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## **The Crowdfunding Alternative**

A comparative research on the crowdfunding market in Italy and  
China

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## 前言

众筹作为通过筹集社会资金以实现一些社会活动的方法，可以追溯到 19 世纪，它首次出现在关于自由女神像基座建设的融资项目中。近年来，这种融资方法因两件有关社会文化变革和经济风向改变的时间发生，而重新受欢迎：Web 2.0 时代的崛起及 2008 年的金融危机。得益于小公司和企业家从银行，风险投资家和商业基金等传统金融机构很难筹集资金，众筹平台开始也在网络上出现，主要是为文化产业和慈善领域融资，之后才为小企业融资，尤其是初创阶段公司。关于众筹的第一个正式定义可以在 2006 年的迈克尔沙利文（Michael Sullivan）的话中找到。在 2012 年由 Massolution 完成了并细分了众筹网采用的各种商业模式的最终定义和分类，这些模式可以分为非金融众筹和金融众筹。非金融众筹可以细分为基于奖励众筹和捐赠众筹；金融众筹可以分别贷款众筹和股权众筹。Massolution 也让我们了解众筹平台，融资者和投资者的主要金融活动。并且，这个分类标准演变为针对不同的商业模式，如房地产众筹和综合众筹，这其实仅是同一平台采用不同的运作模式而已。众筹市场年复一年增长迅速，很难统计出具体数据，另外，从各国的商业模式和立法角度来看，这些地区的众筹项目发展情况也千差万别，以至于从世界范围的趋势来看，我们无法将众筹产业的整体数据放在一起统计。尽管如此，为了充分诠释本论文的核心，我将详细探讨了意大利和中国市场上的众筹活动，试图在这两个市场的诞生和范围上找出它们的突出差异性和共同特征。对于考虑到这两个方面，我们首先要了解意大利和中国的众筹没有相同的发展路线，这是显而易见的。意大利市场以其异质的创业结构受到 2008 年经济危机的猛烈冲击，目前仍然处于经济复苏阶段；尽管如此，意大利还是第一批率先使用众筹平台的欧洲国家之一。意大利众筹第一个平台是 2005 年获得资助的 Produzioni dal Basso。由于一些结构性和社会性的问题，缺乏有效的互联网覆盖率和较差的在线支付方式以及公民对网络技术总体上

的不信任，意大利抓不住成为市场主角的机会。几年之后，意大利政府看到了这一财政手段有助于国家经济复苏的潜力，于 2012 年制定了一套关于众筹的临时法规 - Decreto Crescita bis (第二发展法律)。同时意大利也是第一个通过具体的立法来推动众筹欧洲国家。真正的转折点是 2013 年，上述规定终于付诸实施，创造众筹平台真正兴旺起来。由于 2017 年市场规模不断增长并达到了 1.332 亿欧元，最终，关于众筹的欧盟法律也得以出台，上述法规进一步完善，包括针对更多的参与者的同时精简繁琐的官僚程序。尽管如此，依然有许多意大利众筹员都抱怨现行法规所施加的限制，这种限制往往会侧重保护消费者而不是鼓励并推动众筹这一商业模式。而且与其他欧洲的和国际企业相比，意大利在线支付方式的效率低下，当涉及到意大利人使用的网络工具时，内容混乱，资源盘根错节。按照市场的预期，今年预计认为那些已经证明是成功的众筹平台将会继续运营而那些没有成功的平台将会逐步衰退。此外，这些平台的垂直化将会继续，企业和私人使用的白标签平台会让这类平台进一步繁荣。而且，所有中小企业进入市场都将推动融资众筹。关于中国，在我们讨论中国市场的众筹项目之前，必须先说一些背景。首先，由于 Web 2.0 的兴起，众筹出现了，帮助网民互相联系互动，从底层创造财富，但是我们可以随之迅速清楚地发现，中国众筹出现的方式必然与传统的众筹出现方式很不一样。一方面是在中国，网络环境和金融体系是由政府严格控制的；另一方面，中国消费者的行为仍然是生产与经济发展的动力决定因素，而不是创新和价值的创造。因此网络市场是由阿里巴巴，京东等电子商务巨头统治的。这个情况出现了一些问题：众筹的成功是建立在众多用户的信誉基础之上的，但考虑到中国政府的影响力，这个特点在中国市场如何转化呢？中国在知识产权盗窃方面缺乏强有力的监管，该如何处理这个问题呢？要详尽地解答这些问题几乎是不可能的，因此我决定首先对中国政府对网络监控的发展进行一个全面的描述。实际上，中国政府对网络采取了三种不同的方式：其一防火墙的建设和网络内容审查。第二是保守性的相对开放，这是由于社会对于利用网络来加强政治话语的需求；最后是互联网

+和一带一路战略的推进中所看到的网络工具的整合，以促进国民经济的发展。接下来我进一步强调了第三种方法如何影响了中国特色众筹市场的建立。事实上，中国经常采取在国外市场上取得成功的方法，并将其吸收并形成优势。特别是，在众筹市场的创立阶段就产生了众所周知的以“售前众筹”或“购买众筹”这两种形式。这种方法类似于奖励众筹，但它利用了消费者更喜欢有形商品的习惯来换取他们的贡献。这种中国式的新方法与采用西方分类学的定义的众筹词汇在翻译上意义相反，因此难以评估数据。2012年第一个中国众筹平台点名时间建立了，其次是具有相似的特点，如追梦筹、淘梦、觉和乐童音乐。中国众筹的另一个特点是，大多数平台已经跳过了“一般阶段”，从行业一开始就开始垂直和细分。中国众筹平台集中在科技，设计，娱乐，文化，农业，捐赠六大类投资领域。按照时间顺序来看，2013年是中国众筹历史上的重要一年，意大利也是如此。在那一年，中国众筹市场不仅在众筹平台的创造性上发生了爆炸性的增长，而且在数量上也是如此，市场在这一年里增长了320%。从2015年开始，随着国民经济和社会发展第十三个五年计划发布，众筹正式出台。从今年开始，中国政府一方面开始打击非法募捐平台，另一方面给予股权众筹第一个立法框架。我们将看到过去四年来中国的众筹是如何成倍增长的，与意大利一样，依然依靠一种无法真正激发众筹金融潜力的立法原则来规范这一产业。股权众筹的法律领域尚不明确，不同的众筹商采用不同的商业模式。根据世界银行的预测，亚洲众筹市场，特别是中国市场，将成为未来五年/十年的真正全球推动力，全球市场份额超过50%。目前，中国众筹市场已经达到584.2亿元人民币（略低于75亿欧元）。与意大利类似，根据预测，中国众筹市场将在2018年进入到一个成功平台开始适应持续的监管框架的适应期，以及二三线城市的众筹平台的蓬勃发展带来的回报不断的垂直化。在最后一章中，我分析了外国直接投资在中国和意大利众筹市场的可行性。在前言章节中，我们已经看到众筹在世界大多数国家利用诸如社交媒体，电子商务，在线支付和银行业务等工具，成为替代金融行业最重要的手段之一。意大利在这个意义上而言，缺

乏一个发达的信息技术产业，但它却能够成为欧洲最活跃的众筹市场之一。另一方面，中国自身又具备了巨大的金融和商业潜力，同时缺乏强大的创造力和创新能力。在这两个市场中，中小企业和创业公司都很难从传统的融资中介机构获得资金，而把他们推向众筹工具的动机又大不相同。在意大利的众筹出现在底层，来自商界人士的自我创业态度，而在中国则是由IT界的大佬塑造的。尽管如此，两个市场都在利用这一金融工具来促进国民经济发展和扩大国际化。对于意大利来说，发行第二发展律的目的特别是刺激外国资本进入意大利市场。相反，正如“十三五”计划第四十九章所明确表示的那样，中国正在计划实施对外直接投资的“对外开放”新战略。虽然开放了新的产业，特别是在创新技术领域，但其他许多领域仍然还有拓展空间。在实践中，两国目前的融资立法并没有对投资性质构成限制，只是在平台和/或寻找资金的企业国籍上加以规范。而且，最近有两个用于在线支付的软件可能会促进非融资众筹。微信支付，它开始允许用户联结外国信用卡到他们的账户。这将是中国电子商务市场的一个重要战略节点，也就是以奖励和捐赠为基础的众筹。另一方面，支付宝和微信支付进入意大利市场，解决了中国游客到访半岛的消费问题。这两项业务都可以被众筹市场所利用，因为它们不仅为已经使用该工具的用户提供了巨大的基础，而且还提供了一个展示和宣传众筹活动的窗口。最后，鉴于可能发生的各种风险，必须巧妙地开展众筹活动。它必须得到稳妥的业务计划的支持，并考虑到事前/事后会发生的各种不确定因素。众筹因此可以成为促进国际合作与创新的有用工具。

# **Chapter 1: Introductory analysis on crowdfunding**

## **1.1 Historical background**

The practice of raising funds from the community has gained worldwide attention in recent years as one of the biggest innovations in the field of alternative finance but it is actually as old as history itself, in fact looking back in time it is common to see examples of funds collected or raised from the community even before the creation of bank systems and other traditional financial institution. Wealthier families or people provided loans to individuals to finance their business or creative activities, like the patronage of the arts, or simply to participate in the life of a bigger community, as in the collection of donations in church for instance. Although the public collection of funds from the crowd to finance the creative and cultural industries and its contents or in the field of charity represents the best example of the past application of this practice, it is important to note that it has been used also in the construction of big infrastructural operas, for example the pedestal of the Statue of Liberty which is widely considered to be one of the first examples of crowdfunding for civic purposes. In 1885 the citizens of both the United States and France strived to collect the sum of money needed to build this iconic monument, but they were still short of money, it was then thanks to the help of publisher John Pulitzer who came up with the revolutionary idea of offering donors the opportunity to have their name printed on the newspaper *The World* in exchange for their contributions that they finally succeeded in reaching the \$102,000 needed for the construction of the pedestal. Nevertheless, this method of alternative finance had gone silent for the last centuries because of two consequential reasons: firstly, the lack of regulations in this field of investment, and thus on the protection of people's accountable, led the way to fraud; consequently, a hold on bank systems and private and national funds which of course provided a more secure investment system, together with a certain stability in world's economy and the lack of a good communication network between people and throughout the countries, took care of the need of loans

and capitals of the citizens.<sup>1</sup> Yet crowdfunding is nowadays an affirmed and strong financial tool for small businesses, start-ups, innovative creations, charity and so on. Its rebirth, or better its official birth, can be dated in 1997 when the British rock band Marillion laid the basis for the creation of a methodological crowdfunding. In that year the band needed the money to finance its tour around the US but did not have enough savings nor anyone to ask for them; the band decided therefore to turn to their networking and started sending emails to all their fans to propose them to buy their new album in advance. This way they obtained 12,000 pre-orders and with the money raised from the fans the band succeeded in paying the recording of the new album and the US tour, but most importantly they created a new business model that is now the core of the two most famous crowdfunding platforms of the world, Kickstarter and Indiegogo.<sup>2</sup>

In addition, the birth of the modern crowdfunding depends on two main historical events: the rise of the Web 2.0 and the 2008 world economic crisis. About the first, the blossoming of the Web 2.0 and the raising role of the digital user opened the way to a transformation of the business models from offline to online user-centered ones, in which customers are not only actively defining a new way of using and consuming goods and services, but they are also looking forward to having a stake in what they are consuming.<sup>3</sup> That is one of the reasons why many authors allocate crowdfunding under the bigger umbrella of crowdsourcing, which is the outsourcing of different tasks to a diversified group of people through the use of information technology hence profiting from their experience, skills and knowledge.<sup>4</sup> The social aspect of crowdfunding is then extremely important if seen in view of the great network of relationships that surround the single user in the social media era, for it not only helps giving insight on the crowdfunding project through the exploit of feedbacks but, more importantly, it conveys a sense of transparency and mutual reassurance. The social involvement of the user in the Web 2.0 Era and the growth of the Web itself led the way for the creation of the first no-profit crowdfunding

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<sup>1</sup> Dennis BRÜNTJE, Oliver GAJDA, *Crowdfunding in Europe – State of the art in theory and practice*, Springer, 2016

<sup>2</sup> Jack PRESTON, *How Marillion pioneered crowdfunding in music*, virgin.com by 20 October 2014

<sup>3</sup> Steven DRESNER, *Crowdfunding, a guide to raising capital on the Internet*, Bloomberg, 2014

<sup>4</sup> BRÜNTJE, GAJDA, *Crowdfunding in Europe*

portals. The first to appear in 2000 was the British JustGiving, which provides online tools and processing services to enable the collection of charitable donations, followed by ArtistShare (2003) whose scope is the financing of the production costs for music albums by involving fans through the Internet and giving artists more favorable contract terms than traditional record companies; this was then followed by many other music-related crowdfunding platforms, such as Sellaband or Pledge-Music.<sup>5</sup> The purpose of crowdfunding in the following years, with the emergence of crowdfunding platforms like Kiva (2005) and Prosper (2006), started to shift from charity to profit, both these US-based platforms in fact provide peer-to-peer (P2P) microlending services connecting lenders to those in need of funds, granting therefore a return on the investment for the lender.<sup>6</sup> A third type of platform was also developed in which the investors were given a reward in exchange for their contribution and in this field the Italian Produzioni Dal Basso is one of the first European websites providing this kind of services even if the most famous ones are certainly the American Kickstarter and Indiegogo.

So, it is during this period of shifting from no-profit donation to the creation of different business models that the term “crowdfunding” was first acknowledged. The first who has been credited with coming up with the term is Michael Sullivan who, on August 2006, wrote on his website fundavlog

[...] but I also decided that another similar term can be used to explain the general ideas being presented here. And I think that term is 'Crowdfunding'. Money is the root. Money incubates, inspires and gives rise to good content. Money provides new and/or rejuvenated opportunities. [...] Many things are important factors, but funding from the 'crowd' is the base of which all else depends on and is built on. So, “Crowdfunding” is an accurate term to help me explain this core element of fundavlog.<sup>7</sup>

Even though fundavlog is not operative anymore his invention led the way to further and more accurate definitions of modern crowdfunding.

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<sup>5</sup> SYNDICATEROOM, *The history of crowdfunding*, Blog Syndicate Room, 18 October 2014

<sup>6</sup> For more information see Kiva.com and Prosper.com

<sup>7</sup> Michael Sullivan definition on crowdfunding to be retrieved anywhere on the web

In this fervent social media era where crowdfunding had already been socially and economically accepted at least in the West, the world financial crisis of 2008 represents the turning point in the wide spectrum of the crowdfunding opportunities. The outburst of the financial crisis was crucial for individuals and small-businesses which were already struggling to get loans from traditional financial institutions, such as banks or ventures; in this scenario the setting up of start-ups represented the best way to solve the problem of unemployment and these start-ups have found in crowdfunding the possibility to obtain resources, test their ideas, mobilize the internet-crowd, create awareness and consensus even before the launch on the market.<sup>8</sup> Therefore a new crowdfunding model started to emerge, here the reward on the investment included a practical involvement of the lender in the life of the company in which he/she was investing in the form of equity and royalties. The wider the range of methods the more crowdfunding started to meet the needs of numbers of stakeholders heading beyond the mere P2P usage and meeting the support of associations, governments and institutions which, in return, gave crowdfunding the global visibility he needed to grow even further.

## **1.2 Crowdfunding definition and taxonomy**

Crowdfunding has a long history at its back which originates in the 19th century even though the term is considered to have been coined in 2006. Its growing importance in the field of alternative finance has clearly got the attention of governments and institutions which worry about the safety of their citizens and their capitals, stressing the need to find a clear definition and classification of what crowdfunding is, where does it operate, who are the players involved and what are the business models. There is no official definition of crowdfunding: the variety of players involved in this research field, such as governmental institutions like the European Commission, the U.S Security and Exchange Commission or organizations like the European Crowdfunding Network, all give a similar definition to crowdfunding, thus it has been chosen here to use the definition given by

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<sup>8</sup> Ivana PAIS, Paola PERETTI, Chiara SPINELLI, *Crowdfunding, La via collaborativa all'imprenditorialità*, Egea 2014

Massolution. Massolution is a research and advisory firm that pioneered the use of crowdfunding in the consulting field and whose taxonomy and report on the world's crowdfunding activity is largely esteemed. Its definition is the following

Crowdfunding refers to any kind of capital formation where both funding needs and funding purposes are communicated broadly, via an open call, in a forum where the call can be evaluated by a large group of individuals, the crowd, generally taking place on the Internet <sup>9</sup>

The three factors mentioned in the definition above (the funding purpose, the crowd and the Internet) define the tool and the actors involved in the crowdfunding process. It states the where and the who: the Internet, or more specifically the crowdfunding platforms (CFPs) is the where, while the campaign owner and the backer, or crowdfunder, are the who. Anyway, this definition gives also insight about a few constitutive elements:

1. *Openness and active participation.* The open call, considered as a call-to action, implies not only that anyone who has an idea, or a project can make it public and participate in the collective financing, but also that the backer is encouraged to give his/her own personal contribution in showing preferences about the product/service and/or spending time and efforts in the realization of the project. In the long run this fosters a personalization of production and enhances the creation of niche goods.<sup>10</sup>
2. *New digital relationships and trust.* A CFP facilitates the transformation of capital resources accessible through the social media into available financial capitals, therefore these platforms help lower the social and information collection barriers, whilst the crowdfunding activity lowers the ones of accessing and sharing capitals. Research have found that there is a correlation between the number of friends on social media and the success rate of a crowdfunding campaign (10 friends represent a success rate of 9%, 100 friends of 20%, 1000

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<sup>9</sup> MASSOLUTION, 2015CF, *The Crowdfunding Industry Report*, Massolution.com, 2015, p.34

<sup>10</sup> Chris ANDERSON, *The Long Tail: How Endless Choice is Creating Unlimited Demand*, Random House, 2010

friends of 40% and so on)<sup>11</sup>. It is also notable that the digital call-to-action is conveyed by social mechanisms of trust and reputation: generally speaking the first backers of a crowdfunding campaign are people close to the campaign owner who know and can evaluate the personal qualities of the campaigner and thus serve as a first layer in the raising of capitals. Furthermore, when the relationship is not based on a face-to-face knowledge, such is the case of social media, this first layer works also as an insurance on the credibility of the project, the so-called “social proof”<sup>12</sup>.

