



*Capacity Building of BLUE Economy Stakeholders
to Effectively use CROWDFUNDING*

**Document title: 3.4.2 Roadmap of existing framework conditions and potentials of fund-
matching and civic crowdfunding**

WP3 - Testing

3.4 Preparation of policy baseline for civic crowdfunding

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1. Crowdfunding: definition, declination operational aspects.

1.1. Definition

Crowdfunding is part of the alternative finance sector, i.e. those financing channels and instruments that have developed outside the normal financial sectors, such as - for example - the banking or capital markets. In this sense, according to recent studies¹, bottom-up funding is increasingly emerging as a springboard for start-ups and new business ideas.

Crowdfunding involves an open call, mostly through the Internet, for the provision of financial resources either in the form of donation or in exchange for the future product or some form of reward to support initiatives for specific purposes. Crowdfunding is thus a financial operation, sometimes referred to as 'bottom-up funding' or 'collective funding', basically a collective funding that allows people with ideas or needs to support them by raising the necessary funds from a multitude of people online. However, it is not so easy to give an unambiguous definition as the tool is widely used in several different forms and declinations. According to the European Crowdfunding Network: *"Crowdfunding is a collective effort of many individuals who network and pool their resources to support efforts initiated by other people or organisations"*.

To a certain extent it can be considered a form of participation (financial, but not only) of the (social) network and through the network (Internet) in a project that is characterised by: long-term planning; freedom of choice of the project and the designer, conveyed through reputational mechanisms; transparency of the funds raised². Definitely it is the process whereby several people contribute money to finance a project using websites and sometimes receive a reward in return.³

Thus is a bottom-up micro-financing practice that mobilises people and resources. This may not hold too well for lending, which - however - has always been a model in its own right, with peer-to-peer platforms without a purely project dimension, but rather with a technological function for matching loan supply and demand. When the project dimension is missing, crowdfunding is a bit less. Lending is a rib of crowdfunding, but it has a very different identity. However, lately, with lending on energy and real estate, the project component is being reintroduced into this branch as well. On the contrary, equity really has a project dimension, as do donation and reward.

Thus a fundamental element for the identification of the meaning of crowdfunding is the concept of reward, i.e. the financial (crowd-investing) or non-financial return offered in the different existing types of fundraising.

However all these concepts concern a series of specific actors and have in common a number of elements, which have evolved throughout the history of the phenomenon and which - in any case - are based on the concept underlying the so-called '3F model'. Thus is a phenomenon that has a good chance of going viral in Italy, especially if the so-called 3F (*family, friends and fools*) model, according to which the financial backers of a

¹ COMMISSIONE EUROPEA, Impact Assessment accompanying the document Proposal for a Regulation of the European Parliament and of the Council on European Crowdfunding Service Providers (ECSP) for Business and Proposal for a Directive of the European Parliament and of the Council amending Directive 2014/65/EU on markets financial instruments, 2018, COMMISSIONE EUROPEA, ,

² *"Una forma di partecipazione (finanziaria, ma non solo) della rete (sociale) e attraverso la rete (Internet) a un progetto che si caratterizza per: progettualità a termine; libertà di scelta del progetto e del progettista, veicolata attraverso meccanismi reputazionali; trasparenza dei finanziamenti raccolti"* I. PAIS-P. PERETTI-C. SPINELLI, Crowdfunding. La via collaborativa all'imprenditorialità, EGEA, 2014, p. 5 ss..

³ *"Può essere definito come il processo con cui più persone conferiscono somme di denaro per finanziare un progetto utilizzando siti internet e ricevendo talvolta in cambio una ricompensa"*. M. TENCALLA, Equity Crowdfunding per tutte le PMI con la Legge di Bilancio 2017: aspetti tributari, Rivista di Diritto Tributario, 03/03/2017.

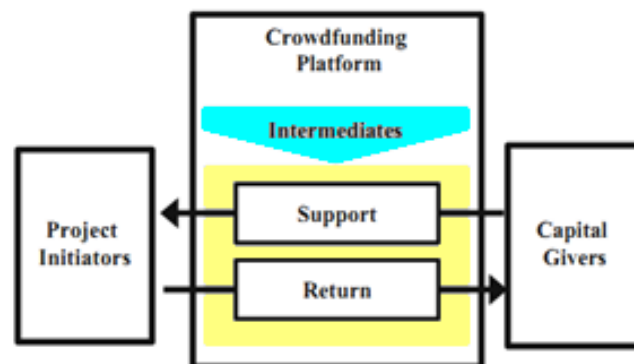
project are said to be first and foremost the family and friends of the designer and then the *fools*, proves valid so that the first fools become the crowd pullers, who populate the online world. Basically, with crowdfunding the crowd - the indistinct 'crowd' of potential supporters - is transformed into peers, communities of supporters and co-creators who share values and have an interest in the realisation of the project.

Crowdfunding is therefore a particular type of collective financing that, exploiting the potential of the Internet, allows those who have ideas or needs, but - respectively - do not have all the funds to realise or satisfy them, to try to access the economic resources of third parties through specific online platforms, offering their supporters rewards of a financial or non-financial nature. In other words, producing by *bottom-up financing* on the Internet.

The rise of the social Web is crucial to the success of perks-based crowd-funding. It enabled people to not only make their donations, but also amplify the power of those donations by making it very easy to spread the word to friends and family via social networks about a project they believed in and encourage their networks to participate as well. This not only increased the success of campaigns, but it also increased the scale and utilization rates of perks-based crowdfunding platforms like Kickstarter⁴.

1.2. Models of crowdfunding

Crowdfunding typically contains three participating stakeholders: the project initiators who seek funding for their projects, the backers who are willing to back a specific project, and the matchmaking crowdfunding platforms acting as intermediaries.



Source: The crowdfunding principle (Haas, Blohm, & Leimeister 2014)

Each stakeholder type shows differentiating characteristics, which have to be considered by attempting to describe basic principles of crowdfunding. Based on these basic principles, three archetypes of crowdfunding can be derived.

There are nowadays many types of crowdfunding that can be identified, plus the combination of more classical models with new ideas can also give rise to various hybrid models. In addition, with the spread of crowdfunding other types have also arisen which can be defined as additional models. To summarise these differentiating characteristics, crowdfunding platforms differ on multiple dimensions. Thus, it is not surprising that different types of crowdfunding exist. In order to systemise crowdfunding and to develop a classification scheme for crowdfunding, researchers

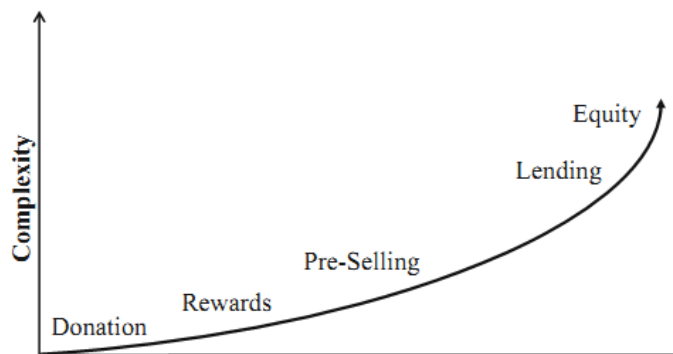
⁴ Steven Dresner - Crowdfunding_ A Guide to Raising Capital on the Internet-Wiley (2014)

presented multiple approaches in the last few years. All of them are based on the return type offered for the backers' support.

One of the elements that allows to distinguish among the various forms of crowdfunding is the concept of *reward*, i.e. the financial or non-financial return that those who support initiatives get from the creators of those initiatives.

There are five *standard* crowdfunding models, donation-based crowdfunding, equity-based crowdfunding, reward-based crowdfunding, royalty-based crowdfunding and social lending.

Image 1- Complexity of return/support types



Source Hemer et al. 2011

Donation-based crowdfunding

The simplest form of crowdfunding is *donation-based*, which is typical donation model, where people selflessly donate their money to support a specific cause, receiving - in return - no reward or, at most, symbolic, often intangible rewards. This is the original form of crowdfunding that started the phenomenon and spread it among the 'crowd' over the internet. The model works in a quite uncomplicated way: donors, called also backers or contributors, can check fundraising campaigns within specific online platforms (so-called donation crowdfunding portals). Among the available projects, they can choose those causes they wish to support and the people they wish to help.

Non-profit organisations are the main users of the donation-based model among all existing crowdfunding types. In addition, donations to non-profit organisations may allow supporters to benefit from tax relief, which is a further incentive to use it. Donation crowdfunding can also be declined in the form of *personal fundraising*, which allows anyone who supports a *good cause* to activate a personal fundraising campaign to support it.

Equity-based crowdfunding

Equity-based crowdfunding is a form of financing by individuals who invest their money in the equity of a company, buying part of its shares or quotas. There are, however, at least two major differences. The first is that the mechanism is much simpler than the regulated and unregulated markets of stock exchanges. Secondly, the costs of the procedure are much lower. In fact, the platform operators generally ask for a percentage (4-7%) of the capital raised. Basically, equity is a crowdfunding model for companies that want to base their future growth and development on a community of investors, who feel part of the business concept and idea and are willing to share their relational network, capital and resources.

Thus crowdfunding platforms represent more and more a valid alternative available to companies, mainly in order to obtain financing for their development projects, but also as a test-bed to assess their business and its probability of success, for an indication of which communication strategy is best to implement and in general to grow their community and network. Equity crowdfunding is therefore not simply finance, as it also allows more open-minded companies to ally and collaborate with their customers and supporters, welcoming them as investors, building up a strong community to be more competitive today.

