



Equity- and debt-based crowdfunding in Belgium: Developments over the 2012 – 2017 period



Anthony Bellofatto,
Economist, Financial Services and Markets Authority
Timothy de Meester,
Economist, Financial Services and Markets Authority
Christophe Majois,
Economist, Financial Services and Markets Authority

Abstract

Crowdfunding entailing a financial return has gained ground in Belgium. Since 2012, different platforms of crowdfunding providing crowdlending, equity-based crowdfunding or both have emerged. In order to assess the scale and the characteristics of the existing crowdfunding market, the Financial Services and Markets Authority (FSMA) decided to conduct a survey of the five main crowdfunding platforms operating in Belgium: *Lita.co*, *Ecco Nova*, *Look&Fin*, *Spreds* and *Bolero Crowdfunding*. Each platform was surveyed about the crowdfunding campaigns launched during the period from January 2012 to December 2017. The objective of the present paper is to report the main findings of the analysis of the collected data. The full report can be found on the FSMA website.¹

¹ Available at https://www.fsma.be/sites/default/files/public/content/crowdfunding/2018-12-19_crowdfundingstudy.pdf



Introduction

The European Commission defines crowdfunding as “*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.*”² Several forms of crowdfunding must be distinguished: donation-based, reward-based and financial return-based crowdfunding. Donation-based can be compared to philanthropy, as people donate without expecting any return (financial or otherwise). In reward-based crowdfunding, the funder receives a non-financial reward. The later form entails a financial return for investors and can be split into two categories: debt-based crowdfunding (often called “crowdlending”) and equity-based crowdfunding.

Crowdfunding that entails a financial return³ has gained ground in Belgium over the last few years, with several platforms providing crowdlending, equity-based crowdfunding or both. In line with a few other EU countries such as the United Kingdom, the Netherlands, France, Spain, Italy, etc.,⁴ Belgium has decided to create a bespoke regime for crowdfunding with a financial return. This has resulted in the adoption of the Law of 18 December 2016, which entered into force on 1 February 2017.⁵ Since then, there have been two paths for crowdfunding platforms wishing to operate in Belgium: (i) standalone platforms need to get a license from the Financial Services and Markets Authority (FSMA) or (ii) if a platform is part of a credit institution or an investment firm, it is required to notify the FSMA of its intention to carry out those activities. Both types of platforms need to respect a certain set of rules and both fall under the supervision of the FSMA.⁶

The FSMA decided to conduct an analysis of the existing crowdfunding market in Belgium and to assess its characteristics in order to provide insight into the scale of the phenomenon. To

² https://ec.europa.eu/info/business-economy-euro/growth-and-investment/financing-investment/crowdfunding_en

³ In the rest of this paper, the term “crowdfunding” refers to this particular form of crowdfunding.

⁴ See Impact assessment - SWD(2018)56/DOCUMENT-2018-31147: COMMISSION STAFF WORKING DOCUMENT IMPACT ASSESSMENT Accompanying the document Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on European Crowdfunding Service Providers (ECSP) for Business. Available at https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2017-5288649_en

⁵ Available at <https://www.fsma.be/fr/crowdfunding> (French) and <https://www.fsma.be/nl/crowdfunding-0> (Dutch).

⁶ For a summary of rules applying to platforms recognized by the FSMA, see the brochure available at https://www.fsma.be/sites/default/files/public/fsma_2017_03-5_fr_0.pdf (French) and https://www.fsma.be/sites/default/files/public/content/NL/circ/fsma_2017_03-5_nl.pdf (Dutch).



this end, it carried out a survey to compile information from the five main crowdfunding platforms on the Belgian market. The platforms that were surveyed are: *Lita.co*, *Ecco Nova*, *Look&Fin*, *Spreds* and *Bolero Crowdfunding*. The survey covered the period from January 2012 to December 2017.

Three categories of data were requested. The first category comprises general information about the platform. Each surveyed platform was asked to provide the number of crowdfunding projects submitted to it over the relevant period. The submitted projects consist both of projects that were not selected by the platform to be presented to the public and those that were selected for a crowdfunding campaign. The second category of data consists of information on investors' profile. Each platform was asked to provide information about the number of its subscribers and investors as well as their geographic location, gender and age. The third category is made up of granular information on each crowdfunding campaign launched: Name of the project, whether it succeeded or failed, the amount raised, the type of financing (equity or debt), number of investors, investors' contribution to a campaign, etc.