### 1.3 The Crowdfunding platform

The CFP acts as a mediator between the campaign owner and the possible investors and thus operates a first skimming, providing information about the projects and advice, in terms of funding and return mechanism and specialization. These platforms differ from traditional financial intermediaries since they do not borrow, pool, or lend money on their own account and they generally do not charge membership fees. Some platforms receive their revenues from the commission charged if the project is successful, others may rely on voluntary donations or advertising incomes. A CFP permits its members to choose the duration of a campaign and, at the end of it, may offer different funding mechanisms based on various pledge levels, which are reward tiers offered to backers during the campaign; the minimum pledge amount can vary from zero to 100 or 1,000 euros depending on the type of campaign. Anyway, there are two often used pledge formulas which are the *keep-it-all* and *all-or-nothing* pledge systems: the first is mostly used for charitable projects since the campaign owner is able to collect all the money raised from the campaign, whilst the second involves a Threshold-Pledge System (TPS), meaning that the campaign owner must fix a desirable funding sum for its project that he will receive only if the threshold has been met at the end of the campaign. The skimming made by the CFP is made also in terms of specialization or specification. In the

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<sup>11</sup> Ethan MOLLICK, *The Dynamics of Crowdfunding: Determinants of Success and Failure*, Journal of Business Venturing, 2013

<sup>12</sup> Also known as informational social influence, is a psychological and social phenomenon where people assume the actions of others in an attempt to reflect correct behavior in a given situation.

heterogeneous landscape which is the Internet economy, the CFPs serve a niche or a particular segment of this market: specialized platforms welcome projects from a precise market sector such as art, music, publishing, gaming and so on while specific platforms embrace different sectors but focus on a specific dimension, such as creative projects, high-tech, environmental etc. There can be also generic platforms that display any kind of project without distinguishing between business sector or the intrinsic characteristics of the product. Ultimately, CFPs may differ from each other in terms of support and return on the investment varying as follows: (1) No-compensation, such in charitable projects; (2) Reward, where the recipient is rewarded a non-monetary return; (3) Pre-ordered product; (4) Interest received in exchange for a loan and (5) Profit-shares in terms of equity.<sup>13</sup>

## 1.4 Crowdfunding models

The difference in types of returns provided by the CFPs to backers of a crowdfunding campaign is significant in the determination of the taxonomy of the different business models applied in the crowdfunding market. The most common distinction of the crowdfunding models was first classified by Massolution in its 2012 report on the industry, but several authors made similar distinction based on return types before then. Massolution distinguishes two macro-models of crowdfunding that are based on the funding relationship between the campaign owner and the backer, non-financial crowdfunding and financial crowdfunding, hence highlighting that the marketing and the management of a campaign, along with the regulations, institutions and infrastructure involved in the process, are the direct outcome of the choice of the crowdfunding model. Another interesting distinction in the classification of crowdfunding models has been made by Haas et al. which poses the accent on the pursued value of backers when looking for a project to fund, ultimately identifying three motives: hedonism, altruism and for profit.<sup>14</sup>

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<sup>13</sup> C.Steven BRADFORD, *Crowdfunding and the federal securities laws*, Columbia Business Law Review, 2012

<sup>14</sup> For further investigation see Philipp HAAS, Ivo BLOHM and Jan Marco LEIMEISTER, *An empirical taxonomy of crowdfunding intermediaries*, Paper presented at the International Conference on Information Systems (ICIS), Auckland, New Zealand, 2014

Proceeding with Massolution classification, the two macro-models can be respectively subdivided into: donation-based and reward-based (non-financial crowdfunding) and lending-based, equity-based and royalty-based (financial crowdfunding).

1. *Donation-based crowdfunding.* It has been seen before that crowdfunding historically derives from donation for charitable or personal causes, in an open call to reach as many interested parts as it can without giving anything in exchange. This model has its roots in the fundraising activity of not for profit organizations and thus it is mostly used in this field, by non-governmental organizations (NGO) for instance, but it may be also used by individuals for personal reasons triggering his/her own networking. The funding activity constitutes in a donation or a gift, therefore there is no need to provide a reward nor the campaign owner has legal obligations toward the backer.

2. *Reward-based crowdfunding.* In the second type of non-financial crowdfunding backers are rewarded with a non-monetary compensation in exchange for their contribution which may also include a pre-sale of a product and the benefit is often proportionate to the amount of the contribution. This is probably the most famous business model since it applies not only to individuals but also to companies and it is carried out by the two most famous platforms in the world, Kickstarter and Indiegogo. It has proven itself useful especially in new-product development since entrepreneurs can make use of the backers' involvement in the project to gather feedbacks to understand the marketability or to solve preliminary functional problems of the product before the effective launch.

Even if the financial risk of investing in a donation-based and reward-based campaign is lower than the one of investing in financial crowdfunding, these models are still exposed to fraud, cyber security problems and fulfillment risk, as the campaign owner may not reach the TPS and thus not being able to deliver the reward or incur in intellectual property theft.

3. *Lending-based crowdfunding.* As the name suggests, the campaign owner borrows money from the crowd and the sum received will be repaid in the future to the investors with a certain fixed rate (which may also not be fixed at all). Basically,

it consists in the selling of an obligation and it applies to P2P lending, also called social lending, and peer-to-business (P2B) investing, also called crowdlending. Generally, the loan is divided in shares and then allocated to different sponsors so that the borrower may receive money from a lot of sources and every subject is given a rate: the lower this rate the higher is the interest rate on the loan considering the risk-return ratio. The element of success of this CFPs is based on their ability of correctly appraising the creditworthiness of the project to lower the risk default, hence many lending-based platforms provide their users with a protection fund.

4. *Equity-based crowdfunding.* This method provides the investor with a share in the ownership of a business in a similar way with the traditional investing of privates into the equity capital of companies. The difference here is that not only the investing mechanism is way easier than the typical investing in regulated or non-regulated markets but also the procedural costs are contained. Moreover, since the reward is strictly economic and presents greater risks along with, maybe, a great return, this is tied to the success or the failure of the business, thus this type of crowdfunding is the one that has received more attention from regulators and its conditions and business models may differ from country to country. CFPs operating in this field usually provide an Equity Agreement which gives insight on the size of the ownership acquired with the investment and the correlated rights, such as governance rights, rights to purchase additional shares or rights on information, and CFPs generally ask for a percentage on the collected capital, which is around 4-7%. Furthermore, to prevent the problem of communicating with a huge number of investors, equity-based CFPs usually use a so-called Special Purpose Vehicle (SPV)<sup>15</sup> to raise funds which nominally represents the interests of the investors. The equity-based model may provide credentials for further bank loans or public financing thus taking a first step towards the obtaining of funds from venture capitalists and/or business angels, moreover, it helps the entrance into regulated and non-regulated markets thanks to an Initial Public Offering (IPO).

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<sup>15</sup> An SPV is a subsidiary corporation designed to serve as a counterparty for swaps and other credit sensitive derivative instruments. Investopedia

5. *Royalty-based crowdfunding.* With this model the campaign owner gives the backer a share in the future revenues of a single product or service for which is asking for funds. So, lenders are to be given a reward in terms of royalties in exchange for their financing, such as intellectual property rights or rights on patents and the return on the investment is strictly economic as in the equity-based model.

The continuous evolution of the semantic communication of the Web and the models through which information is approached, as it has been noted before, generates in the realization of crowdfunding business models and crowdfunding campaigns the appearance of hybrid models that differ from the established models defined by Massolution. These continuously evolving hybrid models make use of the information channels of the Web asynchronously, therefore they cannot be defined by specific categories. Here follow some examples:

*Do-it-yourself crowdfunding.* Also called independent crowdfunding or custom-based crowdfunding, it consists on the setting up of a website and the respective crowdfunding campaign from scratch with the help of white label services. In other words, users make use of platforms that provide them with tools and codes to start the campaign by themselves. This model has gained attention in the last few years because CFPs are changing their regulations and norms to narrow the number of approved projects, making “not-suitable” projects that were qualified before. Needless to say, since this method of crowdfunding does not rely on a CFP, the success of the campaign is strictly related to the ability of the crowdfunder on using the internet and marketing tools without the advantage of the visibility derived from the CFP expertise.

*Corporate crowdfunding.* This method works bidirectionally in engaging employees and clients in the development of innovative projects to help established businesses to grow, starting from the concept of Corporate Social Responsibility (CSR)<sup>16</sup> and intrapreneurship. The crowdfunder in this case can make an open call to his/her clients and reference community or give a budget to employees, who decide to allocate it on one or more promising projects, or both, moving the

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<sup>16</sup> Corporate social responsibility, often abbreviated "CSR," is a corporation's initiatives to assess and take responsibility for the company's effects on environmental and social wellbeing.

crowdfunding activity to a more private space of interaction, a niche in the niche. Moreover, these strategies are used in view of helping foster innovation by giving entrepreneurial freedom within the company, especially engaging employees around projects of other employees who are in control of the budget or around business units.

*Civic crowdfunding.* It has been said at the beginning of this chapter that one of the first acknowledged crowdfunding campaign consisted in the construction of the pedestal of the Statue of Liberty thanks to the innovative work of Joseph Pulitzer in 1884 who turned to the American people to gain the funds the project needed to start; this example clearly highlights how the civic purpose of raising funds from the crowd came even before the advent of the Internet Era leveraging the geographical identity, the strong social purpose and the community spirit of the people it aimed to address. These same elements are those recalled by civic crowdfunding which consists in the financing of public operas through the direct involvement of the citizens. In the civic economy the crowdfunding activity works at a level which is geographically very restricted and thus calls to a selected number of stakeholders who can donate even a modest amount of money; however, it is because of this characteristic and since this model levers the community spirit of those who invest, that civic crowdfunding can make use of the citizen involvement to gather feedbacks on the wishes of the civic society and thus promote further projects with the same vehicle.

*Real estate crowdfunding.* As the name suggests this method consists in the raising of capitals for real estate investments which has been catching on due to the recovery of the real estate market and thus deserves a category for itself. The nature of the investments is relatively small compared to the one of traditional channels such as angels, ventures and banks and it usually takes the shape of equity or social lending.

Hybrid models present crowdfunders the opportunity to approach campaigns in more than just one way, starting from 2013, according to Massolution, models of established CFPs started to morph or better blend together into new models, part equity-based and part debt-based for instance, and previsions on the future of the

crowdfunding industry forecast the evolving use of this hybrid models despite the accredited ones.

## **1.5 Market Growth**

The continuous growth of the crowdfunding market over the last seven years made it difficult for firms and organization to collect reliable data on its developments on a global scale; not only this market is growing so fast and big year-by-year that it is hard to catch up with but also the landscape it so heterogeneous in terms of business models and legislations that the data collected are difficult to put together from a worldwide trend point of view. Therefore, to present an overview on the market growth in terms of volumes and percentage by macro-geographical area and by crowdfunding model we will have to rely on the most recent report published from Massolution in 2015 which shows and put together data on the market from 2010 to 2014 but data for specific areas of interest, such as the Italian and the Chinese market will be presented in the following chapters.

For what concerns the period taken into exam<sup>17</sup>, the growth of the crowdfunding market has seen a steady increase over the period 2010-2014 which had its peak in the year 2013. From a worldwide point of view, the market increased its volume by 84% over 2011 reaching a total of \$2.7 billion in 2012 and \$6.1 billion in 2013 with a further year over year growth of 125%, but the real turning point happened in 2014 where the funding volume of the crowdfunding activity worldwide reached \$16.2 billion thus a 167% rate. Massolution then makes a comparison between the growth of the two biggest crowdfunding markets, the European one, the North American one and the Asian one, and even though the American market will not be taken into further exam in this research it cannot be left apart when examining the evolution of the crowdfunding market since it is the first and biggest pool of crowdfunding activity so far. Moreover, it is interesting to note how rapidly the European market recover from its disadvantage and how disconcerting was the explosion of the Asian crowdfunding market compared to the rest of the world. The North

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<sup>17</sup> MASSOLUTION, 2015CF

American market has seen a growth by 92% and 141% respectively in 2012 and 2013 with \$1.6 billion and \$3.86 billion of funding volumes while in the same years the European market saw a decrease from a 62% growth rate (\$945millions) to 43% (\$1.35billion). However, the European market caught up with the American one in 2014 reaching an annual growth rate of 141% with \$3.6 billion funding volumes whereas the North American market kept steady at a 145% annual growth rate with a total of \$9.46 billion funding volumes. Nevertheless, the increased participation in Massolution annual survey and the wider access to public reported data made it possible for the firm to collect data from the Asian region which in 2014 originated the 21% of worldwide crowdfunding volumes reducing the one from Europe and North America to 78% and reaching a market growth of 320%; in volumes' terms the Asian market maintained a low profile in the field of crowdfunding generating a turnover of \$33 million in 2012 and \$81 million in 2013 that ended with the explosion of 2014 that generated a funding volume of \$3.4 billion.

Table 1 and Table 2 summarize the growth in percentage and volumes worldwide and by macro-geographical area.

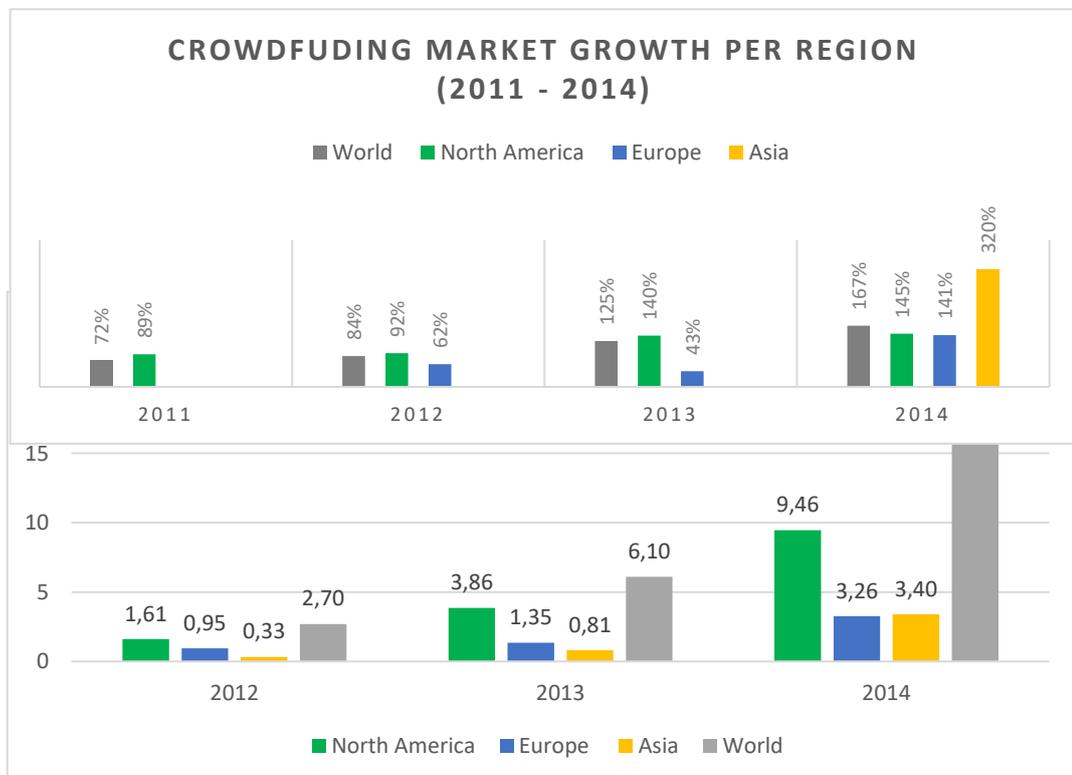


Table 1 Crowdfunding market volumes growth in billion dollars per region in the period 2012 - 2014 adapted from Massolution report 2015

As for the evolution of crowdfunding models in the period 2012-2014, Massolution recognizes a few trends in the composition of the market which reflect a predominance of lending-based and donation-based crowdfunding throughout the period along with the ascending importance of royalty-based crowdfunding and hybrid models. Notably lending-based crowdfunding has seen a constantly accelerating annual growth rate, from 103% in 2012 to 188% in 2013, finally reaching a 223% rate in 2014 with a contribution of \$11.09 billion on the total global crowdfunding volume which, according to the firm, is due to an increase in number of lending-based CFPs and their significant contribution, especially for what concerns Chinese lending CFPs. On the other hand, even if donation-based crowdfunding still holds the biggest portion of the market, this model annual growth rate has been quite unstable over the years, starting from an annual growth rate of 38% in 2012 that dropped to 34% in 2013 and went back on track in 2014 with a 45% rate, moreover, looking at the volumes generated by donation-based crowdfunding it is clear how this model is losing importance compared to other crowdfunding models in fact, despite a recover in growth rate its contribution on the global total funding volumes was just over 12% in 2014. The reasons behind the decrease in volumes generated by donation-based crowdfunding are the rising volumes of reward-based and equity-based crowdfunding and the adoption of hybrid models along with the recognition of royalty-based crowdfunding as a self-standing category. Reward based-crowdfunding saw an incredible growth in volumes in the period 2013-2014 with an annual rate of 84% with \$1.33 billion in funding volumes on the total global while equity-based crowdfunding almost tripled its volumes in the same period (\$395 million generated in 2013 whereas \$1.11 billion in 2014) reaching an annual growth rate of 182%. As for royalty-based crowdfunding and hybrid models, the

first increased by 336.5% over 2013 and accounted for 1.7% of the total global funding volumes (\$273,2 million) while hybrid models accounted for 3% of total global with \$487 million volumes and grew by 290% annual rate. Table 3 gives an overview on how the portion of the market occupied by every crowdfunding model has changed in the period 2012-2014.<sup>18</sup>

To conclude, in view of the data provided, it can be said that the practice of crowdfunding with its deep historic roots has been already metabolized by markets and