The success of the operation also represents a significant market test of the quality of the company or of the development plan and can strengthen the financial credibility of the campaign owner, also facilitating the access to further sources of financing and laying the foundations for a possible subsequent expansion phase⁵. The equity-based model could also provide credentials for bank lending and public funding, allowing a first step towards obtaining funding from entities such as venture capital companies and/or business angels, and also paving the way for capital market entry through an IPO (Initial Public Offering).

It should be underlined that the launch of a campaign allows for great visibility and the relationships/contacts that are produced create value for the company as they are able to strengthen the community of stakeholders, plus companies can raise, without intermediation, the financial resources needed to implement a business plan, relying merely on the proposed project and their own credibility, which is an important shift in the start-up and development phase of a company.

Reward-based

Reward-based is a type of crowdfunding in which a contributor receives a reward, based on the amount invested in the campaign he/she is supporting and which usually coincides with a little product or a small service. Often the reward becomes a pre-sale and, therefore, in that case it takes the form of a pre-selling crowdfunding, yet unlike a real pre-sale of products, the backers are often very involved in determining the characteristics of the goods.

Generally, contributors have a decisive role in determining the characteristics of the future product/service. Such a model can, therefore, allow the production of a given product/service to begin, which otherwise would not have the funds necessary for its realisation. In addition, a reward campaign also allows to see if there is a demand for such product or service. For these reasons, the price of the product/service offered in reward-based campaigns is usually lower than the price at which it will actually be sold on the market.

In addition to items of the product/service, other types of rewards are also possible in this crowdfunding model, such as: collaborations or participation in the project, creative experiences or memories and recognition.

It is very important for a reward crowdfunding campaigner to keep the commitment to deliver what it was promised to each individual supporter, and to pay close attention to the possible transaction and shipping costs of the rewards or products/services. It must be pointed out that to avoid any inconvenience, platforms are not responsible for the total or partial fulfilment of the obligation by the planner: the contract is established entirely between the planner and the backers.

Royalty-based

Royalty-based is crowdfunding model in which contributors fund a certain initiative in return for a share of the profits. In practice, the initiator of such a crowdfunding

⁵ G. TARDIVO-R. SCHIESARI-N. MIGLIETTA, *Corporate finance*, Isedi, 2012, pp. 121 ss.

campaign offers shares in the future earnings of the project for which they are requesting funding.

Thus the operation consists of the sale by the owner of the business and the simultaneous purchase by the investor of a share of the revenues that will be generated by future sales of the business. Investors can obtain a guaranteed regular income from the sales and at the same time the owners of the business, remaining the sole owners of the business, retain full control over the management and the performance of the business. In a sense this type of financial operation works as a *crowdinvesting* model, in which there is an economic return on the invested capital.

Lending crowdfunding

Lending crowdfunding, *crowdlending*, social lending or *peer-to-peer* money lending gather many forms disintermediation of lending designed for both individuals and organisations linked to a specific project or business idea to be financed in exchange for an interest rate. Normally, each loan is divided into tranches that are allocated to several lenders and, thus, applicants for financing can receive money from several people. Basically, it is an alternative to a bank loan, yet with the difference that investors have a direct claim on the financed entities, as opposed to savers who deposit their money in a bank that will then provide credit. In social lending, each borrower is assigned a rating, based on data from risk centre, just as in any normal credit market: the lower the rating, the higher the required interest rate based on the risk-return ratio. Thus, the critical success factor for platforms is the ability to correctly estimate creditworthiness in order to minimise the risk of default. Actually, for this reason some portals have created a *default protection fund*, which on the one hand increases investor protection, but on the other hand raises costs for funded entities.

Investing on lending-based platforms could be a single loan which is divided into tranches (generally of the same denomination) that investors can buy themselves on the portals. Alternatively portals create portfolios of loans with the same risk-return ratio that can be purchased pro-rata allowing lenders' money to be spread across several portfolios with the same risk-return ratio, thus reducing - even more - the potential risk of default. In addition to this, some platforms also offer the possibility to resell one's credits to third parties in order to get a quicker return on the investment, thus creating a secondary market.

In general, equity-based, reward-based and social lending models are more in line with corporate activity, while donation-based is more suitable for non-profit organisations. On the contrary, reward-based projects (especially in the pre-selling mode) and peer-to-peer lending are very popular, at least outside Italy. Reward-based projects (especially in the pre-selling mode) and peer-to-peer loans are very popular, at least outside Italy. It should also be pointed out that royalty-based crowdfunding is often considered as a sub-model of equity, but given its wide diffusion, it is preferred to consider it as an independent model. Finally, it should be noted that the International Organization of Securities Commissions (IOSCO)⁶ refers to donation and reward models as "crowd sponsoring" and to equity and social lending models as "crowd investing".

More recently some new crowdfunding models have been experimented alongside the 'classic' forms such as *civic*, *corporate* and DIY crowdfunding as new forms. They have lately been joined, by invoice trading, real estate, recurring crowdfunding and energy crowdfunding.

⁶ E. KIRBY-S. WORNER, *Crowd-funding: An Infant Industry Growing Fast*, Staff Working Paper, OICV-IOSCO, 2014.

Corporate crowdfunding

Corporate crowdfunding is a type of crowd funding that, based on the concept of CRS (Corporate Social Responsibility), can help companies in the design of products/services, directly involving customers in this phase. Typically it can be of the donation, do-it-yourself and reward type. Nowadays especially in the reward and donation models, more and more often companies are identifying platforms as places where they can run initiatives. Therefore, they approach the world of crowdfunding through CSR (Corporate Social Responsibility) initiatives or open innovation in search of new products and ideas for a market that is overseen by the company: these are, as a matter of fact, so-called corporate networks.

This process brings value to the community, as quite often these companies co-finance projects and also leads crowdfunding to have a social impact as a tool able to stimulate companies to carry out projects for the benefit of the territory and communities. Platforms thus work as drivers on the community, giving value to people and their ideas. Community populates the platforms and, therefore, brings companies closer together.

Do-it-yourself (DIY)

Do-it-yourself (DIY) crowdfunding is a form of crowdfunding that allows a campaign to be carried out within the organisation's own site, avoiding the use of another specific crowdfunding platform. Ultimately do-it-yourself crowdfunding refers to customised campaigns developed on independent sites in line with the identity of the project .

Invoice trading

Invoice trading consists of the sale of a commercial invoice through an Internet portal that selects opportunities, and replaces the traditional 'discount' of the invoice implemented by banks to support working capital. Investors advance the amount of the invoice, discounted by of the required remuneration. In fact the mechanism of invoice trading is quite simple: the invoice, which is created as a result of a commercial transaction between supplier and company, is purchased through the marketplace by an investor, in advance of the due date, at a variable discount rate (depending on several factors, such as the cost of capital of supplier and company, as well as the creditworthiness of the latter). In truth invoice trading platforms select receivable invoices in order to offer a high-quality sample. Invoice trading is, therefore, is more an alternative to factoring (rather than a fund raising operation) and represents fast growing a market in terms of business opportunities, operators involved, innovative technological solutions. Traditional activities such as factoring and advance payment of invoices now take place on hi-tech platforms or go to auction. This operation belongs therefore to a particular subset of crowdfunding - *Crowdinvesting* - and involves the raising of capital that has as its counterpart a return on the capital itself, by way of investment. This model of collective financing is aimed at both individuals (retail investors) and institutional and professional investors, and again it is also one of the types of alternative finance.

Real estate crowdfunding

Real estate crowdfunding is a type of collective financing in which capital is raised for real estate investment: ultimately it is the practical application of crowdfunding to the real estate sector. It is essentially a subset of crowdinvesting that allows investors, in exchange for a return of capital, to participate in the financing of a real estate project in a residential or commercial context, typically the purchase of a property for income, the renovation of a property or the development of a greenfield project

This could be carried out within an equity framework: the real estate investment takes

place either equity-based or through a normal bank loan. In fact, the capital to be financed is divided into two components: equity and debt. Equity, i.e. the purchase of equity securities (shares), accounts for 65-70% of the total investment and is divided as follows: 25-30% in the hands of the entrepreneur and 40% available to the online 'crowd'. The remaining 30-35% of the amount to be raised is provided by a bank (debt) in the form of a loan, which reduces the overall risk of the operation. In other cases instead the operation can be linked to *social lending* i.e. peer-to-peer money lending.

Real estate crowdfunding solves some of the problems related to real estate investment. The financing of a real estate project even with low amounts of money which, essentially, translates into the possibility of diversifying one's investment by allocating one's capital to several real estate projects on different geographical areas and on different types of properties, the assignment of the management of the property to the promoters and the possible increase in the liquidity of one's investments, in case the real estate crowdfunding platforms allow one to exchange one's investment shares on a secondary market.

Recurring crowdfunding

Recurring crowdfunding is a type of continuous donation-based or reward-based fundraising that has no expiration date or deadlines, unlike normal bottom-up funding campaign. This fundraising model is designed for all those projects that need to raise funds on a regular basis, thus the project has no deadline, no budget and it can include rewards. In this framework every supporter who signs up for the a project renews the donation automatically every 30 days. It is, therefore, a model for managing subscriptions, and it is ideal for bloggers, youtubers, magazines, fanzines, newsletters, editorial projects, publishing houses, associations and so on. As a matter of fact it is a fundraising model for every long-lasting projects. Recurring crowdfunding is indeed inspired by a subscription- mode that proposes a shift from the classic crowdfunding single project proposal to a continuous ongoing process-project.

