Briefing Paper

The Sharing Economy

September 2014
The Sharing Economy

“‘Social sharing’ … asserts [Yochai Benkler of Yale Law School], represents ‘a third mode of organising economic production, alongside markets and the state.’¹ However, with the exception of carpooling, he acknowledges he is hard-pressed to find instances where sustained sharing of valuable things is prevalent in the world outside information technology.” (‘The economics of sharing’ *The Economist*, 2005)²

“*FORBES* estimated that the revenue flowing through the share economy directly into people’s wallets would surpass $3.5 billion in 2013, with growth exceeding 25%.”³

Preamble

The Internet has empowered third parties to become intermediaries in the ‘sharing economy’, but it is important to distinguish between sharing for social objectives and sharing as a commercial venture. Commercial sharing economy ventures are start-ups and most will not survive, like Internet companies in general, but the few that do will be compelled to broaden the scope of their activities, or alternatively they will be absorbed into larger Internet companies as part of latter’s diversification strategies. For this reason the disruption they cause to existing businesses, such as the taxi business or the hotel business, is bound to expand into complementary areas, such as the deliveries and logistics business or the catering business. These disruptions are already cutting across the jurisdiction of different regulators, from transport regulator, zoning authorities, licensing authorities, monetary authorities and taxation authorities for example.

It is a common understanding that as the digital economy spawns new disruptive business models, laws and regulations will need to adapt despite powerful vested interests and policy inertia. This is likely to take place on a piece-meal basis within and across jurisdictions. Crowdfunding, upon which many start-ups depend, is an area in which changes to the regulations are already under consideration to make it easier for small investors to participate, especially after the JOBS Act in the US. Even the shared use of crypto-currencies is making an impact with monetary authorities divided between those who remain hostile and those who are more accommodating. Crypto-currencies are not, in principle, an integral part of the shared economy, but they could well find their place within, for example, if they are accepted as a means to crowdfund or are accepted as a means of payment within the shared economy.

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² [http://www.economist.com/node/3623762](http://www.economist.com/node/3623762)

Introduction

The idea of sharing resources is an ancient one. Explaining it, less so, partly because there are some definitional issues to be overcome. For example, a production process that requires the combined contributions of many people of different skills and specialisms (analysed by eighteen century economist Adam Smith in his discussion of ‘the division of labour’) might be called sharing if it is done as a cooperative venture in which each then receives part of the revenues as their reward, but would not be so-called if organized by an entrepreneur who pays contracted wages and takes the profit. It follows that most modern commercial enterprises, such as joint stock companies that ‘share ownership’, do not operate their assets on a sharing basis, but even in the world of modern banking the principle of sharing survives in the form of Islamic banking. This replaces the notion of interest with the notion of sharing the profits on investments. In the European Middle Ages this was also the basic principle of the ‘Scholastics’, religious scholars who denounced usury.

So, as the Bible (Ecclesiastes) says, ‘There is nothing new under the sun’ when it comes to sharing; except, perhaps, in the use of the Internet.

Sharing as Social and as Commercial

There are many explanations of the sharing principal, not just one. The Islamic banking/Scholastic arguments are clearly couched in terms of value systems, religious value systems in these cases. The Co-operative Movement of nineteenth century Western Europe was an expression of social principles. Today, some towns, such as Totnes in the UK, have issued their own sterling-backed local currency (the ‘Totnes Pound’) that is only accepted as payment within the town in order to create more demand for local products and thereby reduce the number of trucks bringing in daily necessities. The motive is to value the environment. The Open Source software campaigns of the twenty-first century often appealed to the democratization of information, noting that by opening up and engaging hundreds of thousands of programmers and users worldwide the process of innovation was put on fast forward. The kudos that attaches to individuals who become known among their peers for original contributions is an added incentive. Since then, canny companies looking

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4 This rise of the Internet-based sharing economy has been variously called “collaborative consumption”, “asset-light lifestyle”, the “collaborative economy”, peer economy”, “access economy” and the sharing economy”. ‘All eyes on the sharing economy’ The Economist Technology Quarterly 1Q 2013 http://www.economist.com/news/technology-quarterly/21572914-collaborative-consumption-technology-makes-it-easier-people-rent-items

5 A position no doubt welcomed by monarchs like Henry VIII of England who were borrowing money from the wealthy estates of the Church. Of course Henry ended up confiscating the property instead.

at these supply chains have made good use of open source and open systems and individual creative talent to splice patents into the process at the points of greatest value.