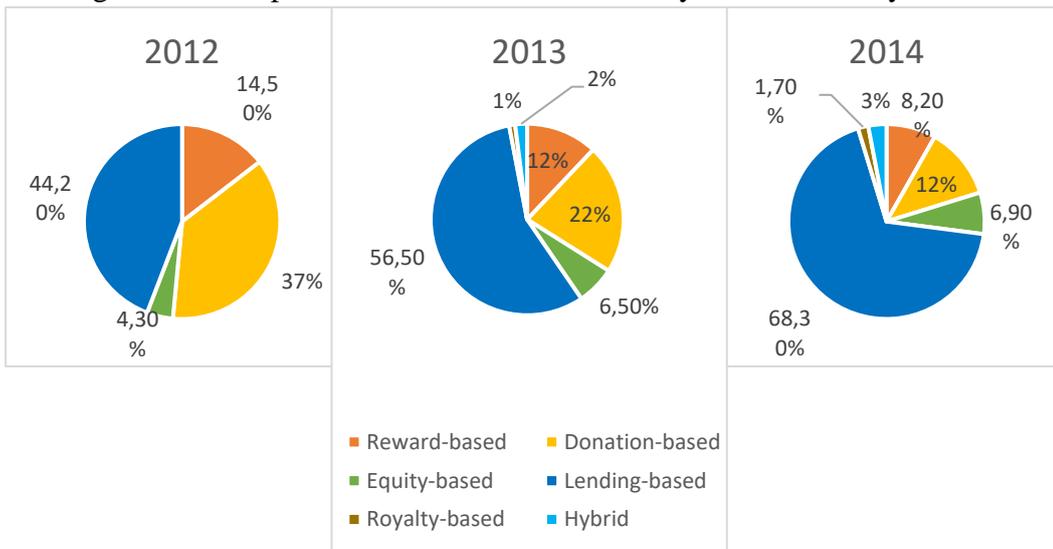


Table 3 Evolution of market position by crowdfunding models in the period 2012-2014 adapted from Massolution report 2015

institutions. It is clear if one considers the expansion of the Web and the continuous skills-acquisition of its users that there is no certainty as to what direction will take the global evolution of crowdfunding. Nevertheless, it must be noted that according to data and predictions this method of alternative financing will continue to grow and that crowdfinancing (equity, lending, royalty and real estate crowdfunding) will be the driving force.<sup>19</sup>

In the following chapters I will proceed to analyze the evolution and the current state of the crowdfunding market in both Italy and China. The scope of this comparison is to evaluate the differences and the common features of these two countries when approaching this new financial tool. We will see how Italy pioneered the

<sup>18</sup> Royalty-based crowdfunding and hybrid models had not yet been identified as single categories by Massolution before 2013 and thus there are no data collected before that year

<sup>19</sup> BRÜNTJE, GAJDA, *Crowdfunding in Europe*

creation of a regulatory framework for the crowdfunding activity but still limps in growth if compared with other European countries for it lacks a fluid bureaucratic system and a strong demand. Then, how the Chinese government dealt with this growing methodology in view of a new series of policies that aim at developing China's market in a global view, to keep up with the international financial world but also maintaining its socio-cultural steadiness.

## **Chapter 2: The Italian crowdfunding market**

It has been mentioned at the beginning of this research that one of the first examples of crowdfunding platform came from Italy, precisely in 2005 when Angelo Rindone founded Produzioni dal Basso, just a few years before the renowned Kickstarter and Indiegogo. Since then the Italian crowdfunding market has grown big in numbers and has followed the international trend both in terms of types of platforms created and more recently, in terms of attention toward the crowdfunders. Before going into the details of the Italian crowdfunding market, its legislative framework, its size and its outcome on the national economy, I believe it is necessary to explore how the market has generated as a tool made from citizens for other citizens. This down-top approach must be analyzed in view of Italy's entrepreneurial fabric and the Italians' attitude toward the Web in general. We will see how these features were, and are, fundamental both in a positive and negative way for the Italian crowdfunding market.

### **2.1 Pioneers: the birth of the Italian crowdfunding market and a missed opportunity**

In the years that preceded the economic crisis of 2008, the first web platform for auto-financing projects saw its birth in Italy. In those years, when the access to credit was already difficult for unaccredited actors, Produzioni dal Basso, founded by Angelo Rindone, came to fill that gap. Without the perks derived from social networks, which were still at their outset, Produzioni dal Basso started collecting projects in the field of digital auto-financing, media-activism and national hacking. The platform was open, free and without filters or restrictions of any kind, and operated as the laboratory of the Italian crowdfunding.<sup>20</sup> In this sense it also represents an observatory for the evolution of crowdfunding campaigns in Italy and its logics, for it acted at its beginning as a reference point for the small Italian crowdfunders community.

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<sup>20</sup> PAIS, *Crowdfunding, la via collaborativa all'imprenditorialità*,

Notwithstanding the trailblazing path taken by Produzioni dal Basso, Italy did not succeed in taking advantage of what could have been a first mover position, and the market struggled to flourish as much as it did in other European countries, such as the United Kingdom, France, Germany and the Netherlands. The reasons behind this hold-back are to be found in the Italian entrepreneurial fabric, its economic and bureaucratic framework and its own citizens attitude and web-culture.

The economic universe in which Italy was gravitating before and after the financial crisis of 2008 was, and somehow still is, characterized by a bureaucratic framework that did not support the national entrepreneurial fabric. As the history of crowdfunding teaches us, the inaccessibility of traditional financial tools for small business was fundamental for the birth of crowdfunding across nations, and this feature is essential if we consider the Italian entrepreneurial fabric. This is characterized by a various number of small-medium enterprises and family businesses which often lack the creditworthiness to access credit from banks, ventures and so on. Nonetheless, these companies provide a great deal in terms of revenues and occupation on the Italian economy and it is thanks to most of them if Italy can pride itself on the soft power of the Made in Italy. Considering last year for example, Cerved report on the Italian small-medium enterprises states that these companies occupied the 22% of the market and generated an income of €852 billion, equal to 12% of the national GDP.<sup>21</sup> Moreover, what is notable about the Italian SME is the capacity of being extremely creative, especially in terms of product design, thus intercepting the requests of the market and elaborating them in an original way. This approach gave life to a definition of “Italian lifestyle” which represent the capacity of transforming aesthetic aspects of creativity, craftsmanship and technology.<sup>22</sup> But, there can be no company without the people who makes it alive, thus this innovation-driven approach comes directly from those employed in the life of a company, and these very people are those who pioneered crowdfunding in Italy. The self-entrepreneurship and innovative sense of the Italian business fabric tried and came to fill

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<sup>21</sup> For more information see the complete report on Cerved website [know.cerved.com](http://know.cerved.com)

<sup>22</sup> Roberto VERGANTI, *Design, Meanings, and Radical Innovation: A Metamodel and a Research Agenda*, The Journal of Product Innovation Management 2008

the gap created by bureaucracy on the access to credit for SMEs, providing a down-top tool of auto-financing. This same bureaucratic system though lacked the far-sightedness to proceed hand in hand with the technological revolution that was coming from ahead. A perfect example of how the Italian legislative system influenced the growing of the crowdfunding market is the case of Zopa Italia. In 2008 made its first appearance in the market of lending-based crowdfunding Zopa Italia, daughter of the English Zopa (2005). This company, along with its close competitor Boober, after a successful year in terms of revenues and subscriptions of lenders and borrowers, had to suspend its activity because of an instruction from Italy's central bank, Bank of Italy. The reason behind this instruction came from an investigation on the accounts managed by Zopa Italia: according to the bank, the crowdfunding company was stocking the raised money on two personal accounts. Therefore, Zopa was not acting like a financial intermediary, which were allowed to offer lending services, but collecting public savings on private accounts. Given this conflicting activity, the central bank was compelled to issue the immediate closure of the platform and cancel its name from the register of the financial intermediaries.<sup>23</sup> It is undeniable that the motives of Bank of Italy against Zopa (and Boober) were well-founded, but it is also important to notice how the internet-crowd and the crowdfunding community reacted in this occasion: hundreds of messages online showed the indignation of the crowd against the decision of the bank, stating how they "*hoped what happened was just a misunderstanding and not the umpteenth confirmation of the absolute incapacity of our country's ruling class of accepting bottom-coming newness*"<sup>24</sup>. Afterwards, Bank of Italy responded on the matter saying that

[Bank of Italy] expresses appreciation on the interest shown by this associations [Zopa Italia and Boober] on the [social-lending] initiatives which, for their innovative character, are object of specific attention from this Institute also on the eventuality of specific regulatory interventions<sup>25</sup>

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<sup>23</sup> Altroconsumo, *Bankitalia canella Zopa*, 24 July 2009

<sup>24</sup> Quote took and translated from an article on Il Sole24Ore by Marco Ferrando, *Stop di Bankitalia al "social lending"*, 13 July 2009

<sup>25</sup> Original text to be found on the letter of reply of Banca d'Italia to Altroconsumo concerning the Zopa Italia and Boober case, available on Altroconsumo, *Bankitalia canella Zopa*, 24 July 2009

The attention of the legislator on the crowdfunding industry was then clear, but, in the case of Zopa, the company had to wait the year 2012 to restore its activity, changing name (now Smartika) and business name. The Zopa Italia's case perfectly highlights how the innovative intention of filling a gap "from the bottom" was somehow handicapped by a rigid legislative framework which couldn't effectively and rapidly adapt to market requests. This legislative void gives rise to doubts on the future of a market where the speed of the technological innovation meets, and sometimes collides with, the legitimate concern of governments and institutions about the safeguard of consumers and savers.

Together with the economic and legislative structure of the Italian market, a second element played an important role in the limping evolution of the crowdfunding industry in Italy: the Italians themselves. Three are the factors which affected the "non-use" of the crowdfunding tool by the Italians: their individualism; their skepticism toward the Web; and the wideness of the digital divide in the peninsula. It is also necessary to point out that these factors are still influencing the market of crowdfunding in Italy and, in general, the Italian web-economy. About the first, the main problem acknowledged by the owners of various Italian crowdfunding platforms is the overall individualistic inclination of the average-Italian which tends not to invest in other people's projects. It seems that the population lacks the habit to think in a participative way, particularly, they do not have trust in one another. This of course is in strong conflict with the principles of crowdfunding which fosters the openness and collaboration among the individuals of the crowd, and thus hindered the creation of an Italian crowdfunding culture. The second point, which is also concurrent with the first one, is the mistrust of the principle vehicle of the crowdfunding activity, the Web, along with a rooted digital illiteracy. Part of this mistrust toward the Web and its instruments, on one hand, may be entangled with a culture of information which underlines only the "dark side" of the Web. It is easier to report episodes of fraud, fishing expeditions or acquisitions of personal data than to highlight the advantages of using the Web. On the other hand, it may be a simple matter of mistrust toward innovation or learning "new things". The speed of development of the information and communication technologies is too fast if compared with the overall aging of the Italian population. There is no interest

in learning how the basic vehicle works let alone an unregulated new financial tool. A culture of donation, by that point, was then still limited to more traditional channels such as associations, non-profit organizations, the telephone etc. This mistrust fostered and was probably sharpened by the broadening of the digital divide in Italy. To quote the Collins Dictionary, the digital divide is “*the gap between those people who have internet access and those who do not*”. By the time Produzioni dal Basso started operating in 2005, the level of broadband and connectivity on the national territory was limited to 24% while, for example, this percentage was up to 57% in Germany, 74% in the Netherlands and 55% in the United Kingdom. Moreover, if we look at the level of internet use by individuals in the same year, only 34% of the Italians accessed the internet while in the rest of Europe, 65% of Germans, 79% of Netherlanders and 66% of people in the United Kingdom had. The immaturity of the net on the national territory obviously disadvantaged the development of online payment methods too. Interesting data can be found on this field: in 2005 only 4% of the Italian people were making purchases online, while this percentage was already 32% in Germany, 31% in the Netherlands and 36% in the United Kingdom.<sup>26</sup>

It is clear for all the reasons above that the Italian crowdfunding market, even if it was unconsciously pioneering a market sector, did not have the premises to independently exploit the perks of being a first mover. Anyway, as we saw with the case of Zopa Italia, something was moving, and the market saw a boom around 2011-2013 as we will see in the following section.

## **2.2 The evolution of the Italian crowdfunding market**

Produzioni dal Basso laid the foundation of the crowdfunding market in Italy in 2005 and a first community of crowdfunders started to emerge around it. For it was the first, with an open and horizontal character, this platform does not fall into the fixed categories of crowdfunding models, but it can be said that it operates in the field of auto-productions, culture and multimedia. The range of action of the projects founded on Produzioni dal Basso though, is in line with the international trend

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<sup>26</sup> All the data above can be found on the Eurostat tables database

of evolution of crowdfunding which sees its first attempts of activity in the creative and culture industries. Therefore, it comes as no surprise that most of the platforms that were set up from 2005 onwards were reward-based, donation-based or a combination of the two. Crowdfunding is a tool at the arts service and these models in fact, best suits creative or charitable projects. The year 2009 saw the birth of Kapipal, a generalist crowdfunding platform which focused on personal projects (weddings, travelling, sports, healthcare and so on.). To its founder Alberto Falossi goes the merit of having elaborated *The Kapipalist Manifesto* which perfectly summed up the principles of crowdfunding in five simple concepts<sup>27</sup> Your friends are your capital

1. Your friends make your dreams come true
2. Your capital depends on the number of friends
3. Your capital depends on trust
4. Your capital grows by word of mouth

Even if Kapipal has been taken over in July 2013 by the Finnish global platform Grow VC Group, the Manifesto represents a milestone in the evolution of the Italian crowdfunding market. Also, it clearly shows how, even if in its infancy, Facebook or in general the social networks were already central drivers in the crowdfunding activity.<sup>28</sup>

By the following years the Italian crowdfunding market saw a growth in number of platforms set up, especially donation-based CFPs. The reason behind this boom was probably to be found on the echo of the successes of international platforms such as Kickstarter. Nonetheless, from then on, the national market started taking a more personal characterization, reflecting the needs of the demand instead of keeping experimenting with a new tool. In 2010 three platforms were born: YouCapital<sup>29</sup>, Prestiamoci (lending-based) and IoDono (donation-based). The following year

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<sup>27</sup> The five principles as listed on Kapipal.com.

<sup>28</sup> Facebook landed the Italian market in 2008 and in the following year saw a growth in number of users of 2.700% as reported by La Stampa 16<sup>th</sup> April 2009

<sup>29</sup> The website has closed around 2012/2013. It was the first platform in the field of journalism crowdfunding and was financed by the Pulitzer Association. The causes of its closure are not to be found.

though saw the first peak in platforms' creation in the Italian crowdfunding market. The year 2011 welcomed six new platforms: Rete del Dono, BuonaCausa, Shinynote, Eppela, Cineama and Boomstarter. The first three, which share the almost simultaneous set up, operate in the field of donations. They collaborate with associations and non-profit organizations, integrating their activity with the one of personal fundraising. For what concerns the other three in Eppela and Boomstarter are reward-based generalist platforms while Cineama is a reward-based sectorial platform which welcomes professionals and cinephiles to work together. Cineama is notably the first hint at what would have happened in the market in the following two years, for it marks one of the first examples of diversification from the generalist model of reward-based crowdfunding. The diversification highlights on one hand a growing maturity of the tool, combined, on the other hand, with a raising awareness of a demand which asks for instruments that better meet their needs of specific services. This duo integrates itself in the characteristics of auto-entrepreneurship and micro-entrepreneurship which are typical of the Italian business fabric. The above assumption would be confirmed the following year with the founding of Musicraiser. This is the first vertical platform dedicated to music, founded in 2012 by the singer Giovanni Gulino and the producer Tania Varuni, following the international experiences of Sellaband and Slicethepie. Musicraiser represents one of the most successful platforms on the Italian crowdfunding landscape and this demonstrates how the market was mature enough to receive a structured and targeted proposal. Moreover, the year 2012 is also the year of experimenting and growing of do-it-yourself crowdfunding and hybrid crowdfunding, with the founding of Starteed in the field of royalty-based crowdfunding and Terzo Valore, a hybrid lending-donation platform. Notably, Starteed is one of the first platforms which integrates campaigning with a number of post-campaign services, such as product development and selling, offering the campaigner the opportunity to display its products directly on the platform.<sup>30</sup>

The year 2013 saw the explosion of the Italian crowdfunding market with the setting up of: Com-unity; DeRev; Forward; Leevia; Letsdonation; Micro Credit Artistique;

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<sup>30</sup> Starteed website [starteed.com](http://starteed.com)

Proposizione; School Raising; StartsUp; Takeoff Crowdfunding and Unicaseed. In addition to the above mentioned, four more platforms were founded: Finanziami il Tuo Futuro; Ginger; Kendoo and Rezz. These last four platforms represent an even further diversification of the crowdfunding offer on the Italian market for them operate in specific geographical areas, especially with a regional orientation. Italy is a country in which the regional identity of its citizens is strong and deeply rooted on years of history of geographical separation between one another. Therefore, it comes as no surprise that a phenomenon that comes from the community mirrors socio-cultural dynamics such as regional identity and thus shapes itself around these features. Finanziami il Tuo Futuro for example, was born to operate in Valle d'Itria in Puglia to promote and spread new projects of local development. The same was for Ginger (acronym for Gestione Idee Nuove e Geniali in Emilia Romagna). Ginger founder Virginia Carolfi pointed out

In Italy it is not likely that I, that live in Turin, fund a project in Catania. It is better to aim at the territory because, on one side there are the people and the campaigner, who may know each other and there may be history between them; on the other hand, I may not even know the person who is asking me for money but if he/she comes from the same city as I do, nothing stops me from go and meet with the association, the company or the person who is launching the campaign.