Energy crowdfunding

Energy crowdfunding is a form of bottom-up financing in the *green* and *renewable* energy sector for the implementation of sustainable and energy transition projects, in order to reduce dependence on fossil fuels and contribute to the development of innovative infrastructures and technologies. This could become an innovative financing tool to support investments in the energy sector. Indeed, the direct participation of citizens as users-consumers, but also as investors is becoming increasingly common in the context of energy transition and divestment from fossil fuels. This is shown by the growth in Europe of energy cooperatives and participatory models for the development of renewable energy investments. Crowdfunding in energy typically offers investments in renewable energy projects: solar, wind and biomass. Of these, solar PV is the most common project type and accounts for 70% of the total funded. In the countries where it is most widespread, however, energy crowdfunding shows an increasing differentiation in terms of technologies: energy efficiency and bio-energy projects are growing and the first marine and geothermal energy projects are appearing.

Energy crowdfunding was born as a response to the actual need for citizen involvement in the energy sector, initially proposing investments in community and bottom-up projects⁷. The sector is progressively differentiating, including not only local energy communities, but also more institutional players among project promoters: as of

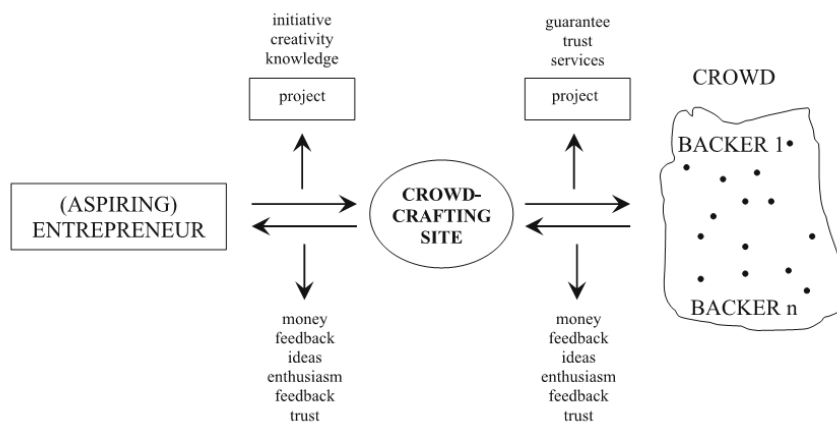
⁷ A. BERGMANN-M. KLAES-B. BURTON-K. KOHL-T. MAIDONIS-M. KLAES, Crowdfunding for Renewable Energy: Survey Results on Public Perceptions and the Views of Crowdfunding Platforms and Project Developers, www.crowdfundres.eu, 2016.

December 2017, more than 92% of projects were proposed by companies and only 5% by community initiatives⁸.

The key factors in the use of crowdfunding consist of the access to capital as an innovative and alternative form to institutional finance for financing energy projects, access to capital is faster and easier than other alternative forms of financing and the possibility of involving citizens and local stakeholders, allowing on the one hand to expand the pool of potential investors and on the other hand to increase the visibility of projects and, potentially, to overcome any local opposition thanks to the implicit redistribution of resources on the territories through the recognition of economic returns to local investors⁹.

Plus bottom-up financing offers the possibility to invest even small amounts of money in energy projects in a direct way and to benefit economically from it, thus guaranteeing a sort of democratisation of the financial process of development and investment in the sector. In this aspects energy crowdfunding is much comparable to civic crowdfunding and, more broadly, to match-funding as it allows investors to enlarge their community (of funders and others), represented by individuals and organisations willing to invest large or small amounts in green projects that bring not only economic returns, but also environmental benefits and virtuous relationships.

Image 2- Web Platform for the Development of Crowdfunding



Source Roberto Bottiglia, Flavio Pichler (eds.) - *Crowdfunding for SMEs A European Perspective*- (2016)

Pre-purchase model

Recently, a new hybrid crowdfunding model has emerged that is a blend between reward-based and equity-based: the *pre-purchase model*. It is a type of crowdfunding that foresees in addition to advantageous conditions linked to the use of the services provided by the company or the purchase of its products, the backer may be even granted a possible option to purchase units or shares at a later date. Thus in this model, the backer of a reward crowdfunding campaign will also be able to enjoy, even in the near future, an option right on the subsequent issuance of equity securities of the company he is financing, just because of – or better thanks to – his purchase today of a product/service from that company. It goes without saying that, due to its characteristics, this model is not accessible to individuals, but only to companies and

⁸ TEMPO PROJECT, Crowdfunding as a novel tool for district heating projects, H2020 TEMPO Project, 2018

⁹ Jeffrey Sohl, "The Angel Investor Market in 2012," Center for Venture Research, University of New Hampshire, April 25, 2013. Among angel clubs (comprising accredited investors only), the sectors that attracted the most capital in 2012, ranked by the Angel Capital Association, were: healthcare, Internet, software, mobile/telecom, business products/services, energy/utilities, computers, consumer products/services, electronics, industrial, environmental services/equipment, media, and financial services.

corporations.

Landfunding

Landfunding is quite an innovative fundraising operation aimed at financing the cultural and economic growth of a territory. Different from a normal crowdfunding operation the contributors of landfunding are mainly players, actors, citizens and entities that operate in the territory and/or that care about its growth and development. The actual supporters of this type of bottom-up financing are generally those who can benefit most from the growth of the image, livability, tourism and interest of the financed territory. In practical and operational terms, this is a *bottom-up* funding, not so different from civic funding in the donation or reward modes.

Whatever is the formula the crowd has a pivotal role. It represents the pool of potential funders, each with a different profile and expectations, but sharing the same willingness to finance a project or an entrepreneur. While some members may be part of a specific community of fans sharing common interests and preferences (especially for art and music projects), most often these individuals do not know one another.

The main objective of an entrepreneur who relies on crowdfunding is to raise capital from a large number of small investors. While donation and reward-based crowdfunding can only rely on nonprofessional participants (fans, donors, or consumers), crowdfunding and crowdlending offer promises of possible capital gains and dividends (for equity) or interest payments (for loans), thus enabling professional investors to participate as well¹⁰.

Thus the profiles of crowdfunders for the different crowdfunding types (donation-/reward-based crowdfunding, crowdfunding, and crowdlending) and their motivation to participate in crowdfunding campaigns must be well studied and addressed to when deciding the mechanisms offered by crowdfunding to investors/contributors to evaluate their decision to back a project or a proposed investment opportunity, including risk sharing, herding behavior, and informational cascade

Here is a synthetic table summarizing the advantages and disadvantages of Crowdfunding deriving from the most authoritative literature¹¹.

ADVANTAGES

- Enables to gauge public interest before launching new products that allows projecting the scope of general consumer interest (Steinberg, 2012).
- Finance at very low cost in line with full ownership of the project (Cunningham, 2012).
- Idea testing and validation through early financial supporters (Crowd) at almost zero costs and with few resources, using as little as a video pitch or prototype (Steinberg, 2012).
- Investors become 'network evangelists' helping to promote the project via their diverse networks in their role of a built-in marketing community (Hemer J. , 2011).
- In the case of unsuccessful campaigns (all-or-nothing-rule), entrepreneurs fail quickly without losing much other than time and some public image (Steinberg, 2012).
- Funds from pre-selling a new product can be directly applied towards R&D, production and marketing expenses (Steinberg, 2012).

¹⁰ Douglas Cumming, Lars Hornuf (eds.) - The Economics of Crowdfunding_ Startups, Portals and Investor Behavior- Palgrave Macmillan (2018)

¹¹ Nadine Scholz (auth.) - The Relevance of Crowdfunding_ The Impact on the Innovation Process of Small Entrepreneurial Firms- Gabler Verlag (2015)

DISADVANTAGES

- Campaigns are stressful and filled with unexpected ups or downs - in the case of success or failure. Entrepreneurs may spend much time and effort to raise money, but there is no recipe for success.
- Different communication and interaction strategies are required to engage with the Crowd such as more creative and story-telling pitches using Web 2.0 features.
- Constant effort in ongoing social marketing campaigns requires self-confident entrepreneurs that are able to put themselves out there (Steinberg, 2012).
- Many other projects are competing for the same audience on online community platforms, share of voice and the backer's hard-earned cash.
- Publishing the idea means that competitors can potentially capitalise on this public knowledge (Cunningham, 2012).

2. Civic Crowdfunding

Civic crowdfunding is the use of crowdfunding to finance public projects, works and services by citizens themselves¹². It is a democratic bottom-up funding model capable of actively involving citizens, allowing fundraising through flexible tools that can promote the development of the territory and communities, partly because crowdfunding itself is a fundraising system that allows just anyone to launch a campaign and anyone to support it. Both individuals and social organisations can initiate civic-based projects for the benefit the entire community. Civic crowdfunding, in general, can be donation, reward or do-it-yourself, but it can also take the form of equity-based and social lending.

As Lawton and Maron straightforwardly put it: *what if community crowdfunding was this century's "town hall"? But rather than the course grained gathering mechanism of the past, it provided a new sense of attachment in the community issues and direction, and provided a fine-grained way for parties with similar concerns and interests to coalesce. And not just coalesce in the virtual sense, but meet face.-to-face. Wouldn't people be more apt to focus their time and energy talking about the things which are relevant to them, and with the people who are most relevant, instead of attending more monolithic and large scale town-hall meetings? While there seem to be enough other reasons to trial community crowdfunding, this one is especially encouraging*¹³.

