Platform

Risk category: GENERAL

# #15 - Lack of transparency & low accountability

## Definition

The role and objective of a crowdfunding platform is to support and enhance the creation of integrated financial dynamics to collect resources from the crowd and institutional donors. These funds are in the name of the innovative project's activities and initiatives, in line with specific demands or needs. In this sense, any malpractice or perceived lack of transparency and accountability can result in the stakeholders' disaffection, that mines the success of any proposed crowdfunding campaign.

A platform's reliability and trustworthiness result by mixing clear expressions of transparency and a considerable campaigns' completion rate. In other terms, promoting unfortunate or failing initiatives can also negatively influence the perception on the platform's capacities and credibility. This is also true because investors and supporters do not always have a thorough understanding of alternative finance dynamics and make irrational choices, opting for more-widely-known platforms ("herd mentality").

## Mitigation strategy

The platform has to build its accountability taking two main aspects into account: the creation of a transparent profile, and a fair management of campaigns and projects. For the first purpose, it should declare and openly publish its legal information, contractual obligations and details of the implementing/ managing bodies of reference (board, person of reference, etc.).

In the same way, transparency can be guaranteed by issuing public calls for the submission of new actions, as well as the rating/references by the crowd. An additional indicator of its reliability consists in selecting projects via specific criteria and publishing score and arguments.

In relation to the practical management of the initiatives, on a preliminary basis it would be good practice for the platform to check on the project owner's capacity, on the project's suitability for their space, and on the users' readiness. This would result in higher success chances for the proposed initiatives and, as a consequence, in a better reputation in overall terms.

Along the campaign, the platform is expected to regularly report about the project's implementation with evidences (photos, videos, interviews, etc.) and supportive materials. At the end of the funding period or initiative, it is also good practice to present the action's results and foreseen developments.

Building and keeping on a regular communication and an open relationship with the community of reference and crowd is fundamental to the extents of anaccountable profile. In the medium to long term, in fact, contractual clarity and transparency contribute to maintain a reliable and trustworthy profile also in case of negative contingencies. This is suppose to mitigate the reputational damage in case of failed projects.

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**Platform**

Risk category: GENERAL

# #16 - Inaccessibility for certain categories

## Definition

Alternative finance is an economic dynamic characterized by specific procedures, particular actors, different timing and budget structure. In particular, crowdfunding, has been proven being poorly known and limitedly used by a large part of the population.

This is mostly due to a general digital unpreparedness and a scarce culture about alternative finance. In such a context, possibly-interested parties are simply not informed about crowdfunding initiatives, and, thus, unable to access and support the campaigns on the platform.

Particularly significant is the case of people from disadvantaged contexts, with disabilities or/and digitally illiterate such as elderly people. The sum of these contingencies results in a lack of potential users and, thus, in a more limited success of the projects hosted.

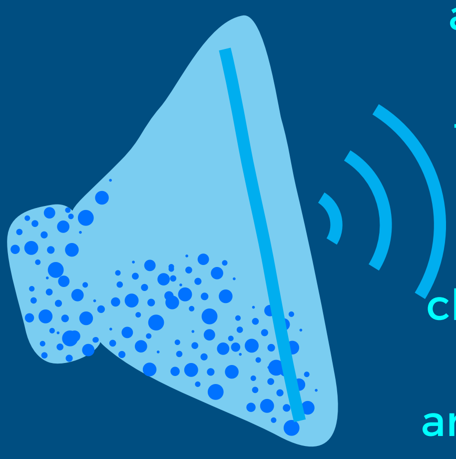
This, in turn, on the one side hinders development chances for the territory and the community; on the other side, it is high-potentially influencing the fruition, reputation and profit of the platform itself.

## Mitigation strategy

The platform has the chance, power and duty to organize training and workshops, webinars, coaching and support-sessions for users and ad hoc events to spread the crowdfunding word. Assistance and backing-functions should be provided to its users before, during and after the campaign. Such an 'investment' in capacity-building will later result in a broader crowd and market community – and will, at the same time, confer to the platform a certain status as point of reference.

Particularly in case of small-to-medium size platforms, a dedicated focus on specific territories and areas is very welcome. In fact, the presence of formerly-funded initiatives and projects on a given area plays a role like multiplier for the perception of crowdfunding benefits by the locals, boosting the diffusion of this dynamics.

In order to broaden the community of possible project owners, furthermore, dedicated and even regular calls and contests can be launched, as to make crowdfunding a more visible and tangible funding option to make their dreams and initiatives come true.



Practical expedients like a more user-friendly website, easily-understandable infographics and clear visual elements on their services and on the projects offered (status, location, timeline, progress, project owner's details etc.) can also help mainstream the appeal of crowdfunding and make it be perceived as closer to the wider and less experienced public. The publication and easy consultation of legal and administrative information and documents is another very meaningful element that can shorten the distances between the digital service provider and the audience.

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Platform

Risk category: GENERAL

# #17 - Cyber-security attacks & digital protection

## Definition

Crowdfunding is, per definition, a financial dynamic happening through the anonymous internet space. In this sense, hackers are the pirates of the digital 'galaxy', able to attack and break into seemingly inviolable data repositories to steal credit card details and other personal data. These cyber-criminals are a danger both, for the crowdfunding platform itself and for its users, as they can imperil the very financial transaction as much as the identity of the two stakeholders.
Given the unknown profile of many users on the internet, furthermore, economic transaction over platforms might be perceived as possibly hindering illicit activities of money laundering or terrorist financing (ML / TF Risks).