Consequence of the local differentiation of the crowdfunding offer in Italy was the starting of administrative authorities, especially governmental cultural institutions, to dialogue with crowdfunders on the promotion of projects of civic interest. Two interesting cases are offered by the campaign Un Passo per San Luca, where the public administration of the city of Bologna collaborated with the citizens to renovate the colonnade of San Luca with the help of Ginger, and the platform School Raising. This platform, as the name suggests, aims at intercepting all those school projects which, due to continuous cuts from the public administration in the last few years, could not be realized. School Raising helps schools to raise funds for structural improvements or didactical projects, raising also awareness on students and the communities that surrounds them on technology and activism.<sup>31</sup>

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<sup>31</sup> Original interview with Virginia Carolfi in Italian to be found on PAIS, *Crowdfunding, la via collaborativa all'imprenditorialità*, p.74

The biggest and most important novelty element of the year anyway was the actual and practical born of an Italian equity crowdfunding, thanks to the opening by the Italian Companies and Exchange Commission (Consob) of a register for innovative start-ups<sup>32</sup> and the following the entry into force of a related ad hoc law. Equity-based crowdfunding officially entered the Italian crowdfunding market thanks to the legislative decree D.L. 179/2012, also called “Decreto Crescita bis”, which came into action with the Law 221/2012. This policy objective was overtly the one of introducing the raising of risk capital through the Web to foster the setting up and the development of innovative start-ups on the Italian market. The willingness of the Italian Minister of Economic Development was crucial in the preliminary phase of this legislative intervention: in the preceding months a task-force of experts elaborated a 170 pages document called *Restart Italia!* which included a series of recommendation to stimulate entrepreneurship and occupation. One of these aimed particularly at importing the mechanism of crowdfunding.<sup>33</sup> The first two platform to register were Starsup, in the ordinary section, and Unicassed, in the special one. Moreover, Italy was the first European country to adopt a specific and organic legislation on equity crowdfunding, and this process was carried out in an “open and collaborative legislation”. Consob in fact, conducted an investigation which started 21 January 2013. In January Consob published a four-sections survey, each section dedicated to different recipients (potential operators, professional investors, retail investors and innovative start-ups), and addressing all the subjects that were potentially interested in crowdfunding. This way, any stakeholder could provide his/her own comments and contribute on the improvement of the discipline.<sup>34</sup> The introduction, and the following improvement of the law 221/2012, together with the opening of the Consob register for innovative start-ups (which now includes also SMEs) lead the way for the real blossoming of the Italian crowdfunding market.

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<sup>32</sup> To look into the requirements and definition of what is an innovative start-up, please consult the related page on the Minister of Economic Development website

<sup>33</sup> OSSERVATORIO CROWDFUNDING, *1° Report italiano sul CrowdInvesting*, Politecnico di Milano, 2016

<sup>34</sup> FONDAZIONE NAZIONALE DEI COMMERCIALISTI (FNC), *Il Crowdfunding: quadro normativo, aspetti operativi e opportunità*, 2015

## **2.3 Development of the Italian crowdfunding market from 2014 until now**

With the opening of the Consob register to innovative start-ups the Italian crowdfunding market started to grow. By the year 2014 the Italian crowdfunding market could count a total of 41 active crowdfunding platforms, among them: 26 were reward-based or donation-based CFPs, 2 were lending-based, 2 equity-based and 11 were hybrid. These generated a volume of €30.6 million, 77% of which was represented by lending-based crowdfunding alone. Lending-based crowdfunding had gone a long way then since the Zopa case of 2009 and was leading the market in 2014 with 79% of campaigns on a market total of 48 thousand launched campaigns. This was due to the entry into force of the D.L. 11/2010, implementing the European Directive 2007/64/EC, referred as Payment Service Directive. The Directive permitted Bank of Italy to better define the legislative framework and place lending-based crowdfunding platforms under the umbrella of payment institutions. Therefore, fostering the creation of a new category of operators, which were also coming from non-financial sectors and were active in the field of payment orders execution.<sup>35</sup> The other biggest piece of the market-cake was occupied by reward-based and donation-based crowdfunding, which represented the 21% of campaigns. The remaining 0,3% was occupied by equity-based crowdfunding, noting that the market had been regulated just the year before. Considering the type of campaign, a funding tendency toward social and cultural projects could be found, and can still be found, in the Italian crowdfunding market; particularly in 2014, 63% of the funded campaign had a social aim, 23% had a creative and cultural scope, while 14% had an entrepreneurial one.<sup>36</sup>

In 2015 the Law 221/2012 was modified to extend the spectrum of companies that could access equity-based crowdfunding with the new D.L. 3/2015, Investment Compact Decree. From now on, together with innovative start-ups, equity crowdfunding was open to: collective investment undertakings (CIUs), limited companies

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<sup>35</sup> OSSERVATORIO CROWDFUNDING, *1° Report italiano sul CrowdInvesting*,

<sup>36</sup> PAIS, *Crowdfunding, la via collaborativa all'imprenditorialità*, p.83

who invest mainly on innovative start-ups and innovative SMEs<sup>37</sup>, “tourism start-ups” as provided for in article 11-bis of D.L. 83/2014. In just one year the number of CFPs on the market grew by 68%, reaching a total of 69 active CFPs. Reward-based and donation-based platforms had a solid growth and represented by then the 76% of the market while 5% was represented by lending-based CFPs and 19% by equity-based. Nonetheless what strikes the most is the incredible growth of equity-based crowdfunding from 5% in 2014 to 19% the following year, which was probably pushed by the implementation of the legislative framework. This can be observed also when looking at the scope of the funded campaigns. If in 2014 the funding scopes of the campaigns were mostly cultural and social, and the entrepreneurial scope occupied less than 1%, in 2015 this was up to 20% while social aim fell to 34% and creative and cultural grew up to 37%. Moreover, 78% of CFPs registered on the Consob register and took mainly the form of limited liability companies (Italian s.r.l.).<sup>38</sup> The number of campaigns also saw an incredible growth of 108% with 101.000 projects and generated a revenue of €56.7 million, registering a market growth of 89%. Not all that glitters is gold one may say, and it would be true especially in this case, in fact reports note that the success rate of crowdfunding campaigns in the Italian crowdfunding market not only remained pretty low but also fell from 37% in 2014 to 30% in 2015. There are multiple reasons for this rate to be low: on one hand it reflects the problems suffered by the market at its infancy and, on the other hand it is the consequence of a growing interest of the public toward this tool. Old problems such as mistrust and poor internet access and usage are still big obstacles in the flourishing of the market. For what concerns the individuals using the internet in fact, the percentage in Italy between the years 2014-2016 remains around 60-69% which is a very low rate considering that in the other biggest European economies this percentage is up to almost 90%. Also, the rate of individual activities such as the use of internet banking and e-commerce by the Italians does not exceed 20-25%, while it reaches 60-70% in other countries.<sup>39</sup> In addition, different kind of problems arise with the very crowdfunding crowd. In the

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<sup>37</sup> To look into the requirements and definition of what is an innovative SMEs please consult the related page on the Minister of Economic Development website

<sup>38</sup> According to *Il Crowdfunding in Italia, Report 2015*: 53% took the form of s.r.l., 18% were innovative start-ups and 18% s.p.a.

<sup>39</sup> Data available on Eurostat website

report made by Università Cattolica del Sacro Cuore di Milano about the crowdfunding market in Italy, researchers noted that the high failure rate of crowdfunding campaigns derived from a lack of a good strategic communication plan and in general on the underestimation of the campaigners toward the online and offline support of the campaign, including post-launch phases.<sup>40</sup>

The last two years have seen the stabilization of the number of crowdfunding platforms on the Italian market and a growth in volumes. One more thing was introduced with the above mentioned D.L. 3/2015 and that was the dematerialization of units and shares for innovative start-ups and SMEs, laying the groundwork for the development of a secondary market of crowdfunding subscribed shares. Finally, the Stability Law for 2017 (Law 232/2016) through a specific amendment, extended the access to equity crowdfunding to all SMEs.<sup>41</sup> For what concerns 2016, the market saw a growth of 62% in terms of market volume generated, reaching €91.8 million. Reward-based and donation-based CFPs remained the majority contributing for €24.7 million of the total, while lending provided for €56 million<sup>42</sup> and equity for €7.5 million. Nonetheless, equity-based crowdfunding registered a growth of 92% in just one semester, from May 2016 to December. Another interesting growth, even if accompanied by relatively small volumes, is the one of do-it-yourself crowdfunding, which in the same semester grew by 218% and generated a €3.3 million revenue. A growing number of companies, individuals, brands and institutions in fact, started to look at this customizable solution because they were looking for more flexibility and control over the campaign and these could be provided by do-it-yourself crowdfunding. This kind of models, often white label, permit to create a campaign directly on the personal website (of a company, an institution etc.) but imply a certain knowledge of the tool itself. Moreover, the majority of do-it-yourself campaigns promoted in 2016 had a cultural/civic scope. Therefore, it might

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<sup>40</sup> TIM, *Il Crowdfunding in Italia, Report 2015*, Università Cattolica del Sacro Cuore, 2015

<sup>41</sup> The recommendation 2003/361/CE of the European Commission defines SMEs as companies whose workforce is below 250 people and either its revenue does not exceed €50 million or its annual budget does not exceed €43 million.

<sup>42</sup> The number of players in the market is inversely proportional to the harvested volume. This is due to on one hand the high number of unregulated CFPs such as reward/donation-based CFPs, and on the other hand the very characteristics of some models such as lending-based crowdfunding which generates higher volumes than other non-financial models.

be said that a growth in this sector could have been a symptom that the mistrust that previously hindered the development of a culture of donation in crowdfunding terms was probably being left out.

Finally, by the time I am writing, the Italian crowdfunding market has grown by another 45%, reaching a total market volume collected from 15.915 funded projects of €133.197.153,17, of which € 41.4 million collected just in 2017. Considering the last report on the Italian crowdfunding market made by Starteed<sup>43</sup>, 2017 was the year of equity crowdfunding who largely contributed to the exponential growth of

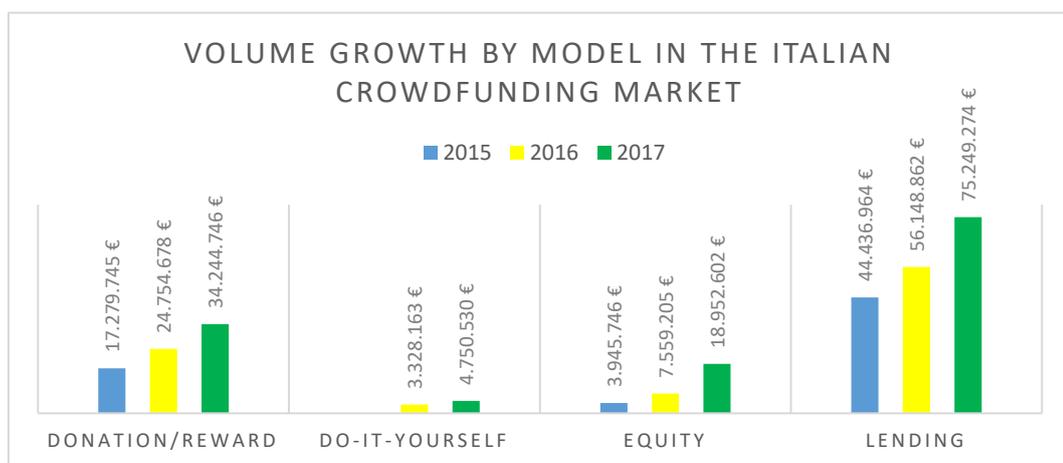


Table 4 Volume growth by crowdfunding model in the Italian market in million euro in the period 2015-2017 adapted from Starteed report 2017

the market value. This model in fact, reached a volume of €11.3 million, almost €4 million more than the year before. The number of active platforms remained the same and reward-based and donation-based platforms were still the majority in the market with 46 CFPs out of 67, while equity-based CFPs were 13 and lending-based CFPs were 5. As it can be seen in Table 4: lending-based crowdfunding has had a stable growth over the years and registered a +34,02% from 2016 to 2017; reward/donation-based crowdfunding, similarly with lending, grew of +38,34% in 2017; a stabilization can be seen also in do-it-yourself campaigns which saw a growth of +42,74%; equity-based crowdfunding was, as we said before, the one that grew the most in 2017, with a +150,72%. Lastly, Table 5 shows the growth of the total market volume through the last four years. As it can be seen in the figure,

<sup>43</sup> The following data are available on Starteed website

the market grew by 89% from 2014 to 2015, by 62% from 2015 to 2016, and in the end by 45% from 2016 to last year, with a total three-year growth of 335,3%<sup>44</sup>.

## 2.4 Legislative framework of the Italian crowdfunding

Before getting to the conclusions on the future development and the potential of

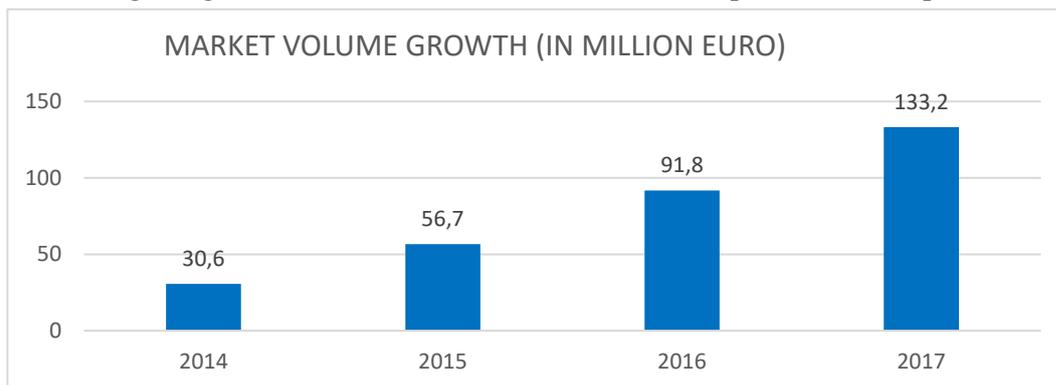


Table 5 Total market volume growth in million euro of the Italian crowdfunding market in the period 2014-2017 adapted from Starteed reports 2016 and 20A17

the Italian crowdfunding market, I would like to give a brief explanation on the legislative framework in which crowdfunders in Italy operate. This is necessary to better understand on one hand what has been said in the previous section about the initial limping of the market, not being able to benefit from the first mover position; and on the other hand, to highlight the efforts of the national bureaucracy to find a way to exploit this new financial tool at the country's advantage. Moreover, even if it will not be explored in depth in this thesis, the legislative framework into which put every crowdfunding model is essential in view of the application of the Value Added Tax (VAT) on each different crowdfunding activity.<sup>45</sup> Considering therefore the five main crowdfunding methods (donation, reward, equity, lending and royalty) I will proceed to consider the legislative framework of each category by itself.

### *Donation-based crowdfunding*

The legislation on donation-based crowdfunding refers generally to the guidelines on donations included in the Chapters I, II, III and IV of Title V of the Second Book

<sup>44</sup> This percentage was deduced from the data given by Starteed report of 2016 and 2017

<sup>45</sup> To better study this aspect I recommend the reading of the website [crowd-funding.cloud](http://crowd-funding.cloud) which give an extensive analysis of the VAT on Italian crowdfunding.

of the Italian Civil Code (c.c.). The article 769 c.c. in fact, says that “the donation is the contract with which, for spirit of liberality, a part enriches the other, having for this one right of his or assuming toward the same one an obligation.”<sup>46</sup> In the case in which the donation is made toward a non-profit organization, it is possible for the donor to benefit from some facilities such as the deduction of the donated sum in virtue of the characteristics of the institute of the non-profit organization. Peculiarity of donation-based crowdfunding is the application of the VAT. According to the guidelines of the European Commission Value Added Tax Committee<sup>47</sup> in fact, since the donation of money is given altruistically and for a specific cause without receiving anything in return, the VAT tax is not applicable in this case.<sup>48</sup>

### *Reward-based crowdfunding*

In Italy reward-based crowdfunding can be subdivided into three distinct legislative categories. The first assimilates reward-based crowdfunding with a pre-selling (or pre-order) of a product or service, in other words, a classic e-commerce trade. This practice is defined by the c.c.<sup>49</sup> with specific guidelines: it is a normal buying and selling of future goods that finalizes with the actual realization of the good, the application of the VAT and the issuing of an invoice. The second category considers reward-based crowdfunding as a “modal donation” in return of which is given a non-monetary reward or whose value is less than the donated sum and thus it is regulated by a specific norm of the c.c.. In case of substantial donations, and considering the financial conditions of the donor, the exchange of money needs to be registered in written form and according to specific models, for example a notary deed. Lastly, the third category associates reward-based crowdfunding with the model of royalty-based crowdfunding, which we will see shortly.

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<sup>46</sup> Original article “La donazione è il contratto col quale, per spirito di liberalità, una parte arricchisce l'altra, disponendo a favore di questa di un suo diritto o assumendo verso la stessa un'obbligazione”

<sup>47</sup> To assess whether VAT was to be applicable on a specific crowdfunding category, the Value Added Tax Committee identify two models of financial (equity, lending and royalty) and non-financial (donation and reward) nature

<sup>48</sup> EUROPEAN COMMISSION - VALUE ADDED TAX COMMITTEE, *VAT Treatment of Crowdfunding*, Working Paper No. 836, European Commission, 2015

<sup>49</sup> The matter of e-commerce in Italy refers to D.L.70/2003 adopter of the EU directive n.2000/31/CE and the so called “Consume Code” regulated by the D.L.206/2005

### *Royalty-based crowdfunding*

As it has been described in the introductory chapter, royalty-based model consists in the sharing of the profits or the revenues associated with the investment without any property title on the project nor reimbursement. This practice is regulated by the c.c. too and refers to the norms of Title VII, Book V, articles 2549 on joint ventures and mandates for an open and undetermined number of investors. Therefore, the relationship between the investors and the campaigner, and the subsequent taxation and application of VAT, must be clarified within the contract between the parts. Generally, the participant does not have the same rights of the associates or the owners, but still has controlling powers, for example on the analysis of the accounts.<sup>50</sup> Since this model does not require specific contract forms it can be easily managed online.

