New Approaches to SME and Entrepreneurship Financing
Broadening the Range of Instruments

Chapter 5

Crowdfunding for SMEs

This chapter illustrates the emergence of crowdfunding as a means to finance businesses and discusses its potential for financing SME investments. The chapter comments on the origin of crowdfunding and describes its different forms. It illustrates the profile of investments and business models that are suited for crowdfunding, it discusses the key factors that enable the development of crowdfunding activities, it describes recent trends in the crowdfunding industry, and it presents recent regulatory reforms and policies that are intended to ease the development of this financing channel, for both debt and equity funding.

Crowdfunding is a technique to raise external finance from a large audience, rather than a small group of specialised investors (e.g. banks, business angels, venture capitalists), where each individual provides a small amount of the funding requested.

The concept of "crowdfunding" is related to the one of "crowdsourcing", which refers to the outsourcing to the "crowd" of specific tasks, such as the development, evaluation or sale of a product, by way of an open call over the internet (Howe, 2008). Through online platforms, the task, traditionally performed by contractors or employees, can be undertaken by individuals for free or in exchange for some specified return, whose value is however generally lower than the one of the contribution made to the firm. Crowdsourcers may in fact have intrinsic motivations, such as the pleasure of undertaking the task or participating to a community, as well as extrinsic motivations, related to monetary rewards, career benefits, learning or dissatisfaction with the current products (Kleeman et al., 2008).

Forms of crowdfunding

In the case of crowdfunding, individuals provide the firm with financial help. Crowdfunding generally takes place through social networks, internet especially, with the entrepreneur detailing the business activities and objectives, in some cases in the form of a business plan, and requesting funding under specific terms and conditions. This represents the main innovation of crowdfunding with respect to other forms of finance, as the entrepreneur does not need an intermediary, such as a banking institution, to seek funding and can source directly the savings of a large audience.

Crowdfunding is not only a mean to raise funds, but can also represent an important mechanism to share information with a large public, increase awareness about projects and products, seek feedback to improve them, and get recognition which may help in future commercialisation (Metzler, 2011).

The type of contributions by the investor – and related rewards – may vary, depending on the internet platforms, the type of firms and the projects. Indeed, as new platforms are created across countries, in a context of low regulation, new features and business models are continuously emerging. The types of funding may range from donations to equity, thus giving rise to processes with different degrees of complexity and different contractual relationships between the firm and the individual investor.

In broad terms, crowdfunding can take the form of (Hemer, 2011; Mitra, 2012):

1. *Donations*, whereby contributors donate funds, mostly for charities and non-profit organisations, although for-profit organisations can also receive donations through this channel.
2. *Reward or Sponsorship*, whereby contributors receive a pre-defined reward, such as a small token of appreciation or some type of service, like a public acknowledgment for their contribution and marketing.

3. *Pre-selling or pre-ordering*, whereby investors provide funding to help produce some product or service and in return receive an early version of the product, or the product at a reduced price.
4. *Lending*, whereby investors receive the interest and the principal at the end of the lending period. There exist also crowd-lending forms based on the revenue-sharing principle, that is, where creditors are not paid interests at the end of the defined lending period, but rather an amount which includes an agreed share of the earnings, in case of good performance of the debtor.
5. *Equity*, whereby a privately-held company offers securities to the general public, through the medium of an online platform. Investors receive a share in the business and may acquire voting rights.

Donations, rewards and pre-selling (i.e. the so-called "non-financial" crowdfunding) represent the most widespread forms of crowdfunding and constitute an important share of the funding raised by private companies through this channel, providing also non-financial benefits to companies and investors. While these forms currently lead the industry, lending and equity based crowdfunding are expected to play an increasing role in the future.

Lending-based crowdfunding, or *peer-to-peer lending* (P2P), has started as a form of loan transactions in which individual consumers borrow from and lend money to one another, by means of unsecured personal loans, without the mediation of a financial institution. This community lending implies direct contact between the parties and, often, exchange of information that, through the internet platform, is visible to other current and potential borrowers, and may help to broaden the creditor base. In fact, P2P lending communities operate on the principle of "full financing," i.e., the loan request gets funded only if it receives enough bids to cover the entire amount requested by the borrower within an established pledging period, which may range from a few weeks to several months (Herzeinstein et al., 2008).

