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MSc Dissertation:

Crowdfunding as an alternative form of financing in Greece and the Euro Area. Institutional framework, alternative forms, and the role of banks.

Author: Besarda Caushaj

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We approve the dissertation of Mrs. Besarda Caushaj

<u>Three-member Dissertation Committee</u>

Research Supervisor: Spyros Pagratis – Athens University of Economics and Business

Signature…………………………………………………………………………………………………….

Committee Member: Elias Tzavalis – Athens University of Economics and Business

Signature…………………………………………………………………………………………………….

Committee Member: Eleftherios Zacharias – Athens University of Economics and Business

Signature…………………………………………………………………………………………………….

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Abstract

Crowdfunding, as compared to conventional borrowing, allows an innovative form of financing. Crowdfunding is, in principle, open to anybody, including independent people and corporations. The crowd is a group of people who contribute capital to causes, goods, or ideas. Project owners (such as entrepreneurs or private entities) hold these initiatives, goods, or concepts in order to accomplish their endeavor. Founders look for funders directly or through intermediaries, which are internet platforms that aid them discovering potential investors. Crowdfunding is a relatively new phenomena that is getting increasing scientific interest. Hence, this thesis aims to provide a snapshot of this alternative form of financing, the institutional framework and the role of banks.

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Introduction

Over a decade ago, the global financial crisis began, and since then, funding for businesses, particularly small and medium-sized businesses, has become substantially more difficult. During difficult times, though, new ways of thinking may find a footing and begin to challenge existing players. Crowdfunding is one of the most obvious instances of this creative destruction, since it is altering the role of investors, consumers, entrepreneurs, and financial intermediaries.

Raising capital is one of the most significant challenges that the startup environment encounters. Many businessmen who want to establish a firm find themselves having no outside assistance in their desire to change the world. Banks generally need collateral from the companies to whom they make loans, which means that many startups are unable to obtain loan funding since they seldom meet this criterion. Furthermore, the informational asymmetries are being exacerbated by the scarcity of past records. Some venture capital funds are accessible; however, these organizations prefer to spend very big sums and typically only if the potential gain is considerable.

Crowdfunding is a fast-expanding type of fundraising. This worldwide phenomenon accounts for significant sums of capital and is presently in an evolution phase in which both the general public and government officials are becoming more aware of the possibilities that it provides. As a result, crowdfunding may evolve into an alternative source of finance for businesses in need of capital.

The focus of this dissertation is the presentation of crowdfunding as an alternative form of financing in Greece and the Euro Area by examining the current situation of the industry, the main economic frictions, the role of the banks and dedicated platforms as well as the new institutional framework that is being set by the European Commission. Concerns are increasingly moving from innovative idea and initial acceptance to sustainable expansion as the crowdfunding sector progresses from an introduction phase to a development, scalability, and competition phase.

In addition, it should be stated that the main emphasis is placed into financial crowdfunding in which the investor anticipates gaining a return on his investment such as equity and loan-based crowdfunding although non-financial types of crowdfunding also play an important part in the crowdfunding industry.

Throughout this exploratory study, the reliance has been on secondary data. Business and industry data, institutional and academic research studies have offered a wealth of information on the comparatively unchartered sector of crowdfunding and unconventional finance. The resources and data have been administered with caution, assessing credibility and relevance.

Chapter 1: Crowdfunding at a glance

1.1 Definition

Crowdfunding is defined in a variety of ways by academics, but the fundamentals are usually the same: An entrepreneur, a startup or other SMEs develop an Internet campaign aiming to come in direct contact with capital surplus units (investors) in order to raise funding. It is a type of internet funding for innovative businesses, projects, and individuals which has numerous shapes and serves multiple objectives. Despite the different formats and purposes the general similarity is the process of collaborative funding which is commonly done on crowdfunding platforms which bring together supporters and fund receivers.

The European commission defines crowdfunding as:

"Crowdfunding is an emerging alternative form of financing that connects those who can give, lend or invest money directly with those who need financing for a specific project. It usually refers to public online calls to contribute finance to specific projects"

Furthermore, crowdfunding could be divided into two principal subcategories: financial & non-financial. The next section explains the distinctions.

1.2 Financial & non-financial crowdfunding

Financial Crowdfunding is based on the assumption that the Crowdfunder expects to receive some sort of a financial return on his investment, based on the contract between the investor and the project owner. The motifs and incentives impelling the entrepreneur to invest are usually profit-oriented. The most common types of crowdfunding that fall under this description are loan, equity and profit-sharing/revenue-sharing. The return could be a repayment of the credited amount and interest (loan crowdfunding), an equity stake of the business (equity crowdfunding) or a portion of the profit/revenue (profit-sharing/revenue-sharing crowdfunding).

On the contrary with financial crowdfunding, in non-financial crowdfunding there is no possibility for the entrepreneur to gain a return on his investment, at least in a direct way. Therefore, the stimuluses for participating to the project are more altruistic and philanthropic. Rewards-based crowdfunding, donation-based crowdfunding, and pre-selling are all instances of non-financial crowdfunding.

Financial Crowdfunding gives the investors the opportunity to invest in private debt and private equity leading to a more expanded market portfolio. The inclusion of this alternative form of financing enlarges the potential of having a diversified and optimal portfolio. To the degree that the market worth of the crowdfunding is not insignificant, one can argue that the addition of this investment could swift the efficient frontier to the left. Hence, we could claim that it is alluring for investors to assimilate crowdfunding as an investment opportunity since they would potentially obtain the same return for less risk or higher returns for the same risk.

The instruments employed in financial-return crowdfunding could be differentiated according to risk structure. Securities, minibonds and profit/revenue sharing rights are regarded as riskier instruments, whereas debt is considered a less risky tool. Immaterial and material rewards or tax-relevant documents for donations pose relatively less risk to the project supporter. Different incentives are used to choose projects by supporters or capital surplus units based on the risks involved with financial and non-financial crowdfunding. In donation, reward-based and pre-selling crowdfunding the cause has to be attractive to the concerned party in terms of innovation and social impact whereas in equity-based and lending-based crowdfunding, investors prefer projects based on the profitability of the underlying asset.

Further, it seems that non-financial-return crowdfunding is more appropriate for solo founders and entrepreneurs with a developed sense of social responsibility who, typically, are not organized as a traditional capital company with limited liabilities. On the other side, investment-oriented crowdfunding is a more suitable fit for innovative corporations and start-ups being in the seed stage.

In the next segment we are going to offer a thorough examination of the most common types of crowdfunding. However, throughout the dissertation the epicenter will be equity and loan crowdfunding.

1.3 Main types of crowdfunding

1.3.1 Equity Crowdfunding

Equity crowdfunding is a process of raising capital by offering securities to several potential investors in exchange of financing, usually via the internet. The method allows getting a stake in privately owned companies by permitting the enterprise to provide a particular percentage of equity based on its goal of raising capital.

Equity crowdfunding is a potential alternative that enables firms to acquire funding when they cannot obtain financing anywhere else. Quite often, early-stage businesses are difficult to obtain funding due to their absence of collaterals and the hazardous element of their project. Hence, they tend to rely to friends and family to provide capital for their seed stage of development. Most of the times, the wealth provided by this close circle of individuals is insufficient and larger sources of finance are consequently necessary to accomplish expansion. Recently, conventional resources of funding such as business angels and venture capitalists have gradually shifted their investing focus to more mature companies. Their business model tends to consist less of small, early-stage businesses' financing. This tendency is forming market gaps where equity crowdfunding could play a valuable role.

From the investor's point, under equity crowdfunding the return on the investment is directly linked to the course of the business they are investing in. A successful, profitable company is translated into a potentiality of a higher reward as the value of the equity might increase. This higher reward, however, almost always comes with a larger risk as entrepreneurs are typically the last ones to be compensated if the firm fails and goes bankrupt. In addition, since investing through equity crowdfunding is not limited to accredited investors, less sophisticated investors could be deceived by fraudulent smaller companies that take the crowdfunding route making them subject to major financial losses. Another risk deriving from this model of crowdfunding is the dilution of the investor's holdings in the business, should the company raise more funds in the future. The percentage of ownership hold in may decrease significantly versus to what was originally bought. Even though, dilution in itself not necessarily bad, is definitely something an investor should be aware of.

In order to better comprehend the structure of equity crowdfunding an example is being briefly presented below.

Example: BrewDog

BrewDog was born in April 2007 when two friends decided to brew their own beer. In 2009 they were characterized as the fastest-growing alternative beer brand in UK. In order to cope with their increased obligations, they launched their first equity crowdfunding campaign named "Equity for Punks" offering the general public the opportunity to acquire shares in BrewDog. In a ground-breaking first 1,300 investors participated by buying shares and raising £1.26 million. With this act BrewdDog not only obtained the funding they required but established a loyal customer base who became advocates for the firm as well.

A number of successful equity crowdfunding campaigns followed in 2011, 2013, 2015 & 2017 allowing BrewDog to establish its presence in beer industry. The capital raised was reinvested and led to the creation of new products, opening of bars & brewhouses as well as a craft beer hotel and a beer museum. The last campaign was in 2020 named "Equity for Punks Tomorrow" which welcomed over 50,000 new shareholders. The funds will be used to assist the company's green policies throughout the following decade.

James Watt, co-founder of BrewDog commented that "In 2009, we launched Equity for Punks, and pioneered a new kind of business model. Equity for Punks: Tomorrow is the next evolution of this, uniting investors across the globe to make a change today to ensure we have a planet to brew beer on tomorrow. We believe in action not promises; change is not happening fast enough, it's time to set a new standard for sustainability and invest in a future we're proud of."

Figure 1: Brewdog Equity for Punks Tomorrow campaign

Image from Brewdog.com

1.3.2 Loan Crowdfunding

Loan-based crowdfunding is defined by capital surplus units offering financing in exchange for the right to have their capital returned with interest according to the repayment schedule. The European Banking Authority (EBA) has more specifically defined loan-based crowdfunding as:

"Open calls to the wider public by fund seekers through a third party, typically an on-line platform, to raise funds for a project or for personal purposes, in the form of a loan agreement, with a promise to repay with (or in certain cases without) interest. The fund raisers may include individuals, start-up companies or existing SMEs that are seeking an alternative means of funding, rather than the traditional credit market."

Loan-based crowdfunding is also often referred to as peer-to-peer lending (P2P) or when individuals borrow to businesses as peer-to-business (P2B). This model of financing gives individuals or businesses the opportunity to acquire loans straight from other individuals while avoiding the use of financial institutions such as banks as a intermediary. It is being selected as a method of raising capital from founders and firms that due to their lack of collaterals and the risky aspect of their venture that would have been excluded from traditional institutions of financing. Even though, some capital seekers may have the ability to access credit through banks often choose this type of financing because sometimes bank applications processes take too long and are too expensive.

As in equity crowdfunding, financial return seems to also be the greatest motivation for investors in order to contribute to loan crowdfunding too. Some of the principal criteria leading investors to lending crowdfunding are the interest rate offered, the security of their money and the popularity of the company among other lenders. Intrinsic incentives may also be important to some entrepreneurs usually referred as "social lending" and "impact investors". The majority of lenders are persuaded to invest by the expectation of a greater rate of return, thus should be aware of the risk arising from their investment. A lender might lose the capital invested if the borrower starts behaving insolvently, negligently making the business financially unstable leading to insufficient funds of repayment. Further, investors should be careful with their decisions since they are putting their capital in unknown markets with limited set of information and no physical securities such as collaterals.

1.3.3 Profit-sharing/Revenue-sharing Crowdfunding

The Profit-sharing/Revenue-sharing model is a form of crowdfunding in which those who seek to raise capital are allowed to share profits and revenues with the investors in return for financing now. The public is invited to directly provide the founders a specific sum of capital in return for a share of the potential profits/revenues. More specifically, the firm pays back the investors a percentage of its profits/revenues monthly/quarterly or annually until the loan is fully paid.

This method of crowdfunding is attractive to entrepreneurs who aim to maintain full control of their company (as opposed to equity model) and business who can not afford a regular payment schedule (which is the case in lending-crowdfunding). Profit/Revenue-sharing type of financing permits SMEs and start-ups to genuinely involve their funders in the business' success since the repayment is directly connected to the firm's gross revenues. This association creates a potential for a strong bond between entrepreneurs and investors as the latter could actively aid the business to generate revenue through consultancy and marketing.