Civic crowdfunding increases the sense of belonging and involvement of citizens for their own territory, also favouring transparency through a more effective allocation of fund. Public local administrations and all local authorities, with civic crowdfunding, can leverage their close relationships with citizens and small and medium-sized enterprises and also test citizens' interest in each new project, so that they can better define, thanks to citizens' participation, the priorities of each territory. Plus the widespread use of social media could boost the successful fund raising for civic purpose.:

Local authorities can also choose to invest their budgets in those projects considered important by citizens themselves and for which, often, there is a lack of national/EU funding for their implementation. Many crowdfunding platforms are active mainly at local level and are therefore excellent for launching projects for the community living in the area.

The instrument is also a great driver of active citizenship, as the citizens can follow and access all information, both indirectly online and directly offline on the ground, about the projects they want to support through civic crowdfunding, from the early stages of development to their full implementation.

Although these opportunities are quite obvious, civic crowdfunding also has its own obstacles, especially from the cultural standpoint. The lack of knowledge about what crowdfunding and civic crowdfunding are and how they work is a major brake on the growth of the phenomenon.

In fact the difficulty of developing crowdfunding knowledge both at institutional and individual level strongly slows down the spread of civic crowdfunding. Additionally public and local authorities often stop any initiative as their bureaucracy finds it too complex and sometimes important steps of the process are difficult to overcome, often making some civic crowdfunding projects not viable. There are also difficulties concerning payment systems, as many potential donors and contributors are still nowadays reluctant in using online

¹² G. QUARANTA, Il crowdfunding, Diritto ed Economia dell'Impresa, Fascicolo, n. 4, G. Giappichelli Editore, 2017, pp. 915

¹³ Kevin Lawton, Dan Marom - The Crowdfunding Revolution_ Social Networking Meets Venture Financing-Create Space (2010)

payments, and often find it difficult to pay sums through a crowdfunding campaign and seem to prefer traditional channels, such as bank or postal transfers.

This notwithstanding more recently, civic crowdfunding is becoming an increasingly useful tool for the implementation of match-funding projects, which foster collaboration between public authorities (regions and municipalities) and local communities. Along this path crowdfunding is gradually becoming a popular online fundraising tool for carrying out cultural, social, artistic, sporting and environmental projects, and for public bodies it represents an opportunity to access new financial resources, but also to raise the awareness of a community, to enhance the tangible and intangible territorial heritage, to promote shared management of common assets and to launch new forms of public-private collaboration.

Ultimately although it could be objected that initiatives for public benefit ought to be financed by taxes, giving citizens the opportunity to choose what and whether to support cultural, social and/or environmental projects enhances the sense of democratic involvement. This is fundamental for reinforcing the social texture of an community: greater involvement of citizens and a better impact on the community and the territory.

In this sense, at the Italian level, according to Starteed's data, civic-based and match-funding projects have raised a total of around €4 million. The initiatives were mainly promoted by the public administrations themselves (the city of Milan and Venice seem ahead in the process), also through partnerships with realities of the territory, which increasingly play the role of *right-hand man* of the Administrations in the operational implementation of the projects. The combination of Public and Crowdfunding is certainly an interesting phenomenon to monitor, given the commonality between the elements at the basis of Crowdfunding and the values to which Public Administrations are increasingly called to respond: community involvement, transparency of funding, ease of access and dissemination, system innovation, issues of collective interest, participation from below. Crowdfunding enables public administrations to create a strategy to generate a sense of ownership of the common good and at the same time can leverage their investments.

The case of the City of Milan

The City of Milan launched a call for civic crowdfunding with the aim of soliciting "from below" social innovation projects that contribute to the revitalisation of the city, starting from its neighbourhoods. The initiative was realised with the collaboration of the crowdfunding platform *Produzioni dal Basso*, to host the campaigns, and with the *Ginger Crowdfunding* platform for assistance in their preparation. In 2016, the Municipality of Milan had already promoted a similar initiative, which ended successfully in February 2017. All non-profit organisations (associations, foundations, social enterprises) with an operational headquarters in Milan can respond to the call for proposals of the Municipality of Milan by proposing projects of up to €100,000 to expand or renew their range of services. The call for proposals calls for a crowdfunding campaign to raise some of the resources needed. Ginger Crowdfunding, offers online training, and gives assistance in developing and promoting the fundraising campaign in the best possible way. If the project is evaluated positively, the campaign is launched on *Produzioni dal Basso* and raise part of the resources needed, within a maximum period of 60 days, with the support of a *Ginger Crowdfunding* tutor.

All projects that reach a collection equal to 40% of the total cost of the project receive a non-repayable contribution from the City of Milan to cover the remaining 60%, up to a maximum of 60,000 €.

The projects concern outskirts areas characterised by persistent problems of social, economic, cultural and environmental distress. The identification of the target areas, and consequently of the recipients, is also inspired in the case of this project by the need to

ensure an adequate response to the new needs emerging as a result of the COVID19 health emergency, guaranteeing in particular the effectiveness and concentration of resources and those initiatives supporting the communities present in the most disadvantaged areas.

The Civic Crowdfunding initiative of the Municipality of Milan has been designed, in line with the Operational Plan of the PON Metro Milano 2014/2020 interventions with the aim of making the crowdfunding tool available for the promotion of social innovation projects aimed at the peripheral areas of the city. The total amount earmarked for contributions under the call for proposals is € 550,000 from the PON

The case of the City of Venice

The Civic Crowdfunding initiative of the City of Venice is part of the plan of interventions aimed at the Third Sector within the framework of the PON Metro 2014-20 (National Programme) and is aimed at supporting the implementation of social innovation projects able to respond to the needs of the city and its inhabitants. Through a public call for proposals the Municipality of Venice selects ideas and projects for social innovation in the target areas of the city. For the selected projects the Administration makes it available the crowdfunding platform *Produzioni dal Basso*, to collect funding from citizens. Project proposers are also offered, with the collaboration of Fondazione Fenice Onlus, a dedicated training that will lead to the development of the project and its promotional campaign.

The Municipality then guarantees co-financing to all projects that exceed the 50% threshold through the crowdfunding campaign. Thanks to crowdfunding, citizens will also be able to feel personally involved in supporting projects that can contribute to the improvement of collective well-being and the resolution of urban and social problems.

The case of the City of Senigallia

A call for proposals promoted by the Municipality of Senigallia, as part of the "Strong Family" project, intended to involve the territory in co-planning activities and innovative methods of "bottom-up financing" in order to develop a social investment campaign targeting minors in need of care and at risk.

The projects required to have a specific aim such as mainly the prevention of youth discomfort. Project ideas focused on support and enhancement of the parental skills of families and the involvement of the entire community of the reference territory, through the creation of innovative growth paths for young people and their families.

Priority were given to proposals designed to

- Raising the awareness of the community of the territory with respect to the theme of intervention;
- Promoting the well-being of citizens;
- Create new innovative interventions aimed at minors;
- Promote empowerment strategies addressed to minors and families;
- promote a balanced development of skills defined in developmental and socialisation tasks in children.

Among the services provided by the Municipality the crowdfunding platform was made available free of charge, there were organised training sessions with the project leaders to accompany the publication and maintenance of the fund raising activities on the platform of the selected projects and assistance during the launch of the crowdfunding campaign.

3. Italian Legislation on crowdfunding

Like all financings and other forms of business transactions, for that matter, crowdfunding has a legal context that constrains and otherwise shapes behavior. The legal aspects of crowdfunding can be quite complex, especially when crowdfunding is used to offer and sell financial instruments that are considered securities under EU or member country law.

Italy was the first European country to introduce dedicated regulations for crowdfunding with a specific regulation for only equity-based crowdfunding, while for the other models, such as donation, invoice, pre-purchase, real estate, reward and royalty, it is usual to make reference to the current regulations already existing for similar or resembling financing methods. The only exception is social lending, which has recently been regulated, albeit only minimally, within the new provisions for the collection of savings from entities other than banks.

The main sources of regulation in Italy are:

- Civil Code
- Testo Unico sulla Finanza – D. Lgs. n. 58 - 24/02/1998
- Testo Unico Bancario – D. Lgs. n. 385 - 01/09/1993,
- Directive AIFMD (Alternative Investment Fund Managers 2011/61/UE
- Directive (UE) 2018/843 – (Against terrorists financing)
- Payment Services Directive 1 e 2 Directive 2007/64/CE (PSD1) and 2015/2366/UE (PSD2)
- Privacy Code - D. Lgs. n. 196 30(06/2003
- Directive, 2004/39/CE Markets in Financial Instruments MIFID 1 and 2

Equity based

The nature of securities regulation dictates its effects on financing transactions and those who participate in them. Securities regulation promotes a few key policy objectives using three principal regulatory tools. Understanding these policy objectives and tools enables lawyers to assess the actual and perspective application of securities laws and rules to crowdfunded offerings.

Securities regulation helps ensure that ventures can raise investment capital to support their operations. Laws and rules at the federal and state levels that protect both investors in those ventures and the integrity of the markets in which the financial commitments of those investors are sought and made support this goal of promoting capital formation.

Italy's discipline of equity-based crowdfunding, sees it as the system that allows companies to raise financial capital through the Internet, offering in exchange shares in the ownership of the company and therefore the possibility of sharing in the profits and the creation of value in the long term¹⁴. There is, in fact, an ad hoc organic law, only for the regulation of the equity crowdfunding phenomenon, introduced as an exception to the rules on public offers of subscription, by Decree no. 179 of 18 October 2012 ("Growth Decree 2.0") which, initially, opened the recourse to crowdfunding only to companies with the qualification of 'innovative start-ups'.