This casts some qualification upon the observation of Prof Benkler that social sharing represents “a third mode of organising economic production, alongside markets and the state.” He had in mind, among other things, the sharing of the processing power of millions of PCs around the world when their owners were not using them, the SETI@home project used, for example, for university medical research. The beauty of this example is that IT in the era of the Internet has global reach at minimum cost in terms of resources required. In cases where the essential assets are not IT – albeit enabled by access to IT and the Internet – and where resources are more scarce, co-operatives traditionally have worked best where they are competing in smaller markets and capitalising on quality of product or service rather than on quantity and price. In other words, in niche markets. But the Emilia Romagna model in Northern Italy, based on the region’s capital city Bologna, where hundreds of SME textile manufacturers collaborate, is an example that goes well beyond the niche. “Of Italy’s 43,000 co-operatives, 15,000 are located in Emilia Romagna making it one of Europe’s most concentrated co-operative sectors. In Bologna for example, two out of three citizens are members of a co-operative, with most belonging to several.”

However, although in 2004 Prof Benkler was “hard-pressed to find instances where sustained sharing of valuable things is prevalent in the world outside information technology”, ten years later he would be hard pressed not to find them, whether its group-buying websites, P2P sharing websites, eBay-type auction websites or taxi-hailing smartphone apps. But he might want to consider where the sharing economy can be explained by economics in addition to a competing set of value-systems. The vision of sharing can have a purely social motivation, but it can also have a powerful business motivation.

**Economic Rationalizations**

Sharing is to be explained economically as being a means to assemble sufficient resources in a way that is cheaper, more efficient, scalable or sustainable. For example, co-operative farming allows farmers to share the cost of a tractor, a co-operative housing venture can raise more funds more quickly than the individuals involved as well as spread the risk, collaborative working overcomes shortages of skills, and so forth.

Many of today’s sharing economy start-ups are purely commercial ventures, but with very few capital assets of their own. Their main outlays are on the costs of administration, marketing, etc., yet they hope to make revenues and more often than not turn to venture

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7 For example, Travis Kalanick, CEO of Uber, is “more often self-styled as an ultra-capitalist, not least because of ‘surge pricing’ where Uber doubles or trebles fares during busy periods, such as rush hour or in bad weather.” ’I’m a bit of a lone wolf’ Lunch with the FT, Financial Times 10th/11th May 2014 [http://www.ft.com/intl/cms/s/2/9b83cbe8-d5da-11e3-83b2-00144feabdc0.html](http://www.ft.com/intl/cms/s/2/9b83cbe8-d5da-11e3-83b2-00144feabdc0.html)

capital for their initial funding. Sharing economy companies such as Airbnb or Uber – currently two of the best known start-ups globally – do not own the performing assets that generate revenue, apartments and rooms in the case of Airbnb, or taxis and private vehicles providing taxi services in the case of Uber.

Their market appeal is dependent upon three factors: first, they cut the transactions costs involved in marketing these assets by creating a centralized easily-accessible online market place. Second, they create not just a *market-place* but also a *market*. By opening up alternative options, such as taxis at peak periods when they are difficult to find (but see ‘China’ below) they stimulate awareness and interest and ultimately demand. This is turn stimulates supply. Companies that bring together the networks of suppliers and customers in this way are sometimes referred to as multi-sided platforms (MSPs) serving what are known as two-sided markets.

Third, these companies can become trusted third parties if they also introduce guarantees of service quality, service delivery, safe payment processes, insurance against risk, etc. This builds their markets in terms of scale (more users) and scope (more categories of services). In some cases these additions may be the requirements of regulators, such as car insurance and certificates of mechanical worthiness, and although the costs of compliance may rise, so will consumer confidence. But for any sharing economy business to work it must hit upon an appropriate business model in which all the participants see some benefit.

**The Sharing Model**

The concept of sharing is a broad one, and there is no one sharing model. The assets involved may be personal work and time, personal wealth, personal ownership of physical things. But a distinction needs to be drawn between sharing of resources and sharing of property. The idea of a ‘Tragedy of the Commons’ is often cited in these terms. (See Box 1)

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**Box 1**

**The Tragedy of the Commons**

The ‘Tragedy of the Commons’ becomes a controversial subject as social values and politics get mixed with economic theory and analysis. The most often cited examples are the use of common land for grazing cattle or for recreational purposes. If no-one owns it, no-one has an economic incentive to care for it. Over-grazing or unattended litter can spoil the common resource for everyone. If there are common rules such as limited grazing times or taking your own litter home with you, the ‘free rider’ problem arises. Selfish people ignore the rules to their own perceived advantage. So rules enforcement become a necessary shared