On the other hand, profit/revenue-sharing crowdfunding composes a unique, alternative form of investment for the investors in which they have the opportunity to ultimately affect the return. They may effectively assist the business to generate income by patronizing it and urging family, friends and social media circles to do the same. The sooner the firm starts becoming profitable, the faster the investors are repaid, and the greater the return on their investment. On the minus side, profit/revenue sharing agreements take the form of an unsecured loan meaning that in the event the borrowing company fails, investors have no guarantee for their capital. Like in all investment activities, lenders should proceed in making their own research regarding the business they tend to invest and decide whether the investment is suitable for them.

1.3.4 Rewards-based Crowdfunding

Rewards-based crowdfunding is a method of fundraising in which people contribute to a project or business in return for a non-financial reward, such as items or services, at a later stage. The reward received usually reflects the amount pledged in order to motivate the individuals to invest more capital to the project.

This form of funding is geared towards entrepreneurs, especially in the creative industries, who do not qualify for standard small-business loans but have appealing concepts or desire to test the market. Start-ups & individuals may use rewards crowdfunding in order to get innovative ideas off the ground without having to be worried about repayments and selling an equity stake. Unlike other traditional lending options such as financial institutions, no collaterals or a credit score is required in order to acquire funding. Further, considering that the majority part of the supporters will be individuals interested in the product or service, early-stage businesses may receive a first-hand, genuine feedback and critics that could incorporate to evolve and getting better before the official launch. Lastly, this financing method enables the businessman to charge differently the customers. By creating multiple incentive tiers based on the amount offered, the businessman could test the market and explore the willingness of the customers to pay.

Unlike equity based, loan-based and profit/revenue-sharing crowdfunding in reward-based model the incentives for the participator are not financially based. Advocated of reward-based crowdfunding campaigns receive a variety of benefits including the satisfaction of participating in the creation of a new product, the sensation of group membership, altruistic pleasure of aiding others grows or the content of earning a customized or limited-edition product. The risk the investors are accepting by choosing to support a certain project is the risk of the campaign promises not being delivered.

1.3.5 Pre-selling Crowdfunding

Pre-selling crowdfunding, as the name implies, is the procedure of selling a product or service before it is accessible on the market. In the process of pre-selling the individual or start-up trying to obtain capital needs to have a solid plan, vision and strategy in order to bring out the best value to the marketplace.

The pre-selling type of crowdfunding is usually being selected by businesses and entrepreneurs who wish to get the product, service, or idea tested in the market before launching. This method of acquiring funds lowers the risks for the founders and simultaneously provides learning and exploring opportunities in the market. It assists in maintaining a positive relationship with consumers, comprehend the actual requirements of the community and as a result the necessity of the upcoming product/service. Moreover, the financial support allows the entrepreneur to place an emphasis on the product development and satisfaction of buyers since the focus is being shifted from the idea stage to the delivery stage.

Similar to the reward-based model, in pre-selling crowdfunding the motives for the crowd to financially assist the individual, start-up, or early-stage business are non-monetary oriented. Their decision is mostly being driven by the trust, fidelity and faith they have to the product/service and their need to be part of a community with a similar mindset. The risk that the investors accept by participating is the risk of the product not being developed and offered to the market.

1.3.6 Donation-based Crowdfunding

Donation crowdfunding is one of the non-monetary models in which Individual units donate small amounts in order to meet the funding aim of a cause, charity or person without expecting anything in return for their actions. As with all crowdfunding initiatives, donation projects have a predefined target of how much capital is aimed to be collected. The targeted amount set by different projects may vary a lot in size, starting from very low targets and reaching to very high aims. Typically, crowdfunding platforms for most crowdfunding models rule that a venture cannot obtain more funds than its intended objective meaning that overfunding is not feasible. However, in donation crowdfunding the only aspect that can restrict the volume of money one can acquire is the timeframe of the campaign. Furthermore, projects that fall under donation model usually have a larger aim e.g., building shelters, funding medical care.

Example of donation crowdfunding

Figure 2: Send a Kid to Camp-Epilepsy of Northern California

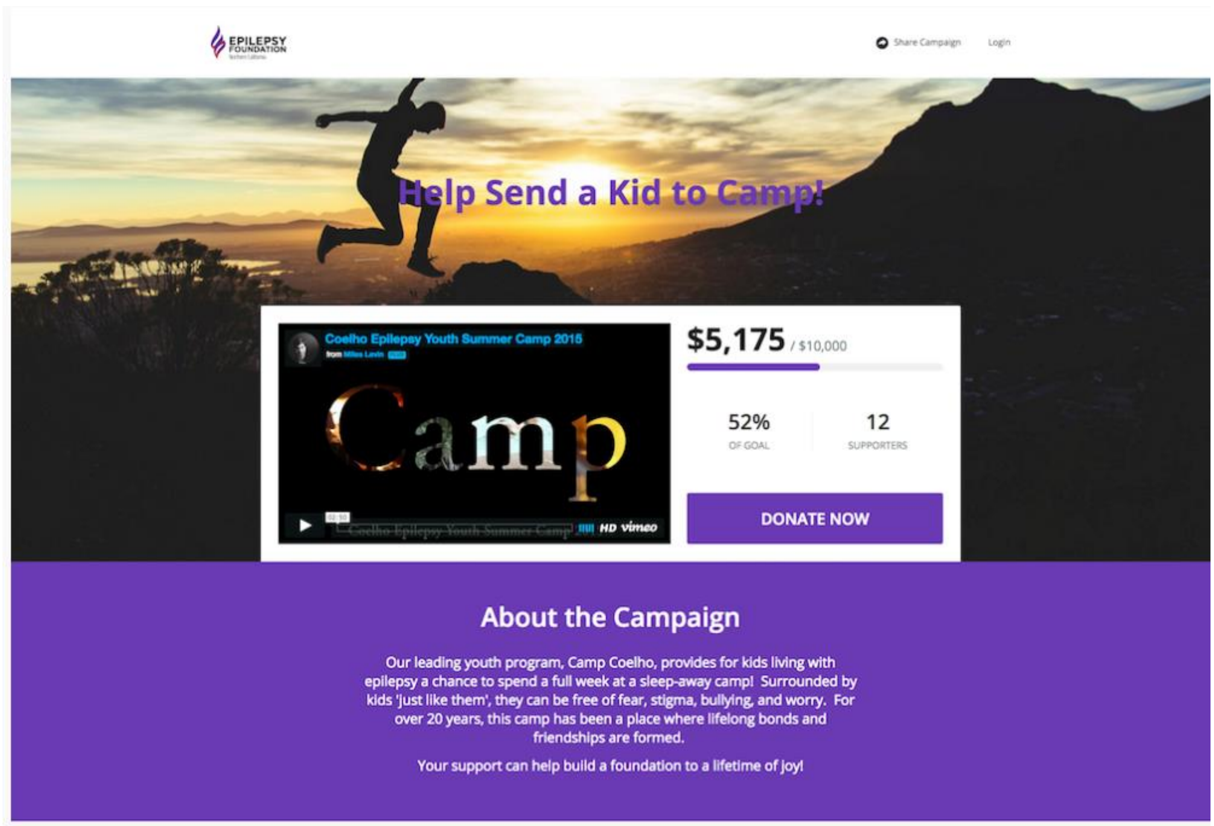


Image from impact.epilepsynorcal.org

Differences and resemblances to non-profit organizations

The aforementioned predetermined goals constitute a distinct differentiation between donation crowdfunding and conventional non-profit organizations. Charity institutions (e.g., UNICEF, Red Cross) operate as umbrella organizations for multiple projects and causes thus the goal is more abstract. Capital donated is distributed between a variety of causes that the donor may or may not be aware of whereas in donation crowdfunding the supporter makes a direct contribution to a particular project. Despite the differences, the variables that inspire the crowd to donate such as sympathy, empathy, compassion, and responsibility remain common determinants for both crowdfunding campaigns and non-profits organizations.

1.3.6 Hybrid-model Crowdfunding

Hybrid crowdfunding is a mixture of several crowdfunding models. By adopting this fundraising approach both entrepreneurs and investors may benefit. For instance, should an entrepreneur utilize a combo of pre-selling and lending-based crowdfunding, the investor's return would be both financial and non-financial. This might a desirable scenario for many investors in terms of their primary motive of investing (e.g., if they want to consume the product but also want to have a monetary payoff). From the founder's point this method gives the capacity to construct the ideal technique of raising capital. Hybrid model grants both entrepreneur and investor flexibility, agility, adaptability, and versatility.

1.4 Crowdfunding Players

The research identifies three major parties in crowdfunding: entrepreneurs, funders, and online platforms. Those three groups and their interactions and their incentives for engaging in crowdfunding will assist us to better comprehend the structure of crowdfunding procedure.

1.4.1 Entrepreneurs

Entrepreneurs (SMEs or startups) come up with an idea/project, go through an analysis and after that they make an open call for financing and promise a financial or non-financial return to potential investors. Their incentives for selecting financing through crowdfunding are being summarized below:

1) **Minimized Cost of Capital**: Entrepreneurs normally seek funding for seed-stage projects from personal assets, relatives, angel investors and venture capitalists. Under specific circumstances crowdfunding permits founders to acquire money at a lower cost than conventional channels. The causes this might occur are being depicted below:
    - **Better matches:** Through crowdfunding, founders are connected to investors who have the highest willingness to contribute to the venture by buying equity stake, lending capital, or having priority access to the new product/service since the investigation for such partnerships takes place across a worldwide field rather than a domestic pool of possible funders. Hence, contrary to conventional sources of funding, the utilization of this alternative form of financing makes location less impactful on accessing capital. Indeed, according to Agrawal et al. (2011) is shown that on SellaBand (a musical platform that permits musicians to gather funds from their supporters and the SellaBand network to produce a professional album) more than 86% of funding originated from people more than 60 miles distant from the founder, with the mean interval between inventors and investors being about 3,000 miles.

- **Bundling:** Under specific situations, it is evidenced that investors appreciate advanced access to products/services, acknowledgment for spotting breakthroughs, involvement in a fresh company's network of sponsors, and other non-monetary-oriented incentives in exchange for funding. Founders might be capable to minimize their cost of financing by offering items and services that are otherwise hard to sell in typical marketplaces for a start-up, prerequired that those crowdfunding platforms allow a mixed model which permits founders to combine the selling of stock with other benefits they desire to provide such as instant ingress, limited-edition goods and acclaim.
- **Information:** To the degree that crowdfunding creates more information than conventional start-up finance sources (e.g., engagement from funders, suggestions for item changes and expansions from prospective clients), this knowledge might enhance creator's eagerness to repay, hence decreasing the capital expense. For instance, Pebble founder Eric Migicovsky received a poor reaction form traditional seed-stage funders, but the information transmitted through the crowdfunding community was a positive reaction to his creation affirming his theory that a portable gadget with that exact style and functionalities would have a wide resonance. This knowledge probably decreased his expenditure. Yet, the same outcome theoretically could be accomplished without crowdfunding by preselling the innovation and then depicting the revenue data when seeking funds via regular methods. Further, if the additional information is unfavorable in comparison to projections, then it might have reverse effect and drive up the cost of financing.
- **Increased Competition:** Lastly, if crowdfunding stimulates competency in the availability of start-up funding, then it might lower the costs across several channels for initial investment.

2) **More Information:** Aside from the influence that greater knowledge may have on the expense of financing, it may also have additional advantages for founders. For instance, in the mixed setting when investors can also acquire advance ingress to the item/service, crowdfunding acts as a highly insightful sort of market investigation, which is frequently translated as diminishing postlaunch demand variation. Crowdfunding that permits pre-purchases, like marketing research, gives an instructive indicator of post-launch demand. On the contrary to most market examinations, crowdfunding can incorporate accelerated sales which offer motivational aligned demand indications, hence significantly improving the value of the indications. As a result, crowdfunding lowers the noise connected with estimating demand before the introduction of a radically newly created item/service. This might result in a larger number of goods being released and a better percentage of effectiveness among those that have been launched.

Further to providing a market signal about a product’s demand (either actual demand as shown in preorders or anticipated requests as represented in the selling of stocks), crowdfunding offers founders a tool through which they could gather feedback from consumers and investors regarding their product and strategy. This may aid in the early establishment of an ecosystem centered on the product. Crowdfunding platforms enable founders to include potential customers in the concept and scheme of an item even before it is manufactured. Even if this knowledge might be beneficial to the founders in terms of developing goods that better meet the demands of future clients, it is unclear if input from funders is instructive about the larger market.