The perception of the risk to incur in potentially insecure financial transactions via the platform can prevent public donation and support, resulting in a loss of income for project managers and owners, and in a general failure of the campaign.

## Mitigation strategy

One of the major elements of care for the platform has to be the digital protection of its users' data and personal information. Being up-to-date with the latest technology is not only a matter of easier transactions, but a legal and financial warranty towards both, the project owners and the supporters. Among the possible solutions:

- Create a secure system to access to the crowdfunding platform and adopt users' and customers' verification (i.e. installation of SSL certificate for secure data transfer);
- Opt for end-user security education and awareness training (i.e. drawing customers' practitioner experience and empowering them through user-centric solutions). Similarly, systems to deliver threat awareness and alerts for risky behaviors is highly recommended;
- Enable transactions through established and accredited financial institutions and channels;
- Harden the cookies system hanging the platform configuration in order to prevent client-side impersonation;
- Ensure compliance with GDPR, Implementation of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons against the processing ofpersonal data and the free movement of such data;
- Regulation has to specifically address this issue and make clear division of responsibility, also in order to protect the platform from illicit fundraisers'/users' activities.

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Risk category: FINANCIAL

# #18 - Uneven and unstable profit-making

## Definition

The way how a platform actually makes money highly differs in reason of diverse considerations, concerning the nature of the supported projects, their scope and location, sector of activity etc. Most of times, nonetheless, the platform does not charge the supporters, rather takes money from the project owner(s). The choice of one or the other option highly impact on the regular inflow of  oney from any campaign. The most common models are:

a) the so-called “success-fee” rate, i.e. only charging the project owner in case of fundraising accomplishment. In other words, if the funding goal is not reached, the platform does not earn anything and all money is  refunded to backers
b) applying the so-defined “flat / flexible rate”, meaning that the project owner gets to keep the money raised, regardless of whether the funding goal is reached within the defined timespan of campaign development. This is possible because the platform applies a fixed commission in terms of subscription or membership rate, which allows it to collect money independently as from the projects' real success.

In addition, usually, the platform also takes a percentage of the money raised all along the project in the form of credit card processing fee – normally upwards of 3% of each transaction, also in combination with a fixed amount per pledge.

## Mitigation strategy

In order to ensure an internal regular profit and an external sound accountability,  it is fundamental to look at the diverse consequences of each of the two methods :

a) Via the “success-fee” rate, the platform links its profits to the quality of the projects published and supported. This requires the campaign provider to be more attentive and selective when scrutinizing the project proposals. In practical terms, the platform will make sure that the project owner/firm is stable and ready to perform the crowdfunding campaign, that their business model is adequate and complete – and that the project as a whole is appealing and in line with the market and sector of reference. The platform might, thus, allow for a lower quantity of projects to be published, but being estimated having a higher possibility of accomplishment. The platform's management capacities also incide upon the quantity of projects to run;

b) In the second case, the platform needs to host a larger number of projects or to have a higher amount of affiliated companies/project owners, who regularly provide for subscription fees. Consequently, the selection over the presented projects might be less accurate in terms of topic, sector and size (i.e. financial goal). This method, nonetheless, enables the platfom to propose a larger offer of initiatives and projects, thus attracting a larger quantity of  entrepreneurs.

**Platform**

Risk category: LEGAL

# #19 - Diversified regulatory system & legal framework

## Definition

Crowdfunding can be of different types – donation, rewards, equity or lending. The first two dynamics do not embody a financial return vis-à-vis the initial investment and, normally, end with "thanks" and/or a minor material gift, gadget or sample.
Instead, the other two forms are monetary in their nature (based on investments and lending, respectively) and imply transfer of money and longer financial relations. Therefore, the users' and supporters' activity largely vary in function of the national regulations in terms of investment limitation and taxation.
Diverging legislation across the EU makes operating on across-borders platforms and initiatives cumbersome, complicated and even not permitted.

Such restrictions hinder the possibility of scalability to the sustainable operation of a crowdfunding platform. In other words, limited activities imply that crowdfunding service providers ("CSPs") must incur a meaningful level of capital expenditure and ongoing costs in order to build and maintain the legal, financial and technological infrastructure required to operate in a highly professional and compliant manner.

By this meaning, uneven regulatory measures undermine the health and viability of the crowdfunding market as a whole.

## Mitigation strategy

In order to better coordinate and make the diverse national legislation uniform, a new legislation has been proposed and is being adopted by the European highest institutions. It is the European Crowdfunding Service Providers (ECSP) for Business Regulation, COM(2018)0113 - C8 0103/2018 - 2018/0048(COD), which has the potential to make pan-European crowdfunding a reality.
Such regulation will harmonize the legal framework for the sector, offering a well-defined and structured legal skeleton for the activities of crowdfunding for business (lending and equity) all over Europe. The main innovations will be :

- A single set of rules will apply to crowdfunding services in the EU, up to € 5 000 000
- Strict rules to protect investors from financial losses
- Member states responsible for authorising and supervising crowdfunding providers

At the present, the regulation's details are still to be finetuned and technical work on the text is under way within the three institutions. The law is expected to come into effect in 2021 – still, this accomplishment will largely ease the crowdfunding process for all the involved actors, thus ensuring great benefits to European startups, SMEs and investors.

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