However, over time, crowd-lending has become increasingly mediated by online intermediaries. In the case of lending platforms, typically the lenders purchase notes issued by the sites, which use those funds to lend through Paypal or WebBank to borrowers (Mitra, 2012). Thus, the online platform acts as an intermediary, for instance, collecting loan pledges from the crowd for private projects, releasing them at the moment a target is reached, according to a threshold principle, collecting repayment instalments from the debtor, and forwarding them to each crowd-lender.[1] In some business models, the pledged amounts are transferred to an escrow account,[2] which is managed by the platform or a partner bank. Once the threshold pledge is reached, payments are transferred from the escrow account to the project's account (Hemer, 2011).

Peer-to-peer loans are usually unsecured loans, i.e. no collateral is required on borrowers, although, in some cases companies may offer secured loans. Nevertheless, transaction fees and interest on loans are charged by the online intermediary, which depend on the borrowers' credit risk, as assessed by accessing credit information from third parties or on the basis of information submitted by the borrowers themselves. The online platforms typically develop credit models for loan approvals and pricing, and perform credit checks of borrowers. Indeed, P2P platforms make profits from commissions instead of the spread between deposit and loan. The longer repayment period that a loan lasts, the higher fees the borrower has to pay (Lin, 2009; Chen and Han, 2012).

In the case of *equity or investment crowdfunding*, a firm offers a certain proportion of its equity for a set amount of capital it is aiming to raise. Crowdfunded businesses do not have to adhere to the strict accounting standards required of public companies and, at the same time, unlike other risk capital providers, crowdfunding investors may have no experience in making such investments. As Collins and Pierrakis (2012) underline, as the model taps into the sub-section of the public with an interest in entrepreneurship, in many cases investment will also be motivated by non-financial aims, such as becoming part of an entrepreneurial venture or supporting a particular individual or business.

The business model of equity platforms typically implies that entrepreneurs or project initiators define with the partner platform a funding threshold and a time period for reaching the target, which is divided into equal shares. These are offered as equity shares through the platform and, in a similar way as the threshold model for crowd-lending, once the threshold is reached the investment takes place (Helmer, 2011).

A key step in this process is the valuation of the business, in order to establish the amount of equity to be offered in exchange for the target capital to be raised. In most cases, it is the entrepreneur him/herself that performs this valuation, although the platform may allow for some upward flexibility in the amount of equity that is offered, as the fundraising progresses and if the observed investment rate does not allow reaching the threshold within the agreed timeline. Some platforms operate a market-driven approach to setting valuation, whereby the entrepreneurs set out the amount of equity and number of shares they are offering, and, through a bidding process, investors who are willing to pay the most for the shares get in on the deal. Some platforms also provide to entrepreneurs training on how to value a business, engaging ex-investment bankers, fund managers and venture capitalists (Collins and Pierrakis, 2012).

An emergent business form of equity crowdfunding platform is the "holding model", as defined by Hemer (2011), whereby the platform creates a subsidiary company, which operates as an individual holding for each of the crowdfunded ventures. In this case, it is the holding company that owns the company shares and sells them to the crowd, acting as a single investor in the firm, alongside other potential investors from the conventional capital market.[3]

As experience and professionalism increase, crowdfunding platforms are evolving into more sophisticated intermediaries, which may offer other services beyond the facilitation of funding, such as due diligence, consulting, search for co-investors or management of a co-investment fund (Hemer, 2011).

Profile of firms

Since the late 1990s, the diffusion of crowdfunding practices has been especially related to non-profit organisations and the entertainment industry, where non-monetary benefits or an enhanced community experience represent important motivations for donors and investors. To date, projects with a creative or social focus, where non-financial rewards are offered in return for donations, have been the most successful at raising finance from the crowd (Collins and Pierrakis, 2012).