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9 By 2011 Airbnb was already present in over 180 countries; [http://www.quora.com/Airbnb/How-many-cities-does-Airbnb-have-listings-in](http://www.quora.com/Airbnb/How-many-cities-does-Airbnb-have-listings-in)

10 Uber currently operates services in 13 South and East Asia economies; [https://www.uber.com/cities](https://www.uber.com/cities)

11 This should not be over-estimated. Companies like Airbnb and Uber and others still have to advertise to drive demand, partly against their competitors but partly to grow the market size.
expense, employing someone to police the common area. The issue here is not that everyone is primarily motivated by their own selfish economic advantage, but that it only takes a minority to undermine the majority. The alternative view of the ‘property rights’ school says: _If the land were parcelled out to individuals to own it they could reach their own sharing co-operative arrangements._ The truth is probably that both approaches work well in their own different environments. The smaller the scale, reliance upon property rights may be a workable answer; on a larger scale it may not be so practical and simply puts too much economic power in the hands of too few.

What really distinguishes sharing models today is the use of the Internet, initially as a means to connect two or more parties, but also to create additional value-added services.

In the US by 2014 the sharing economy was appearing everywhere there were mobile phones and apps. Using a definition of ‘On-demand mobile services’ (ODMS) as “apps which aggregate consumer demand on mobile devices, but fulfil that demand through offline services” a researcher’s blog at RRE New York Venture Capital adds “ODMS deliver a ‘closed loop’ experience by collapsing the value chain including discovery, order, payment, fulfilment (offline but within owned network) and confirmation.”

Some of the categories identified are as follows.

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**US-Based On-Demand Mobile Services**

*Transportation*
- Uber
- Silvercar
- Sidecar
- Zipcar
- Taxi Magic
- Hail
- Whisk

*Delivery & Logistics*
- DoorDash
- Munchery
- Zesty
- Spoonrocket
- Spoonhero
- Spoon

*Home Services*
- Handybook
- Bark
- Care
- GetMaids
- KeyMaids
- House Call
- TaskRabbit
- Urbanest
- Bloom That
- CribLocal

*Travel / Hospitality*
- Airbnb
- Hotel Tonight
- Jukely
- WildCall

*Food & Beverage*
- Deliveroo
- Doordash
- Reserve

*Dining + Drinks*
- Cover
- Tabbedout
- Dash Reserve
- Groupon

*Health & Beauty*
- Zee
- Beautified
- Comipro
- Vénusette

*Entertainment*
- StyleSeat
- Glam Squad

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Source: Schlaf’s Notes [http://schlaf.me/post/81679927670](http://schlaf.me/post/81679927670)

12 “Uberification of the US Service Economy” [http://schlaf.me/post/81679927670](http://schlaf.me/post/81679927670)
Although the island economy of Singapore is smaller than that of New York City, there are already many sharing economy apps competing for market attention and market share. The Sharing Economy Association of Singapore was created in 2014 to promote their interests.

Other sharing economy companies in Singapore include

Advising the Sharing Economy Association, and undertaking research on the economics of sharing, behavioural issues and social effects and the technological and ICT enabling platforms is the Initiative for Sharing Economy by the Singapore University of Technology.
and Design (SUTD), which is in the process of establishing an Institute in this area. The research focus of the Institute is summarised in the following graphic.


**Taxes and Taxis**

The rise of a sharing economy is putting pressure upon regulators. In cases where the sharing is a purely communal venture there is no great issue. Websites such as TaskRabbit in the USA which match a demand for assistance, whether it be for baby-sitting or plumbing, with neighbours in the locality who have the time and the skills, are generally regarded as benign. These sites will give token credits for hours put in and those credits can be used to “pay” for the services of others when they are needed. However, it becomes slightly more contentious when cash payments are made. In the UK a sharing service calling itself JustPark, previously known as ParkatmyHouse, which connects house owners with unused driveways and car owners looking for parking spaces, ran up against a local authority who threatened to fine a householder £2,000 for illegally renting out their driveway space. The UK Government have now responded by legalizing such services as innocuous and efficient, but it remains the case that if property is to be rented out then the income needs to be declared.\(^{13}\)

If the payments are made not in the national currency but in a crypto-currency, such as bitcoin, another series of issues arise for monetary regulators. Are such payments recognized for taxation purposes and if so, what is the applicable exchange rate? Are they easily detected and traceable? Are they legal? There are several forms of ‘alternative currency’ ranging from local community currencies – available and expendable only within a locality – to global crypto-currencies which are used by consumers for international

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\(^{13}\) In this example, the opportunity cost is zero because if the householder is not permitted to rent out their driveway there is no income to tax, so nothing is lost by permitting the practice.
payments, to corporate currencies which are used between businesses as B2B payment systems. Each in their own way represents a shared economic resource aiming at becoming a store of value, a means of payment and as a measure of value. Their existence indicates that the challenge is to many different regulators in many different sectors of the economy.

