

We'd like to thank the Consob for the unexpected timeliness with which it released the regulation on equity crowdfunding a few days before we published our interview with Carlo Boccazzi Varotto for Primo Piano Scala c: almost a wink of approval for our editorial programme. Although Primo Piano Scala c doesn't focus on news items or current affairs, it's encouraging to know that we're on the same contemporary wavelength. Joking apart, we thought it important to discuss new and different ways to find funds when, to all intents and purposes, banks no longer provide credit: in short, crowdfunding.

Boccazzi Varotto immediately cautioned us saying that our vision was, to say the least, short-sighted. Although it's true that the possibility to fund a project by accessing even small sums of money on the web is a way to replace large professional investors, it's the spirit behind the project that is very different: crowdfunding projects work

only if they satisfy the *niche* need of many people – almost an oxymoron. There's no one funding model: there's a donation-based model (thousands of donors offer small sums of money without expecting anything in return), a reward-based model (involving small gifts, like a free ticket to a performance, a book, or simply a public thank you) and finally, the most interesting - an equity-based model (innovative start-up companies raising venture capital). After a public consultation, the Consob has given the go-ahead for this kind of crowdfunding. Originally, it was the Stimulus Package adopted by the Monti Government, to foresee a register of portal operators authorised to collect orders, and a general code of conduct for them to comply with. The Consob has now introduced thresholds below which the portal operators are no longer subject to the rules set out in the MIFID: the threshold for individuals is €500 per investment and €1,000 per year. Legal

entities instead have a threshold of €5,000 per investment and €10,000 per year. Investors may also exercise a withdrawal right within seven days from the order.

Italy is the first country in Europe to have enacted legislation regarding equity crowdfunding. As Boccazzi Varotto points out, legislation is clearly not enough to encourage investors, it's rather a cultural issue, but knowing that the regulatory framework safeguards investments does help. And we shouldn't forget the needs of politics. If the cuts in the State funding to political parties are indeed implemented, then parties will have to follow Obama's suit and use crowdfunding in their next election campaign. In this case, it will involve classic donations even if a return for citizens who invest in politics wouldn't be a bad idea at all!

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BOCCAZZI VAROTTO

## CROWDFUNDING: PASSING THE HAT IN THE INTERNET ERA?

“*The traditional credit system has no resources of its own, and often no tools or competences; instead there is a global world of enthusiasts and/or experts capable of judging a project and (if they're convinced) investing in it.*”

**Telos:** In the best of cases, the average Italian thinks crowdfunding refers to humanitarian fundraising campaigns. Can you help us shed light on this new trend, and tell us about its potential and drawbacks?

**Carlo Boccazzi Varotto:** Literally speaking, crowdfunding means crowd-sourced fundraising which, however, might be better defined as bottom-up fundraising; the concept is more novel than you might think. Anyone contributing to a crowdfunding campaign usually does it to satisfy his own needs, or as gratification. So it doesn't matter why the funds are requested: a movie promotion, a technological object, a start-up company, etc., and whether a (*pro bono*) donation is required, or else the investor gets something in return. In any case, crowdfunding doesn't involve asking everyone for money; instead it means detecting, sometimes creating a group of people who want to be part of the project and want to put money into it. So in actual fact there's no limit to the potential of crowdfunding because, thanks to the Web, you can mobilise resources, knowledge and participation, not only for global projects by addressing a worldwide community (e.g., videogame enthusiasts), but also for local projects, harnessing other interests compared to the ones funded by traditional financing projects. The drawback is that the projects based on a top-down approach, without involvement or preparation, are destined to fail.

In Italy, platforms for collective fundraising sprung up ten years ago. To what extent is crowdfunding now associated with the search for funds to satisfy individual needs or make a dream come true? And to what extent is it instead an alternative fundraising method for businesses at a time when loans from banks have dried up?

According to data collected by Daniela Castrataro and Ivana Pais from the *Italian Crowdfunding Network* (ICN), the most representative Association of Italian platforms, in April the projects presented in Italy amounted to over 30,000, 9,000 of which were online: 28% of those projects had achieved their goal. To the tune of approx. €13 million. Even at a glance, however, crowdfunding does little, generally speaking, to finance the needs or dreams of an individual, instead it's successful in financing collective community projects. Crowdfunding is not just an answer to the economic crisis and the credit crunch caused by a restrictive banking policy, it also satisfies complex needs.