### *Lending-based crowdfunding*

It as been seen before when describing the development of the market in Italy, that the first operators of lending crowdfunding in Italy were initially authorized by Bank of Italy to operate as financial intermediaries according to article 106 of the Testo Unico Bancario (TUB). Has we have seen though, notifications were not long in coming and the first platforms had soon to close. Only after the entry into force of the D.L. 11/2010, implementing the European Directive 2007/64/EC, referred as Payment Service Directive, Bank of Italy was able to better define the legislative framework and place lending-based crowdfunding platforms under the umbrella of payment institutions. Moreover, it created a new category of operators, which came from non-financial sectors and were active in the field of payment orders execution. Payments institutions must respect the dispositions mandate by the c.c., the TUB, the Deliberation 1058 of the Comitato Interministeriale per il Credito e Risparmio (CICR) and the General Surveillance Dispositions for Payment Institutions issued by Bank of Italy on: the respect of the minimum capital and regulatory capital; the organizational structure; the requirements of honor, professionalism and independence of managers and supervisors. In November 2016 Bank of Italy issued a new provision (Deliberation 584/2016) providing new rules for savings collections by

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<sup>50</sup> Alessandro M. LERRO, *Il reward-based crowdfunding*, Crowdfunding in Italy Blog, July 2013

subjects that are not banks, with the specific intention of giving a first legislative framework to financial models that differ from traditional ones. This document on section IX explicitly identifies the category of “social lending” (which is lending-based crowdfunding) as a method in which a multitude of private lenders invest (both small savers and institutional investors). From a contractual point of view, the relationship between the lender and the borrower exist within the meaning of articles 1813 of the c.c. as a loan agreement in which the money must be given back to the lender before a certain expiration date. The CFP offers a “remote” contract of payment of services which all parts involved must subscribe.<sup>51</sup>

#### *Equity-based crowdfunding*

Equity-based crowdfunding has been introduced by the D.L. 179/2012, the “Decreto Sviluppo bis” and converted into Law 221/2012. We saw how this policy objective was overtly the one of introducing the raising of risk capital through the Web to foster the setting up and the development of innovative start-ups on the Italian market. The D.L. 179/2012 intervened to modify the article 30 of the Testo Unico della Finanza (TUF) and imposed specific requirements for an Italian equity crowdfunding. These requirements can be summed up as follows:

1. Funds collection must be carried out via Web portals managed by investment companies and banks. Banks must have been authorized to operate on the relevant investment services after having communicated to CONSOB, before starting operating, the intention of activity and management of a portal ('special' section of the register). Normal subjects instead, must have been authorized in view of specific requirements and entered a special register kept by CONSOB ('ordinary' section of the register) on the condition that the latter transmit the orders of subscription and trade of financial instruments which are representative of the capital, exclusively to banks and investment companies;

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<sup>51</sup> OSSERVATORIO CROWDFUNDING, 2° *Report italiano sul CrowdInvesting*, Politecnico di Milano, 2017

2. Campaigns must be issued by companies that qualify as innovative start-ups and they must concern capital equity securities;
3. The total amount of the offer must not exceed the established limits, according with article 100 paragraph 1 of the TUF, which is €5 million;

Italy is the first European country to have adopted an ad hoc legislation for equity crowdfunding. The Law then delegated Consob the task of better define specific operational methods. Therefore, Consob conducted an investigation which started January 21<sup>st</sup> publishing a four-sections survey, on which each section was dedicated to different recipients (potential operators, professional investors, retail investors and innovative start-ups), and addressed all the subjects that were potentially interested in crowdfunding. This way, any stakeholder could provide his/her own comments and contribute on the improvement of the discipline.<sup>52</sup> The survey lead to the compilation of the Consob Guidelines, published in June 2013<sup>53</sup>, which stated some important principles:

1. Requirements of honor and professionalism of portals owners (authorized in the “special” section of the register);
2. The authorization and sanctioning process;
3. Rules of conduct for portal owners and on the minimum disclosure to be provided to potential investors about possible risks;
4. The requirement that a share of at least 5% of the offered financial instruments is to be provided by professional investors such as banking foundation, financial firms for the innovation and the development, incubators of innovative start-ups. The objective was to provide small investors with an insurance on the issuer’s credibility.
5. The duty for issuers to include into its statute or article of associations suitable measures to guarantee investors with a way-out in case the controlling

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<sup>52</sup> A similar strategy was carried out by the European community which issued a public survey about the crowdfunding financing process in the period between 3 October – 31 December 2013.

<sup>53</sup> The updated Guidelines document can be downloaded from Consob official website.

party gives up the company. In other words, a tag along right<sup>54</sup> or withdrawal.

6. The right of withdrawal on the order of subscription for investors in case new facts happened within the period of the offer. This right has to be exercised within 7 days.

In 2015 the Law 221/2012 was modified to extend the spectrum of companies that could access equity-based crowdfunding with the new D.L. 3/2015, Investment Compact Decree. From now on, together with innovative start-ups, equity crowdfunding was open to: collective investment undertakings (CIUs), limited companies who invest mainly on innovative start-ups and innovative SMEs, “tourism start-ups” as provided for in article 11-bis of D.L. 83/2014. In view of this, Consob decided to review its Guidelines and it published a new document in 2016 introducing substantial modifications and relaxed some constraints. Firstly, the list of professional investors was extended to those classified “on request” according with the Markets in Financial Instruments Directive 2004/39/EC (known as MiFID)<sup>55</sup>, thus making it easier for companies to reach the minimum amount of 5% of the offer; moreover, the new document allowed in the 5% also the quote invested by “serial” crowdfunding investors (such as business angels) or natural persons with managing experience in innovative start-ups or SMEs. Secondly, the portals had to start operating within 6 months after the authorization request to Consob register under penalty of forfeiture of the authorization itself. Portal owners could directly verify for every order received whether the client possessed the necessary experience and knowledge to understand the characteristics and the risks of the investment.<sup>56</sup>

Another incentive to reduce transaction costs was the introduction (again in D.L. 3/2015) of the possible regime of dematerialization of units and shares for

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<sup>54</sup> Tag-along rights, also referred to as "co-sale rights," are contractual obligations used to protect a minority shareholder, usually in a venture capital deal. If a majority shareholder sells his take, it gives the minority shareholder the right to join the transaction and sell his minority stake in the company. Tag-alongs effectively oblige the majority shareholder to include the holdings of the minority holder in the negotiations to facilitate the possibility that a tag-along right is exercised.

<sup>55</sup> The MiFID is a European Union law that provides harmonized regulation for investment services across the 31 member states of the European Economic Area. The directive's main objectives are to increase competition and consumer protection in investment services.

<sup>56</sup> CONSOB, *Regolamento sulla raccolta di capitali di rischio tramite portali on-line*, adopted Decision n. 18592 26 June 2013, Consumer Protection Division, Public Relations Office, March 2016

innovative SMEs and startups that laid the foundations for the development of a secondary market in shares subscribed to crowdfunding. The cost of the practice of sale (which is hardly less than €400) represents today a powerful disincentive to the investment of small amounts of money. Finally, the 2017 Stability Law (Law 232/2016), through a specific amendment, has extended the possibility of equity crowdfunding to all SMEs. However, since there was no explicit derogation from the prohibition then existing for the shares of s.r.l to be subject of offers to the public, the following D.L. 50/2017 has cleaned up the air regarding the applicability of the standard not only to the S.p.A but also to the s.r.l. Another relevant innovation for the world of equity crowdfunding has been the increase to 30% of the rates for tax deductions (for natural persons) and deductions (for legal persons) in favor of those who invest, under the conditions described by the MEF Decree of 30/1/2014, in the venture capital of startups and innovative SMEs. By this time though, Consob has not yet issued its new Guidelines in view of the 2017 Stability Law.<sup>57</sup>

## **2.5 Considerations on the future of the Italian crowdfunding market**

The Italian crowdfunding market has had a stable growth starting from 2013 even if it was pioneering the market from 2005 with the first CFP, Produzioni dal Basso. We have seen also how Italy was the first European country to have adopted an ad hoc legislation for equity crowdfunding so, in more than just one dimension, the potential of the market is clear. Over the years by the way the same problems that handicapped the rising of this financial tool and hindered the opportunity of being the market's first movers recurred along with new ones. What has been pointed out by more than one researcher is that crowdfunding is not a magic wand; without a complete understanding of the tool, supported by a good strategical and marketing plan and, as in the case of equity crowd-funding, a certain amount of liquidity to count on, it is almost impossible to succeed. After having published its report on the Italian crowdfunding activity at the beginning of 2017, the crowdfunding

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<sup>57</sup> OSSERVATORIO CROWDFUNDING, 2° *Report italiano sul CrowdInvesting*, Politecnico di Milano, 2017

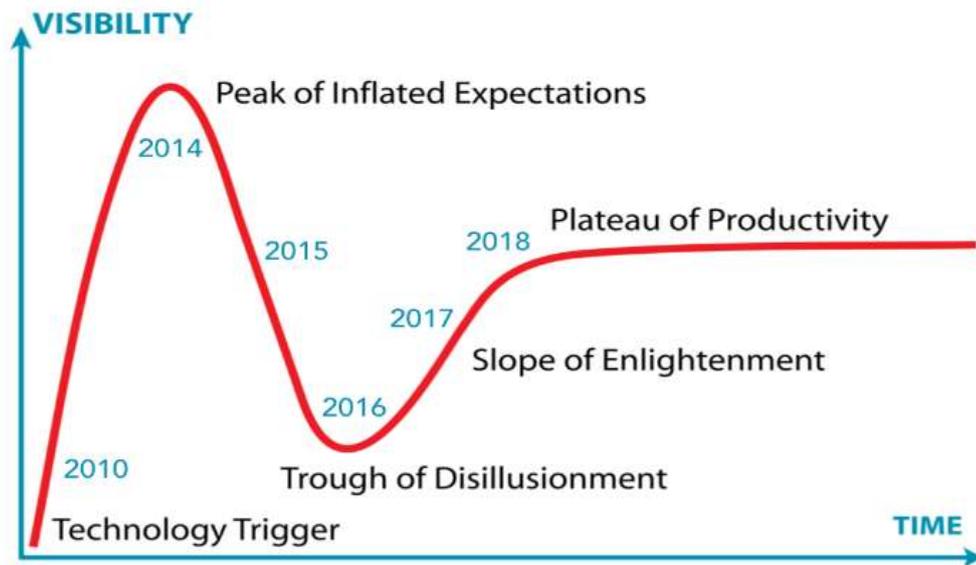


Figure 1 Hype Cycle of the Italian crowdfunding market downloaded from Starteed.com

platform Starteed forecasted a decrease in the number of reward-based and donation-based CFPs on the landscape. They believed that the market was at its peak of expectations, because crowdfunding was often glorified more for its theoretical capacities than its actual results, thus the following disillusion toward the tool would have set the grounds for a stronger awareness of its users. Figure 1 explains what Starteed meant with a graphical representation of the “hype cycle” of the Italian crowdfunding market. Interestingly what happened during 2017 reflected Starteed’s forecast: the number of reward-based and donation-based CFPs (taking Do-it-yourself campaigns into account) dropped from 54 to 46, and, even if the Consob Guidelines following the 2017 Stability Law had not entered into effect yet, equity-based crowdfunding saw an impressive growth over this last year. Concerning this model in fact, the Osservatorio Crowdfunding of Politecnico di Milano on its 2° Report on the market affirms that: not only the offers’ flow has grown, but also that it has been concentrating on some specific CFPs that “can count on a stable network of experienced and receptive investors”. Moreover, the harvesting time was reduced due to a decrease in the average funding target. The Report highlights also the contribute of lending-based crowdfunding which saw a turning point last year too. What happened was that the entering of two great foreign operators, instead of clouding the smaller Italian lending CFPs, stimulated them in a positive competition that generated high revenues. The Italian crowdfunding audience

seems to have focused its attention toward crowdfunding. This is in line with the international trend which sees in crowdfunding the future driver of the industry or better, the one that has the best profit-generating capacity. But, compared with other countries such as the US, the UK or Germany and France, the Italian crowdfunding market volume is relatively small.

## **Chapter 3: The Chinese crowdfunding market**

The Chinese crowdfunding market has a short yet rich history both in terms of growth and number of projects and experiences. It started its expansions in 2011 with the founding of Demohour 点名时间 and has developed around the classical models reaching an overwhelming growth around the years 2015-2016, with an explosion in numbers of CFPs and revenues. It is always difficult to analyze the Chinese market, from politics to economy, from customer behavior to legislation, for this country almost never follows specific and common rules and frameworks. A similar difficulty is encountered when analyzing the Chinese crowdfunding market. China has in fact developed a market of its own, learning from international experiences and building on its already existing features. Therefore, it is necessary to consider some aspects of the Chinese market and politics to better understand how this country has taken this financial tool and use it strategically at its advantage to foster the growth of the national economy. We will see how, from a certain point of view, the traditional down-top approach, from which crowdfunding has expanded in Western countries, cannot be applied in China, how this is somehow reversed. As often happens, China observes the methods and the systems that are born abroad, recognizes their terminology but applies it in a new semantic which is transformed around the conditions in which it takes effect. Political, social and economic situations determine a vocabulary which differs from its well-known contents. In the following chapters we will analyze how the penetration flows of the crowdfunding system are so reversed in the Chinese market that they create a new top-down approaching method.

### **3.1 China's Web Environment**

Crowdfunding is an alternative financial tool that exploits the dynamics of the Web 2.0 Era to help those in need of finance to collect it from the Web crowd. For all of those who are not familiar with Chinese politics and economy it may seem that the premises on which crowdfunding builds are more than enough for developing an extremely strong market. These beliefs of course are not unfounded. China

can count on a Web crowd of 731 million users<sup>58</sup>, a number that is expected to grow in the following years and surpass the billion. Moreover, despite a downturn in the national growth over the past years, China's market power on the international landscape remains strong and appealing. This appeal has got stronger thanks to recent politics that foster innovation especially in technological and environmental development. One of the key words in the 13<sup>th</sup> Five-Year Plan, along with innovation, is in fact wǎngluò 网络, the Internet. From the implementation of the Internet of Things (IoT)<sup>59</sup> industry to the better defining and supporting of internet financing, the inclusion of the Web in China's future policy is clear. Anyway, China's government did not always look at the Web in such a positive way, on the contrary the switch in attitude is somehow recent.

From the building of the Great Firewall<sup>60</sup> at the end of the 90s, the Chinese government efforts to control the flow of information that were coming from the Web has always pivot on the strengthen of the political discourse. These efforts can be divided into three separate and chronologically divided strategies. At first there was censorship at its purest, with the implementation of the Great Firewall and therefore, a strict control of the information's flow. This strategy comes hand in hand with the starting of China to open itself at the world with the well-known Deng Xiaoping policy. The censoring of information may seem contradictory with the above-mentioned policy and the use of a new instrument which by nature is free and without boundaries but, considering China's usual cautious essence and the historical background from which it was just coming out, it actually comes as no surprise if the Chinese Communist Party (CCP) wanted to control the public opinion.

A second phase came after China elaborated the potential of the Web and thus started using it at its advantage. This strategy was implemented at first by president

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<sup>58</sup> CHINA INTERNET NETWORK INFORMATION CENTER 中国互联网络信息中心 (CNNIC), *China Statistical Report on Internet Development* 中国互联网络发展状况统计报告, January 2017

<sup>59</sup> Jacob MORGAN, *A Simple Explanation of 'The Internet of Things'*, Forbes, 13 May 2014

<sup>60</sup> The term was coined by Wired in 1997 in this article <https://www.wired.com/1997/06/china-3/> to mock the real name of the project which is the Golden Shield Project in a play on words with the term Firewall and Great Wall. The Golden Shield Project is a way more complex national security system composed of: security management information system (治安管理信息系统), criminal information system (刑事案件信息系统), exit and entry administration information system (出入境管理信息系统), supervisor information system (监管人员信息系统) and traffic management information system (交通管理信息系统), etc.

Hu Jintao during two national conferences on ideology in December 2003 and 2008. There he claimed that the CCP's core objective should have been the narrowing of the public opinion while defending the cultural interests of Chinese citizens and with respect of different point of views. At the same time, he aimed at building an information system that could guarantee an immediate report on public events and to report authorities' information as soon and as transparently as possible. This way, the Web became the main driver of this strategy, through which to hold real power on the cultural and socio-political discourse. What happened in practice was that the government started to exploit grassroots phenomenon, such as micro-blogging<sup>61</sup>, to pilot public opinion. Two notable examples of this strategy are represented by the 50 Cent Party (wǔmáo dǎng 五毛党) and the micro-blogging platform Sina Weibo (xīnlàng wēibó 新浪微博). About the first, the 50 Cent Party is a group of Internet commentators, trained and financed by governmental institutions to defend the interests of the CCP by influencing online debates. The name comes from the 50 cents payed to every blogger affiliated to this group whenever they post a positive comment on the Chinese government. About the second, two experiences explain the change in attitude toward the Web by the Chinese government. Firstly, around the years 2010-2011, government offices in different departments and provinces throughout China began to open accounts on Weibo "to provide information and services to the citizens, control public-relations crises and react on negative news"<sup>62</sup>. Secondly, Sina Weibo in May 2012 developed a credit system which measures the conduct of its users, following a previous governmental strategy on Web control which is the registration of the real name.<sup>63</sup> The role of Sina Weibo is interesting in view of the above actions because it underlines the entangled

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<sup>61</sup> Gianluigi NEGRO, *Dal gossip al dilagare dell'informazione online. Le mutevoli strategie di controllo di Internet nella RPC*, H-ermes. Journal of Communication, 7, 7-32, 2016

<sup>62</sup> Gianluigi NEGRO, Zhan ZHANG, *Weibo in China: Understanding its development through communication analysis and cultural studies*, Communication, Politics & Culture, 46, 199-216, 2013

<sup>63</sup> The system require users to register on the blog using all the possible relevant informations about the user's identity. From last September it is mandatory for all the users if they wish to continue to access the micro/blogging platform. For more information see Chai Hua 柴华, *weibo shimingzhi daxian jiang zhi yanzheng zunxun "qiantai ziyuan, houtai shiming" yuanze* 微博实名制大限将至验证遵循“前台自愿、后台实名原则”, Xinhua 新华网, 14 September 2017

relationship that started to occur between the private sector and the government in China, especially in the information technology industry.