Later on the Decree No. 3 of 24 January 2015 ("Investment Impact Decree") allowed companies qualifying as 'innovative SMEs' to access crowdfunding, as well as giving collective investment undertakings (UCITS) and companies that invest primarily in innovative start-ups/SMEs the opportunity to place their capital online through equity crowdfunding. More recently, the Senate's 2017 Budget Law, in Article 1, paragraph 70,

¹⁴ P. ALOVISI, *Equity crowdfunding: uno sguardo comparatistico*, Rivista Diritto Bancario, Dottrina e Giurisprudenza, 2004.

granted the listing through crowdfunding portals also to non-innovative SMEs, but established in the form of joint-stock companies. The Decree No. 50 of 24 April 2017 ("Urgent provisions on financial matters, initiatives in favour of territorial entities, further interventions for the areas affected by seismic events and measures for development ") has, definitively, extended the possibility of using equity crowdfunding to all SMEs. This was introduced, in particular, by the first paragraph of Article 57 on Investment Attraction of the aforementioned Decree. The actual entry into force of the measure took place in January 2018 with the introduction of the new CONSOB Regulation on equity crowdfunding, approved by resolution 29 November 2017 no. 20204 of 5 December 2017. This new direction chosen by the Government should, therefore, considerably broaden the range of companies authorised to finance themselves through equity crowdfunding, given that a large part of the Italian business model is made up of small and medium-sized enterprises in the form of limited liability companies.

Further updates were made in 2019, with a few important revisions to the Equity Crowdfunding Regulation, which should give a further proactive boost to the development of the sector. Among the most relevant changes are: the possibility for SMEs to issue mini-bonds on crowdfunding platforms; the possibility for equity-based portals to set up online notice-boards on their website for the purchase and sale of financial instruments that have been the subject of successful offers as part of a crowdfunding campaign (which in theory should make the sector more flexible); and the opening of the sector to foreign issuers.

Equity crowdfunding has to a certain extent some similarities with an Initial Public Offering and in this sense, a company's access to funding through a crowdfunding campaign could, at a later stage, pave the way for receiving capital also on more important regulated markets - or the Alternative Investment Market.

Thus actually equity crowdfunding takes the form of a paid capital increase, through an online fundraising offer. There is therefore a potential risk of 'dilution', in percentage terms, if the company in which one has invested launches other equity crowdfunding campaigns. Moreover, the current rules provide for the use of crowdfunding only for equity financing for companies, while the possibility of issuing debt securities¹ or hybrid securities remains still excluded.

Ultimately the Italian legal system, art. 50-quinquies and art. 100-ter of the Law on Financial Intermediation as well as Consob Regulation no. 18592 of 2013 (and its updates) are particularly relevant. Yet its new articles of the deal with what is customarily defined as equity crowdfunding, even though the Italian legislator has not defined it in any provision, limiting itself instead to regulating it.

It must be pointed out that investing in companies through equity crowdfunding entails some particularities related to the application of VAT and fiscal implications, as the need to draw up a resolution to increase the share capital, whether or not the founders share certain rights with their investors or the existence of possible exemptions and tax reliefs related to the financing of innovative start-ups and/or innovative SMEs.

Donation crowdfunding

As to the regulation of donation crowdfunding it is useful to refer, in general, to the discipline of donations contained in Chapters I, II, III and IV of Title V of the Second Book of the Italian Civil Code. In particular, it should be recalled that on the basis of Article 769 of the Civil Code *"a donation is a contract whereby, in a spirit of liberality, one party enriches the other, disposing of one of its rights in favour of the latter or assuming an obligation towards the same"*

In case the donation is made to a non-profit organisation (ONLUS- Non-Profit Organisation of Social Utility) it is possible for the donor to benefit from certain tax-savings as to deduct

the amounts paid to the entity, precisely because of the characteristics of the institution of the Onlus. A peculiarity characteristic of donation crowdfunding only concerns the application of VAT and its exemption modalities when, as in this case, money donations are made.

Reward crowdfunding

Reward crowdfunding could be assimilated to a pre-selling or pre-ordering of a product or service, this when the reward is not of pure donation of a solidarity type. In this case there could be envisaged three different legal categories to define and regulate crowdfunding.

The pre-order, which is an operation that the Italian Civil Code defines as *e-commerce*, and which concerns a future sale that is completed only with the realisation of the good, to which VAT is applied and an invoice is issued. Another option is the *modal donation* foreseen by the Italian Civil Code, in which the *reward* is given it is not of great value and of an amount much lower than the sum donated, otherwise it would require the intervention of a Notary Public deed. The third type is as a matter of fact, a royalty crowdfunding.

As to the first approach of reward crowdfunding a pre-sale of goods or services will be, respectively, realised or provided thanks to the money raised; in the second case, two different situations can be considered. In the first case, the rewards, in the form of goods or services, offered by the campaigner have a symbolic value, but since they are products or services, they should be considered as a *pre-order* model. In the second case instead, the contribution of the supporter of a reward crowdfunding campaign is assimilated to a real donation and, then, in this specific case, this will imply the bottom-up funding model known as *donation-based*.

The different interpretation of reward crowdfunding implies different opportunities to identify platform managers and also and above all different possibilities of application or exemption of VAT on the projects that are proposed.

Royalty crowdfunding

In royalty crowdfunding, a monetary reward is offered: a sharing of the profits or revenues associated with the investment, but without any ownership of the project or repayment of capital. For this reason, the regulation of the model, in general, is referable to the rules on *association in participation* (i.e. joint venture) (art. 2549 of Italian Civil Code), in which whoever finances, will share in the profits generated, without becoming a partner. In fact, in this particular crowdfunding model, the funder receives royalties on the basis of the amount invested, which may concern: copyright, intellectual property rights, patents, licences, registered trademarks and so on. This will lead to a certain method of taxation and consequent application of VAT, which will be soon detailed in a next paragraph.

Thus this is the case of a partnership in profits and losses, within the limits of the contribution made by the investor, which provides for the association of an open and indefinite number of investors. The relationship must be properly contractualised in order to avoid the supplementary application of legal rules that are not properly compatible with the type of crowdfunding. Intern. The *associate in participation* does not have the rights of the partner, but has powers of control which must be defined contractually and which are generally limited to the analysis – not audit - of the accounts. The most problematic aspect is the fiscal non-deductibility of the profits attributed to the associates in participation, which ends up weighing heavily on the net profitability of the entrepreneurial project

Social lending

In social lending the investment takes place through the subscription of a loan, with a contract that provides for the modalities of repayment and remuneration of the capital

through the recognition of an interest rate. For this reason, the rule at the basis of the model is the contract of loan stated by art. 1813 of the Italian Civil Code *in which one party delivers to the other a determined quantity of money or other fungible things and the other party undertakes to return the same quantity of things of the same kind or quality with the addition, pursuant to art. 1815 Civil Code, of interest, if expressly provided for in the contract.*

On the subject of crowdfunding, the only legislation that regulates the sector is Section IX of the new regulations on the collection of savings by non-banking entities, which is contained in Resolution No. 586 of 2016 of the Bank of Italy. Here lending crowdfunding is defined as *social lending*, an instrument through which a plurality of subjects can request from a plurality of potential lenders, through online platforms, funds that can be reimbursed for personal use or to finance a project. In fact the portal makes investors and funded entities sign a remote payment service contract.

Currently platforms may operate if they are a payment institution under Article 114-septies TUB, a financial intermediary under Article 106 TUB or a credit institution. Since 2018, there is the "possibility for social security institutions and pension funds to place quotas of securitised loans or credit funds disbursed and/or originated through P2P platforms such as social lending crowdfunding portals within PIRs (Individual Savings Plans), taking advantage of the relevant tax incentives.

Fiscal aspects of crowdfunding

Investment in equity crowdfunding, when closely linked to the financing of start-ups and innovative SMEs, foresee certain tax benefits. In particular, there are tax deductions for individuals and tax credits for legal entities, which have evolved over time. These benefits for equity crowdfunding are provided for by art. 29 (paragraphs 1, 4 and 7) of Decree no. 179/2012 and are granted to individuals, non-commercial entities, individual entrepreneurs, subjects that produce income in associated form with the exception of innovative start-ups, certified incubators, collective investment undertakings - OICR - and other companies that invest mainly in innovative start-ups. As per art. 1, paragraphs 66-69 2017 of Budget Law, from January 1, 2017, the ordinary measure of the benefits is 30%, authorized by the European Commission (SA 47184 September 18, 2017) until December 31, 2025.

For the said subjects, the incentive consist in a deduction from gross tax equal to 30% of the sums invested in the share capital of one or more innovative start-ups. However the maximum deductible investment cannot exceed the amount of €1,000,000, for each fiscal period of the facilitated amount, for a maximum achievable saving of €300,000 per year. For partners in general partnerships and limited partnerships, the amount for which the deduction is due is determined in proportion to their respective shares in the profits¹⁵.

In order to obtain these benefits, it will be necessary for the investor, in his tax return, to request from the start-up company a copy of a series of documents and certifications that the latter must produce when drawing up the tax return, including: certification attesting compliance with the maximum limits for contributions in relation to the tax period in which the investment was made; the start-up company's investment plan, containing detailed information on the object of its activity, the products and the trend (current or expected) of sales and profits..

For innovative start-ups, the tax relief for 2019 can go as high as 40% and 50%. Namely paragraph 218 of article 1 of Law no. 145/2018 raised from 30% to 40% the rates of deductions and deductions provided for those who invest in the share capital of an innovative start-up and also increased from 30% to 50% the rates in cases of acquisition of

¹⁵ If the deduction exceeds gross taxation, the excess may be deducted within the following three years.

the entire share capital of innovative start-ups provided that the entire share capital is maintained for at least three years. These benefits regard cash contributions, subscription of OICR (collective investment undertakings) units and contributions deriving from the conversion of convertible bonds into newly issued shares or quotas.