The most public of issues arise when a fully commercial sharing service, such as Airbnb or Uber, is challenging the markets of incumbent businesses, such as hotels and taxi companies, companies which come under an often complex mix of different taxes and operational rules and regulations. And because these are commercial sharing economy ventures, the logic of the marketplace is that they will expand into new value-added services, such as insurance, travel guides and booking systems, goods delivery services, in fact anything that is complementary to their core business, and this in turn will widen the scope of the disruption they will cause to established and traditional ways of doing business – a familiar tale in the age of the digital economy.

**Taxes**

Often times it will be difficult to distinguish between shared economy activities and the ‘underground’ economy which operates in grey/dark areas with regards to taxation. Residents who rent out their properties often do so on a casual basis, for example when they are on a long trip away from home. But on the contrary, they may also do so on a large scale as a regular commercial business. In most jurisdictions, all such revenues are to be declared for tax purposes, but they can be difficult to police and the costs of detection can easily outweigh the taxes foregone. An example here would be house owners with mortgages who are prohibited by banks from sub-letting; but as long as the loan repayments are forthcoming on a regular basis the banks rarely employ agencies to investigate them. Similarly, public housing authorities are hard pressed to check on every tenant, but if neighbours complain then an alert is sounded. In June 2014, for example, two homeowners in Singapore “had their flats confiscated by the Housing Development Board (HDB) for letting their units to tourists.” Short-term rental remains illegal in Singapore.

Companies like Airbnb have run up against the taxation issue in a number of places, and although several cities including Hamburg, Amsterdam and Seoul have passed rules allowing short-term holiday rental services in private residences, Airbnb’s business model has faced

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14 In August Uber opened its API to developers. “In effect, Uber is no longer just an app for requesting uberX, Black car, or taxis trips; the Uber app will now be able to become a platform for other services, across a broad range of industries.” Bostinno 20 August 2014 [http://bostinno.streetwise.co/2014/08/20/uber-api-open-uber-api-launch-partners-include-starbucks-united-airlines/](http://bostinno.streetwise.co/2014/08/20/uber-api-open-uber-api-launch-partners-include-starbucks-united-airlines/)


legal challenges in others such as Berlin and New York, where the State Attorney General “claimed that almost two-thirds of Airbnb’s hosts were breaching a New York law prohibiting them from subletting their entire homes for less than 30 days.”\(^{17}\) The AG was demanding Airbnb hand over details of 1,849 renters who owned multiple properties. Airbnb eventually reached an agreement to hand over business records without revealing the individual names of customers who therefore would not be taxed retroactively.

Sharing economy companies are being forced to walk a tight line while the local authorities work out how to adjust their policies. In many cities residents in certain zones are not permitted to sub-let. In tourist zones in the US, hotels operate under a series of local and state taxes. For example, there is a hotel occupancy tax in New York City of 5.875%. To meet the requirements of taxation authorities, Airbnb has reached agreements to collect occupancy or ‘hotel’ taxes in NYC, San Francisco and Portland, Oregon. In Chattanooga, Tennessee the city council has decided to rezone an entire neighbourhood to allow short-term rentals “because the city council noted tax revenue was being lost to ‘underground’ rentals.”\(^{18}\)

Taxation battles are not to be taken on lightly, and the needs of public authorities to fund local government expenditures, be it big government or small government, are unavoidable. What the sharing economy may well do, however, is to kick-start debates about taxation reform, and the desirability to harmonize and simplify tax rates across a host of close substitute sectors, such as hotels and home-stay rentals.