The final shift in the strategical use of the Web by the Chinese government is represented by its use of it in the development of the real national economy. There is no big trigger-event that shows how the Web ended up being the core of China's economic development plan, but it can be observed that the concurrency of the rising of the e-commerce market, online payment methods, user's social media engagement and the grip on internet financing<sup>64</sup> lead the way, in just a two-three years lap, to the express intention of including this tools in the national economic strategy. Nonetheless, the paternity of this intention can be given to one man in particular which is Xi Jinping. The, by that time new, President of China started addressing the Web as a driver of innovation in many ways: *ad hoc* policies, discourses on ideology and finally, on the 13<sup>th</sup> Five-Year Plan. Simultaneously, Xi kept strengthening censorship and what has then been called "Internet sovereignty". In November 2014 in fact, China held its first state sponsored World Internet Conference where a draft titled "Wuzhen Declaration" was delivered to participants. In the Declaration, but also at the beginning of the summit, President Xi addressed the principle of a country's sovereignty on its own "rights to the development, use and governance of the Internet, refrain from abusing resources and technological strengths to violate other countries' sovereignty".<sup>65</sup> Furthermore, this new governmental strategy of exploiting the Web tools leveraged and was leveraged by the big players in the Chinese Web environment, such as Alibaba, Tencent, Baidu and so on, in a similar way with happened with Sina Weibo. The mutual help between government and private sector is what describes the Web market in China today and crowdfunding cannot be anything but a product of this dynamic. This is one of the reasons why crowdfunding in China cannot be considered a down-top tool as it is in Western countries and the fact that the term entered the vocabulary of the 13<sup>th</sup> Five-Year Plan is another symptom.

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<sup>64</sup> § section 3.2

<sup>65</sup> AREDDY T. James, *China Delivers Midnight Internet Declaration*, The Wall Street Journal, 21 November 2014

### 3.2 Crowdfunding with Chinese characteristics

While crowdfunding was evolving in the United States and in Europe and specific legislations were being set up to better define and control the tool, China was watching carefully. It often happens that innovation reaches the Chinese market with a few years delay then the West. This is not due to an inborn short-sightedness toward innovation but to a cautious and wary evaluating of how to better exploit it at China's advantage. For what concerns crowdfunding for instance, Chinese people and businesses suffered the same difficulties in access to credit as their fellow counterparts in the West during the first years of 2000, but, if the tool started to emerge in the U.S. and Europe around 2006-2008, China had to wait the year 2012 to its first recognized CFP to arise. So, the Chinese crowdfunding market dived into an already operative, lively and organic market. This lead to the need of translating and importing a set of new terms, which imply certain methods and regulations. In the table below, I summed up the most common translations of the six most wide-spread crowdfunding methods.<sup>66</sup>

Donation-based crowdfunding	捐赠众筹 / 公益众筹	sūnzèng zhòngchóu / gōngyì zhòngchóu
Equity-based crowdfunding	股权众筹 / 非公开股权融资	gǔquán zhòngchóu / fēi gōngkāi gǔquán róngzī
Hybrid crowdfunding	综合众筹	zònghé zhòngchóu
Lending-based crowdfunding/P2P lending	债务众筹 / 债权众筹	Zhàiwù /zhàiquán zhòngchóu
Reward-based crowdfunding	奖励众筹	jiǎnglì zhòngchóu
Royalty-based crowdfunding	物权众筹 / 权益众筹	wùquán zhòngchóu / quányì zhòngchóu

<sup>66</sup> The terms in Chinese have been deducted by different reports and literature on Chinese crowdfunding market.

By taking a rapid look at the table above it can be easily understood, for mandarin speakers, that there has been a work of literal translation of the well-known English taxonomy (i.e.: donation-based crowdfunding is translated into 捐赠众筹 which literally means sǔnzèng = donation zhòngchóu = crowdfunding). At a second look we find the first difficulties. Royalty-based crowdfunding for example has two different translations which can be found indiscriminately in different reports as is for donation-based. When analyzing data on the Chinese crowdfunding market in fact, we come across a variety of terms which often differ from one another but mean the same thing. Moreover, different websites and researches often use just one of the above terms to refer to all crowdfunding models in their whole.<sup>67</sup> A further problem in defining the market's taxonomy is represented by additional crowdfunding categories that have caught on in China. These are for instance fángdìchǎn zhòngchóu 房(地)产众筹, the well-known real estate crowdfunding; qìchē zhòngchóu 汽车众筹 or automobile crowdfunding<sup>68</sup>; and a general chǎnpǐn zhòngchóu 产品众筹 product-based crowdfunding. Nevertheless, this new vocabulary does not coincide in practice with the methodology which is implied within the “western vocabulary”. The characteristics of the Chinese crowdfunding market in fact, differ in a certain amount with the international ones.

The first thing to notice about crowdfunding in China is that lending-based crowdfunding is not accounted for as crowdfunding. P2P lending in fact, is regarded as a separate and independent category of internet financing (hùliánwǎng jīnróng 互联网金融). Chinese government has nonetheless concentrate on giving a solid regulation to this field of finance especially for what concerned illegal online fundraising and lending. This was due to various accidents which costed savers several billions, the most scandalous of which is the Ezubao case where ¥50 billion were stolen.<sup>69</sup> Nevertheless, Chinese P2P market, thanks to targeted policies and advantageous interest rates gained momentum and represent one of the most important tools of

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<sup>67</sup> Tyler AVENI, Ivo JENIK, *Crowdfunding in China: The Financial Inclusion Dimension*, Consultative Group to Assist the Poor (CGAP), July 2017

<sup>68</sup> Laure DE CARAYON, *WeChat Luxury Car Crowdfunding Goes Viral in China*, Jing Daily, 7 July 2014

<sup>69</sup> For information on the Ezubao case read <https://www.cnbc.com/2017/09/12/ezubao-two-in-china-get-life-in-prison-for-7-point-6-billion-ponzi-scheme.html>

internet financing.<sup>70</sup> This exclusion of this method from the crowdfunding umbrella gives us also inside on the top-down attitude that it has been hinted at in the first section of this chapter. Most of these Chinese P2P platforms are in fact backed by big players in the field of financial intermediaries, such as Morgan Stanley Asia branch or PingAn Insurance Group. This feature applies to the other three crowdfunding methods too and highlights the different approach, with the Italian crowdfunding market for example, to the essence of this tool in itself. China which lacks a culture of entrepreneurship, substituted the bottom-up characteristic of western crowdfunding with the instrumental participation of a privileged niche. In just a few years in fact, most of the Chinese Web tycoons started engaging with crowdfunding. This engagement was probably triggered by three concurrent realities: the push by governmental institution toward online financing<sup>71</sup>, a grey legal area and the awareness of the potential of the demand. China could count on 650 million netizens, 70% of which accessing the Web mostly via smartphones, on which many have electronic money. Moreover, the majority of Chinese netizens reportedly spent their leisure time online on e-commerce websites and social media.<sup>72</sup> Secondly, even though specific laws regulating crowdfunding were yet to be issued, the government saw positively the online financing sector as a way to drive the national economy toward technological innovation. Simultaneously, institutions were well-aware of the down-sides of this tool as many platforms turned out to be scams of illegal fundraising, and so were consumers. Therefore, the entrance in the market of trustworthy and well-established businesses such as Baidu, Alibaba or JingDong (JD), simply fostered the market's boom. Since the legal area of crowdfunding was still to be perfectionated these tycoons, following the examples of international (Kickstarter, Indiegogo etc.) and national (Demohour, Dreamore, Tmeng etc.) experiences, turned to reward-based and donation-based crowdfunding models. This was also due to two facts: on one hand these giants came from the IT sector and e-commerce and thus could already count on a solid base of reliable users; on the other hand, Chinese consumers, unlike their western counterparts, do not have a

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<sup>70</sup> Researchers critically pointed out that the 2015 crack of the Shanghai Stock Market was due to a bubble caused by debts from the P2P lending market.

<sup>71</sup> § 1.1

<sup>72</sup> According to CNNIC latest report the social media engagement has grown steadily during all 2016 with rates varying from 85.5% for Wechat to 37.1% for Weibo.

risk appetite and prefer to receive tangible goods in return for their money. The main consequence of all these aspects is that China has developed an ad hoc model for its crowdfunding market which is referred to as *sale-oriented crowdfunding* or *purchase-crowdfunding*. This model stands as an alternative to the classic reward-based model for the reward is the campaign's final product. Crowdfunders invest in the production costs and risks through a pre-sale of the final good, giving feedbacks and paying through their trusted e-payment methods.<sup>73</sup> Moreover, in view of this consume-driven and product-development characteristic, most of the Chinese CFPs had a vertical development and feature more or less the same categories of products. These categories are, in general: science & technology, design, entertainment, culture, agriculture and public welfare.<sup>74</sup>

The final point in the analysis on the taxonomy of the Chinese crowdfunding industry is the engagement of crowdfunders with more the one model at the time. The speed of penetration of the concept of crowdfunding in the Chinese market generated an extraordinary response by the above-mentioned Web tycoons. These companies did not just confine themselves to one model, but they experimented with all of them. This way, they segmented the offer and the proposal according to the market's requests. A market created by those same companies resulting in a virtuous cycle between demand and supply. Notably Demohour, following the example of Alibaba, JD and so on, by 2013 started transforming itself into an e-commerce like platform. The platform decided to abandon commission fees on campaigns and started partnering with tech-giants like Xiaomi, which also opened its own CFP in 2015.<sup>75</sup> The tycoons took advantage of their position as e-commerce platforms to reach an enormous audience through a huge internet traffic. Many investors in fact, have already been educated and cultivated by these tycoons and thus it came easy to drive them toward equity crowdfunding. Moreover, from the investors perspective, the reputation and popularity accumulated by these giants' reward

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<sup>73</sup> Julien LEGRAND, *E-commerce et crowdfunding: pourquoi est-ce la même chose en Chine?*, Paris Innovation Review, 18 April 2016

<sup>74</sup> Defeng YANG, Xueli ZHANG, *Review of the Domestic Crowdfunding Industry Development*, Journal of Service Science and Management, 9, 45-49, 17 February 2016

<sup>75</sup> Tao ZHANG, Christine YIP, Ge WANG, Qin ZHANG, *China Crowdfunding Report, How to Leverage Crowdfunding to Support China's Social and Environmental SGBs*, China Impact Fund 中国影响力基金 (CIF), October 2014

crowdfunding platforms also made the equity crowdfunding projects attractive and trust-worthy. Furthermore, the simultaneous engagement both on equity and reward model, played a significant role as a market testing tool for these tycoons. The response from the investors could be used as a real time verification of the market demand and of the popularity of the proposed projects or products. Nonetheless, this does not come as an easy process and as result, most of these tycoons have developed different business models on equity crowdfunding.<sup>76</sup>

That said, the process through which China has rearranged at its economy's benefit the western crowdfunding taxonomy to integrate it in the national socio-economic framework becomes very clear. Doing so, the already evident predominance of big public and private companies becomes even stronger, for these companies shaped the market at their image. We can therefore conclude by saying that the Chinese crowdfunding market is divided into three main models: purchase crowdfunding, mixed/hybrid crowdfunding and equity crowdfunding. These models are integrated in a wider system that harvests all the tools of online financing such as P2P lending, the FinTech sector, e-payment, internet banking and new technologies like Big Data studies and Block Chain technology. It is necessary to understand the correlation between all these aspects that lay under the label of online financing to comprehend the politics and the dynamics of the crowdfunding market in China. All these things are connected in view of an all-encompassing national development. Therefore, a crowdfunding with Chinese characteristics.

### **3.3 The first years of crowdfunding in China**

In 2012 the first world report on the crowdfunding industry was released by Massolution agency containing insight on an industry that in most countries of the world was still at its infancy. Among these China counted 4 active CFPs.<sup>77</sup> Just the year before in fact, the first Chinese CFP appeared on the market and was immediately

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<sup>76</sup> Jiazhuo WANG, Hongwei XU, Jun MA, Yexia ZHANG, Zhi CHEN, *Financing from Masses, Crowdfunding in China*, Springer, 2018

<sup>77</sup> CROWDSOURCING LLC, *Crowdfunding Industry Report, Market Trends, Composition and Crowdfunding Platforms*, crowdsourcing.org, 2012

followed by players with similar characteristic. This platform was Demohour (diǎnmíng shíjiān 点名时间) which, taking inspiration from successful international experiences, started operating as vertical reward-based CFP, exposing projects of creative and technological scope. One after the other, CFPs started to arise, like Demohour close competitor Dreamore (zhuī mèng chóu 追梦筹), or Tmeng (táo mèng 淘梦), Jue.so (jué 觉) and Musikid (lè tóng yīnyuè 乐童音乐). Similar with Demohour, all these platforms offered sectorial services, most of which involved the creative and cultural field. What is notable in the first years of the Chinese crowdfunding market in fact, is that contrary to other countries' markets, it seems that it skipped the "general platform" phase and directly addressed a specific demand. Moreover, they started to offer more tangible rewards to investors. Demohour founder and CEO Chang Yu imputes this approach to a different culture of donation<sup>78</sup> but as we have seen in the previous section this is concurrent with the entrance of the tycoons in the market. Chinese users are more accustomed to the role of buyer rather than supporters. They tend to be more interested in the physical products and benefits, such as early delivery of the good or discount prices, rather than showing support for the entrepreneurial and inventive spirit, which has been an important element for crowdfunding's popularity in the West of the world. In 2013 the number of CFPs grew to 29 but the amount of money raised was still limited to CNY 335 million. Nonetheless the real driver of internet finance in China by that time was P2P lending which according to Massolution report, strongly contributed for the jump of +320% of the Asian crowdfunding market between 2013 and 2014.<sup>79</sup> This was due to the fact that the report accounted P2P lending mistakenly as lending-based crowdfunding, as we have seen in the previous section. It is worth noticing anyway that in those years P2P lending was the only tool addressing the need of financing for SMEs and privates, for Chinese banks preferred borrowers with much more credit credibility such as state-owned enterprises and big private companies. A number of platform started to mushroom throughout China, exploiting the legal grey area that surrounded this business. In 2013 in over 87% of Chinese

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<sup>78</sup> Zolzaya ERDENEBILEG, Better Together: Assessing the Potential of Crowdfunding in China, China Briefing, 13 October 2016

<sup>79</sup> MASSOLUTION, 2015CF

cities cases of illegal fundraising were reported and by the end of 2015 there were almost 2600 P2P platforms online, 70% more than 2014, reaching almost \$19 billion in transactions.<sup>80</sup> The peak was reached by the before-mentioned Ezubao case. The platform opened in July 2014 and in one year built a \$7.6 billion Ponzi scheme<sup>81</sup> which fooled 900.000 investors. Ezubao closed down in 2015 and the investigation lead to 21 people being arrested, but this experience pressed the Chinese government to take action against these schemes.<sup>82</sup>

Anyway, in this landscape equity crowdfunding did not come late into the game. The first platform dealing with this model was AngelCrunch (tiānshǐ huì 天使汇) which exploited its experience in angel investing to raise capital for growing businesses, and thus counting on a large base of over 700 experienced investors, to launch its equity platform in 2011. Well-known projects funded through AngelCrunch include Didi Dache, the taxi-hailing smartphone app which has gain importance recently for its acquisition of the Chinese branch of Uber.<sup>83</sup> Along with AngelCrunch, similar platforms with experience in venture capital financing were operative in the early stages of Chinese equity crowdfunding market, such as Dajiatou (dàjiā tóu 大家投), Angel Street (tiānshǐ jiē 天使街) and Yuanshihui (yuánshǐ huì 原始会). All these CFPs have in common a strong interest in promoting and supporting innovation-technology, cultural and creative projects and offer a series post-launch services to help the further growth of the businesses they are financing. Along with the above-mentioned venture players, as we described in the previous section of this chapter, the real turning point in Chinese equity crowdfunding is represented by the entrance of Web tycoons into the market. In 2014 the giant of e-commerce Alibaba entered the market with both a reward-based and a loan-based

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<sup>80</sup> Rebecca ARCESATI, *Ezubao, la frode del seconolo e i rischi della finanza Peer 2 Peer*, Il Fatto Quotidiano, 4 February 2016

<sup>81</sup> Definition by Investopedia “A Ponzi scheme is a fraudulent investing scam promising high rates of return with little risk to investors. The Ponzi scheme generates returns for older investors by acquiring new investors”

<sup>82</sup> Mingyu ZHANG 张明宇, *Beijing fayuan: yi li'an shouli "e zu bao" an 北京法院：已立案受理“e租宝”案* (The Court of Beijing filed the “Ezubao” case), 新华网, 22 December 2016

<sup>83</sup> Baolei MENG 孟宝勒, Micheal J. DE LA MERCED, *Didi zai rongzi 73 yi meiyuan, pinche jingyong "shao qian dazhan" jiaju 滴滴再融资 73 亿美元，拼车应用“烧钱大战”加剧* (Uber Rival's \$28 Billion Valuation Shows Size of China's Ride-Sharing Market), nytStyle 纽约时报, 17 June 2016

CFP: Yu'eobao 余额宝, which focused on movies, and Zhaocaibao 招财宝. A few months later in July 2014, Alibaba closest competitor JD launched JD Crowdfunding. The peculiarity of JD's CFP stands in the diversification of the offered services, for it included from the very beginning of its activity both reward-based crowdfunding (Coufenzi 凑份子) and equity-based crowdfunding (JD Equity Crowdfunding). Moreover, Baidu tried to compete with Alibaba's Yu'eobao and launched in the same period Baifa Youxi 白发有戏. Unsurprisingly the year 2014 was called "the first year of crowdfunding in China" in fact, in just one year the number of CFPs on the mainland grew from 29 to 142 and, in terms of revenues, it collected a total amount of CNY2.158 billion, CNY1.823 billion more than 2013.<sup>84</sup> From a legal point of view though, equity crowdfunding was as illegal as P2P lending, because unregistered companies and individual were not allowed to sell stakes to the public under the Chinese law and also because, as we have seen, the government was trying as hard as it could to stop illegal fundraising activities.<sup>85</sup> Nonetheless the government saw the potential of the internet finance for the growth of the national economy. In December 2014 the Securities Association of China (SAC) issued the *Administrative Measures for Private Equity Crowdfunding (Draft for Comments)*<sup>86</sup>, also known as *Crowdfunding Measures*, a first draft of rules on equity crowdfunding including insight on what CFPs, backers and crowdfunders were and were not allowed to do. The Crowdfunding Measures set for the first time the requirements for interested investors, which according to the draft must be of the "accredited" sort and meet at least one of three fundamental requirements: (1) invest at least CNY 1 million in a single project; (2) possess CNY 10 million in net assets; or (3) possess CNY 3 million in financial assets and have an annual income of at least CNY 500.000 for the past five years.<sup>87</sup> The adoption of a legislation on equity

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<sup>84</sup> Data retrieved and elaborated from different reports on the industry.