1.4.2 Investors

Investors of backers are those units that opt to commit their financial surplus to the project. Heterogeneous in their incentives, it is proved that investors participate in crowdfunding procedures for five main reasons. Among these motifs are:

1) **Investment possibilities:** This motivation solely pertains to equity crowdfunding. Conventional channels for financing start-up businesses usually limit investors to domestic investment prospects. In addition, most non-family and friend investing possibilities are confined to investors that are accredited. Gubler (2013) portrays crowdfunding as “giving ordinary investors the opportunity to get in on the ground floor of the next big idea”
2) **Priority access to new products:** As described earlier, to the degree that mixed crowdfunding methods are being permitted, founders have the opportunity to bundle equity with priority access making prebuying a greater factor in the crowdfunding procedure. It is demonstrated that there is probably surprisingly amount of interest for advanced accessibility to brand-new items by investors. Allowing product aficionados to be early owners may have advantages since it aligns their motivations with their ability to increase the company's worth.
3) **Community Engagement:** Many investors consider investing on a crowdfunding site to be a fundamentally social interaction, and they pledge funds partially to get privileged contact to the founder (e.g., announcements, interaction, personal contact) which they appreciate. They additionally receive consumer satisfaction from the sense of belonging to an entrepreneurial effort and being among a limited group of early users. Therefore, seems that some investors appear to be driven to offer financing in exchange for community acknowledgement and recognition.
4) **Advocacy for a product, service, or concept:** Charity and benevolence appear to perform an unexpectedly important factor on the biggest crowdfunding platforms (e.g., Kickstarted, Indiegogo). Advocates may also support initiatives, including profit-oriented ones, without obtaining a financial or physical return, and they do not engage in the related society as well.

5) **Formalization of contracts:** Similarly, to other channels of funding, the first funders on crowdfunding platforms are usually friends and relatives who participate in order to assist the entrepreneur. Crowdfunding platforms serve as a middleman, legitimizing what would otherwise be unofficial capital. They enhance financial agreements between relatives and friends in this way by harmonizing the advantages and liabilities of social ties. While relatives can utilize public influence to motivate the creator, their involvement demonstrates an impulsiveness due to the lack of a written agreement, since failing might harm the personal connection as well.

1.4.3 Crowdfunding Platforms

Crowdfunding platforms are internet-based intermediaries who aim at bringing in contact investors and entrepreneurs. Crowdfunding platforms are predominately profit-oriented businesses. The majority utilizes a revenue model based on a service charge for programs that succeed, which is usually 4-5% of the overall financed capital. As a result, their goal is to increase the quantity and scale of effective campaigns. This objective necessitates appealing a broad number of investors and entrepreneurs, while at the same time structuring the field to promote quality ventures, prevent deception, and enable productive pairing between projects and funds (e.g., by improving the level of transparency of creators and promoting successful research on the part of investors). Crowdfunding platforms have a motivation to pursue projects that may garner a disproportionately large sum of news coverage since they both grow the established network of investors (thereby boosting connectivity) and enable the intermediary to extend into other areas. The role of the crowdfunding platforms is going to be extensively analyzed to in next chapters.

In the next section, we are going to briefly demonstrate the steps for a successful crowdfunding campaign. This will further assist into comprehending the role of each crowdfunding player.

1.4.4 Crowdfunding Campaign

Several actions are required in order to acquire funds through crowdfunding. The steps needed to be taken are described as followed

1) **Selection of Crowdfunding Platform:** Firstly, the creator should decide what type of crowdfunding model is going to utilize and select the most suitable platform for his vision. It is of high importance to perform an investigation in order to find out how long each platform permits campaigns to run, what is the maximum amount that can be raised and who are the potential investors. Specific platforms may pull different types of supporters, hence the choosing of the correct platform based on the founders' necessities is crucial.
2) **Acceptance by the platform:** In order to be accepted by the platform the creator should proceed in filling in online forms and provide any documentation needed for the platform to verify his legitimacy. Sometimes, an offer documentation or prospectus which reveals

details about the investment as well as risk might be required especially If equity crowdfunding is chosen.

3) **Pitch Making:** Once accepted by the platform, the creator is in a position to proceed in making his pitch by describing the project or idea, the reason he desires to raise capital, and the optimal amount he anticipates reaching. In a rewards-based platform the rewards that the supporters obtain should be listed and in equity-based platform the equity stake and share price should be stated. This phase requires devotion and hard work since the project should be efficiently promoted through marketing campaigns and social media channels in order to be attractive to investors. In equity crowdfunding it is additionally needed to provide recent business and financial information, projections and a credible business plan.
4) **Ending of the campaign:** In some donation-based crowdfunding platforms the founder is able to get all the donations raised during the campaign while in others a target should be initially established, and the creator receives payment only if he meets it. In equity crowdfunding a constrained time period is provided in order to attract funders. If the campaign is successful, the platform proceeds in arranging the payment of the raised capital to the creator and issues share certificates or convertible notes to the investors. In case of failure in attracting investors, the time frame might be extended since crowdfunding platforms are being paid through charging transactional fees and sometimes only if the project is successful.

1.5 Current state of Crowdfunding in EU and Greece

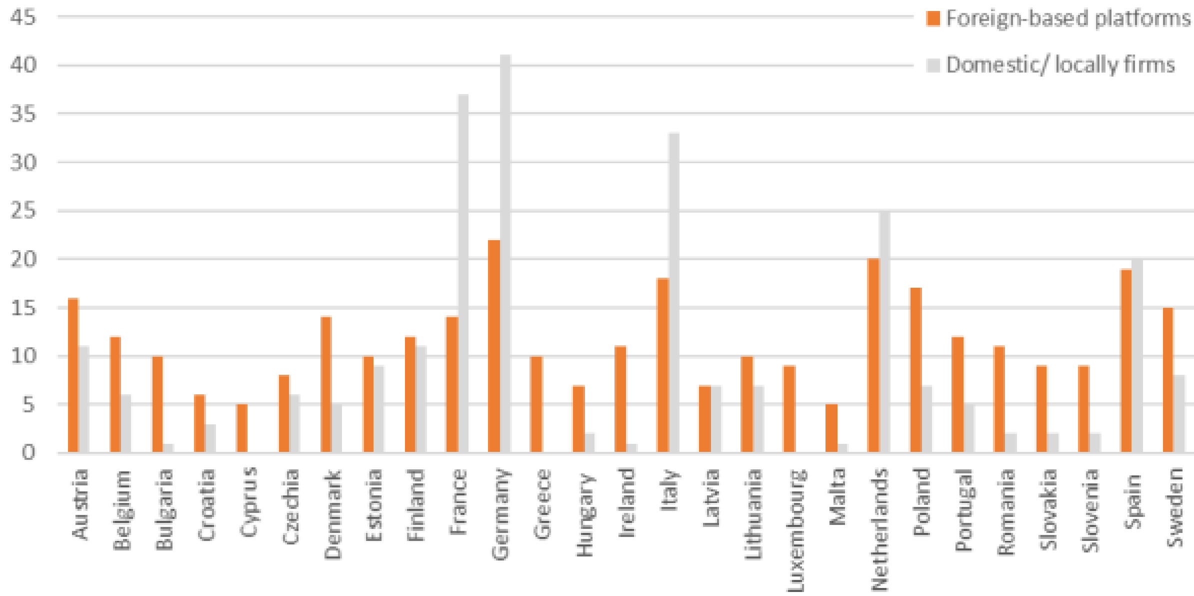
1.5.1 The market of crowdfunding in EU

Gathering comprehensive statistics on the crowdfunding market can be quite challenging. Since 2015, the Cambridge Centre for Alternative Finance (CCAF) has published the 'European Alternative Finance Benchmarking Report', evaluating and analyzing global crowdfunding activity across hundreds of distinct platforms. This research serves as the foundation for the following examination of the European crowdfunding market

Number of crowdfunding platforms

In 2018, there were around 632 crowdfunding sites in Europe, according to the CCAF annual research of online alternative financing. These platforms provided a total of EUR 6.5 billion in funding. The majority of the platforms, as indicated in the graph below, are headquartered in Western Europe.

Figure 3: Number of domestic and foreign-based platforms operating in EU Member States in 2018.



Source: Adapted from CCAF (2019)

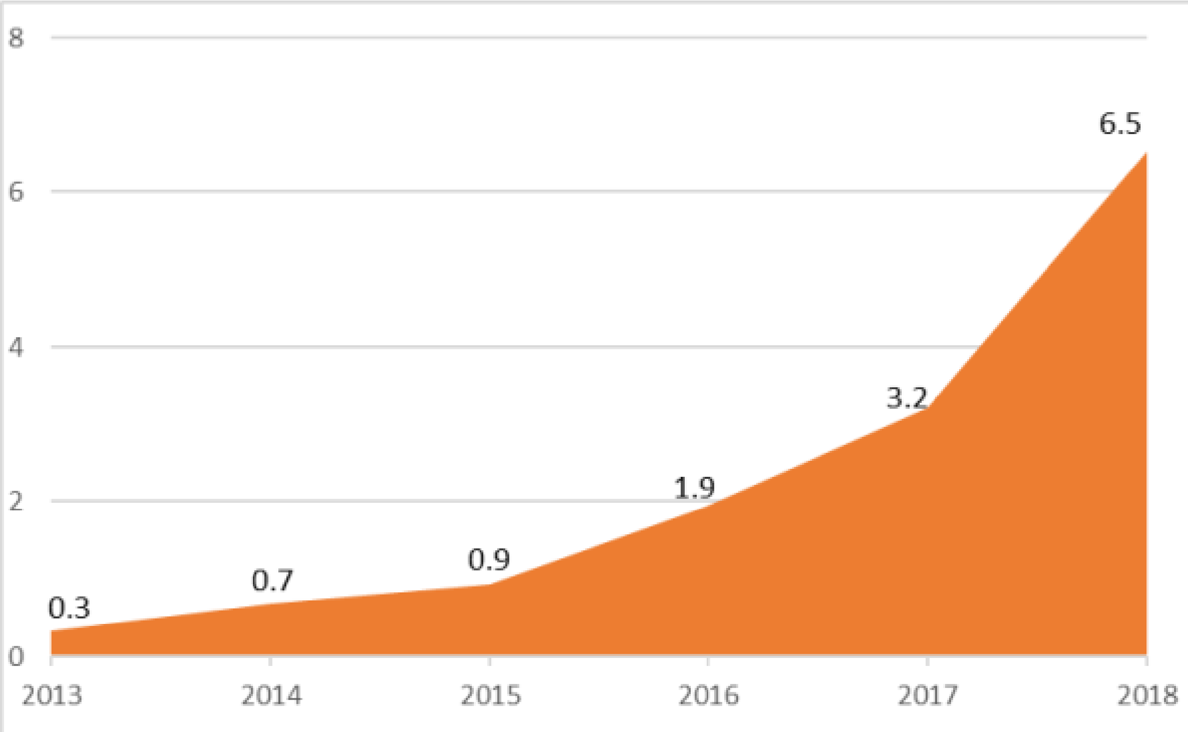
Surprisingly, whereas crowdfunding platforms in Western Europe are usually locally based, i.e. largely headquartered inside their country/jurisdiction, the majority of platforms in Southern and Eastern European nations are foreign-based.

Volume of crowdfunding platforms

The overall amount of the European crowdfunding market has risen substantially in recent years, indicating greater awareness, relevancy, and utilization of crowdfunding in Europe as an alternative source of raising capital. The growth is partly influenced by

I. Modifications to current crowdfunding regulatory frameworks in European nations.
II. The ECSP's (European Crowdfunding Service Providers) forthcoming implementation, which will result in an EU-wide legal framework.

Figure 4: Volume of the European online alternative finance market (EUR billion)



Source: Adapted from CCAF (2019)

In terms of the number of platforms, the overall amount of crowdfunding is unequally distributed between its various categories. Lending and investment-based crowdfunding make up for the vast portion of investment volume. The table below depicts the volume of alternative finance by type of crowdfunding across the EU between 2013 and 2018.