Nevertheless, over time, crowdfunding has become an alternative source of funding across many other sectors and it is increasingly used to support a wide range of for-profit activities and businesses. New product-development is an activity for which crowdfunding can provide specific advantages, as the financial dimension is importantly complemented by direct contact and feedback from current and potential customers.

In this regard, Belleflamme et al., (2011) highlight the importance of community-based experience for crowdfunding to be a viable alternative to traditional funding. In relation to reward or pre-purchase funding, however, they also show that crowdfunding is the most profitable option only for lower levels of finance, when the entrepreneur can use the mechanism to apply price discrimination, where consumers with the highest expected valuation are willing to pre-order, i.e. to crowdfund, at a higher price than other customers. When the amount required becomes larger, the entrepreneur is forced to distort more the prices to attract a larger base of crowdfunders, which reduces the gains from price discrimination.

The crowd-lending, or P2P lending, option can be attractive for small businesses that lack collateral or credit history to access traditional bank lending, as the loans offered are typically unsecured. P2P lending, however, is not only attractive to highly risky or “unbankable” borrowers. Indeed, the main platforms for crowd-lending have been increasingly targeting high quality credit risk, often providing loans to refinance credit-card debt, and incentivising lenders to conduct thorough credit checks of applicants before accepting them, which has limited default rates. On their side, borrowers can receive lower rates than those offered by banks, since overhead costs and regulatory burdens are lower, as well as benefit from the interaction with customers that these platforms typically provide.

Equity crowdfunding can provide for a complement or substitute of seed financing for entrepreneurial ventures and start-ups that have difficulties in raising capital from traditional sources, like bank loans, venture capital, business angels and also public programmes, because they are too innovative to be understood, too complex, too risky or simply because the business plans are poorly presented (Helmer, 2011).

Crowdfunding has the potential to deliver equity finance to ventures that have greater levels of risk attached relative to the potential financial gains they can deliver. The non-monetary motivations of crowdfunding investors, such as being part of an entrepreneurial venture or receiving non-tangible rewards, can explain, at least in part, why they may be willing to accept more risk or less return than traditional risk capital investors. At the same time, the small amounts committed to many ventures may allow them to effectively spread their risk, in a cost effective way (Collins and Pierrakis, 2012).

By design and because of regulatory limitations, crowdfunding is suited to start-ups and businesses that request relatively small amounts of funding. However, this depends on the extent to which larger investors participate in the process, as there have been some cases where the potential of the model to raise larger amounts has also been shown (Collins and Pierrakis, 2012). Indeed, large companies have been increasingly investing through crowdfunding platforms, which can offer access to promising start-up ventures. In some cases, crowdfunding challenges have been set up by large firms, offering the most competitive start-ups to match the funds they raised from smaller investors.[4]

According to Collins and Pierrakis (2012), some business models and sectors may be more suited to crowdfunding than others. In particular, consumer–facing businesses may find the instrument more suitable to their needs, as traction with the potential customer base, as shown by the ability to raise fund through the platform, is an integral part of proving to investors the viability of their proposition. Signalling is one of the most important functions of crowdfunding, and a large number of supporters suggests that there exists already a core market for the firm’s product or service, which can be easily mobilised to broaden the market through personal contacts and social networks (Hemer, 2011).

Also, crowdfunding can benefit new ventures built on some R&D output, as the interaction with customers may allow the entrepreneur to validate the untested product or service (OECD, 2015).

On the other hand, the crowdfunding channel may be less suited for business models that are based on complex intangibles or innovations in very high-tech and cutting edge areas, which require specific knowledge on the side of investors (Collins and Pierrakis, 2012). In this regard, however, Hemer (2011) notes that the crowdfunding mechanism may attract a certain group of investors that seek ventures with some degree of innovation in specific fields, such as IT experts, engineers, scientists or people with visions of future applications. Besides funding, they may also bring in knowledge, experiences and networks to shape business strategies and craft products (OECD, 2015).