<sup>85</sup> INFODEV Growing Innovation, *Crowdfunding's Potential for the Developing World*, Appendix B, The World Bank, 2013

<sup>86</sup> The original text *simu guquan zhongchou rongzi guanli banfa (shixing) (zhengqiu yijian gao)* 私募股权众筹融资管理办法(试行)(征求意见稿) can be retrieved at SAC website

<sup>87</sup> Original text: "第十四条 【投资者范围】 私募股权众筹融资的投资者是指符合下列条件之一的单位或个人: [...] (二) 投资单个融资项目的最低金额不低于 100 万元人民币的单位或个人; [...] (四) 净资产不低于 1000 万元人民币的单位; (五) 金融资产不低于 300 万元人民币或最近三年个人年均收入不低于 50 万元人民币的个人"

crowdfunding lead to the signing of the so called “crowdfunding treaty” between the SAC and eight equity CFPs in January 2015.<sup>88</sup> The Crowdfunding Measures in fact, stated in Article 6 that an equity CFP had to file itself with SAC to start its activity and became a member thereof.<sup>89</sup>

### **3.4 The “Year-One of Regulations” and the Shi San Wu: the integration of crowdfunding in the governmental strategies**

The signing of the “Crowdfunding treaty” in January 2015 was just the beginning of a new governmental strategy that aimed at making the internet finance a tool at the nation economy’s service. The market was continuing to grow at an enormous rate, the number of CFPs almost doubled during 2014 and the market value increased by 429,38% reaching CNY 11.424 billion.<sup>90</sup> The year 2015 is widely considered the “Year One of Regulation” for the internet finance industry in China. From the recognition by the SAC of the equity crowdfunding platforms in January to the end of September 2016, the central government issued a series of policy announcements which aimed at encouraging the development of crowdfunding and non-public equity financing, such as: “The Guidance on Developing Massive Innovation and Entrepreneurship”; “The Opinions of the State Council on Actively Promoting “Internet +” Activities”; “The Notice of the State Council on the Development Plan of Inclusive Finance (2016–2020)”; as well as “The Outline of the Thirteenth Five-Year Plan for National Economic and Social Development”. At the same time, the central government also published special rectification schemes for the internet finance industry, such as “The Opinions of the State Council on Preventing Illegal Fundraising” and “The Notice of the State Administration for

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<sup>88</sup> Ying WANG, *Guquan zhongchou zhengguihua zai maijin 8 pingtai shuaixian cheng zhongzhengxie hui yuan* 股权众筹正规化再迈进：8平台率先成中证协会 (Normalization of Equity Crowdfunding Further Progress: 8 Portals Obtains SAC Membership), Yicai.com 20 January 2015

<sup>89</sup> Original text: “第六条 【备案登记】 股权众筹平台应当在证券业协会备案登记，并申请成为证券业协会会员。证券业协会为股权众筹平台办理备案登记不构成对股权众筹平台内控水平、持续合规情况的认可，不作为对客户资金安全的保证”

<sup>90</sup> YINGCAN Consulting 盈灿咨询, *2015 Nian quanguo zhongchou hangye nianbao* 2016 年全国众筹行业年报 (2015 Annual Report on China Crowdfunding Industry), 1 January 2016

Industry and Commerce on 2016 Special Rectifications for Internet Market”. It appears that China’s central government on one hand continued to strongly oppose the illegal fundraising activities while on the other hand fostered the development of the crowdfunding industry. At the same time, the government also urged the regulatory agencies to issue up-to-date policies to standardize equity crowdfunding and guide the healthy and systematic development of the industry.<sup>91</sup> Between these two years in fact, equity crowdfunding generated a market volume of respectively CNY 5.19 billion and CNY 5.298 billion. The number of platforms did not change substantially, by the end of 2015 there were 130 equity CFPs which occupied the 45,9% of the market, while in 2016 the number decreased to 117 active CFPs. This decrease in number of CFPs is linked with the continuous reforms issued by the government but more importantly it is the expression of the impossibility of smaller platforms to compete with the Web giants. By September 2016 in fact, almost all the Chinese internet tycoons had entered the crowdfunding market, such as Xiaomi, Qihoo 360, Suning and the already mentioned JD and Alibaba. An important factor which contributed to the rise of bankruptcy among equity CFPs in 2016 was the policy change between March and September. Particularly, policies prohibiting real estate crowdfunding, and P2P online lending platforms to be engaged in equity crowdfunding. Consequently, many P2P lending platforms took out their crowdfunding models, and CFPs removed their real estate models.<sup>92</sup>

Equity crowdfunding for its entrepreneurial and complicated nature saw the most articulated attention from the regulator but it was not the only model. As we have seen before in fact, reward-based crowdfunding developed in China different characteristic if compared with the international standards. Its e-commerce-like features was nurtured not only by the tycoons that leverage on their market position in the field but also by the government. Back in 2012 the Chinese government set up cross-border e-commerce pilot zones in six cities across the mainland and by the

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<sup>91</sup> *Ibidem*.

<sup>92</sup> For further information see: REPORT ON THE 21ST CENTURY ECONOMY 21 世纪经济报道, *Shenzhen fawen yanjin “zhongchou chao lou” duiyu cunliang yewu liji qingli* 深圳发文严禁“众筹炒楼”对于存量业务立即清理, EastMoney.com 21 March 2016; and Li Wei 李维, *Zhengjian hui qidong liu xiang gongzuo guquan zhongchou huo yingli fa shi guifang* 证监会启动六项工作 股权众筹或迎立法式规范, 21 世纪经济报道, wdzj.com, 28 April 2016

end of 2014 the industry reached a total market volume of CNY 3.05 billion. In order to foster the further development of this economic driver, the State Council of China released the *Opinions on the Vigorous development of E-Commerce to Speed Up the Cultivation of New Economic Drivers* (国务院关于大力发展电子商务加快培育经济新动力的意见) and the *Guiding Opinions on Promoting the Healthy and Rapid Development of Cross-border E-Commerce* (关于促进跨境电子商务健康快速发展的指导意见), also referred as *Guiding Opinions*.<sup>93</sup> The latest in particular established twelve measures to promote e-commerce with a focus on international trade. The aim was to use the internet tools to carry out strategical state plans, such as the One Belt One Road (OBOR) and enhance international co-operation, as openly states point eleven of the Guiding Opinions.<sup>94</sup> Reward-based crowdfunding, with its e-commerce characteristics, was and remains the most popular model in China and its revenues continue to grow consistently. If in fact in 2015 this model occupied just the 22,32% of the market with 66 active platforms, this number almost quadrupled in 2016. One year after reward-based crowdfunding occupied the 52% of the market, with 222 CFPs and a market volume of CNY 16.727 billion (74% of the total market volume the same year).

Finally, in March 2016 the 13<sup>th</sup> Five-Year Plan was issued giving state recognition to the crowdfunding tool, specifically Chapter 7 Encourage Public Startups and Innovation, Section 2 “Crowd Innovation, Sourcing, Support, and Funding” states

We will make use of the internet to help business startups and innovators become better connected to market resources and more responsive to public demand. We will advance crowd innovation based on specialized spaces and online platforms as well as within enterprises and improve innovation resource sharing. We will promote research crowdsourcing, development crowdsourcing, and creativity crowdsourcing as well as the crowdsourcing of manufacturing operations and maintenance services, knowledge, content, and consumer services to give impetus

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<sup>93</sup>Jiamin LIU, *Guiding Opinions on Promoting the Healthy and Rapid Development of Cross-border E-Commerce*, Mizuho Research Institute China Policy Brief, 17 July 2015

<sup>94</sup> STATE COUNCIL OF CHINA 国务院办公厅, *Guanyu cujin kuajing dianzishangwu jiankang kuaisu fazhan de zhidao yijian* 关于促进跨境电子商务健康快速发展的指导意见 (Guiding Opinions on Promoting the Healthy and Rapid Development of Cross-border E-Commerce), State Measure n.46 国办发 46 号, 2015

to public participation in the division of labor in online production and distribution. We will promote the development of public crowd support, shared crowd support, and mutual crowd support. We will improve supervision and oversight systems to ensure the well-regulated development of rewards crowdfunding, equity crowdfunding, and online lending.<sup>95</sup>

The inclusion of crowdfunding in the development of the national economy finds its strongest supporter in the figure of Chinese Premier Li Keqiang 李克强. In the same month at the Fourth Session of the Twelfth National People's Congress the Premier stressed the need of encouraging what has been called *shuāng chuàng* 双创 double innovation. The term comes from an expression that the same Keqiang delivered at the Tianjin edition of the World Economic Forum (WEF) in 2014 saying “*dàzhòng chuàngyè, wànzhòng chuàngxīn* 大众创业、万众创新” and referring to the double objective of pursuing innovation and renew the industrial sector. In March 2016 in his annual state of the country's report he reclaimed this idea of fostering entrepreneurship and innovation and connected it with the Internet Plus strategy. He proposed to establish integrated platforms through which support a massive engagement of the citizenship and appraised crowdfunding as a new mechanism that can actively respond to the needs of innovation of enterprises of all scales, colleges and universities, research institutions, and individuals.<sup>96</sup> Moreover, the new Five-Year Plan brought the attention to e-commerce too. In view of strategies such as the OBOR route and Internet Plus, e-commerce plays a strategic role in the future of China's real economy and its international role. Notably, Chapter 19 to 21

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<sup>95</sup> Translated by Compilation and Translation Bureau, Central Committee of the Communist Party of China. Here the text in its original form: “第七章 深入推进大众创业万众创新; 第二节 全面推进众创众包众扶众筹: 依托互联网拓宽市场资源、社会需求与创业创新对接通道。推进专业空间、网络平台和企业内部众创, 加强创新资源共享。推广研发创意、制造运维、知识内容和生活服务众包, 推动大众参与线上生产流通分工。发展公众众扶、分享众扶和互助众扶。完善监管制度, 规范发展实物众筹、股权众筹和网络借贷” p.17 of the 十三个五计划

<sup>96</sup> NATIONAL INTERNET FINANCE ASSOCIATION OF China 中国互联网协会, *Li Keqiang fahui dazhong chuangye wanzhongchuangxin he “hulianwang+” ji zhong zhi hui zhong li de chengshu xiaoying* 李克强: 发挥大众创业、万众创新和“互联网+”集众智汇众力的乘数效应, Internet Society of China, 7 March 2016

of the Plan address the need of support e-commerce to improve the industrial innovation particularly in rural areas.<sup>97</sup>

Lastly, in 2016 the Chinese government addressed another crowdfunding model, about which we have not yet talk: donation-based crowdfunding. It is well-known that non-profit organizations do not enjoy much freedom in mainland China, but this is also because Chinese lack a culture of donation similar with the one of their western counterparts. Chinese are not used to invest in other people projects without having anything in return, as we have seen, they prefer tangible rewards. This does not mean that donation-based crowdfunding was absent in the Chinese landscape, on the contrary in 2015 this model generated a market volume of CNY 631 million alone, without taking hybrid platforms into account. The model was then subjected to struggle between the legislator and illegal fundraising too, and this resulted into the issuing of the Charity Law (*císhàn fǎ* 慈善法) on 16 March 2016. Entered into effect on 1 September, the Law established in Article 31 that “any organization or individual without the qualifications for public fundraising is not allowed to raise funds through public fundraising but can cooperate with the charity organizations with such qualification to conduct public fundraising; the raised funds must be managed by the charity organizations in possess of the qualifications for public fundraising. Individuals cannot raise funds publicly but are allowed to seek help from the qualified entities”.<sup>98</sup> Consequently, the Ministry of Civil Affairs announced in August the first list of authorized internet charity fundraising platforms. The Ministry claimed that, after having examined 29 charity CFPs, it approved only 13 of them. This list includes: Tencent Charity Online Fundraising 腾讯公益慈善基金会 (腾讯公益); Taobao Charity 淘宝网; Ant Group Charity Platform 蚂蚁金服;

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<sup>97</sup> Box 6 Point 5 pg.34 of the 13<sup>th</sup> Five-Year Plan titles “Intelligent Agriculture” and states “Introduce “Internet +” modern agriculture, facilitate the adoption of the Internet of Things in field planting, livestock and poultry production, and fishery operations, and support e-commerce, logistics, commercial, trade, and financial enterprises in participating in the development of e-commerce platforms for farmers, rural areas, and agriculture; Establish monitoring, analysis, and early-warning systems based on agricultural information”

<sup>98</sup> THE FOURTH NATIONAL PEOPLE’S CONGRESS STANDING COMMITTEE 第十二届人民代表大会第四次会议, *Zhonghua renmin gongheguo cishan fa (zhuxi ling disishisan hao)* 中华人民共和国慈善法 (主席令第四十三号) (Charity Law of People’s Republic of China), 第三十一条 Article 31, 19 March 2016

Sina Micro Charity 新浪-微博 (微公益); China Charity Information Platform 中国慈善信息平台; JD Charity Internet Fundraising Information Platform 京东公益; China Foundation Center 基金会中心网; Baidu Charity Information Center 百度慈善捐助平台; Gongyibao 公益宝; Xinhua Charity Service Platform 新华公益服务平台; Fun in Funding 轻松筹; United 上海联劝公益基金会 (联劝网) and Guangzhou Charity Information Platform 广州市慈善会慈善信息平台.

In 2013 the World Bank stated that by 2025 the Chinese crowdfunding market would occupy the 52% of the global total, with esteems that it would reach a volume of \$50 billion, if only it could adjust its biases.<sup>99</sup> In just three years the market volume indeed skyrocketed almost touching the peak of CNY 36.4 billion from a mere CNY 335 million in 2013, but it still has a long way to go to reach the World Bank expectations.

### **3.5 The year of the adjustment**

Last year the Chinese government continued to crack down on illegal fundraising and promote measures to keep the crowdfunding market growing. On January 11, Premier Li Keqiang chaired a State Council executive meeting where he pointed out the importance of the development of a regional equity market and an orderly expansion and facilitation of the equity financing for SMEs as an important measure to promote supply-driven structural reform. He believes it is necessary to develop and improve a multi-level capital market system and to use it to serve the transformation and upgrading of the real economy. Moreover, he stressed the significance of thoroughly implementing the innovation-driven strategy and promote public entrepreneurship. The meeting determined three measures: the development of regional equity markets according to the norms; the setting up of a geared institution for this regional equity market in provinces, autonomous regions, municipalities and cities; the implementation of a system of qualified investors and the implementation of the responsibilities' regulations. On January 24, the Ministry of Industry

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<sup>99</sup> INFODEV Growing Innovation, *Crowdfunding's Potential for the Developing World*

and Information Technology 工业和信息化部 issued the *Guiding Opinion on Further Promoting the Informatization of Small and Medium-sized Enterprises* (关于进一步推进中小企业信息化的指导意见).<sup>100</sup> The Opinion specifically addressed the role of internet finance as a tool to relieve financing difficulties for SMEs. In fact, it highlights the promotion of internet financial applications as strategic for the small and rapid financing of SMEs which must also be fostered by efficient and convenient P2P loans and equity crowdfunding. The Opinions encouraged credit institutions to rely on e-commerce and supply chain management platform to build a diversified channel for the collection of credit information of SMEs. The attention of the Chinese government toward innovation in every field, as promoted in 13<sup>th</sup> Five-Year Plan, goes even further with the issuing of the State Council's *Opinion on Strengthening the Implementation of Innovation-Driven Strategy to Further Promote the Public Entrepreneurship, Innovation and Development* (关于强化实施创新驱动发展战略进一步推进大众创业万众创新深入发展的意见) in July. Furthermore, The Internet Equity Financing Professional Committee (互联网股权融资专业委员会) held its first founding meeting in October. This is a professional committee set up under the China Internet Finance Association (中国互联网金融协会). Its main responsibilities are: formulating self-management rules, business rules and industry standards for internet equity financing; organizing and implementing educational institutions to abide by relevant laws and regulations and internet equity financing regulatory requirements; organize compliance and risk education training; conduct self-management and inspection of internet equity financing practitioners in accordance with the law and maintain market order; and fulfill the internet equity financing laws and regulations and relevant regulatory requirements and other duties assigned by the association's governing board. Internet Equity Financing Professional Committee's chairman Li Dongdong 李东荣 pointed

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<sup>100</sup> SMEs DEPARTMENT 中小企业局, "gongye he xinxihua bu guanyu jin yi bu tuijin zhongxiaoqueye xinxihua de zhidao yijian" jiedu "工业和信息化部关于进一步推进中小企业信息化的指导意见"解读(Guiding Opinion on Further Promoting the Informatization of Small and Medium-sized Enterprises), Ministry of Industry and Information Technology of the People's Republic of China, 24 January 2017

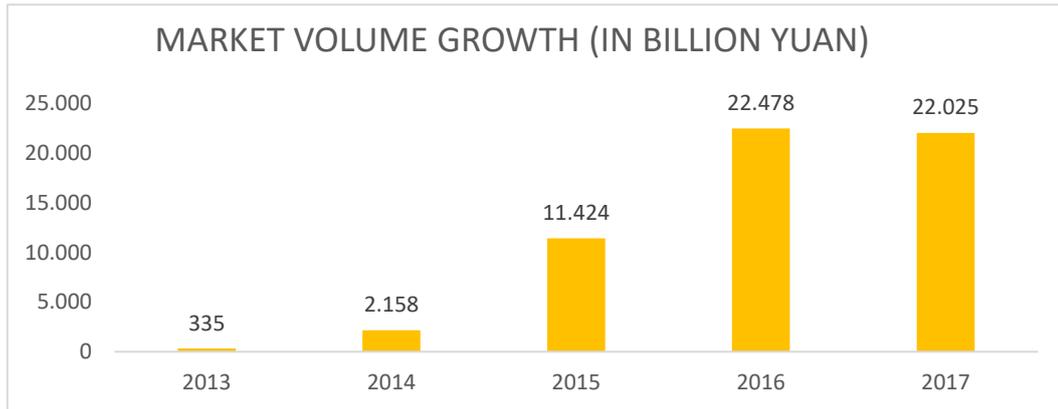
out that the establishment of the Internet Finance Committee of China Internet Finance Association is the fulfillment of the requirements of the Fifth National Financial Work Conference and reflects the common expectation of the internet equity financing industry and all sectors of society. Next, the Committee should, under the guidance of the regulatory authorities, unite the various forces of the government, industry, research institutes, with the theory and practices of internet equity financing and international experience to fulfill its responsibilities and promote the equity financing industry to foster the development of the real economy and of inclusive finance.<sup>101</sup> The effects of the measures can be directly observed on last year's data on the crowdfunding industry which registered an overall downfall in CFPs number along with a softer decrease in revenues.