**Taxis**

Of all the new sharing economy services available, taxi apps have proved the most controversial to date, bringing out supporters and opponents wherever they operate. The term “disruptive” has rarely been plainer to see. Vested interests include traditional taxi companies, in many cases regulators who take exception to a bending of long-established practices and rules, and even logistics and delivery companies who fear that start-ups like Uber, Lyft, GetTaxi, GrabTaxi, Hailo and others, will end up eating into their delivery business. For example, Uber has started a same-day grocery deliver service in the US.\(^{19}\) Is it the case that “Taxi cartels will be ‘apped’ to death”?\(^{20}\)

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\(^{17}\) Airbnb will hand over NYC host data to state prosecutor’ *The Irish Times* 21 May 2014


\(^{20}\) *Financial Times*, 16\(^{17}\) April 2014
Europe

The black cabs of London worry about it. The taxi drivers pay a large sum for their cabs and their licences for which they must complete “the knowledge” of London streets, and the resale value of their business is seen by most as ultimately part of their retirement pension. On a technicality, they claim that the Uber smartphone app which records distance and calculates the price for the journey, is in effect a taxi meter which, according to regulations, only licensed black cabs are permitted to use. (See on YouTube the 11th June protest launched by cab drivers in London ‘Taxi wars -- Black cabs v Uber’.)

Similar protests by taxi drivers have taken place in capital cities across Europe and in at least 15 cities worldwide. Even the UK-based Licensed Private Hire Car Association of minicab companies has complained that “Uber is violating regulations, by taking bookings through an unlicensed Dutch company to reduce its UK tax bill.” The reaction from city governments has been varied. In Europe several cities have tried to ban taxi apps with Brussels, for example, threatening €10,000 fines and Hamburg threatening to follow suit despite Germany’s monopolies commission recommending to the Federal Government the deregulation of the taxi market.

Uber’s reported response, reminiscent of Internet file-sharing companies in other sectors, has been to argue “it is not a cab firm but an enabling ‘Platform’.” This line of argument sounds more like a work-around than a confrontation with the real issue of how to provide a service, and rather parallels the ‘when is a meter not a meter but just a software app’ of the black cab companies, relying upon technical niceties. The Vice-President of the European Commissioner, Neelie Kroes, has been more direct. “Many people know how outraged I was by the reaction of authorities and drivers to the emergence of services like ‘Uber’ in Brussels, Berlin, Milan and Madrid and more cities across Europe… The fact is that digital technology is changing many aspects of our lives. We cannot address these challenges by ignoring them…”

USA

In the US, the main battle has been the competition between San Francisco-based companies Uber and Lyft, along with smaller start-ups such as the ride-sharing company Sidecar, but reactions from cities like Boston, Dallas, Miami and Las Vegas reflect those in

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21 Also see TRPC blog ‘Move Uber Please’ http://trpc.biz/move-uber-please/
22 http://www.youtube.com/watch?v=6FpTnHkyh60
23 Financial Times 8th June 2014 http://www.ft.com/intl/cms/s/0/35aa6b8a-eda2-11e3-8a1e-00144feabdc0.html
Europe. For example, in New York City, Lyft drivers have been threatened with fines of $2,000. In response to concerns about public safety of vehicles and drivers, California has become the first jurisdiction to create a special category of ‘transportation network companies’ who are obliged to train drivers, run background checks, and provide insurance. In fact the competition between Uber and Lyft is pushing them in this direction as they compete for both passengers and drivers; for example, they have started to offer loans to finance new car purchases and insurance to drivers.

China

A very similar story is emerging in China where Kuadi Dache (Alibaba’s ‘Swift’ taxi) and Didi Dache (Tencent’s ‘Honk Honk’ taxi) are going head-to-head. The first step into the market is typically to provide a fleet of limousines for private hire by the better-off middle class customers, followed by a fleet of saloon cars for the average citizen and then to sign up volunteer taxi drivers and then regular taxi drivers to use their app. The inducements offered taxi drivers to join their business included fare subsidies of RMB10 per ride and commissions of RM5 to drivers and other perks such as a tipping function from RMB5-RMB20. These produced unforeseen consequences as taxis in some major cities became almost impossible to hail without a smartphone app.

‘Wang Yu, who drives a Beijing taxi for the Jin Jian Taxi company, said “During the peak of the competition between Didi and Kuadi, taxi drivers stopped cruising around, looking for fares. We would all find a place to park and turn on the software. It was like this because the rewards were so high for both drivers and riders.”

There are obvious lessons here. First, the sharing apps may have unintended consequences if instead of creating more supply at peak periods when traditional taxis are difficult to find, they create an incentive to disappear from view. Second, this situation already exists in the arcane world of taxis regulation, with or without the sharing apps, as taxi drivers arbitrage destinations and times of day or night according to a myriad of add-on fees.

In Singapore, for example, the taxi system is probably the most complained about part of the public transport system, and is arranged it seems to serve more than one master, more than the customer alone. The irony is that it exactly that issue that is creating a market for the sharing apps companies like Uber and GrabTaxi.