Table 1: Alternative Finance Volume by Model in Europe 2013-2018 (EUR million)

	2013	2014	2015	2016	2017	2018
Reward-based crowdfunding	71	136	131	178.9	152	149
Donation-based crowdfunding	0	0	2.2	55.4	91	53
Lending-based crowdfunding	221	414	542	1,087	1864	4,737
Investment-based crowdfunding	69	123	282	604	1,085	1,606
Other	0	0	0	9.5	27.8	5.3

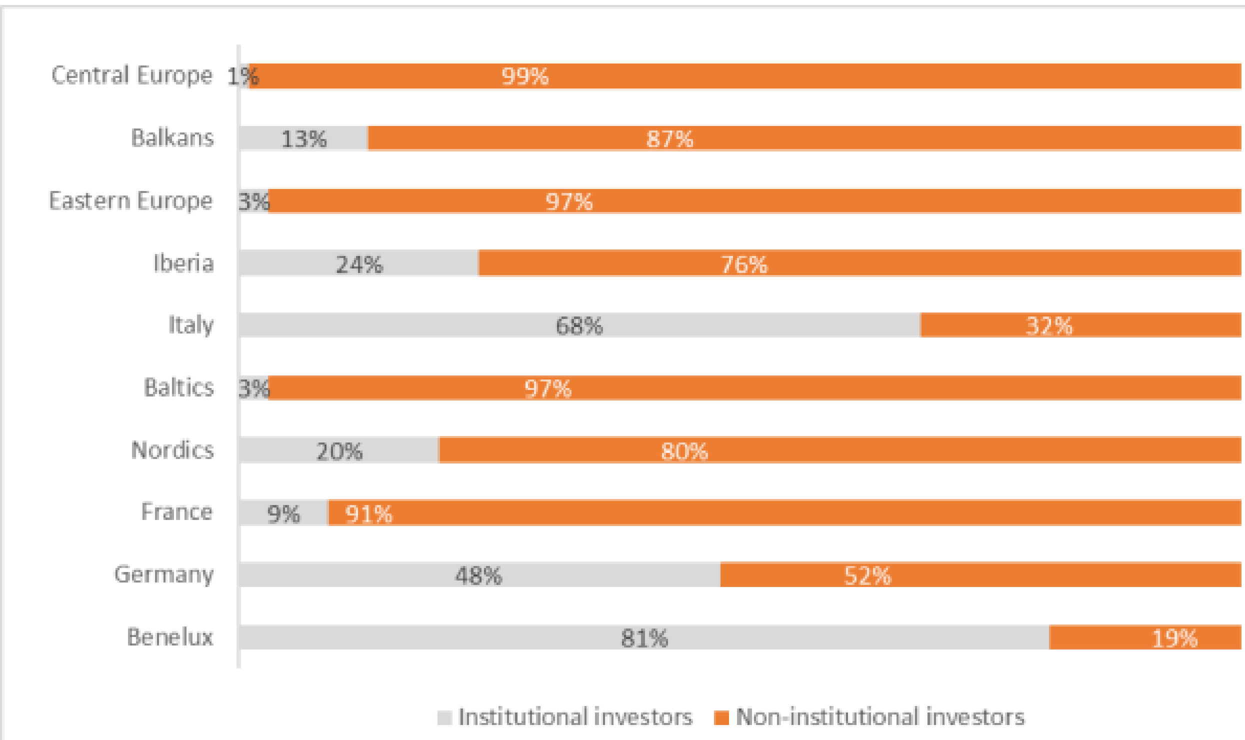
Source: Adapted from CCAF (2019)

Individual vs. institutional investors

Crowdfunding is intended to enable a big number of supporters or investors – the crowd – to support worthy initiatives. Indeed, individuals constitute the majority of the crowd, with institutional investors being the minority. In 2018, crowdfunding platforms with operations in Europe got 29% of their volume from institutional investors, mostly through lending-based models. This is because of the fact that loans for private and structural financiers can be dispersed through automated tendering processes.

Platforms in Italy (68%), Benelux (81%), and Germany (48%) indicated that institutional investors accounted for close to or more than half of crowdfunding volume, a considerable rise from prior years. CEE nations (1%) have the lowest amounts of institutional financing, followed by Eastern Europe (3%) and the Baltic states (3%). In certain locations, such as France (9%), the Balkans (13%), and the Iberian nations, the number of institutional investors is rapidly growing (24%).

Figure 5: Share of investment from institutional and non-institutional investors by region 2018



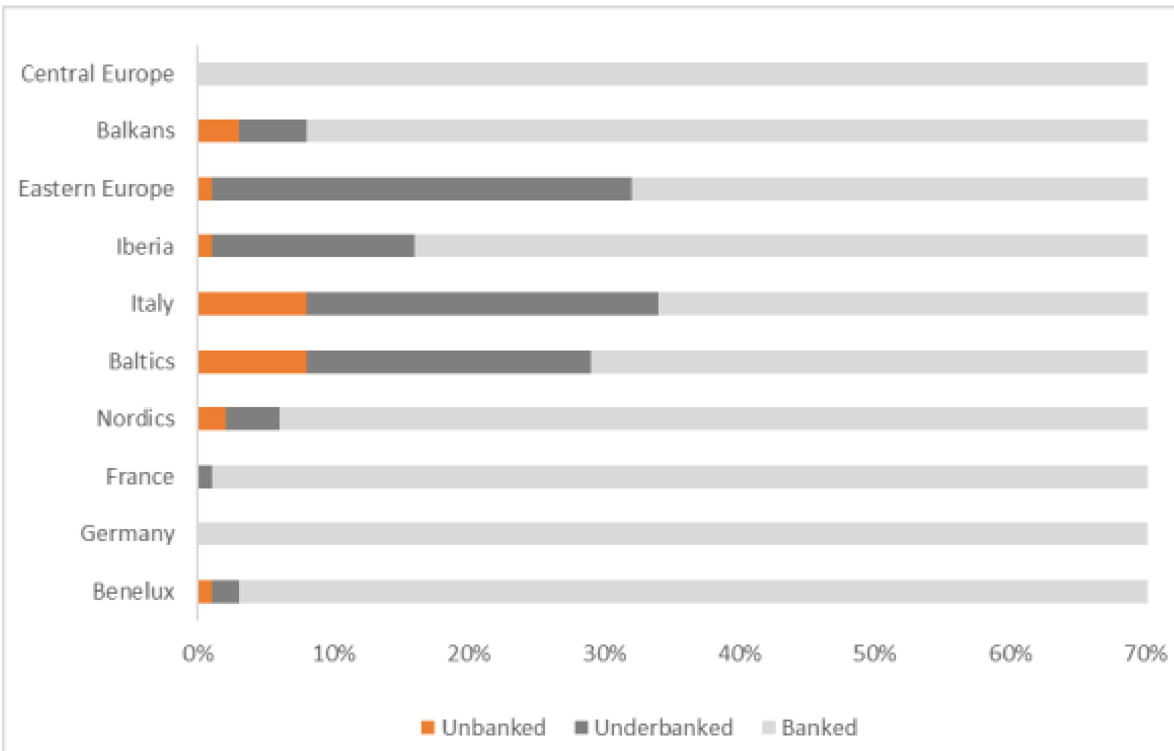
Source: Adapted from CCAF (2019)

Access to finance for the unbanked and underbanked

Crowdfunding, as an alternate method of finance, is designed to offer capital to individuals who may not have access to more established channels such as bank loans. Indeed, research suggests that many crowdfunding project owners are either unbanked, defined as persons not served by or without access to any traditional financial service, or underbanked, defined as having access to some basic financial services but not a full suite.

In the Cambridge Alternative Finance Report, 250 operational platforms disclosed information about the status of creators, namely borrowers on lending-based crowdfunding. Unbanked clients are uncommon, with the exception of the Baltic nations and Italy, where they account for 8% of all project owners. Customers with below-average credit ratings outnumber those with above-average credit ratings in four European regions: Spain and Portugal (15%), the Baltic states (21%), Italy (26%), and Eastern Europe (31%). Platforms in Germany, Austria, and Switzerland, on the other hand, only service clients who have bank account information.

Figure 6: Banking status by model and region in 2018



Source: Adapted from CCAF (2019)

1.5.2 The market of crowdfunding in Greece

In Greece, the market of crowdfunding remains low almost non-existent. So far, only the contribution model is available via Greek crowdfunding sites. The first steps in adopting this alternative method of financing have been recorded only in the recent past, since the first donation-based platform created in Greece was Groopio, in the year of 2011. Since then, several efforts have been made to further develop this tool (via the creation of new platforms and investment programs, as well as through legal reforms), however, to this day crowdfunding in Greece is facing serious challenges. One of the most famous donation-based crowdfunding campaigns taken place in Greece is act4Greece.

The program

The act4Greece initiative is an innovative project aiming to promote broader societal banking. For the first time in Greece, a digital platform has been established to facilitate the collection of capital from anybody who is intrigued regardless of where they might be in the globe. The funds are subsequently allocated to particular initiatives carried out by implementing entities. Crowdfunding's basic idea is to raise public awareness and inspire individuals to donate as much as they can to the realization of initiatives that are required by Greek society.

The aim includes initiatives in seven activity sectors:

1) Welfare, Health and Solidarity
2) Social Economy and Entrepreneurship,
3) Culture and Cultural Entrepreneurship,
4) Young and Innovative Entrepreneurship,
5) Environment and Sustainability,
6) Research, Education and Training, and
7) Sporting Activities.

The capital collected by act4Greece is raised through contributions, and the funds will be raised in the future – provided the required legal structure is set– by lending and direct investment, through which new innovative firms will be encouraged.

Added Benefit

The act4Greece project helps society shift from crisis apprehension to crisis optimism, togetherness, and great opportunities provided by the assistance of the citizens. In recent years, Greek society has faced adversity, with ever-increasing challenges and pressing demands. The act4Greece initiative had enormous possibility of sharing resources, either in cash or in service, using the crowdfunding paradigm, whether donors are based locally or internationally. Beyond all, act4Greece provides a fresh method for individuals to consider and respond to the circumstances. When there are very precise objectives and initiatives, as there are today, and when there are strong assurances for total openness and accountability, every single person's contribution, no matter how tiny, is tremendously significant.

Participants

The National Bank of Greece supports act4Greece through essential collaboration with multinational institutions and foundations such as the Alexandros S. Onassis Foundation, the John S. Latsis Foundation, the Bodossaki Foundation, the Hellenic National Commission for UNESCO, and the Hellenic Network for Corporate Social Responsibility. All these organizations participate to the cause by sharing their expertise and also are using the crowdfunding platform's ability to widen and increase the number of funds allocated for initiatives or actions that they are currently actively promoting.

Implementing Agencies

Every activity is carried out by a particular organization, whether governmental or privately held. These organizations present their first crowdfunding submissions, that cover all of the key criteria, including the costing of the act, the recipients and timetable for execution.

The involvement of the program's implementing agencies is critical, because their knowledge, expertise, and technical ability ensure the effective completion of every task, as well as the right distribution and management of the acquired funding. These bodies attend the Supporters' Assembly in order to exchange ideas and comments with key stakeholders and other service users more generally.

Institutional Bodies

The following bodies have been established in order to properly organize and oversee the actions of the act4Greece program:

- **Strategy Committee:** Strategy Committee is made up of 7 partners, including people and law companies, who advise and/or assist act4Greece by contributing capital. They meet at least twice a year to monitor the program's success, approve the agencies in charge of carrying out every important activity, approve the causes submitted every so often, and as well as to give guidance to the Management Committee and propose new areas of focus and activity.
- **Management Committee:** Management Committee is formed by NBG Board's judgment and is in charge of organizing, operating, and administering the action. Its primary duties include the selection of agencies and activities involved in implementation, as well as suggestions to the Strategy Committee, surveillance of the execution timeline, synchronization among all institutions engaged, advertising of the project, appointment of independently accredited auditors, and production of performance and reviews for delivery to the Strategy Committee.
- **Supporters' Assembly:** Supporters' Assembly group consists of members from the project's stakeholders (agencies carrying out the actions) and, more broadly, backers of the program. It is hosted once a year with the goal of sharing thoughts and views about the project's development and assessing the outcomes.

Transparency and control

The act4Greece program's defining characteristic is the complete visibility and responsibility it gives. The project is operated by regulatory actions, which detail its goal and mode of operation, as well as the organizations that exercise administration and make decisions on the activities taken. Grand Thornton, a worldwide auditing company that gives its services to the project at no cost, audits the actions, therefore contributing significantly to the achievement of the project's goals. Integrity and responsibility, two of act4Greece's main factor endowments, are therefore assured.