According to the most recent statistics<sup>102</sup>, as of the end of December 2017, the country counted a total of 209 CFPs which, compared to 2016's number of 427 active platforms, implies a drop of 51.05%. This drop is the expression of the industry deep shuffle that occurred during all the year. In fact, as we said, the tighter supervision and the standardized development of financial systems has led to a gradual withdraw of non-benign CFPs from the industry during the normative period. In 2017, a total of CNY 22.025 billion has been successfully raised by the Chinese crowdfunding; a small difference compared with the fund raising of CNY 22.478 billion in 2016. Table 6 shows the market volume's growth of the Chinese crowdfunding industry from 2013 to last year. As of the end of December 2017, the cumulative amount of successful financing of the nationwide crowdfunding industry reached CNY 58.42 billion (€ 7.439 billion).

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<sup>101</sup> Xiaojuan BI 毕晓娟, *zhongguo hulianwang jinrong xiehui chengli hulianwang guquan rongzi zhuan ye weiyuanhui* 中国互联网金融协会成立互联网股权融资专业委员会 (China Internet Finance Association sets up the Internet equity Financing Professional Committee), China Finance 中国网财经, 19 October 2017

<sup>102</sup> Following data were retrieved from YINGCAN CONSULTING 盈灿咨询, 2017 Nian zhongchou hangye nianbao 2016 年众筹行业年报 (2017 Annual Report on the Crowdfunding Industry), January 2018



*Table 6 Total market volume growth in billion yuan of the Chinese crowdfunding market in the period 2013-2017 adapted from Yingcan Consulting report 2017*

By the end of December 2017, the various model of CFPs on the Chinese market were divided as follows: 95 reward-based; 71 equity-based; 34 hybrid CFPs and 9 donation-based. Although the Chinese crowdfunding industry witnessed the set-up of 113 new CFPs in 2017, the number of problematic and transforming platforms was up to 331, 270 of which had to definitively close. For those platforms which choose transforming, the majority seemed to turn to spaces for massive innovation, incubators and internet services providers. The main reason for the emergence of large-scale problems is, on the one hand, the small scale of most of the platforms which does not possess enough resources to compete with the industry's giants. On the other hand, these CFPs did not promptly adjust their unsustainable business models or diversified their offer. In the past year, reward-based small and medium, CFPs, due to a lack of innovation, struggled to get consistent earnings and in just one year 127 of them closed down. In addition, the chaos generated by automobile crowdfunding and investors increased sensitivity, intensified the market reshuffle. This phenomenon can be observed in the decrease of reward-based campaigns too. In 2017, even if they accounted for 67.25% of the total of issued campaigns, the number decreased by 18,054 projects in just one year. Equity-based crowdfunding instead suffered from the continuing policy making which have not yet issued a clear regulation on the industry. Since the legal area is still unclear and business operations are not standardized, the blind pursuit of speed and scale at the same time will plunge into an irrational development whirlpool. The uncertainty affected the number of investors which were just 18 million last year, a small number

compared with 2016 54 million investors. Table 7 shows the evolution in the market share by crowdfunding model during these last three years.

The more the market grows the more the taxonomy of the Chinese crowdfunding becomes clear. Notably, the vertical tendency that distinguish this market from its international counterparts has sharpened as the years went by and now lets us divide

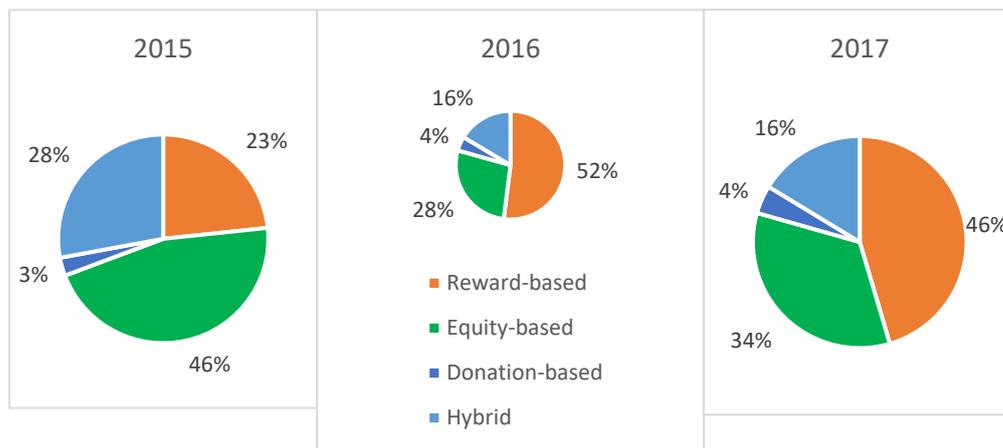


Table 7 Chinese crowdfunding market evolution by model in the period 2015 - 2017 adapted from Yingcan Consulting reports of the same years

the taxonomy into two macro categories: vertical CFPs and “mixed” or hybrid CFPs. The 209 active platforms can then be subdivided into: 100 hybrid CFPs which deal with different crowdfunding models such as JD Crowdfunding; 35 automobile CFPs; 21 platforms that collect funds for the film and television industry; 14 collecting equity for venture projects financing platforms; another 14 are equity-based CFPs for consumer shop financing, meaning financing the opening or expanding of shops; 8 platforms are charity CFPs; 6 deal with real estate crowdfunding; 5 raise funds for agricultural projects and 3 for healthcare; finally 2 platforms deal with guesthouse crowdfunding, providing hotels, bed and breakfast, apartment and other crowdfunding products in the field of lifestyle and asset allocation space, combined with the development of consumer spending level. From a geographical point of view, the government’s suggestion of creating a developed regional equity market and e-commerce in rural areas has influenced the rising of CFPs in regions that were before obscured by those most economically developed. Beijing, Guangdong and Shanghai are in fact the top three areas, with more than 50% of the total of 209

active CFPs and a funding volume in 2017 of CNY 11.160 billion.<sup>103</sup> These cities' record does not come as a surprise considering their role as first tier cities in China but what is notable is that along with them, more and more provinces and cities are slowly entering the crowdfunding market. Even if they are not yet contributing consistently at the crowdfunding market most of these provinces have a strategic geographic position, such as Chongqing, Xingjiang and Sichuan for instance. Therefore, their entrance in the market can have a double and concurrent meaning: on one hand, as we have seen, it can be the outcome of the government support of this industry in view of its economic strategy; on the other hand, business men in these cities has grasped the opportunity of an incredibly potential tool in areas in which the market's giants were not directly active. In automobile crowdfunding in 2017 three projects in the yearly top 10 of the most successful campaigns came from Sichuan, Hubei and Anhui. Table 8 shows the distribution of CFPs per region as for last year.

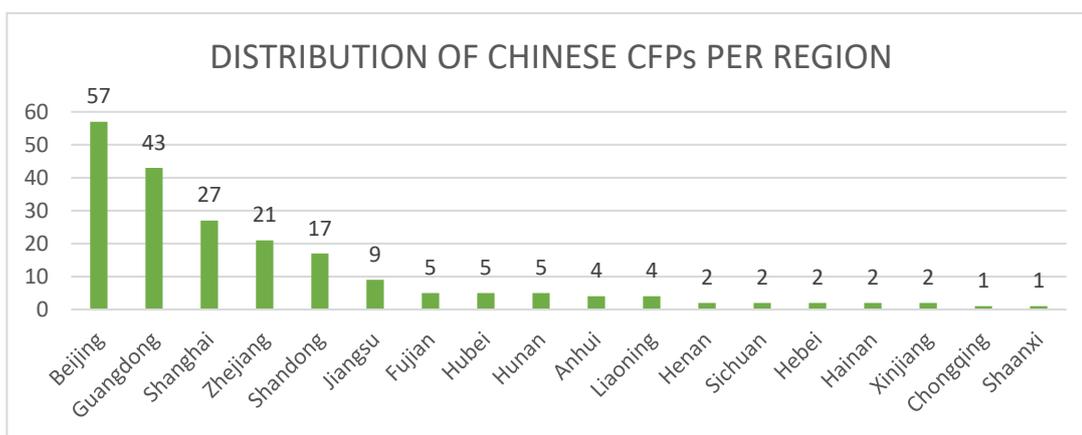


Table 8 Distribution of Chinese CFPs per region in 2017 adapted from Yingcan Consulting report 2017

Finally, predictions on the future of the market consider the further stabilization of the market as the main trend. In particular we may witness a further hold on the market by the internet tycoons, which will continue to verticalize and differentiate their offer exploiting their e-commerce power. Moreover, new area of business such as the “guesthouse crowdfunding” may grow in the next few years as the scope of projects continues to shift toward consumer’s desires and lifestyle. As for equity

<sup>103</sup> According to Yingcan Consulting report of 2017 Beijing has 57 active CFPs and gained CNY 5.484 billion; Guangdong has 43 CFPs and revenues amount of CNY 2.551 billion while Shanghai counts on almost 30 CFPs and a total funding volume in 2017 of CNY 3.125 billion.

crowdfunding, the sat back in the market in 2017 derives from a stricter control over CFPs to hinder the rise of illegal fundraising. On the other hand, policies are carried out one after the other to foster the creation of a regulated equity market and the trend will probably continue this year as it will the adjustment of the internet financing industry. What will be really exploited in the near future by CFPs of any model is the mobile terminal. With the rapid rise of mobile internet, smartphone's investments have gradually become the "new normal" of the Chinese society. Venture investments such as the ones carried out by Fun in Funding or Xiaomi in 2017 were in fact based on mobile terminals as this companies figured this is the most important information portal. The exploitation of mobile internet's main features "anytime and anywhere" is strategical for crowdfunders as they can reach a wider number of investors and get an almost immediate response. In addition, mobile Internet technology can better access investors' position information, life habits, social activities, along with an in-depth analysis of user preferences and properties to better design and develop consumer-driven products. Finally, researchers find that application of new technologies such as blockchain, virtual reality and face recognition and big data will help not only the real economic development of the internet finance industry, and thus the crowdfunding industry, but also improve their security and trustworthiness.<sup>104</sup>

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<sup>104</sup> WANG, XU, MA, ZHANG, CHEN, *Financing from Masses, Crowdfunding in China*

## **Chapter 4: Foreign direct investments in the crowdfunding market**

Much more in this thesis could have been said about both the Italian and the Chinese crowdfunding market for every aspect, every model and each industry by itself enclose a universe of different aspects. Nonetheless, I decided to concentrate on the main features and the history of these two markets to shed a light on the extent into which they may collide. In the introductory chapter we have seen how crowdfunding is catching on as one of the most important tools in the industry of alternative finance leveraging on tools such as social media, e-commerce, online payments and banking, in most countries of the world. Italy in this sense suffers the lack of a developed IT industry and poor connectivity but it managed either way to impose itself as one of the most active European crowdfunding markets. China on the other hand, built a market on its own exploiting its huge financial and commercial potential but lacking at the same time of a strong creativity and innovation feature. In both markets SMEs and start-ups struggle to get funds from traditional financing intermediaries but the motives that pushed them toward the crowdfunding tool deeply differ. Crowdfunding in Italy emerged from the bottom, from the self-entrepreneurial attitude of its business crowd while in China it was shaped by the big players of the IT sector. Nevertheless, both markets are using this financial tool to foster their national economy and to expand their internationalization. For what concerns Italy the issuing of the already-cited Decreto Crescita bis aimed not only at introducing the raising of risk capital through the Web to foster the setting up and the development of innovative start-ups on the Italian market but also at stimulating the entering of foreign capitals through direct investments. China instead, as overtly stated in Chapter 49 of the 13<sup>th</sup> Five-Year Plan, is planning to carry out a new strategy for “Opening Up” into which foreign direct investments in the country are fostered. Section 4 of Chapter 49 particularly addresses the intention of opening more sectors to foreign investments, relax restrictions on market access<sup>105</sup> and

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<sup>105</sup> The Plan states that “We will remove restrictions on market access for foreign capital in service sectors such as child care, architectural design, accounting, and auditing, and expand access to markets in the banking, insurance, securities, elderly care, and other sectors. We will encourage more foreign capital investment in sectors such as advanced manufacturing, new technology,

proactively and effectively bring in foreign capital and advanced technologies. The new *Catalogue of Industries for Guiding Foreign Investments* was published last year but it had not quite met the investors' expectations. Although it opened new industries to foreign investments especially in the field of innovation technologies, many other remain inaccessible, such as banking and securities, healthcare and telecommunication.<sup>106</sup>

That said, crowdfunding may represent a great tool for collaboration between the two markets if carried out by taking mindful steps. The Italian crowdfunding market does not pose specific limits on the nationality of the investor but poses them on the nationality of the campaigner and the CFPs when dealing with financing crowdfunding. According to the regulation, innovative start-ups and SMEs (and from last year all SMEs in general) in fact, by definition must have the head office in Italy or another EU state with at least one productive site or branch in Italy and must register with CONSOB. Nonetheless the Italian government thanks to a special program launched in 2014 permits non-EU entrepreneurs to set up or invest in the Italian start-up landscape. This program called Italia Startup Visa permits entrepreneurs, who may or may not possess a regular residence permit in Italy, to obtain a special visa if they want to set-up an innovative start-up on the territory.<sup>107</sup> Considering CFPs instead, CONSOB resolution n.20204/2017 extends the special section of the register of portal managers to Stock Broking Companies, EU investment companies, third countries' companies other than banking institutions authorized in Italy, operators which invest mostly in SMEs and authorized banks that communicate to CONSOB, before the starting of operations, the intention of opening a CFP.<sup>108</sup> China on the other hand, poses less restrictive limits on the nationality of both CFPs and campaigners, especially in the field of equity crowdfunding. The 2015 Measures issued by the SAC states that the portal operator must be a Chinese

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energy conservation and environmental protection, and modern service industries as well as in the central, western, and northeastern regions, and will support the establishment of research and development centers with foreign capital.”

<sup>106</sup> Zhou QIAN, Alexander KOTY CHIPMAN, *China's 2017 Foreign Investment Catalogue Open Access to New Industries*, China Briefing, 11 July 2017

<sup>107</sup> For further information consult [italiastartupvisa.mise.gov.it](http://italiastartupvisa.mise.gov.it)

<sup>108</sup> CONSOB, *Modifiche al "Regolamento sulla raccolta di capitali di rischio tramite portali online"*, adottato con delibera n. 18592 del 26 giugno 2013 e successive modifiche, resolution n.20204 article 1 section 2, 2017

company established on the national territory and according to the law or a partnership.<sup>109</sup> For what concerns the campaigner, the Measures on the relative article only states that it must be a SMEs or a single initiator.<sup>110</sup> Therefore not only the Italian market is willing to welcome foreign capital through financing crowdfunding but the Chinese market too present a great opportunity for Italian small businesses to internationalize in the mainland and get funds with equity crowdfunding. Moreover, two recent news on online payments may foster the non-financing crowdfunding. On one hand, from 24 January 2018 WeChat Pay allows users to bind foreign credit cards to their accounts. This move will be significant for Chinese e-commerce market, and thus reward-based and donation-based crowdfunding, for it will allow users with cards on the Visa, MasterCard and JCB circuits to spend their money freely in Chinese commercial activity and online.<sup>111</sup> On the other hand, last year Alipay and in January 2018 WeChat Pay, entered the Italian market to address Chinese tourists visiting the peninsula. Both these operations can be exploited by the crowdfunding market as they provide not only an enormous basis of users already using the tool but also a window through which expose and promote campaigns.<sup>112</sup>

Finally, a crowdfunding campaign must be skillfully developed in view of every risk that might incur. One of the most underlined risk of doing crowdfunding in China is the lack of a strong legislation on intellectual property right but in practice this is a problem that must be hedged anywhere and by anybody who is exposing a project or an idea on a public platform online. A crowdfunding campaign must be supported by a solid business plan that takes all the aspects of pre/post launch into consideration. Crowdfunding is not a “magic wand” that will make you rich but an organic and regulated financial tool with a huge innovative potential. A potential that can be exploited bidirectionally at a country’s economic growth and to build

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<sup>109</sup> Crowdfunding Measures Article 2 Section 7 “第七条 【平台准入】股权众筹平台应当具备下列条件：（一）在中华人民共和国境内依法设立的公司或合伙企业”

<sup>110</sup> Crowdfunding Measures Article 3 Section 11 “第十一条 【融资者范围及职责】融资者应当为中小微企业或其发起人”

<sup>111</sup> Timmy SHEN, *WeChat Pay now allows users to bind overseas credit cards*, Technode, 24 January 2018

<sup>112</sup> Emma LUPANO, *Con wechat pay i turisti cinesi potranno fare shopping in Italia*, Agi China, 13 November 2017

new relationships between nations in a global market which drives toward innovation.

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