Furthermore, crowdfunding may not be appropriate to fund firms for which business information and financial details are too sensitive to be shared with a large number of potential investors, as it is either impossible or legally very difficult to arrange non-disclosure agreements with all of them. In addition, crowdfunding may not be suited for businesses that are particularly capital-intensive in early stages or those that require the types of post-investment support that can only be provided by institutional investors (Collins and Pierrakis, 2012; Hemer, 2011).

Enabling factors

Crowdfunding activities require a reliable internet connection, access to the banking sector (in the form of bank accounts for entrepreneurs and investors) and/or online payment systems for the funds to be transferred. In this regard, an efficient banking system can ease the development of crowdfunding platforms, by providing the infrastructure for payments, as well as information about the creditworthiness of the entrepreneurs. In the case of crowdlending, for instance, the platforms may use credit history to decide on whether to accept a project for financing through their site and on the interest rate to charge (OECD, 2015).

The development of the Web 2.0 has been critical to the diffusion and evolution of crowdfunding platforms and practices. Through the Web 2.0, access and use by many different individuals is made easier, knowledge and resources from several sources can be combined, and openness allows users to contribute freely to different projects. This can especially broaden the capabilities of small businesses, allowing user content to inflow and create value for the firm (Lee et al., 2008). With the evolution of the technology, as more applications are possible, crowdfunding platforms have been experimenting with new business models and financing forms.

The diffusion of crowdfunding has also been favoured by an emerging internet-based community culture, whereby individuals are motivated to share ideas and contribute to some collective endeavour, as in the case of “open source”. However, as Belleflamme et al. (2011) note, crowdfunding differs significantly from the open source model, when the resources belong to the community, which can exploit them on an individual basis. In the case of crowdfunding, the key resource, capital, ultimately belongs to the firm, which will be the only one able to use it.

While the pace of technological developments has enabled a rapid diffusion of crowdfunding, the regulatory environment has limited its diffusion, especially for securities-based crowdfunding, which is still not legal in some countries. The nature of crowdfunding does not make it possible to regulate the offer as "private placements to accredited investors". Rather, it is considered as public offering of securities, which is highly regulated in most countries and often requires the publication of a sales prospectus that must be accepted by a supervisory authority. The procedures involved are typically complicated, time-consuming and costly, and can be prohibitive for the entrepreneurs or small businesses approaching crowdfunding (Hemer, 2011; Mitra, 2012). To overcome such difficulties, some platforms set up "investment clubs", which potential funders can join. In this case, the regulatory provisions are less strict, since the members of the club are regarded as qualified investors who need less protection than the "general public" (Hemer, 2011).

Another regulatory obstacle to crowdfunding is the legal limit to the number of private investors a company can have. By its nature, crowdfunding aims to collect contributions from a large base of investors. Also for this reason, most crowdfunding initiatives do not offer shares, but other types of rewards, such as a product or membership (Belleflamme et al., 2011).

To date, the nature of the business has led to great caution by regulators. At the same time, the lack of a clear regulatory framework *vis-à-vis* a new form of debt or equity issuance has contributed to caution by the investment community, in the light of concerns about how much protection they have against fraud, the public disclosure of sensitive information, and the management of a large number of shareholders (Collins and Pierrakis, 2012). Especially, crowdfunding practices raise questions with respect to corporate governance and investor protection, as crowdfunders are most likely to be offered very little protection. Relatively to traditional bank finance, the industry is more vulnerable to the risks of cyber-attacks, identity and payment data theft, as well as money laundering (OECD, 2014). Also, as the individual investment is generally small and the investors typically lack experience, there is a lack of incentive or capacity to intervene in case of mismanagement or abuse (Belleflamme et al., 2011).

It is however to be noted that the regulatory environment is changing rapidly. In recent years, important regulatory changes have been proposed or implemented in some OECD economies, to enable greater access and use of crowdfunding by entrepreneurs and investors. The exemptions to general rules to secure investors or the implementation of ad hoc regulation are expected to facilitate the growth of the industry (see policy section).