The aforementioned characteristics assist act4Greece in achieving its aims and adhering to its dedication: to be a well-organized and dependable organization that values every contribution made by the crowd.

Chapter 2: Main economic challenges/frictions and risks related to crowdfunding

2.1 Crowdfunding liken to IPOs market

The practice of selling stakes of a privately owned company to the general populace through the issue of a new stock is call initial public offering (IPO) and it allows a firm to gain funding from the public investors.

The financing can be utilized to undertake significant investments that would have been prohibitively expensive for the company otherwise. Another motivation to go public is to gain more exposure. Because IPOs are covered in financial publications and on financial websites, they generate publicity. The general initial public offering method improves the appearance and exposure of businesses while also obtaining not only an initial certification of financial market specialists but also a protracted pricing signaling to vendors, employees, and consumers. Based on Roell (1996), a strong share value in the successive acquirement (during the trading of shares following their first public offering bid) convinces vendors that they may securely provide flexible payment terms, workforce that they will have a prosperous working environment, and clients that their purchase will be supported. Further, the conversion from a privately held company to a publicly listed company can be a crucial time for private investors to properly realize their investment profits since it generally involves a share premium. However, all reasons mentioned in favor of going public, some entrepreneurs may prefer not going public due to the intricated public market procedure. In addition, there are other expenditures associated with bringing a company to market, such as underwriter expenses, legal fees, and auditing fees.

Crowdfunding's growth is primarily due to two factors: the expansion of the Internet, which facilitates new avenues connecting savers/investors with borrowers/investees; and the global economic crisis, which began in 2008 and diminished the accessibility and attractiveness of bank lending, both in terms of borrowing from banks and the rates that investors could obtain by lending to banks (for example, in the form of bank deposits). According to the literature, crowdfunding is both a supplement to and a replacement for established means of finance, since it serves both new and current market groups (in terms of both investors and borrowers). Crowdfunding is becoming more linked with the rest of the financial industry, potentially raising worries about systemic risk and contagion.

At their core, initial public offerings (IPOs) and equity crowdfunding are fundamentally the same. In exchange for a financial investment, you are offered shares over a private company. Thus, in this section we are going to focus to the main challenges that characterize the related market of IPOs such as asymmetric information which can be broken down to adverse selection and moral hazard.

2.2 Asymmetric Information in general

2.2.1 Definition

A scenario in a written arrangement or business activities in which the two sides participating have unequal information is referred to as asymmetric information. Asymmetric information happens when one party in a contract has more data and technical expertise compared to the other participant. Asymmetric information is also known as a lack of information or an imbalance of information. It is frequent in negotiations between purchasers and vendors, when the vendor has more knowledge or expertise about the goods than the purchaser. It's also conceivable that the purchaser knows more about the subject than the vendor.

The economic theory of asymmetric information was established in the 1970s and 1980s as a plausible reason for market distortions. As per the theory, a discrepancy in knowledge between market participants might harm the economy. Market failure is characterized by academics as ineffective allocation of the products in a marketplace where prices are determined by supply and demand.

Asymmetric information may be used to any type of deal or commerce; indeed, all economic transactions are considered to contain asymmetric information. Asymmetric information is caused by inequity in the information possessed by contract parties or the availability of unbalanced information. Asymmetric information exists in a variety of economic interactions, including medical sector. For example, medicals, nurses, or pharmacists are frequently more knowledgeable about diagnostic procedures and medical goods than the clients. In addition, in a construction agreement, an engineer or property manager has more expertise than the proprietor of a plot of land.

2.2.2 Economic advantages and disadvantages of asymmetric information

Even though asymmetric information is associated with information disproportion and uneven understanding among participants in an economic transaction or contract, it can have certain advantages. The majority of thriving marketplaces and economies welcome asymmetric information provided the following advantages:

- It leads to increased information among specialists in particular areas. Healthcare professionals, pharmacists, engineers, educators, and other professions, for example, are always striving to identify areas of improvement.
- Because their clientele relies on them, practitioners and specialists in certain sectors benefit from asymmetric information.
- It persuades the other parties to educate themselves so that they do not lose money, are not duped, or choose a poor product.

Asymmetric information is not without downsides, the most significant of which are as follows:

- Asymmetric information may lead to failures in some marketplaces, particularly if the disparity or imbalance between the knowledge held by both sides hold is too large.

- Imbalanced information can also lead to deceptive market inclinations, as some experts utilize the additional knowledge, they have about the deal to extract more money from the other side.
- A party's knowledge of economic transactions puts him or her in a favorable position, while the opposing party suffers a significant loss.
- Asymmetric information can lead to poor product selections for any side who lacks accurate or complete product information.

2.2.3 Adverse Selection and Moral Hazard

The two concepts the asymmetric information is translated into are adverse selection and moral hazard.

Adverse Selection

Adverse selection happens when vendors have more knowledge than purchasers, or inversely, on a particular aspect of product excellence, with the vendor often being the more educated entity. Adverse selection occurs when asymmetric information is exploited. Adverse selection usually occurs before the transaction takes place.

Adverse selection is a terminology used by economists to explain the issue of differentiating a good characteristic from a poor feature when one side to a transaction has more knowledge than the other. The degree of adverse selection is determined by how costly it is for an ignorant actor to notice a product's or counterparty's concealed characteristics. When essential features are sufficiently costly to distinguish, adverse selection might cause an otherwise thriving market to vanish. The term "adverse selection" refers to the fact that when the hidden features are expensive to observe, the quality of the products on offer or the potential party to a transaction degrades; that is, the pool becomes adverse in comparison to the entire universe of goods (or counterparties) available.

One characteristic example of adverse selection is described in Akerlof's paper in 1970 named “The Market of Lemons”. He highlighted why the secondhand vehicle market—some of which may be mechanically defective “lemons”—does not work effectively. Akerlof's argument is surprisingly plain. Assume the used-car marketplace has only two vehicles for offering. One is spotless (dubbed a peach), while the other (dubbed a lemon) has concealed damage as a result of the user's reckless driving. While proprietors are aware of their own vehicles' state, used-car purchasers are not. Assume that potential purchasers are ready to offer $20,000 for a well-conditioned vehicle but only $10,000 for a bad one. The peach's proprietor will not sell it for less than $18,000. The lemon's proprietor is asking $8,000 for it. If purchasers are unable to determine the condition of the two vehicles, they may only pay the average price of $15,000. As a result, the peach is no longer available on the market, leaving only the lemon. The idea is that purchasers' failure to notice the hidden characteristics of the automobiles for sale weakens the whole used car industry. Exiting high-quality items or sellers from the market results in a significant welfare loss when compared to the whole information environment. This type of market failure is a typical example of adverse selection at work.

Moral Hazard

Moral hazard refers to the scenario that develops when an individual has the opportunity to benefit from a financial agreement or circumstance while knowing that all the risks and consequences will fall on another party. It implies that one person is exposed to the possibility – and hence the temptation – of taking advantage of another party. In a moral hazard situation, the consequences of any risks made are entirely borne by the secondary party, allowing the first party to do whatever they choose without worry of becoming held responsible. They have the ability to overlook any moral repercussions and act in the most favorable way for themselves. Moral hazard usually occurs after the transaction takes place.

The term "moral hazard" stems from the insurance sector and refers to the fact that each participant has different knowledge about a situation – especially, different information about the real amount of risk. The problem with disinformation or uneven information is that neither party is on the same page. Such a problem is harmful in any business setting, but it is more perilous when it comes to insurance. The insured person plans to act in a way that benefits them the greatest, knowing that the insurance will pay any risks incurred. The information is generally not shared with the insurance company since it would either result in increased premium requirements or the inability to get the insurance policy.

One of the finest instances of a potential moral hazard issue involves the events and acts that occurred in the aftermath of the 2008 financial crisis/housing market meltdown. Many of the big banks were losing billions of dollars in asset value, when the US Federal Government stepped in and bailed them out. It is widely assumed that as a result of that series of events, many banks feel that the government will be there to bail them out if they ever fall on though times. This generates a moral hazard situation because, instead of taking necessary precautions to avoid eventual overexposure, institutions are more likely to persist making unsafe mortgages if doing so rewards them with instant advantages.

2.2.4 Winner’s Curse

One of the most influential concepts of asymmetric information is the winner’s curse of Rock (1986). According to this hypothesis, there is an informational imbalance between investors. The winner’s curse of Rock (1986) claims that there are two groups of capital surplus units, ignorant and well-informed investors Informed investors know more about the true value of the stock than ignorant ones. Rock (1986) proposes a winner's curse model to account for IPO underpricing in the context of asymmetric information between knowledgeable and ignorant investors. One of the explanations for IPO underpricing is the winner's curse hypothesis. If an IPO is overpriced, educated investors will leave the market, making non-knowledgeable investors more likely to obtain a greater share. On the other hand, uninformed investors are likely to obtain a lower When an offering is unattractive, best investors will not acquire the shares, but uninformed purchasers will obtain all of the stocks they asked for since they buy carelessly. However, these inexperienced purchasers are unable to acquire all of the shares issued; As a result, undervaluing is necessary to entice educated investors to compete on this offering's stocks even if they feel it is unappealing. The reduced offer price will entice them to attempt to obtain the stocks. This undervaluing is also necessary to avoid a net loss for this selling for inexperienced investors, whose cash is required even for a compelling proposal. They must be safeguarded in the equity markets so that they do not forfeit investment or involvement since, in the event of appealing offers, knowledgeable investors are also hesitant to swallow all of the share capital and demand is limited.

To summarize Rock's (1986) winner's curse hypothesis, which is an implementation of Akerlof's (1970) lemons issue, undervaluing is required to avoid losing uneducated investors' investment and to encourage experienced investors to participate in an unappealing offer allotment. Prices too high may make investors and publishers fearful about the winner's curse.

In the same way of motivating knowledgeable investors to join in an unappealing deal, Ljungqvist, Nanda, and Singh (2001) uncover and interpret discounting by the notion that market participants cannot swallow the whole IPO due to wealth constraints. To entice informed investors to join in the offer, issuers should provide an IPO price lower than the price noisy investors are willing to offer, therefore causing undervaluing and making the offer appealing to informed investors. These educated investors can profitably offer the stocks to the uninformed investors in the aftermarket.

Rock's (1986) winner's curse concept is based on investor information diversity. According to Michaely and Shaw (1994), when this discrepancy approaches zero, the winner's curse and the motivation to undervalue vanishes.

In his article "Adverse selection, public information, and underpricing in IPOs," Tore Leite (2007) discovers that favorable public information (such as strong market returns) reduces the winner's curse issue. As a result, the issuer is compelled to price the offer more cautiously in order to enhance its chances of being successful. The author discovers a link between public knowledge and undervaluing.

2.3 Information asymmetries in crowdfunding

One of the major hazards of crowdfunding for investors is project risk, which can result in defaults or late payments. Default rates for major lending platforms tend to be low, but failure rates for equity crowdfunding are not yet known (since projects take many years and platforms have not been operational long enough), however (given the nature of what is being financed) they are expected to be considerable. The fact that information is asymmetric is a difficulty for crowdfunding (and, indeed, all kinds of lending/investing), with investors missing complete knowledge about the investments they make and platforms performing only high-level due diligence.

Asymmetric information can result in adverse selection prior to investment, with elevated initiatives mind away from platforms and more towards investors who perform more proper due diligence, enabling greater initiatives to be better distinguished from lower-quality ones and obtaining better repayment plans. Companies that rely on equity crowdfunded offerings typically attract smaller holders, who may be less sophisticated (in comparison to venture or private equity investors) and less successful in enforcing governance rules. Concerns about the quality of available information and adverse selection grow in the absence of governance systems. Investors in crowdfunded offers often do not meet firm management and do not have any links to other investors. One concept of crowdfunded offers was that scattered investors would get access to data, and that the collective wisdom of the crowd would provide a method to mitigate adverse selection. However, there is no evidence to support this claim. Some equity crowdfunding platforms may play a role in due diligence and may have reputational concerns, particularly if they focus on pooled investments, which would provide incentives for them to actively monitor investments.