27 "New York City Taxi and Limousine Commission warned potential drivers and passengers that Lyft’s ride-sharing service, where drivers are not trained professionals, did not meet its standards for public safety and consumer rights." ‘Lyft hits New York roadblock in move to take on bigger rival Uber’ Financial Times 11 July 2014
28 It might be noted here that if the ‘Right to Be Forgotten’ rules apply, background checks could become a problem.
29 Uber is competing to enter the market, but currently relies upon Google maps for its location-based service which are difficult to access in China. See ‘Block on Google cramps China users’ Financial Times 2 July 2014
30 ‘China’s internet giants end taxi app wars’ Financial Times, 18 August 2014
http://www.ft.com/intl/cms/s/0/6bae3d98-2497-11e4-9224-00144feabdc0.html
**Rest of Asia**

The sharing economy is only just emerging in Asia, and regulators and local authorities are still feeling their way. The sharing economy companies consist of local as well as international start-ups because they are serving what is a local supply market even if part of the demand comes from overseas. In many cases governments around the region are expressing awareness of the contribution the shared economy can make to GDP growth and to social and financial inclusion, as well as to innovation. For example, the China Securities Regulatory Commission (CSRC) “have carried out in-depth research and survey regarding the equity crowd funding industry. At present, based on overseas regulatory experience and the results of the research and survey, we are dedicated to developing a set of regulatory rules for crowdfunding financing.”

In South Korea the authorities have gone further. The city government has declared Seoul as ‘the Sharing City’ and outlined detailed plans to support and promote start-ups with an initial allocation of 250 million won (USD240,000) funding. Sites like BnbHero may sound derivative, but they are among the leaders. However, Seoul has also declared the Uber taxi hailing app as illegal for offering unlicensed taxi services, while planning its own taxi app in conjunction with the taxi companies. Taiwan has yet to take a stance, although taxi drivers in Taipei staged a protest in July, while the chief of transport in Jakarta in August came out openly against the Uber app, again citing the need for taxi services to be licensed. Uber’s defence has been to repeat that it is not a taxi service but an enabler, a middle-man, but this technical distinction seems unlikely to cut ice with those regulators adamant to maintain current licensing regimes and under intense lobby pressure from taxi cab companies. Nevertheless, sooner or later, the issue of reforming regulations will need to be faced up to.

In the Philippines, sharing economy sites such as P2P swapping site Magpalitan.com are lively, and mobile taxi hailing apps, such as Easy Taxi and GrabTaxi are permitted because they partner with taxi cab companies, but both Uber’s hailing app and Tripid’s carpooling service are under threat of being declared illegal for offering a public transport service. Malaysia is home to GrabTaxi and it does seem that partnering with licensed public transport companies is the route of least resistance, with the additional possibility of offering value-added services.

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In Hong Kong as might be expected mobile sharing economy apps, including taxi hailing apps, are popular, but in Japan the evidence suggests they have not yet caught on. However, there is a very Japanese example of the sharing economy in the architecture of this house – see Box 2.

**Box 2**

**Sharing a House – Japanese Style**

“13 Bedroom House by Naruse Inokuma Architects Puts a Fresh Spin on the Sharing Economy...Built to meet the demand in Japan for houses where complete strangers can share kitchens, living spaces and bathrooms” (Ross Brooks, 05/03/14 [http://inhabitat.com/13-bedroom-house-by-naruse-inokuma-architects.puts.a.fresh.spin.on.the.sharing.economy/](http://inhabitat.com/13-bedroom-house-by-naruse-inokuma-architects.puts.a.fresh.spin.on.the.sharing.economy/))

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**Singapore**

Singapore, following Seoul, is the authority that has signalled the greatest interest and commitment to finding ways to harness the inclusive energies of the sharing economy. The *Infocomm Media Masterplan 2025* places emphasis upon creating a self-sustaining Smart Nation ecosystem. Among the initiatives being encouraged are energy-saving and environmentally-friendly sharing economy start-up ventures, such as ‘Waste is Not Waste’ and ‘Green Solutions’, both members of the new Sharing Economy Association.