Securing an exit for crowdinvestors is also important for the spread of equity crowdfunding. The evidence about successful exits is still limited, but some recent cases suggest that, even when the crowdfunded business is sold to a large investor, it is likely that the shares of previous investors will be diluted, following other crowdfunding campaigns or separate deals with angel investors.[5]

Trends in crowdfunding activity

The crowdsourcing industry has grown rapidly since the mid of the 2000s, and at an increasing rate over the last few years, although it still represents a very minor share of business financing. According to Massolution, a research firm that produces an annual report on the crowdfunding industry,[6] globally, there were 536 active platform in 2012, a 23.5% increase with respect to the number estimated in 2011 (434), and nearly double the number of platforms observed in 2010 (283). The rate of increase of the volume of funds raised has been even more pronounced, from USD 1.5 billion in 2011 to an estimated USD 5.1 billion in 2013.

Crowdfunding is mainly centred in North America and Europe, which, in 2012, accounted respectively for 59% and 35% of the capital raised worldwide. In 2012-13, North American crowdfunding volumes grew by 105% up to USD 1.6 billion, whereas in Europe crowdfunding volumes grew by 65%, reaching USD 945 million. In the rest of the world, growth was even more pronounced with a 125% average annual growth rate.

However, an important difference exists between the US and Europe with regard to the type of crowdfunding raised, which can be explained to a large degree by the different regulatory frameworks in place. While in the US equity crowdfunding has been hindered by regulatory limitations, so that, in most cases, it takes the form of donation- or reward-based crowdfunding, in several European countries, equity-based platforms have been in operation for some years. However, the size of equity crowdfunding in Europe was estimated to be in the range of EUR 50-100 million in 2013, still a very minor share of the market, if compared, for instance, with the EUR 26 billion value of the IPO market (OECD, 2015).

Worldwide, donations and reward-based crowdfunding are the most widespread, accounting for USD 1.4 billion in 2013 and recording an 85% increase in volumes over a year. The second largest category is lending-based crowdfunding, which however exhibits a higher rate of expansion. Equity-based crowdfunding still represents a minor share of the market, growing at a relatively moderate pace (Table 5.1).

Table 5.1. **Crowdfunding categories: Amounts and growth rates, 2013**

Crowdfunding category	Amount (USD million)	Annual growth %
Donation and reward based crowdfunding	1 400	85
Lending based crowdfunding	1 200	111
Equity based crowdfunding	116	30

Source: Massolution (2013).

In 2012, the most active crowdfunding category was that related to social causes, which represented 30% of the campaigns monitored by Massolution. At the same time, business and entrepreneurship ventures have increased their relevance in the industry (16.9%), accounting in 2012 for a share slightly smaller than the one of the entertainment sector (19.4%), in which the crowdfunding phenomenon had first boomed (Table 5.2).

Table 5.2. **Crowdfunding campaigns, by type of venture, 2012**

Category	%
Social causes	30.0
Business and entrepreneurship	16.9
Films and performing arts	11.9
Music and recording arts	7.5
Energy and environment	5.9
Others	28.0

Source: Massolution (2013).

Policies to ease the development of crowdfunding

In recent years, crowdfunding has been the object of important regulatory attention in some OECD countries. The regulatory efforts have aimed to ease the development of this financing channel, while addressing concerns about transparency and protection of investors.

In the United States, where regulatory limitations had hindered the development of investment crowdfunding, the 2012 Jump-start Our Business Startups (JOBS) Act provides explicit legal support to investment crowdfunding, defining the rules that apply to different types of investors and companies that campaign for funds (Box 5.1).

Box 5.1. **Crowdfunding and the JOBS Act in the United States**

In the United States, the Securities Act of 1933 states that entities cannot offer or sell securities to the public unless a) the offering is registered with the SEC, or b) there is an available exemption from registration. The 2012 JOBS Act introduces exemptions that provide explicit support to debt and equity crowdfunding.

In particular, under the JOBS Act:

i) Companies can raise up to USD 1 million from investors and up to USD 2 million if they provide audited financial statements;

ii) Financial statements disclosure is not required for companies whose number of shareholders is below 1 000;

iii) Investors with an annual income of less than USD 100 000 may invest up to the greater of USD 2 000 or 5% of their annual income in crowdfunded companies. For income above USD 100 000 per year, investment is permitted up to 10% of total salary, but should not exceed USD 100 000.

