

# Chapter 21

## Horizontal Crowdfunding Platforms: Socio–Economic Impact and Exogenous/ Endogenous System of Rules

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### **ABSTRACT**

*In recent years arose a multitude of crowdfunding platforms of different nature and with different goals. In this chapter some peculiar aspects of crowdfunding platforms will be examined, both in terms of their socio-economic impact and in terms of the exogenous and endogenous system of rules with which they interact. Crowdfunding is not governed exclusively by the rules of law and the regulations of the platforms that host it. Every campaign involves the construction of a community, with its specific rules, that are in part pre-established by the campaign creator and in part the result of the interaction of the community. However, these rules do not live in a closed set, building a case history to which the future campaigns will not necessarily have to conform, but with high probability they will use as a parameter. Although it is not possible to identify the rules that are common to all the crowdfunding campaigns, could be observed an evolution mostly harmonic between different campaigns with respect to the methods, the mechanisms of involvement and, of course, the rules.*

### **INTRODUCTION**

In recent years we have witnessed the spread of crowdfunding platforms of different nature and with different goals. In this chapter we will examine some peculiar aspects of crowdfunding platforms, both in terms of their socio-economic impact and in terms of the exogenous and endogenous system of rules with which they interact.

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## **A Major Distinction between Crowdfunding Platforms**

Firstly, we can make a macro distinction with respect to the goals of the platforms, identifying three main categories: equity crowdfunding, donation crowdfunding and reward crowdfunding.

The first one is aimed at collecting investments around a business plan, recognizing to the (micro) investor a participation in the company. They have proven to be particularly useful for business in the start-up phase, a phase in which it is of vital importance to raise the necessary funds to cover the initial expenses. Furthermore, the road of equity crowdfunding does not necessarily represent an alternative road to traditional methods of raising venture capital. It rather belongs to an earlier stage, leaving the door open to further rounds of financing when the company is “more mature” and, therefore, more attractive for the investors (whether they are business angels or private equity funds, etc.).

However, we will not dwell here in a specific manner on the system of rules of equity crowdfunding, for at least three different reasons. The first reason is the lesser extent - both in absolute terms and in geographical terms - of equity crowdfunding with respect to other forms of crowdfunding, while the second reason is related to the intimate relationship between the rules of the crowdfunding platforms and the set of rules and structures that govern the corporate participation in the different Countries, and the third one is that several countries – as, for example, the United States - are structuring rules and regulations specifically for equity crowdfunding and investor protection, a regulatory process of great interest, but which will necessarily need some time to produce results and to influence the large-scale spreading of this funding model. Here - postponing to a more specific discussion the analysis of critical aspects and perspectives of equity crowdfunding - we will just hope for a system of shared rules regarding equity crowdfunding that allows to collect micro loans from different parts of the globe, without creating many small or large regional sandboxes that would weaken the characteristic of globality (to which we will return later) of the funds collected through the network, and the solidaristic-interested nature (we will also return to this important aspect) of crowdfunding.

## **Donation Crowdfunding Platforms and Reward Crowdfunding Platforms: Focus and Funding Models**

Therefore, only the donation crowdfunding platforms and the reward crowdfunding platforms will be at the center of our investigation. More than of platforms it would be correct to speak of crowdfunding methods because it often happens that the same platform hosts both the donation campaigns and the reward campaigns, perhaps applying different commissions to the campaign creators (as for example the case of Indiegogo that through Indiegogo Life applies a commission of 0% to the personal fundraising campaigns and of 5% to the normal reward campaigns).

However, as above-mentioned, we will analyze these methods in relation to the attitude of the platforms to create communities and to the system of rules that they apply. In fact, despite the most obvious distinction between the two methods is tautological, that is the reward campaigns offer a reward, usually equated to the value of the offer, while the donation campaigns offer rewards that are purely symbolic - and, therefore, not comparable to the value of the offer - or they do not offer material rewards, limiting to consider as reward the same implementation of the project and, of course, the moral gratification for having participated in the campaign, the relationship between reward and donation will be the subject of a further in-depth analysis.

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