Asymmetric knowledge after investment can lead to moral hazard, with capital not being utilized as originally planned. The disparity between the two sides of the market is produced not just by former knowledge about the inventor and the concept, but also by the investor's ex-post incapacity to motivate the creator's work. Traditionally, the "crowdfunding contract" is based on benevolence and provides investors with few instruments after they devote their finances (that is, when the fundraising is finalized). The founder might act in an unorthodox approach in the short term and not expend the degree of commitment that was suggested at the beginning. This is an instance of moral hazard. Outright fraud is the most extreme form of this. Entrepreneurs have no major financial risk in a crowdfunding context, giving them little motivation to operate in the best interests of their investors. Funders may be discouraged from investing money in this context if they anticipate this sort of conduct, resulting in market failure.

Chapter 3: The role of banks and dedicated platforms for crowdfunding in the EU

3.1 The role of dedicated platforms for crowdfunding

3.1.1 Crowdfunding two-side market

With the global expansion of crowdfunding marketplaces, numerous questions arise, the answers to which are not simply transferable from other kinds of entrepreneurial finance. Are all platforms the same, just facilitating the interaction between individual donors and others in need of capital? Or do platforms, in fact, differ, indicating significant variations in venture performance and investor returns? Considering the enormous asymmetric information among investors with funds and business owners in need of financing, which is induced by the sparse or quasi reporting standards when an enterprising company is not publicly listed on a stock market, understanding what crowdfunding platforms perform and whether they impact overall business performance and funder's returns is crucial.

Platform ecosystems are becoming increasingly popular in a wide variety of sectors, and many companies depend on this management structure have experienced rapid development in recent years. Platforms, unlike conventional service providers, do not sell items or services directly to clients, but rather nearly solely intermediaries who create and distribute additional content. Platforms add value by enabling and organizing relationships between the sides of the market. Because these platforms are two-sided markets, they have distinct bridge interconnections, which means that one part of the market benefits from the involvement of the other part.

Crowdfunding platforms depend on this notion to allow connections between those looking for money for a particular cause or endeavor and potential funders. Crowdfunding platforms, however, are unique since the deals performed through them are extremely hazardous for final users due to the significant amount of information asymmetry that exists between the market parts. Although there is some information asymmetry between the different market parts in every two-sided market, a variety of variables exacerbate this issue in the crowdfunding scenario. For example, there is occasionally almost no publicly available data, such as user ratings, to assess projects before the transaction. Crowdfunding campaign designers can thus misrepresent quality or conceal facts because they regulate the sharing of information to prospective funders. In addition, many of the campaigns listed on crowdfunding sites are yet in their early stages, making it impossible to anticipate project results. In the next section, we are going to elaborate in the role that due diligence plays in crowdfunding platforms.

3.1.2 The Role of Due Diligence in Crowdfunding Platforms

Platforms should begin conducting thorough due diligence on investee firms and maintain continuing interaction with them. This strategy should result in higher-quality firms both at the time of investment and as they expand. The crowdfunding sector should take a page from the private equity industry. Before any transaction is made accessible to investors, platforms must speak with the firm's existing customers — as well as potential consumers that the company did not secure – to determine why. They must be well familiar with the company's market. They must compare the owners' departure strategies to similar agreements in the sector to see how realistic they are. And, on a continuous basis, platforms must report to investors on the performance of the firms they have supported, rather than simply encouraging them to do so. They should choose seasoned board members and provide firms with access to sector professionals to assist them on their growth. After all, other from scale, what distinguishes an equity crowdfunding investor from a private equity investment? Why should the former be willing to tolerate lesser standards than the latter?

Why is the due diligence process essential?

In the global world, privacy (and even anonymity in some situations) is desirable. A firm in the UK, may service clients from all over the world. However, such an arrangement increases the danger of fraud and the possibility of financial crimes. As a result, like any other financial institution, crowdfunding platforms should ensure that its users are who they claim to be.

Platforms must safeguard their investors and themselves, whereas startups do not want their ideas stolen. This puts authorities and platforms in a difficult position about what information should be shared, how it should be retained, for how long, and who is accountable. People with forged identities, as well as organizations engaged in illegal business practices, are not the sort of clients to maintain. Those seeking immediate satisfaction and success undermine the economy and legitimate companies. A respected company does not want to be a part of that drama, which would impede its operations and harm its reputation.

Investors may be certain that the investing options on any recognized platform are reasonably sound. Investors understand that providing financial support to any firm entails risk, but they take comfort in the knowledge that platforms conduct their own due research on each prospective campaign.

Background checks, site inspections, credit score, cross-checks, account tracking, and third-party verification of a fundraising project are all part of the due diligence process on a crowdfunding platform. This is where the platform scrutinizes every claim made by the firm to ensure it is factual, verifiable, and not deceptive. This includes everything on the pitch page, including the video and team profiles. Only after going through this thorough vetting procedure will the platform enable a firm to present an opportunity to investors.

Due diligence is costly; thus, platforms must gain adequate advantage from due diligence to warrant the associated expenditures. In general, it is shown by the literature that due diligence is favorably related with the increased performance of crowdfunding platforms. Effective due diligence keeps low-quality entrepreneurial initiatives off the marketplace pushing the average project quality higher. In addition, platform due diligence methods incentivize creators to provide a clearer campaign in order to overcome the due diligence barrier, which reduces knowledge gaps between the creator and the audience. Creators that undergo rigorous due diligence examinations are more inclined to take expensive efforts to indicate their value, such as producing quality project descriptions, which reduces information asymmetry for funders and signals quality to the public.

When the general standard of fundraising campaigns rises and campaign initiatives become clearer to backers, there is a greater rate of successfully funding on a platform. This greater success rate directly inspires additional fundraisers to submit future initiatives. Furthermore, good due diligence establishes a high repute for the platform among investors; this reputational value, in turn, makes a platform more desirable to prospective project creators. As a result, if a platform performs due diligence on available campaigns, we anticipate it to gain more projects, more funders, and conduit more cashflow.

3.2 The role of banks

3.2.1 Is crowdfunding challenging the banking sector?

Crowdfunding has been defined as a global effort by many parties to aggregate their capital in order to collectively support a venture initiated by a person or group. Crowdfunding initiatives, often known as "democratic finance," now for the most part avoid conventional banking intermediaries, which means that the only institution between borrowers and investors is the online fundraising site where the idea is presented.

As a result of its rapid expansion, crowdfunding has raised numerous important issues about the traditional lending strategies employed by banks. The investment division is the crowdfunding sub-sector that is having the most significant influence on banks. The two main financing mechanisms of investment crowdfunding are loan-based crowdfunding and equity-based crowdfunding. The lending-based system connects borrowers, including individuals and small enterprises, with lenders who may pool their resources to offer money with interest and a set payback deadline. The second type of funding is equity-based, in which money are raised from a community of people rather than from a single angel or private investor. Start-ups are among the most common users of equity crowdfunding, and they will often issue shares and dividends to their investors. Small firms that are judged too risky to receive finance through standard banking channels appear to be filling a vacuum with investment crowdfunding. Following the global financial crisis of 2008, when a banking culture of excessively liberal loan availability resulted in a worldwide credit crisis, authorities determined that before lending to a small firm, banks needed to be practically assured a payback. Hence, SMEs and start-ups have been forced to move to crowdfunding platforms increasingly frequently in recent years.

Given that transparency is one of the key ideas of crowdfunding, banks are adjusting their business strategies to follow suit and provide more transparent solutions. Increased transparency might also push to a significant shift in the sorts of ideas that banks fund. In addition to financial opportunity, social, ethical, and environmental issues may play a larger role in the credit-approval process for banks.

Crowdfunding might eventually replace some traditional banking operations for both borrowers and lenders, with angel investment and venture capital being particularly vulnerable. Provided that the sector is now in its beginning phases, uncertainty remains as to whether the crowdfunding model can manage a wide range of lending and investment-related circumstances, including whether it can generate effective escape routes for shareholders, whether it can cope with dispersion adequately, and whether companies will allow crowdfunding platforms, especially equity-based crowdfunding platforms, to produce adequate rates of return in order for shareholders to keep coming back. The risk to funders is also a major issue, particularly because they are essentially in charge of determining which investments are excellent and which are bad—this alone might be enough to convince them to stick with conventional financial advisors. While crowdfunding platforms might proceed into tightening lending laws and setting due diligence procedures, this might almost certainly result in higher prices, making crowdfunding no less costly than conventional lending.

Because of the large size difference between the crowdfunding and conventional banking businesses, crowdfunding platforms are not yet seen as a huge challenge to banks. It is unlikely that crowdfunding will ever replace traditional lending operations in any meaningful way. However, crowdfunding platforms may have a greater impact on how banks handle small-business financing in the future, and if they can develop to provide finance to project sectors where they were previously risk-averse.

3.2.2 Opportunities for collaboration

Through the Internet and the application of new technology, collaborative models in the social and economic worlds are coming of age. Crowdfunding platforms are at the forefront of this collaborative movement in the financial industry. This transformational attitude is tying crowdfunding and the existing financial system together, transforming them into two complimentary, rather than mutually incompatible, models. The current economic crisis has had a significant influence on markets, resulting in a rise of collaborative alternatives that have also reached the finance industry via crowdfunding. As a result, we examine here those characteristics in which, beyond mere disparities between the two systems, formulae for mutual progress may be found:

- **Securing deposits:** One of the most significant distinctions between the two models is that crowdfunding platforms are neither regulated banks operating under the protection of deposit guarantee funds, nor are they licensed as credit entities. In fact, because these platforms do not accept deposits, the financial responsibility that investors incur is not a deposit. As a result, the two systems may become complimentary.
- **Innovation:** From the perspective of the investor, the traditional system provides a better experience: it has more information on its customers' projects and is controlled by market legislation, which in the case of crowdfunding is still in the early stages. However, considering this experiential value, crowdfunding is putting fresh ideas on the table, which is encouraging financial sector innovation. Online banking, mobile banking, and

customer experience strategies are being developed, while new models, like as crowdfunding, are increasingly being employed, the basis of which are new technology and innovation.

- **Scoring**: It is crucial to highlight that, in tandem with the advent of crowdfunding, a variety of new scoring techniques that go beyond traditional approaches based on the customer's credit performance history are being employed. For example, some platforms collect additional information from the entrepreneur or company seeking finance in order to complete the usual credit profile, particularly about his or her internet reputation**.** This sort of information may be collected by data analysis, especially semantics analysis based on replies to specific questions, interactions with the platform, reaction times, and so on. The goal is to learn about the client by his or her activity on the platform, much as information is gained from in-person interviews performed in credit entity branch offices**.** Traditional banking is also implementing technologies to get to know the client/user in order to improve the customer experience. One of the difficulties of the new banking age is to better understand one's customers.
- **New products**: Indeed, as crowdfunding grows in popularity, new products are being developed for the retail investor that P2P networks are attempting to attract. These are financial products comparable to fixed or variable return instruments that are presently available on the market, but for considerably smaller investments in projects closer to the investor. Traditional banking now offers these goods through its digital platforms.
- **The customer**: One of the benefits of crowdfunding platforms is their flexibility in providing a service to customers. This is due, in part, to new technology. The transition from traditional banking to a more digital banking system is along the same path: engaging new clients through online and mobile banking.

A possible collaboration between banks and crowdfunding platforms could occur. As part of the fundraising/investing toolbox, crowdfunding platforms may expect profitable partnerships with banks. Banks, on the other hand, may use crowdfunding as a marketing strategy when selling certain services to specific market segments.

There are cases that crowdfunding on its own it is not enough to fund a project. Ambitious entrepreneurs often create a crowdfunding campaign in order to acquire a bank loan. They use is as a mean to improve their application. That suggests that banks and crowdfunding platforms have a vested incentive in collaborating. On the other hand, banks can transfer consumers whose risk profile exceeds their limitations to P2P platforms, while platforms can advertise alternative financial services that do not compete with their offering (an account or treasury services, for instance).

Other potential for collaboration might exist in the area of risk sharing between the bank and the platform, with the first covering a portion of the funds through communal investments, for example, for projects in corporate social responsibility or of a clearly social nature.

One of the fist investment banking who partnered with crowdfunding platforms is BNP Paribas. For several years, the BNP Paribas has collaborated with crowdfunding platforms in order to promote high-potential initiatives headed by a new generation of entrepreneurs. A successful crowdfunding campaign, from the bank's standpoint, offers a reliable assurance: it indicates the presence of a market, the creator's competency, and their ability to organize prospective consumers. All of these factors assist to the long-term survivability of the enterprise.