Source: www.whitehouse.gov/economy/jobsact; Mitra (2012).

However, for the reform to be effective, the Securities Exchange Commission (SEC) must issue its regulations. The first of these, in July 2013, lifted the ban on public solicitation and created a new type of offering, called 506(c), which allows companies to advertise that they are fundraising to the general public, as long as they take reasonable steps to verify that the investors are accredited investors, such as members of the Crowdfunder's verified Accredited Investor Network.[7] In October 2013, the SEC published a set of proposed requirements for the platforms, the borrowers and the investors. In particular, platforms would be required to fully disclose their finances, loan origination and practices. Entrepreneurs conducting a crowdfunding campaign would also need to file certain information with the SEC, provide it to investors and the relevant intermediary facilitating the crowdfunding offering (OECD, 2015).

In Europe, in October 2013, the European Commission has launched a public consultation to explore the potential benefits, risks, and the design of an optimal policy framework to untap the potential of crowdfunding.[8] In 2014, it set up the European Crowdfunding Stakeholders Forum (ECSF), an expert group that will assist the Commission in raising awareness, promoting transparency, developing training modules and exchanging best practices (OECD, 2015).

However, in some member states, regulators have already taken significant steps to provide a clearer framework for the industry. In particular, Italy was the first country in Europe to adopt an ad hoc regulation on equity crowdfunding, which came into effect in July 2013 and allows "innovative start-ups" to raise equity through crowdfunding platforms (Box 5.2).

Equity crowdfunding is permitted in other countries, such as the United Kingdom, where, like in the US, regulation is framed in terms of exemption to the general rule that

Box 5.2. **Crowdfunding regulation in Italy**

In December 2012, the Italian Parliament approved the Growth Act 2.0 ("Decreto Crescita 2.0"), which includes a crowdfunding law that allows for equity investments through a crowd funding platform. In July 2013, the authority responsible for regulating the Italian securities market (Commissione Nazionale per le Società e la Borsa – CONSOB), signed the rules and provisions to allow for the law implementation.

According to these rules, "Innovative startups" are the only companies that are allowed to raise capital through equity crowdfunding platforms. An "Innovative startup" is a newly defined legal entity in the Italian system. This is any joint-stock company or cooperative society incorporated under Italian law or any Societas Europaea residing in Italy:

1. which has been established and operating for no more than four years;
2. which has its headquarters in Italy;
3. with a total annual output no greater than EUR 5 million according to its most recent balance sheet, starting from the second year of life of such company;
4. which does not distribute, nor has distributed so far, net incomes;
5. exclusively aimed at developing, producing and marketing innovative products or services;
6. which was not established as a result of a company's merger, split up, sale of business or transfer; and
7. which meets at least one of the following requirements:
   - i) the R&D expenses are equal to or higher than 15% of the highest between the company's total annual costs and the correspondent outputs;
   - ii) one-third of the total number of its employees or consultants either holds a PhD or is attending a PhD program or holds a master's degree which includes a three-year research program certified at a public or private institute in Italy or abroad, or two-third of the total number of its employees or consultants holds a long-cycle degree; and
   - iii) it owns, or has been granted, a license for a design/invention patent, or owns rights related to a primary computer program enrolled at the public register for computer programs.

For the crowdfunding campaign, it is required that the innovative startup refers to a professional investor, a bank foundation, a financial corporation or an incubator that subscribes at least 5% of the capital offered. The maximum amount that the company can raise is set at EUR 5 million. Furthermore, the innovative startups are required to insert a clause in their statute which guarantees to the investors the right to withdraw from the investment and to sell their shares, in case the major shareholder sells its stake to a third party.

The crowdfunding investment is not limited to any specific category of investor. The only requirement for investors is to take a test to demonstrate that they are aware of the risks they are taking when investing, and that they can afford the possible loss of the amount invested. At the same time, Investors can withdraw their commitment at any moment until when the crowdfunding campaign is closed.