The European Commission has recently announced that it has authorized tax incentives for investment in the risk capital of Innovative SMEs.. This assigns to individuals who invest in an innovative SME a deduction from income tax equal to 30% of the investment, up to a maximum of 1 million euros; legal persons are entitled to a deduction from their taxable income also in this equal to 30% of the investment, up to a maximum of 1.8 million euros.

The taxation of social lending crowdfunding, (online loans for individuals and businesses), was revised in mid-December 2017¹⁶. The Italian tax legislator decreed that from January 1, 2018 a rate of 26% will be applied on the interest received by those who lend money through digital platforms. Namely, the new amendment provides for the same taxation applied today to income from financial instruments, rather than the marginal rate applied to personal income tax. More specifically, the amendment modifies art. 44 of the Italian Income Tax Act, introducing the specification that the *fintech* platforms in question must be managed by companies authorized by the Bank of Italy as financial companies pursuant to art. 106 TUB and/or by payment institutions and that the same platforms must operate a withholding tax on investment income. Basically the portals will be required to act as tax withholding agents.

Under this new scheme the interest collected is no more reported in the tax return and taxed at the lender's marginal rate which could reach over 40% for the wealthiest taxpayers, and therefore sophisticated and tend to be more willing than other small savers to differentiate their investments in an innovative asset class such as crowdfunding; and the losses on receivables that had become uncollectible are now deductible for tax purposes as are capital losses on other financial investments. Thus the new legislation was, therefore, welcomed in the sector as it drastically changed the pre-existing legislative framework, which was also rather unfavorable for certain types of lenders.

The taxation of royalty crowdfunding follows the rules of the taxation of the association in partnership in which whoever finances participates in the profits generated, even though is not considered as a partner (*supra*). At a fiscal the rules on partnership are rather complex and also quite disadvantageous, as it is necessary to establish what the profit is, then it must be taxed, and then it is possible to distribute to the partners what remains, according to the percentages agreed upon. It is not a contract that requires a particular form, therefore, royalty-based crowdfunding can easily be managed on the Internet, which actually is the case, quite frequently.

Crowdfunding and VAT

Value Added Tax application to crowdfunding in Italy follows the guidelines on the subject stated by the Value Added Tax Committee of the European Commission in 2015. In general, these European guidelines should therefore apply:

In case of Donation model, considering these are genuine donations of money, VAT cannot be applied.

¹⁶ CAMERA DEI DEPUTATI DELLA REPUBBLICA ITALIANA, *Bollettino delle Giunte e delle Commissioni Parlamentari*, n. 933, 18/12/2017, pp. 59 ss

As to Equity crowdfunding, on the issuer's side, the offer of company shares is a transaction clearly exempt from the application of VAT, on the investor's side, the purchase of shares in a company requires the application of VAT only if the ownership of the shares is accompanied by direct or indirect interference in the management of the company in which the shares are held.

When in case of Reward crowdfunding, if the reward-based crowdfunding consists of a pre-sale of an object or service VAT must be applied. But if the rewards, goods or services, of a campaign have a symbolic or rather nominal value, the application of VAT should be assessed on a case-by-case basis, yet, in general it should be applied to these transactions. In case the contribution of the backers is more similar to a real donation, this is more the case of donation crowdfunding and, therefore, VAT should not be applied.

In case of Royalty crowdfunding, the payment of royalties is a transaction that should be subject to VAT.

In the cases of Social lending (peer-to-peer loan on the net), if the lender also negotiates and manages the loan, there is an exemption from VAT.

The owners of equity-based portals that deal directly with payments and money transfers on their portal the service is exempt from the application of VAT, but in case this activity is carried out indirectly through third parties, the VAT is applicable.

In truth the Value Added Tax Committee of the European Commission did not directly analyse the *civic*, *corporate*, *do-it-yourself* and *real estate* models. Nonetheless, as these are forms of crowdfunding where in fact the online fund raising takes place in one of the forms described above, the consequent VAT regime ought to be applied.

4. The market of crowdfunding in Italy

As reported in the latest Survey of Starteed, the crowdfunding market in Italy is expanding if we consider that in 2020 its total volume increased by 75% compared to the previous year despite the contiguous event of the pandemic. In particular, it has emerged that the pandemic has positively influenced the performance of the crowdfunding market, since the propensity of Italians to donate has increased, not only in relation to initiatives aimed at tackling the health emergency, but Italian platforms have also recorded excellent results on other issues on campaigns in other areas as well. Even before the strong wave of awareness that took place in the last years, since 2015 the growth rate of the total volume of crowdfunding in Italy has been on an upward trend, both in terms of volume of capital and number of donors, yet it is interesting to point out that the incidence of the volume collected in 2020 is equal to 43% of the total volume reached in the years up to the same year.

Only the platforms of Italian law were taken into consideration in the count in the following models Donation & Reward, Equity and Lending models. The latter recorded the highest financing volume, confirming its supremacy also in 2020 with respect to the first two, but the results achieved confirm the solidity of the sector.

Image 3 Growth rate of crowdfunding in Italy from 2015 to 2020

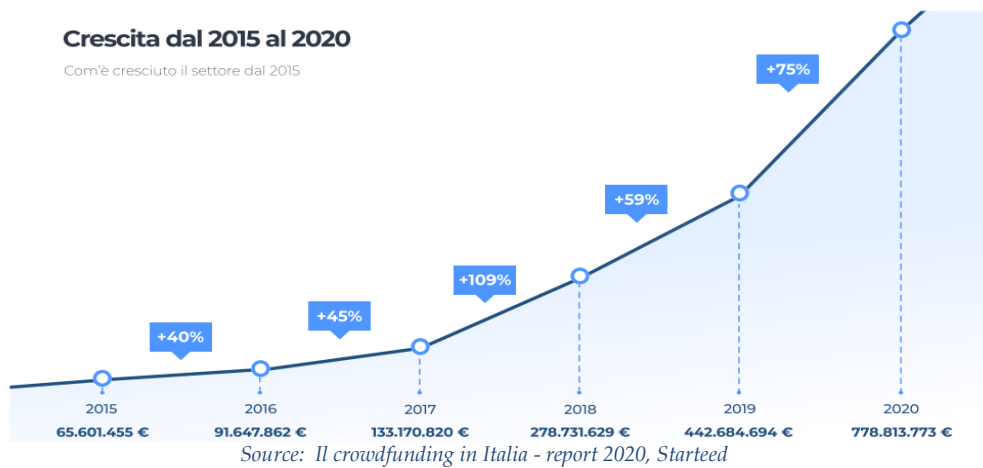


Image 4- The volume of crowdfunding by financial model through 2020 and into 2020

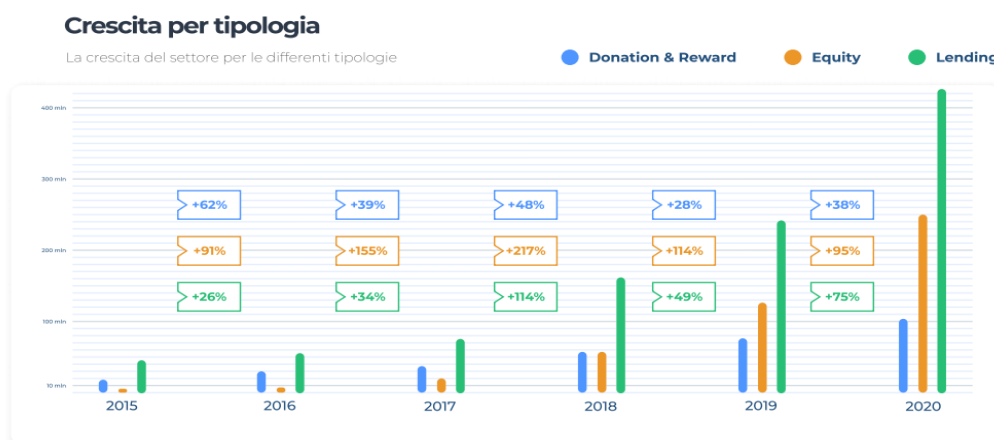


Source Il crowdfunding in Italia - report 2020, Starteed

In particular, it is important to note that the volume of Donation & Reward equal to € 31,062,089 only in 2020, is only a partial result because it does not take into account all the "all or nothing" campaigns that at the time of counting had not yet exceeded the reference goal. Moreover, the results of the latter model take on more significance when one considers that although donor attention was focused on emergency health issues, this did not prevent the success of the other campaigns. The latter crowdfunding model has strengthened over time, especially since 2018 (+48% growth rate), reaching a peak

in 2020 of about 100 million euros. A notable achievement is the volume of lending, which reached over €400 million in the same year.

Image 5- Crowdfunding trends for each model from 2015 to 2020



Source Il crowdfunding in Italia - report 2020, Starteed

The top five Donation and Reward platforms in Italy that have collected the most in 2020 are presented in image X, and among these *Produzioni dal Basso* has welcomed campaigns exclusively for territorial and neighbourhood mutualism interventions. The latter ranks fourth in the ranking built on the total of the 25 Italian Donation and Reward platforms, but it should be noted that in terms of overall volume, calculated from 2015, it ranks second with €15,043,602 collected until 2020, just after the first Italian platform *Eppela*.