The objective of the present paper is to report the main findings of the analysis of the data that were collected.

We performed an analysis of the campaigns launched on these platforms along two different dimensions: the "type" of campaign and the "category" of campaign. Regarding the type, we distinguish between equity and debt campaigns. With debt-based crowdfunding (also known as crowdlending), funders lend money to a company and look for interest payments as well as the full repayment of the principal. With equity-based crowdfunding, funders invest in the capital of a company with a view to earning a portion of the profits made by the company funded through the crowdfunding campaign.

As for the category, we distinguish public, private and mixed campaigns. Public campaigns are campaigns accessible to all investors on a crowdfunding platform. Private campaigns are organized on certain platforms and are open to a relatively small number of selected investors only. Mixed campaigns have features of both public and private campaigns and are organized in two phases. In the first phase, as with for private campaigns, mixed campaigns are open to a limited number of selected investors that benefit from an exclusivity period. In the second phase, mixed campaigns are opened to the public just as is the case with public campaigns. The amount raised in a mixed campaign is therefore made up of both a private and a public part.

The main findings of the analysis we made are reported in the following section.

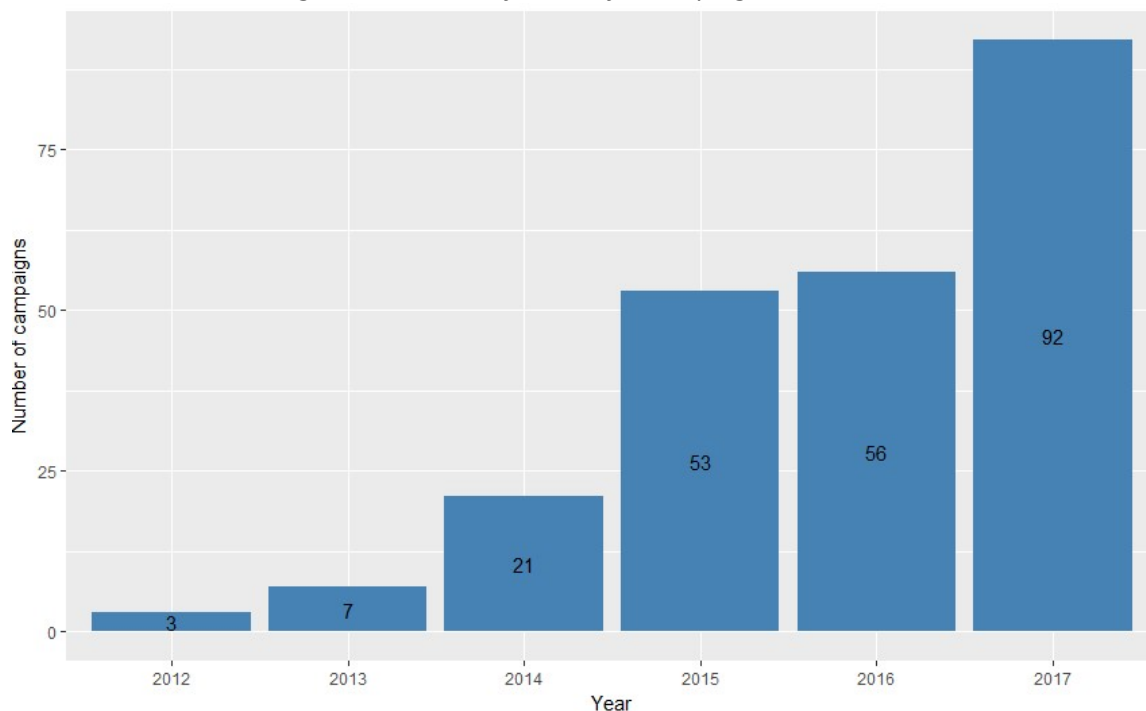
Findings

Campaigns

Our estimations suggest that about 17,389 projects were submitted to the 5 platforms under analysis. Out of those, only 273 successfully passed the selection process and resulted into a crowdfunding campaign. This gives a go/no-go rate of about 1.6%. This figure indicates that it is far from easy for entrepreneurs to have their projects selected by a crowdfunding platform. Moreover, not all projects proposed to investors were successful in raising funds. Indeed, 41 out of those 273 campaigns failed (i.e. about 15%). A project fails when its funding is unable to reach a pre-set threshold; in such cases, the investors are reimbursed.