Let me give you a few examples: publishing a CD of baroque music might be bad business for a



**Carlo Boccazzi Varotto** became interested in digital issues in the mid-Nineties, when he worked with Mondadori, Zanichelli, Utet, and DeAgostini. As a researcher with IRES CGIL between 1997 and 2001, he focused on new jobs and the impact of digital technologies on economic growth and social inclusion. In 2002, he coined the expression *Artigiano Digitale* (Digital Artisan) and set up the *Progetto Atelier* in Turin the first Italian co-working space devoted to the incubation of digital projects. While a consultant to the Directorate General of Rai Varotto founded *Fabermeeting* which, now in its third edition, is one of the most important events bringing together young people engaged in the hi-tech field and businesses. In collaboration with the Dept. of Economics at the University of Turin, the ITS Foundation, and the ICN, in April this year he was one of the promoters of the first edition of *TorinoCrowdfunding*. For the first time the Italian Ministry for Economic Development, the Consob, Italian platforms, and the most important Italian companies working in the field of start-ups all came together to discuss new scenarios and applications to finance projects and enterprises.

recording company, but a great deal for enthusiasts; similarly, a film on Sardinian or Piedmontese culture might be important in Sardinia or Piedmont, but less so in Calabria. Likewise, who is to judge how good an innovative start-up will be? The traditional credit system has no resources of its own, and often no tools or competences; instead there is a global world of enthusiasts and/or experts capable of judging the project and (if they're convinced) investing in it. This is why Obama has included equity crowdfunding in the Jobs Act, in other words funding which allows investors to become shareholders in exchange for their investments. The same reason why the Consob is trying to regulate the issue in Italy.

In fact, for the first time last year, regulations were put in place regarding innovative start-ups involved in venture capital harvesting using online portals (equity crowdfunding). What do you think of the ongoing process to regulate the sector? Is it possible to provide guarantees to investors without hobbling crowdfunding in bureaucratic shackles?

Let's explode this myth. During the *TorinoCrowdfunding* event, Marco Bicocchi Pichi explained that although no other country had regulated equity crowdfunding, that didn't mean it equity crowdfunding does not take place in those countries. In France, Germany, and above all the Netherlands and United Kingdom, forms of equity crowdfunding exist and the platforms are regulated on a case-by-case basis by their respective financial services authorities, usually with a *plafond* on the number of shares on offer in crowdfunding. It appears that the Consob is also moving in this direction, introducing not only a threshold below which the legal discipline on intermediaries and, therefore the MiFID, are not applicable, but also self-certification whereby the investor declares to the portal manager that he hasn't exceeded the envisaged limits. Furthermore, in the original draft issued by the Consob, the start-up offer had to be underwritten first by at least 5% of professional investors before individual investors could even access the portal. Today, instead, whether or not the start-up is good or bad is left to the Web to decide, and professional investors can come in later, at the end. It's a good *omen* for the birth of a real equity market in Italy, but it has to go hand in hand with a huge cultural effort to create a more dynamic *ecosystem* of private individuals who are used to investing in innovative businesses, but also to assessing risk and, simply, more accustomed to making online transactions.

Do you think it will be possible to use crowdfunding in Italy to finance public works, perhaps small/medium sized public works? Will the contributions of local communities be accepted alongside the increasingly dicey contribution by the State or local authorities?

I think this is one of the most promising sectors. One of the first Italian *pamphlets* on this issue has recently been posted online by Alessio Barollo and Daniela Castrataro. It deals primarily with the situation in Germany, America and England. However, coming to think of it, Italy has already implemented several interesting participatory urban planning projects, for example the *Avventura Urbana* projects at the end of the Nineties. In short, I think that crowdfunding for public utility undertakings is the logical outcome of co-planning territorial projects involving citizens and local communities. Here again, I believe it would be a big mistake to consider crowdfunding as a way to make up for cuts in public spending. Crowdfunding has to be a new way of designing the territory and redefining the relationship between the public administration and citizens. The famous bottom-up approach.