Image 6 - Donation and Reward's Italian top five platforms

Top 5: Donation & Reward

Le piattaforme che hanno raccolto di più

Piattaforme	Solo nel 2020
1° Forfunding	9.769.674 €
2° Rete del Dono	4.204.389 €
3° Kendoo	3.555.975 €
4° Produzioni dal Basso	3.580.975 €
5° Eppela	3.516.643 €

Source - Il crowdfunding in Italia - report 2020, Starteed

4.1 The platforms

Crowdfunding platforms or portals are Internet sites that allow the meeting between those who request funds (the designers) and those who are willing to finance the ideas (supporters/financiers/investors)¹⁷. Therefore, the platforms are the place where the

¹⁷ A. DELIVORIAS, Crowdfunding in Europe. Introduction and state of play, European Parliamentary Research Service

fundraisers' demand for money meets (matching) the relative offer of funds of the 'crowd', the 'crowd' of people present on the web.

A funding portal can charge an issuer a flat fee, usually on a monthly basis, for posting an offering on the platform. Or the portal can charge the issuer a "success fee," a percentage of the capital raised on the platform. Portals should disclose to investors how they charge issuers (whether a monthly fee or a percentage of the funds raised), but they do not have to disclose the amounts of those fees. Typically, the success fee is in the 5 to 10 percent range—a higher percent for larger raises—although it can vary according to the type of startup as well (e.g., real estate ventures and startups with valuable hard assets may pay lower fees)¹⁸

Crowdfunding platforms therefore focus on bringing together project owners and funders, and according to a principle of transparency they provide all information about the projects but also advice (for example, on how to reduce investment risks). In addition, the platforms are based on two other principles that govern the financing of projects: the *all-or-nothing* principle whereby project initiators are paid only if they reach their established funding goal, and the *keep-it-all-principle* whereby project initiators receive whatever money they raise. This funding principle is particularly used for purely philanthropic projects.

As a rule, platforms do not charge participation or membership fees, while their income comes from commissions if the project is successful (in Italy it is generally between 4% and 10% of the capital raised), or other platforms do not charge any commission and rely instead on voluntary contributions and/or advertising revenue, especially in the case of platforms active outside Italy¹⁹.

In Italy the number of crowdfunding platforms, only for the models previously analysed (Donation, Reward, Equity and Lending) until 2020 was 56, while for the total models there were about more than 80 platforms operating in Italy. More recently, in 2021, new portals have been surveyed reaching an estimate of about more than 100 total platforms.

It's certainly worth noting that regardless of which business model you consider, crowdfunding platforms bring specific advantages over traditional financial intermediaries, the power of the sense of belonging to a community that can be acquired through platforms certainly constitutes the added value of these platforms. Also in the case of civic crowdfunding the sense of belonging to a community that shares initiatives related to social problems and promoted from below increases the level of involvement of users and their propensity to donate.

Furthermore, in terms of resources and costs linked to the crowdfunding campaign, it is much more convenient to reach a community without resorting to traditional dissemination tools.

The main Italian platforms that are based on a reward or donation model listed above are certainly the ones that lend themselves most to civic-crowdfunding projects, since they incorporate within them a community of people from the third sector who work on projects whose aim is the well-being of the community. Among these actors there are also banks that work in the field of ethical finance and that constitute a very important node for the financing of initiatives with social impact. In particular, *Produzioni dal*

(ERPS), 2017, pp. 3 ss.

¹⁸ Broker-dealer platforms can charge the same kinds of fees and percentages as portals do, although the percentages might be slightly higher because they typically provide consulting services to issuers. In addition, broker-dealers may compensate their employees and agents based on the amount raised by issuers. (Wiley Finance) David M. Freedman, Matthew R. Nutting - *Equity Crowdfunding for Investors_ A Guide to Risks, Returns, Regulations, Funding Portals, Due Diligence, and Deal Terms*-Wiley (2015)

¹⁹ *Ibidem*.

Basso, as already highlighted, is the first Italian Crowdfunding platform and contains within it the networks of a wide and diversified network, which also makes it possible to attract investments from companies for social impact projects and social innovation. Although the interest of the latter is to identify new market outlets, at the same time, through their participation in projects, they contribute to generating an impact that benefits the territory and communities.

Therefore, making use of platforms based on the reward model such as *Eppela* or Reward-Donation such as *Produzioni dal Basso*, does not exclude the possibility of involving a wider range of actors and donors even for small-scale and short-term projects that are typically sponsored through these business models, if a diversified network with common interests is built within them.

5. As-is framework: examples of civic crowdfunding in Campania Region

As previously highlighted, in Campania region crowdfunding initiatives that start from the bottom are more widespread and are often supported by a private component, intercepted through the network of the main platform of Donation and Reward, *Produzioni dal Basso*. For this reason, in order to identify the as-is picture of crowdfunding in this region, we have analyzed examples of crowdfunding within which the synergies between public and private can generate territory development.

An example analyzed concerns the regeneration of a small area of a town in Campania (Pontecagnano city), through the re-proposition of an abandoned place at the train station: "Let's give new life to Pontecagnano Station". The latter raised € 11,761.00 through a crowdfunding campaign promoted by Campania Legambiente on Banca Etica platform, which then co-financed the project with its own funds. Another case project of civic crowdfunding from below, supported by the same bank and entitled "Un Futuro per Bagnoli - Docufilm" promoted by Nisida Environment (a local company), collected € 18,671.00 in reward-based donations.

The projects that certainly in the region Campania have been very successful to date, and that have involved the large participation of active citizenship, and in some cases of the institutions, are those that have touched the sensitivity and empathy of citizens with regard to problems that affected more directly the interests of the community, such as the remaking of a public park or a research centre, but also the interests of subjects in a position of economic and social disadvantage, as in the case of donations of material goods for deprived families. In the first case and in the second one the project's success was due to the strong emotional wave that involved web users and citizens after catastrophic events that caused injustice and hardship.

In particular, the project of crowdfunding launched in 2018, Oasis-WWF, concerned fundraising for the regeneration of the WWF Cratere degli Astroni Oasis Nature Reserve in Campania after a fire damaged the centuries-old forest heritage. The success of the campaign led to €10,000 being raised in less than a month through a social crowdfunding service offered by Meridonare managed by Banca Intesa San Paolo in web mode.

Among the projects designed to meet the needs of third parties, another social crowdfunding case was promoted by an association that deals with helping families living in serious social conditions in the outskirts of Naples, (San Giovanni a Teduccio), after this association had suffered a burglary of the goods collected for families in need. Therefore, the objective of the project carried out by the association "Figli in Famiglia O.n.l.u.s" was to buy back the lost primary goods, intended for the children of disadvantaged families in the suburban district of the city.

Another element on which the success of some civic crowdfunding projects in Campania

has been based is the strong participation of the active citizenship of Naples, which in some cases has played a decisive role in attracting the involvement of civil society during the campaign phase. A unique example in Campania, which has also seen the involvement of national institutions in the solidarity action of co-financing, is the project entitled "Let's Rebuild City of Science". The latter project had the objective of reconstructing the Science Centre "Città della Scienza" in Naples (12,000 sqm of exhibition space) following an arson attack and €1,463,867 raised out of a target of €100,000 thanks to the contribution of 2,584 backers. In addition, the strong involvement of active citizenship resulted in a solidarity march of over 15 thousand citizens that reached Città della Scienza, where a flashmob against crime was held before the crowdfunding campaign.

In Campania Region, the active citizenship of the metropolis of Naples, could be a strong point for the success of other civic crowdfunding campaigns that could double their success through match funding with public funds from local and regional authorities. Although there are no such scalable models in the Campania region, one could adopt the scheme used by the cities of Milan or Venice in their Civic Crowdfunding Campaign Program and which could also be used by larger municipalities of Campania.

6. Timeline of activities: actions performed and next steps

The road map for the identification of the framework conditions and potential developments for the application of the model of civic crowdfunding and matchfunding in the Campania region is divided into two main macro-containers of activities, the first of which contains the study and analysis of the territory starting from the as-is picture of project trends and the relative active participation of citizenship and private entities in fundraising. In this phase are also included the in-depth analysis of the legal aspects to refer to for the implementation of crowdfunding projects and the analysis of the needs of the territory in the sector of the blue economy, through the listening and review of potential subsectors of interest and potential initiatives that can be implemented. This container of activities includes all the meeting between all the subjects involved during the workshop organized according to the democratic participatory method of the Quadruple Helix, aimed at identifying the thematic and technical aspects on which the drafting of the Call for Ideas must be based, as well as the evaluation of project ideas suitable to become successful pilot actions. These last two actions fall under the second macro container of actions together with the implementation of the first civic crowdfunding campaign by the Campania region and modalities of implementation of it.

The activities aimed at filling these containers have been organized according to a very precise timeline and are listed in the following calendar-sheet and infograph and will be explained in detail below.

The Action Plan set for the quarter May 1st – July 31st 2021, aimed at achieving the main goals included in WP3 and WP4, thus opening the way to the Pilot Actions' Phase, whose early steps (i.e. Training Classes for the winning idea) will take place immediately after the summer break. Here below the main dates and goals set in accordance with the working schedule:

May						
S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

June						
S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

July						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

May 17 – Co-creation Workshop for Legal Consideration - workshop to discuss benefits, obstacles and legal possibilities to use crowdfunding.

May 26 – Co-creation Workshops for identifying blue-economy civic projects

#1 - workshop to identify a list of potential blue economy related projects of public interest.

May 27 – Co-creation Workshops for identifying blue-economy civic projects

#2 - workshop to identify a list of potential blue economy related projects of public interest.

June 9 – Quadruple helix Workshops on using crowdfunding in Regional Development Strategies – workshop aimed at the identification of mid-term programs, measures supporting innovation and blue economy

* * *

End of June – Publication of “Call for Ideas”

Info Day #1 – Presentation of the “Call for Ideas” to potential applicants in order to explain its main aims, opportunities and answer to their questions.

