the delivery of rewards to overseas or the rewards instead of delivery should be considered more deeply.

Regarding the financial regulation of equity-based crowdfunding in Japan, the deregulation of equity-based crowdfunding has the side that the Japanese government grasps equity-based crowdfunding as a measure to success of Abenomics and promotes capital inflow into SMEs. While, Japan had struggled the collapse of bubble economy for many years. Therefore, Japan needs to keep an eye on the overheating of equity based crowdfunding market with drawing on the past experience of economic bubble burst. In the US, it is inferred that the limited amount of funder's investment based on the funder's annual income appears the capitalistic idea that more the person with large wealth can obtain more wealth. The



world struggled the financial crisis due to bubble and the default of the subprime loan. Loan-based crowdfunding has the type that a borrower is an individual. Hence, loan-based crowdfunding should be regulated and controlled carefully in the world not to become the second subprime loan.

In addition, the hometown tax donation system does not cover the people who live in foreign countries because the hometown tax donation is the Japanese taxation system. In other words, government crowdfunding depends on Japanese people completely. The hometown tax donation system and government crowdfunding contribute to the domestic consumption of the primary industry products, while do not contribute the export of them. It is considered that the hometown tax donation system and government crowdfunding will grow going forward. However, there is possibility that the growths and effects of the hometown tax donation system and government crowdfunding will be offset by the decrease of customers due to depopulation and aging society in the distant future.

In belief, the hometown tax donation system and government crowdfunding are affected by the policies of the central government. The Japanese government needs to strengthen the policies to enhance the work-life balance and childcare environment in order to put the brakes on the declining birth rate. The hometown tax donation system depends on the annual income of Japanese citizens. This means the reduction of tax revenue due to the decrease of annual income of Japanese citizens leads to the decrease of the donation amount of the hometown tax donation system and government crowdfunding. To sum up, the sustainable growth of hometown tax donation system and government crowdfunding need the policy for the increase of national wages by the central government.

The Japanese government should strongly require Japanese companies that save up the internal reserves to increase wages and enact the regulation that their retained earnings are restored to workers. In addition, Japan has the differential problem regarding the employment style between permanent employees and dispatched employees. The Japanese government should enact the restrictions on temporary agencies and strengthen the regulations in order to improve a treatment of dispatched employee and become a permanent employee. Overly, the supervision of illegal labor such as unpaid overtime should be enhanced by strengthening the penalty for illegal labor and expanding the scale of the Labor Standards Inspection Office.

The Japanese platforms which treat with the hometown tax donation system and government crowdfunding have a lot of information of local specialty products in return. Their information can be utilized as resources. It is estimated that they can contribute to improve their awareness and consumption by

foreign travelers if the platforms provide new service that they translate their information in foreign languages and introduce them. On the other hand, the Japanese government has know-how regarding the hometown tax donation system and government crowdfunding. The Japan government can make an international contribution if the Japan government introduce the know-how to the foreign countries that struggle the problem regarding the depopulation in local areas.

## 7 CONCLUSION

The FinTech has developed globally due to the spread of the Internet. Crowdfunding market has grown rapidly in the world. As with the global situation, Japanese crowdfunding market has increased. Japan has a lot of crowdfunding platforms and funders and fundraisers can select the optimum crowdfunding platform that suit their own projects. Japanese can utilize donation-based crowdfunding, reward-based crowdfunding, equity-based crowdfunding, and loan-based crowdfunding. The wide range of age groups from young generation to old generations can raise money through crowdfunding platforms. Crowdfunding is available to various scale from individuals to large companies for collecting money instead of banks. SMEs have obtained a foothold for growing out of the dependence on banks. Various business industries propose their different ideas on the crowdfunding platforms and fulfill their projects with the sympathy of funders. Japanese companies are mostly SMEs. The utilization of crowdfunding by many SMEs will have large effect on the growth of Japanese economy going forward. As with private sectors, the local governments in Japan collect money through crowdfunding. The Japanese government has encouraged the economic policies based on Abenomics and promoted the utilization of crowdfunding.

Crowdfunding contributes to not only business, but also Japanese society. Fundraisers can raise money irrespective of gender to realize their campaigns and crowdfunding promotes the social progress of Japanese women. Crowdfunding projects inform people what kind of problems Japan has encountered. The Japanese large problems such as natural disasters, healthcare, and aging society are showed through crowdfunding projects in Japan. While, Japanese are not unconcerned with their problems. A lot of Japanese funders sympathize with the ideas for problems and contribute to their projects. The successful projects with background of their problems give an account of that.

Crowdfunding is utilized for the local revitalization in Japan. Japan has government crowdfunding based on the hometown tax donation system. As with the growth of crowdfunding, the utilization of the hometown tax donation system has improved largely. Local governments can appeal their local features and collect money to cover the lack of tax revenue and revitalize own areas. Meanwhile, some local municipalities do not utilize properly the hometown tax donation system. In government crowdfunding case, local government can draw funder's attention with not only gifts but also proposed idea for revitalization. The Japanese government will start new program to support local municipalities for some projects using the hometown tax donation system and crowdfunding. Crowdfunding corrects the direction of the hometown tax donation system.

Crowdfunding has a large presence between business and society in Japan because of its effectivity. In addition, Japan operates the unique crowdfunding model. Japan is a developed country facing challenges. The importance of crowdfunding will increase, as the Japanese problems will become more serious going forward.

The aim of this thesis has been accomplished successfully. The result of this thesis shows the various information regarding crowdfunding in Japan and its background. The research objective has also been accomplished successfully through successful crowdfunding projects in Japan and the information of hometown tax donation system. The information regarding the crowdfunding platform and the regulation in Japan can help the people who want to utilize crowdfunding in Japan. The author hopes that this thesis will contribute to crowdfunding industry and someone who wants to have some business or solve some social problems.

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