In more controversial areas, such as residential sharing and taxi hailing apps, the Housing Development Board (HDB) and the Urban Development Authority (URA) which are responsible for public and private sector housing respectively, and the Land Transport Authority (LTA) responsible for vehicle licensing, have been circumspect. The HDB investigates unauthorized sub-letting, while the URA has re-emphasized that all rental incomes are subject to taxation. iCarsClub, another member of the Association, in July launched a signature petition to support its car-sharing proposals to the LTA. In June 2014, Forbes reported that iCarsClub was able to raise SGD10 million “just two years after it began

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39 In Malaysia there is also pressure for government to become pro-active: “Multimedia Development Corporation (MDeC) Creative Multimedia vice-president and director Kamil Othman said there is a need for the government to introduce some kind of incentive to spur crowdsourcing activities in the country.” [http://www.themalaysianinsider.com/business/article/putrajaya-should-kickstart-crowdfunding-says-mdec-bernama](http://www.themalaysianinsider.com/business/article/putrajaya-should-kickstart-crowdfunding-says-mdec-bernama)
operations in Singapore and less than a year after it expanded to China under the name PPZuche.\textsuperscript{40}

It is in the area of the regulation of crowdfunding that the Singapore government seems most open to change, hinting at new terms and conditions covering who can raise funds and who can make contributions.

\begin{center}
\textbf{Box 3}
Ministry of Communications and Information (MIC) - Singapore
\end{center}

“One idea being explored to enable such participation is to develop a trusted equity crowdfunding hub to bring together promising start-ups and savvy private sector investors. With proper information disclosure and transparent governance, an appropriate regulatory framework can be developed to safeguard the interests of investors and entrepreneurs. Start-ups can also receive much earlier signals on market and investor interest to their products.”\textsuperscript{41}

\begin{center}
\textbf{2014 Budget - Crowdfunding for Start-ups}
\end{center}

“C.38. We are also studying the potential for equity crowdfunding, which is emerging in some countries as an alternative source of financing for start-ups and small companies. MAS and SPRING are looking into an appropriate regulatory framework for such new business models.” (Finance Minister, Tharman Shanmugaratnam)\textsuperscript{42}

### Crowdfunding and Shared Currencies

By 2014, over 600 crowdfunding platforms worldwide had generated around USD2.7 billion, but in Asia it is very new,\textsuperscript{43} with Indonesia being one of the leaders.\textsuperscript{44} Equally new to Asia is the appearance of crypto-currencies, but already bitcoin is traded privately in most economies, and bitcoin ATMs operate in Hong Kong, Singapore, Seoul and Taipei.\textsuperscript{45}

### Crowdfunding

Typical ways to fund start-ups begin with personal savings and support from family, friends and relatives, seed money from angel capital or from incubation programmes, just possibly a loan from a bank, and larger scale investments of venture capital where the latter look

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\textsuperscript{40} http://www.forbes.com/sites/yunitaong/2014/06/23/southeast-asias-sharing-economy-start-ups-may-produce-the-next-airbnb-or-uber/
\textsuperscript{41} http://www.mci.gov.sg/content/mci_corp/web/mci/infocomm_media_masterplan/preliminary-ideas/build-vibrant---strategic---and-enabled-icm-sectors/self-sustaining-start-up-ecosystem.html
\textsuperscript{42} http://www.singaporebudget.gov.sg/budget_2014/pa.aspx
\textsuperscript{43} http://fortune.com/2013/07/08/why-crowdfunding-hasn-t-caught-on-in-asia/
\textsuperscript{44} http://www.techinasia.com/overview-of-crowdfunding-pioneers-in-asia-pacific/
\textsuperscript{45} http://www.bitailers.com/bitcoin-atm-locator/
\end{footnotesize}
forward to full commercialization and an Initial Price Offer (IPO) as shares are issued to private and public investors. The key differentiator along this funding supply-chain is between goodwill capital or donations, which may or may not ever get a return, and commercial investment that is looking for capital gains.

Crowdfunding stops short of the full investor stage. Among the best known crowdfunding companies running websites are Kickstarter and Indiegogo based in the US. Ulule is well known in Europe. In Asia there is Fundator and many others, for example: Pozible (Australia), Demohour (China), ZaoZao (Hong Kong), Kitabisa (Indonesia), Campfire (Japan), pitchIN.my (Malaysia), ArtisteConnect.com (Philippines), Fundu (S.Korea), Zeczee (Taiwan), Perdmuak (Thailand). In Singapore, active crowdfunding sites include Crowdonomic who also manage Starhub’s Crowdivate initiative, and EarthourBlue. Probably the most famous case of crowdfunding was President Obama’s fundraising in his presidential bid in 2012, when 57% of the USD1 billion raised came from contributions over the Internet, an average of USD200 per supporter.