Two categories of entities are allowed to start an equity crowdfunding platform: i) banks and other financial institutions and; ii) individuals that meet certain requirements of professionalism (e.g. experience in the field) and trustworthiness (e.g. absence of prosecutions). The platforms are then requested to guarantee transparency and investors protection. For instance, they are responsible to verify that the startups have all the necessary requirements to register on the portal and that the amount invested by the crowdfunders is congruent with their income.

Source: CONSOB (2013); *www.crowdvalley.com*.

forbids offering securities to the general public. The exemption concerns companies that i) produce a prospectus which is approved by an authorised person; or that ii) offer the shares only to "exempt persons", such as high-net-worth individuals/sophisticated investors or investment professionals (e.g. business angels, venture capitalists). There is a further exemption to the rule requiring an official prospectus for the companies that raise less than EUR 5 million, although the promotion needs to be approved by a person authorised by the Financial Services Authority (FSA) (Collins and Pierrakis, 2012).

In other countries, regulatory reforms recently came into effect. In France, in 2013 some first steps were taken by the Government and relevant authorities to develop a more favourable regulatory framework for crowdfunding, while ensuring the security of investors. In September 2013, the French government announced the first version of a new legal framework for crowdfunding, and launched a six-week consultation process. This proposed framework was preceded by the creation of a specific status for crowdfunding platforms, the "crowdfunding investment service provider" (*conseiller en investissements participatifs*). Also, in May 2013, guidelines on crowdfunding were issued, by the French *Autorité des Marchés Financiers* (AMF) and *Autorité de Contrôle Prudentiel et de Résolution* (ACPR), which require crowdfunding platforms to be authorised as either a payment service provider, an investment service provider or a credit institution. As of 1 October 2014, the new regulatory framework on crowdfunding came into effect. For P2P lending, this establishes an upper limit of EUR 1 million for the funds that can be raised for a single project. If an interest is charged, retail investors can lend up to EUR 1 000, per borrower and per project, and the loan term cannot exceed 7 years. In the absence of interest, the loan limit is extended to EUR 4 000. The new rules also establish some minimum requirements for the contracts and obligations for the platforms to disclose information on their status and on the criteria for selecting projects and entrepreneurs, intended to increase transparency in the market. The law also requests platforms to provide investors with instruments that may assist them in evaluating their financing capacity.[9]

Public action may also take the form of support to industry networks or aim at improving information about crowdfunding opportunities. For instance, Bpifrance has taken an active role in supporting crowdfunding, by launching in 2013 a crowdfunding portal (*http://tousnosprojets.bpifrance.fr*). This works as a search engine for crowdfunding platforms, which are selected by Bpifrance and engage in respecting regulation and promoting good practices. The site intends to strengthen industry networks and make investment easier for the large public, which can select projects through a simple interface. Bpifrance simply manages the platform and does not intervene in the design/selection of projects or in the fundraising process.

Notes

1. This model is for instance applied by the German platform *smava* (*www.smava.de*).
2. An escrow account is a temporary account that is held by a third party during the process of a transaction between two parties, until the transaction is completed, that is, until all the conditions between the buyer and the seller are settled.
3. Examples of holding model platforms are the British platform Bandstocks (*www.bandstocks.com*) and the French platform WiSeed (*www.wised.com*) (Hemer, 2011).
4. See "Big companies show they are in with the crowdfunding", *Financial Times*, October 9 2013, *www.ft.com/intl/cms/s/0/1234e5f6-30e5-11e3-b478-00144feab7de.html#axzz2hY7mOjON*.
5. See for instance *www.growthbusiness.co.uk/comment-and-analysis/2459512/the-great-crowdfunding-exit-debate.thtml*.
6. See *www.massolution.com/*.
7. See *www.sec.gov/news/press/2013/2013-124-item1.htm*.

8. See *http://ec.europa.eu/internal_market/finances/crowdfunding/*.

9. See *www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000029463569&categorieLien=id*.

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