BNP Paribas partnered with Ulule, Europe's first crowdfunding platform, in 2013. The Group aims to foster a greater knowledge of crowdfunding and its role in society by assisting the founders through numerous unique processes ("1 click pour 1" and "Ulule Tour" programs).

BNP Paribas Securities Services and SmartAngels, a crowdfunding platform for developing startups and SMEs, forged a vital collaboration based on blockchain technique in 2016. This technology streamlines the way companies get money from individual and professional investors by protecting and standardizing the platform's financial transactions.

“We believe in the power of smart complementary action between bank funding and crowdfunding,” explains Marie-Claire Capobianco, Head of French Retail Banking and Executive Committee Member at BNP Paribas.

BNP Paribas and Ulule extended their collaboration in 2017 by developing a funding method that mixes crowdfunding and bank loans. The aim is for project leaders to be able to get a bank loan for an amount equal to or more than their campaign total within 48 hours of filing their offering after running a successful crowdfunding campaign on Ulule. The project manager may also take advantage of one year of complimentary financial services and, best of all, three years of customized assistance.

“By working together to serve entrepreneurs, Ulule and BNP Paribas have set a powerful springboard for innovative projects and demonstrated the complementary nature of crowdfunding and bank funding” states Alexandre Boucherot, founder of Ulule.

Chapter 4: Legislation

4.1 Latest legislative initiative on crowdfunding at EU level

4.1.1 The new regulation

In comparison to other major international economies, the EU crowdfunding economy is undeveloped for many years, one of the most important difficulties for crowdfunding platforms wanting to expand their operations beyond their boundaries has been the European Union's lack of clear regulations and different licensing requirements. This has led in significant compliance and operational expenses, preventing crowdfunding platforms from efficiently growing their service supply. As a result, small firms had fewer funding options, and investors had less choice and faced greater uncertainty when investing across borders.

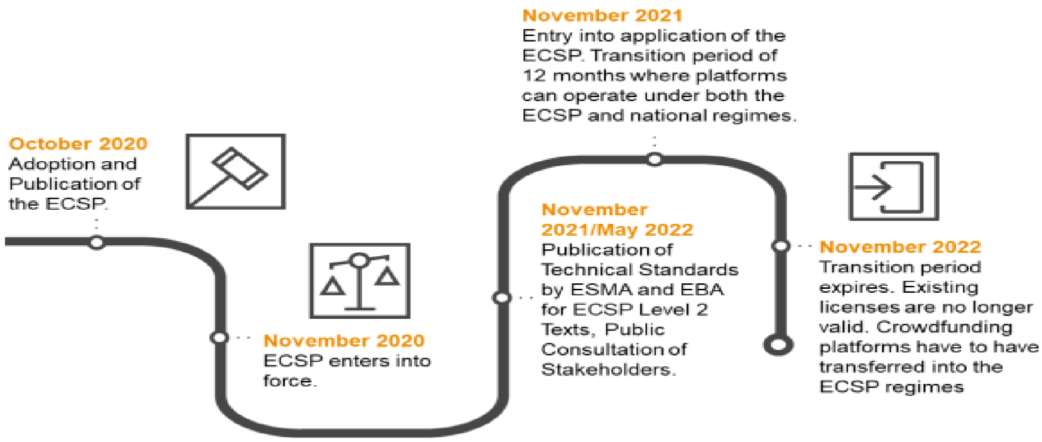
Until the recent implementation of the Regulation on European Crowdfunding Service Providers (ECSP), the crowdfunding legal framework was national in scope, with substantial differences impeding cross-border investment flows. The main point of contention was the regulation of lending-based and investment-based crowdfunding. Nonetheless, less than half of EU Member States have tailored legislation of financial-return crowdfunding schemes in the aftermath of the ECSP.

The ECSP regulation is critical to the development of crowdfunding across the EU, as it attempts to find common ground among national regulators and strike an optimal balance between providing a solid regulatory framework and limiting oversight to allow for innovation, i.e., providing predictability without overburdening. ECSP enables platforms to operate – and be recognized – across the EU under a unified set of laws, helping to the harmonization of the existing fragmented national regimes under which crowdfunding platforms operate. As a result, the ECSP is intended to make cross-border investments in crowdfunding initiatives easier. Importantly, platforms should carry out their financial-return intermediation operations under the supervision of the financial authority in the Member State in which they were licensed.

Crowdfunding platforms will be allowed to employ passporting to deliver services in all EU member states under the legislation. Crowdfunding platforms will save money and time as a result of this, while other interested parties will have more options (project owners and investors). Project managers were unable to easily use crowdfunding platforms' services throughout the EU because to variations in legal frameworks and linguistic hurdles, while investors were likewise constrained (for different reasons) to investing in their own home nations. The new rule opens up new opportunities for existing crowdfunding platforms, such as incorporating message boards into their crowdfunding platforms and offering loan portfolio management services.

The ESCP rule went into effect in November 2020, with another year of implementation planned. The following is a chronology for the ECSP:

Figure 7: ECSP implementation timeline



source: European Commission DG REGIO – 2021

The legislation was enacted on November 9, 2020 but will go into effect on November 10, 2021. It does not supersede existing national EU member state regulations. Existing crowdfunding service providers are authorized to continue functioning under the appropriate national framework until the later of November 10, 2022, or until the regulation grants them license to do so.

The Regulation is intended to give parties assurance that fundamental control policies would be in exist to keep counterparties safe from some of the improper issues that surrounded some platforms in the prior. It will also provide a new EU label to help harmonize the current complex regulatory environment and aid authorized platforms in achieving scale throughout the EU. The Regulation establishes requirements for shareholder rights, fiscal obligations, and the delivery of amenities by platforms such as individualized portfolio management, safekeeping, and payment systems.

Scope

The Regulation relates to the supply of crowdfunding activities that include lending or the issuance of equity or debt items by the creator or a specific purpose organization, as well as linking the effective financing interests of the investors and creator via a platform. A "loan" is defined as any arrangement in which a certain quantity of capital is made accessible to a cause for a consented duration of time and reimbursement is paid in accordance with a payment plan in increments. Substitute or novel lending items with specific characteristics may be excluded. The Regulation's limited range of allowed activities would very definitely hinder platforms' ability to adapt to clients' unique situations and deliver creative approaches to shareholders. Any funding or lending in excess of €5 million would be exempt from the Regulation, however it could be susceptible to the Markets in Financial Instruments Directive framework and the Prospectus Regulation (EU Directive 2014/64/EU and EU Regulation 2017/1129, respectively). However, the Regulation does enroll to middlemen that arrange the placement of stock or loan mechanisms in campaigns on a platform.

Only legitimate entities incorporated in the EU can acquire authorization to offer fundraising services to consumers in the EU under the regulation. Crowdfunding sites and their middlemen that now serve users and owners in the EU from places outside the EU will be compelled to relocate or establish affiliates within the EU in order to obtain access to EU members.

Investor Safety Regulations

The Regulation creates strict new investor safeguards standards. Among the remarkable measurements are the following:

- **Creditworthiness evaluation:** When determining the pricing of a crowdfunding offering, a platform is expected to do a creditworthiness evaluation of the campaign or creator and to share rules and processes describing how such evaluations are carried out. The Regulation establishes a responsibility to guarantee that the pricing is "fair and suitable," even if the lender chooses to depart before the loan matures. Furthermore, the platform is required to do loan valuations at the time of origination, at the moment of expected failure without enhancing security, after a failure, and when a lender wishes to leave before completion.
- **Due diligence:** Intermediaries are expected to do "minimum level" due diligence on each crowdfunding campaign and its creators. This should involve an examination of criminal histories and violations involving business, bankruptcy, deception, or financial fraud concerns.
- **Lending portfolio management on an individualized basis:** When an investor gives a platform a discretionary mandate to distribute money through loan to a project, the platform must do so in line with specific criteria established by the investors, such as interest rates, maturities, lending risk classifications, and a desired rate of return. In addition, the platform must conduct a creditworthiness evaluation of the particular cause and portfolio. Furthermore, the Regulation's comprehensive requirements necessitate platforms to provide shareholders with specific data regarding the chosen loans, the investment, and any emergency fund set up by the site.
- **Key Investment Information Sheet (KIIS):** Middlemen should offer a KIIS for every crowdfunding campaign to investors. While the creator is in charge of authoring the KIIS, the site and its middlemen are responsible for disseminating it. The KIIS must include extensive data about the cause and the creator, features of debt or financing, risk considerations, rights of shareholders, claims and charges, as well as lending investment management, all as stipulated in Annex I of the Regulation, along with a risk notice and caveats. Digital intermediaries should give the KIIS in every member state's native language where the initiative is being promoted.

Translation expenses may be exorbitant for certain project owners and platforms accustomed to merely putting project data on a more user-friendly internet infrastructure.

- **Period of reflection:** All proposals to fund projects made by inexperienced investors are subject to a pre-contractual "reflection period". The contemplation period lasts four calendar days, during which time an investor may withdraw his or her offering.
- **Suitability assessment:** Intermediaries should perform a suitability check to analyze non-sophisticated funders. This test must be related on the funder's experience, capital position, fundamental knowledge of investment risks, and modeling of the investor's willingness to suffer losses. Platforms must duplicate similar examinations every two years, according to the Regulation. Any inappropriateness judgment will necessitate the issuing of a risk alert, which the funder should clearly recognize. Furthermore, each time such a funder invests more than 5% of his or her net value, the intermediary should give a risk alert demanding the funder's agreement, and the funder should react by demonstrating that he or she comprehends the transaction and its dangers.

These investor protection measures have the potential to have a substantial impact. Due diligence examinations are not generally included in the operational procedures used by intermediaries and other relevant suppliers of services. Especially noteworthy, considering the KIIS's language restrictions, sharing it will raise the institutional overhead for an intermediary if it plans to provide a campaign to investors across the EU. Furthermore, the reflection time may have an impact on the safeguarding of financing for campaigns provided through EU platforms, and creators should include this uncertainty into plans to use any monies obtained as part of the development.

Other prerequisites

The regulation includes very specific procedures for addressing complaints, avoiding entanglements, freelancing, and submitting annual reports to the regulatory of specified project and investor data, and annual publishing of project and loan default rates.

The regulation imposes mandatory capital ratios for fundraising sites and middlemen. Companies will be obliged to retain the greater of €25,000 or one-quarter of fixed overhead levels as equity capital or insurance coverage (or a combination thereof). Under the Capital Conditions regulation, the share capital should fulfill the prerequisites for categorization as Common Equity Tier 1 capital (Regulation (EU) No 575/2013). Some popular capital structures used by businesses, such as partially paid shares, preference shares, or instruments having principal amounts that may be decreased or returned, cannot meet these qualitative criteria

4.1.2 Market readiness

In this section we are going to present a market readiness assessment conducted by European Commission aiming to identify which countries are best positioned in order to accelerate their use of crowdfunding in the 2021-2027 programming period.

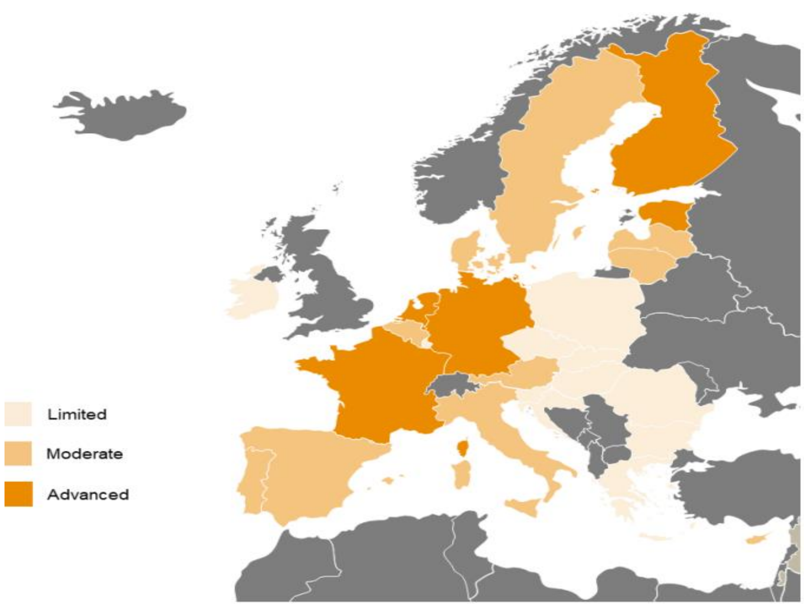
The method to evaluate market readiness consists of four major phases:

- **Step 1:** Based on available data, the indicators and their sources that contributed to the assessment's rating were determined. These indications fall into one of the four dimensions listed below: i) economic data ii) statistics on crowdfunding; iii) regulatory and self-regulation regimes and iv) current cooperation between public bodies and crowdfunding platforms.
- **Step 2:** The crowdfunding specialists were provided with the indications for validation and weighting.
- **Step 3:** The information was gathered and rated.
- **Step 4:** Step 4 categorized the nations based on the findings of Step 3.