Crowdfunding contributions are seen mainly as donations. The first national legislation to cover crowdfunding was enacted in the USA in 2012 as the ‘Jumpstart Our Business Startups Act’ or JOBS Act. Under the JOBS Act, companies who raise funds through portals registered with the Securities and Exchange Commission (SEC) with up to a maximum of 500 “non-accredited” shareholders or a maximum of 2,000 shareholders including both “accredited” and “non-accredited”, can be exempted from many of the regulations governing publicly listed companies. A non-accredited shareholder is an individual investor who has a net worth of less than USD1 million and who earned less than USD200,000 annually in the preceding two years, and their investment must not exceed USD2,000 or 5% of their earnings or net worth up to USD100,000 and USD10,000 or 10% (whichever is the less) of their earnings above USD100,000. The Act is therefore designed to give greater scope for crowdfunding as investments beyond simple donations. In previous cases, such as crowdfunding of movies which can prove quite popular, the donors would be repaid with theatre tickets for opening nights, signed autographs from the stars of the show, souvenirs such as props from the show, and the like.

As Box 3 indicates, Singapore may well be one of the first jurisdictions to follow the US in allowing crowdfunding portals to play a significant role in the financing of sharing economy start-ups.

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46 Others include 8squirrels, Firecracker, ToGether.Asia, Spark Facility and Cliquefund, but at the time of writing these seem to be inactive.
Crypto-Currencies

Crypto-currencies, sometimes referred to as Alternative Currencies, can be either closed-user group or open currencies. Closed user-groups may be geographical entities, such as a town or a mining community, or business networks for B2B payments. The currency may be exchangeable for a national currency or its value may be expressed solely in terms of claims on goods or services, such as discounted grocery products or dog-walking credits. To act as a store of value, all currencies, closed or open, must rely either upon trust or possibly a register that records all transactions. The most well-known of the open crypto-currencies is Bitcoin, and that relies upon a register that is always available to all owners of bitcoins; similar to the way a stock exchange records transactions and fluctuations in reference values.

The first task of an open crypto-currency like Bitcoin is to establish itself as a store of value, otherwise no-one would buy them or accept them, far less speculate in them. The second step is to function as a means of payment. In March 2014, the largest ever real estate deal took place in San Francisco for USD500,000 worth of bitcoins and major companies like Dell now accept them. The third step is to become an acceptable medium of exchange, so that the general public will accept them. This is certainly a way off, even with full convertibility into sovereign currencies. Since there is no state “lender of last resort” in the eventuality of a devaluation risk is unavoidable. Also, in some economies in Asia, notably China, bitcoins and similar crypto-currencies have been declared illegal tender.

Not so in Singapore where the Monetary Authority of Singapore (MAS) is taking a more circumspect view as outlined by its Managing Director, Ravi Menon.

“....digital currencies have a role to play, which is why we have not sought to ban them, or make it more difficult for them to operate. We still have Bitcoin ATMs here in Singapore.”(See link on the Facebook page of ACCESS – the Association of Crypto-Currency Enterprises and Start-ups Singapore.)

Conclusion

The sharing economy consists of purely social ventures at one end of the scale and intensely commercial ventures at the other. The Internet offers the intermediary enormous opportunities for scale and scope in reaching out. Sharing works within closed communities and across open ones, within B2B, B2C, C2C and P2P settings. Crowdfunding of shared

48 In this paper, Bitcoin is the currency, bitcoin is the unit of currency.
49 For examples, see ‘Alternative Currencies’ Houses of Parliament POSTnote 475 August 2014 http://www.parliament.uk/briefing-papers/POST-PN-475/alternative-currencies
52 With state currencies too there is some degree of risk.
economy start-ups is well positioned for social ventures, but many commercial start-ups need access to larger numbers with more funds to invest. The JOBS Act in the USA is the first attempt to revise regulations governing who can invest as opposed to who can donate. Singapore is now considering this issue under the *Infocomm Media Masterplan 2025*.

Could crowdfunding ever involve crypto-currencies, like bitcoin? More of them are making an appearance, but many are for closed-user groups, such as B2B network transactions or local town communities. Open currencies like bitcoin have survived initial scepticism, and although some regulators oppose what they see as a possible threat to monetary stability, others like the Monetary Authority of Singapore are keeping an open mind.

All these components of the sharing economy, and others not touched upon in this briefing paper, are currently seen as rather marginal to the economy-as-a-whole in terms of revenues, users, employment, etc. However, some of the early start-ups already look destined to be the next wave of internet companies, unless of course they get gobbled up by the last wave, in which case the disruptors will become the disrupted.