Info Day #2 - Presentation of the “Call for Ideas” to potential applicants in order to explain its main aims, opportunities and answer to their questions.

Info Day #3 - Presentation of the “Call for Ideas” to potential applicants in order to explain its main aims, opportunities and answer to their questions.

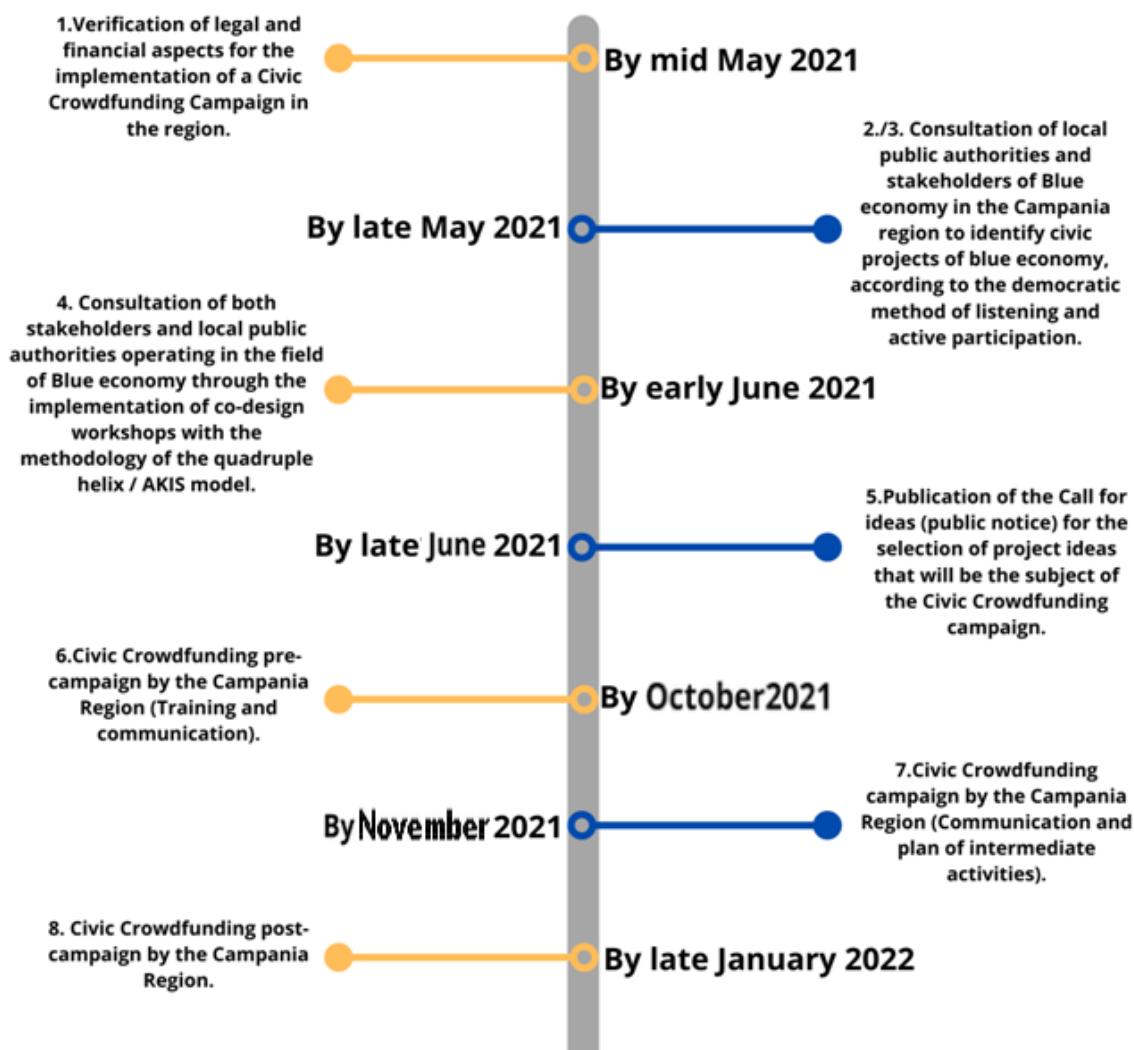
July – Closing date of “Call for Ideas” - collecting all submitted application forms

July – Start of submitted projects Screening phase – Selection of ideas in accordance with the evaluation grid set into the Call

July – Publication of winning Idea (to become Pilot Actions) – informing all winners

July 31 - Winner invitation to Training Classes starting on September 2021 (invitation to a set of 24 hours course on main crowdfunding topics(e.g. campaign planning, web marketing, storytelling, social impact measurements etc.)

Regarding the first part of the activities that make up our Roadmap, the following have been carried out to date:



- 1. Verification of legal and financial aspects for the implementation of a Civic Crowdfunding Campaign in the region** (Co-creation workshop for legal consideration 17th May 2021, online meeting in Naples, Campania Region): The first co-creation workshop for Legal considerations on Civic Crowdfunding of Region Campania, was organised together with its in-house Foundation IFEL Campania and aimed at informing and training regional administration executives and officers on the use of Civic Crowdfunding in the Blue Economy industry. Crowdfunding and Match-funding issues were to be addressed with special emphasis to be placed on their legal, financial and operational aspects. The workshop was meant furthermore to show several success stories of Civic Crowdfunding developed in the Region and a harvest of the most used web portals hosting campaigns. Both topics were carried out with the intent of stimulating debate and to draw valuable reflection and considerations for the following two co-creation workshops.
- 2. Consultation of local public authorities in the Campania region to identify civic projects of blue economy, according to the democratic method of listening and active participation** (Co-creation Workshop with local public

sector entities for identification of Blue Economy Project, 26th May 2021, online meeting in Naples, Campania Region): The first of the two co-creation workshops for identifying blue-economy civic projects was aimed to inform the local authorities of the Campania region about the Blue Crowdfunding project and to listen to their comments and suggestions on the theme crowdfunding tool in the blue economy useful to identifying civic projects. With the aim of providing ideas and stimulate discussion and reflection among participants on possible initiatives to be undertaken within the Blue Crowdfunding project, was given ample space to listening to their suggestions, and which can be consulted in the report of the same meeting.

3. **Consultation of the stakeholders of the Campania Region to identifying civic projects of blue economy according to the democratic method of listening and active participation** (Co-creation Workshop with sectorial stakeholders of Blue Economy, 27th May 2021, online meeting in Naples, Campania Region): The second co-creation workshop for identifying blue-economy civic projects was based on listening g to the stakeholders, actors and operators of the Blue Economy sector. An overview of the European program InterregMed was provided along with a brief review of other examples of European and Italian projects in the context of the Blue Economy, in order to provide food for thought and stimulate reflections and contributions from all participants. Thus, at the end of these brief presentations, all representatives of the Blue Economy sector had the opportunity to ask questions, make comments and make suggestions. All of the ideas that emerged and relevant considerations are detailed in the event report.
4. **Consultation of both stakeholders and local public authorities in the fisheries and aquaculture sector and operating in the field of Blue economy through the implementation of co-design workshops with the methodology of the Quadruple Helix / AKIS model** (Quadruple helix workshop, was held on June 9, 2021, online in Naples, Campania Region): This last workshop aimed to understand the requirements and technical specifications that will need to be provided within the Call for ideas (Public Notice for the collection of project ideas), to be launched in the 2nd quarter of 2021, at the outcome of which one or more project ideas will be selected, which will be the subject of the Civic Crowdfunding Campaign by the Campania Region.

The roadmap activities still to be undertaken from this point onward are:

5. **Publication of the Call for ideas (public notice) for the selection of project ideas that will be the subject of the Civic Crowdfunding campaign** (Identification of pilot actions): Campania Region will publish a call for proposals for the selection of civic projects in the blue economy sector that will be the subject of pilot action on one or more crowdfunding campaigns organized by the region and carried out by stakeholders. The call will provide the criteria for admission and exclusion of those who can participate, a financial target within which the project ideas will have to be included and will circumscribe the admission to the call to projects that fall within the sector of the blue economy with particular attention to the civic purpose of the same. Finally, the Call for Ideas will be open for about 30 days.

The selection of project ideas will follow specific parameters and criteria, including those related to the expected results and impact of the project idea: the creation of added value for the regional economy, the increase of the sense of belonging by local communities towards the marine environment and the enhancement of the territory, understood in terms of environmental regeneration but also of attractiveness.

6. **Civic Crowdfunding pre-campaign by the Campania Region** (Training and communication): Prior to the Crowdfunding Campaign, the region will identify the platform through which to promote the civic crowdfunding initiative. In addition, it will be the Foundation IFEL Campania to provide all those technical assistance, training and accompanying services offered to those implementing the campaign. In particular, Foundation IFEL Campania will offer consulting service will be offered on the marketing choices of sponsoring the project both on the platform and on conventional and non-conventional communication channels.
7. **Civic Crowdfunding campaign by the Campania Region** (Communication and plan of intermediate activities): During the campaign, the Foundation IFEL Campania will keep assisting campaigners, and its strategic communication and planning services will continue aimed at achieving intermediate engagement results.
8. **Civic Crowdfunding post-campaign by the Campania Region:** The result of the pilot campaigns, once verified, will be included in a Report, which will also contain an ad hoc study on the possibilities of providing and applying in a stable manner the crowdfunding tool in regional planning, implementing a Fund Matching with the funding lines already activated by the Campania Region or in the planning phase.

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