As a consequence of this study, the EU Member States are classified into three groups: advanced nations that are well-positioned to increase their use of crowdfunding over the 2021-2027 programming period; moderately ready; and those with limited chances to do so in the short term.

The study shows that as we move closer to advanced preparedness countries, all economic and financial metrics tend to rise. The largest discrepancies, however, are in crowdfunding statistics: volume, volume per population, and financial-return crowdfunding. This study, in particular, demonstrated that GDP per capita and crowdfunding volume are not always connected. For example, while having among of the highest GDPs per capita in the EU, Luxembourg, Ireland, and Denmark have a lower crowdfunding volume per capita than Cyprus or Estonia. The parts that follow go into further detail on the peculiarities of each category.

Figure 8: Market readiness assessment by country



Source: European Commission DG REGIO – 2021

Limited Market Readiness

The nations listed below were assessed as having poor market preparedness: Romania, Luxembourg, Bulgaria, Croatia, Czech Republic, Ireland, Greece, Hungary, Slovakia, Poland, Slovenia. This category includes a number of Central and Eastern European member countries. Their lack of readiness is explained in part by low per capita crowdfunding volumes and a predominance of non-financial-return crowdfunding. While both Luxembourg and Ireland have high GDP per capita, countries rank low in terms of crowdfunding volumes.

Furthermore, the majority of these nations have no (or a poorly established) legislative framework for crowdfunding. In fact, these nations have either expanded current rules to include crowdfunding or do not have any regulations at all. This is true for both the Central and Eastern European nations included in this category, as well as Western European countries like Luxembourg and Ireland.

Moderate Market Readiness

The following nations were identified as having modest market readiness: Cyprus, Malta, Belgium, Portugal, Italy, Latvia, Austria, Denmark, Spain, Lithuania, and Sweden. This group includes nations from Western Europe (Belgium, Portugal, Italy, and Austria), Northern Europe (Sweden and Denmark), the Baltic area (Latvia and Lithuania), and Southern Europe (Cyprus and Malta).

In terms of economic and financial indices, this group is likewise diversified. For example, in Malta, the amount of financial-return crowdfunding per capita is insignificant, but in Cyprus, it is EUR 73. Sweden has a 1% rejection rate for bank loans, whereas Lithuania and Latvia have rejection rates of 22% and 28%, respectively. Importantly, all members of this group, with the exception of Latvia and Denmark, have their own crowdfunding regime. This confirms the finding that regulation is a key element in determining a country's market success.

Advanced Market Readiness

Estonia, France, Germany, Finland, and the Netherlands are regarded as having advanced market preparedness with Netherlands leading the ranking. The nations in this category have a highly established financial-return crowdfunding sector, with platform operators licensed under a specialized crowdfunding system.

This group of nations is well-positioned to increase their usage of crowdfunding over the programming period 2021-2027. All of them include cooperation between public bodies and crowdfunding platforms, and they could all take the lead in this area by pursuing more sophisticated types of collaborations and sharing lessons gained and recommendations with their colleagues in other European Member States.

Overall, the market readiness evaluation reveals that the crowdfunding ecosystem in most European nations is rapidly expanding in terms of market, laws, and partnership with public funds. The new regulation set by European Commission is going to further enhance this market by facilitating crowdfunding for all European Member States and increasing Europe's market share by stimulating early-stage companies with regulated cross-border financing.

4.2 The regulation of Crowdfunding in Greece

4.2.1 Current regulation and the inexistency of crowd-investment market

Due to Greece's ongoing financial crisis, which had severely impacted the Greek banking system and, as a result, the financing opportunities of domestic entrepreneurs and companies, the Greek legislator, in close collaboration with other public entities, namely the Hellenic Capital Markets Committee (HCMC) and the Bank of Greece, has worked to find alternative financing solutions that would serve both as a "lifejacket" and, more importantly, as an impetus for Greek entrepreneurship.

Following a recommendation by the HCMC and a public consultation with production and social institutions, the Greek Parliament approved the 4416/2016 law on September 1st, 2016, which went into effect a week later. Since 17 of the 29 articles alter the Greek law 4099/20127, which included the previous EU Directive 2009/65, this legislation is primarily focused on integrating the EU Directive 2014/916. Aside from these requirements, this law has two additional articles (articles 23 and 24), which alter the legislations 3401/2005 ("The Greek Prospectus Act") and 3606/20079 ("Markets in Financial Instruments Act"), respectively. These two paragraphs are, in reality, the bedrock of Greek crowd-investing legislation.

In general, the new regulation attempted to strike a balance between two distinct and competing interests: the urgent need for Greek startups and SMEs to gain access to new funding tools that would allow them to develop in the midst of a depressed economic environment, on the one hand, and the struggle to maintain an adequate level of investor protection, on the other. To that purpose, on one side of this regulation (article 23), there is a provision exempting the selling of securities through an electronic system from the Prospectus requirement up to a maximum of five hundred thousand (500.000) EUR. Articles 231c and 24, on the other hand, add subscription restrictions for investors as well as a stringent certification method that a business must follow in order to be certified as a crowdfunding platform and therefore run the electronic system via which shares are publicly sold.

However, because there is no established crowdfunding market yet, we do not have any statistics to determine whether or not the lawmaker was able to balance these interests or if he preferred one side over the other.

A comparative examination of the crowdfunding industry in Europe reveals that the amount of development of this means of fundraising has not been consistent across all nations. In more developed European countries crowdfunding has long been recognized and utilized as a form of entrepreneurial finance. In some nations, on the other hand, crowd-investing has hardly touched the surface of corporate financing. Greece is one of these nations. Apart from a few reward-based and donation-based crowdfunding sites that have been active in Greece in recent years, there have been no notable instances of crowd-investing platforms. This phenomenon can be explained in a variety of ways.

To begin with, the Greek capital market is relatively tiny in comparison to the equivalent markets in Central Europe. It is suggestive that the amount of companies engaged in the Athens Stock Exchange Market is minimal, while the daily trading volume is quite low. Although many Société Anonyms are registered with the General Commercial Registry, their form and operation are more akin to a Limited Liability Company than a stock company. More precisely, the number of registered Société Anonyms that choose to function with the minimal capital share necessary is not insignificant, whereas at the same time the majority of these businesses are comprised of two or three shareholders who possess the majority of the company's shares. As a result, these shareholders influence the board of directors in such a way that no investment decision can be taken without their approval. Furthermore, it has been observed that the majority of Greek firms in need of funding prefer debt to equity. This refers to a circumstance in which a company in need of money turns to a shareholder or a bank for a loan rather than proceeding with a capital share expansion by issuing its shares to the public. As a result, Greek businesses have been hesitant to seek equity funding from outside investors.

However, maybe the most crucial factor for the absence of development of a crowd-investing industry in Greece is a lack of investment mentality. With the exception of the "golden age" of the Athens Stock Exchange Market, which became a bubble, Greeks had never been particularly interested in putting their wealth in business endeavors. They would always favor low-risk, more physical assets, such as real estate, over an intangible share that they could not see, touch, or feel. And it is this apprehension about equity investments, along with a lack of prior investment attitude, that issuers and crowd-investing platforms will have to overcome if the prospective crowd-investing plan is to materialize.

Nonetheless, despite the odds and an unfavorable economic environment, many startup businesses have emerged over the years of the recession, and strange as it may sound, many of them have managed not only to survive but also to expand their business by receiving respectable amounts of money from venture capitalists or other larger companies. However, all of the other companies that have not secured sufficient cash to enter the "upper entrepreneurial league" are struggling to acquire funding in order to demonstrate the worth of their company.

As a response, the crowd-investing law aimed to provide a crucial access point for financing small enterprises and startups. According to the explanatory note of the law:

"Crowdfunding is a new mean of raising capital from a big number of investors, through the use of the Internet. […] Crowdfunding has emerged as a financing method for startups and other corporate ventures. Due to the ongoing financial crisis and due the constant need of entrepreneurs for liquidity, crowdfunding has been proved a good alternative finance solution. In this way, bank loans are being avoided".

According to the explanatory note, the adopted measures not only attempt to promote crowd-investing as a new form of fund raising for enterprises, but they also do it in a way that will assist creative entrepreneurs in filling the financing vacuum produced by a lack of banks loans.

4.2.2 Opportunities created from the latest EU regulations

Medium and small businesses are crucial in the Greek and EU economies, contributing significantly to income and employment, as well as innovation and growth. However, they frequently have difficulty in obtaining the necessary money. This became increasingly apparent in Greece during the financial crisis years, when bank funding was significantly restricted. Alternative funding options, such as microfinance or crowdfunding, that supplement the banking sector, may be the necessary solution for many SMEs. By deviating from the rigorous method of traditional funding offered by traditional credit institutions, such financing instruments can boost entrepreneurship by helping to the formation and growth of new enterprises and start-ups.

Several member countries, including Greece, have put in place national rules to encourage the expansion of the crowdfunding industry and safeguard potential investors. However, the EU's crowdfunding industry lags behind those of other major international economies (such as the US and UK's crowdfunding marketplaces). Specifically, existing national regimes are relatively heterogeneous and non-unified, deterring investors from cross-border investment via crowdfunding platforms, as they frequently struggle to determine and get insights on the relevant framework of other member states. Because of the high compliance and operational expenses associated with the lack of standard regulations, crowdfunding platforms are unable to scale the supply of their services. As a result, crowdfunding services remain mostly national, denying businesses access to such services, particularly when such enterprises are located in tiny national markets.

The European Commission has prioritized the development of alternative and entrepreneurial financing in the EU. It emphasized the need for a unified EU-wide regulatory framework for crowdfunding in its March 2018 FinTech Action Plan. As a consequence, Regulation (EU) 2020/1053 on European Crowdfunding Service Providers for Business (Crowdfunding Regulation) was enacted on October 7, 2020, and will take effect on November 10, 2021, throughout the EU.

Although there will be extra obligations and costs associated with aligning existing procedures with the standards of the EU's new rule, the benefits outweigh the drawbacks. Crowdfunding platforms were restricted to the market of just one EU member state under the present legislative framework, unless they were ready to invest in complying with the various criteria of each EU member state. Businesses, in particular, would be able to seek finance from platforms and investors situated anywhere in the EU, rather than being confined to their home markets, which in many cases remain undeveloped.

The establishment of such a competitive and favorable ecosystem for the formation and expansion of crowdfunding platforms, as well as the facilitation of cross-border financing, represents a golden opportunity for Greek and other EU-based SMEs and start-ups. It is clear that the implementation of the Crowdfunding Regulation may benefit all three fundamental participants (crowdfunding platforms, project owners, and investors) in a crowdfunding project. What remains to be seen is how these stakeholders will cooperate.

Conclusion

The chapters presented have shed a light into the rather unexplored crowdfunding industry by depicting the present environment, the main economic challenges/frictions and risks related to crowdfunding, the role of the dedicated platforms and banks and the new legislation set by the European Commission. Ultimately, we argue that crowdfunding fills actual and substantial gaps in the market in capital accessibility and dispersion. Nonetheless, despite its recently fast growth, we are experiencing a field that is merely scratching the edge of its real potential. This promise may be fulfilled with a combination of adequate regulation, effective public education, and honest and moral behavior on the part of players in the industry.

Crowdfunding's destiny is determined by the actions taken by all relevant parties. Each of whom should oppose a return to a largely disjointed but recognizable background and alternatively work to create a promising future based on co-creation of value, individual empowerment, and liberalization of capital availability and accessibility. It should be accomplished by permitting some knowledgeable exploration and risk-taking. The future will reveal if and to what extent fundraising delivers on these expectations.

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