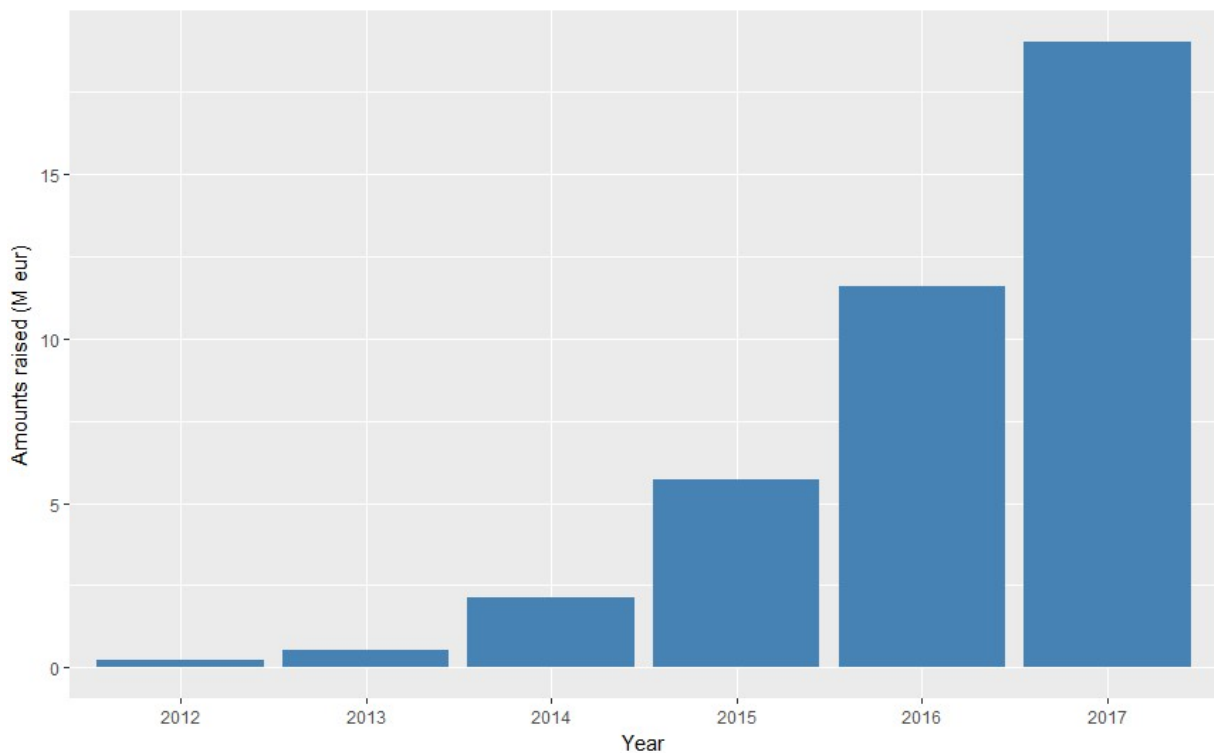
As a result, we analysed a sample of 232 campaigns that were successfully financed on the Belgian crowdfunding market over the 2012-2017 period. Figure 1 displays the evolution in the number of successful campaigns launched over time. It shows an increase each year in the number of successful campaigns, rising from 3 in 2012 to 7 in 2013 then trebling the following year and increasing to 53 in 2015. After one year's stagnation, the number of successful campaigns rose by 64% in 2017.

Figure 1: Number of successful campaigns over time



The 232 campaigns covered by this study raised €40,025,000 in total. Since the launch of the first campaigns, Belgian crowdfunding has grown steadily over time. Figure 2 shows the evolution in the amounts raised per year. This figure highlights that almost half of the total amount, i.e. 48.9% (€19,573,102), was raised in 2017. While the amount raised in 2017 is in line with the growth observed during the previous years, the Belgian legislation put in place as from 1 February 2017 might have played a role. Even if all the platforms were not recognized on day one, the mere fact of being in the process of being recognized, or the fact that a legal framework had been established, could have created positive effects on the market. The new prospectus exemption introduced by the law might have had an effect too.⁷

Figure 2: Amounts raised over time



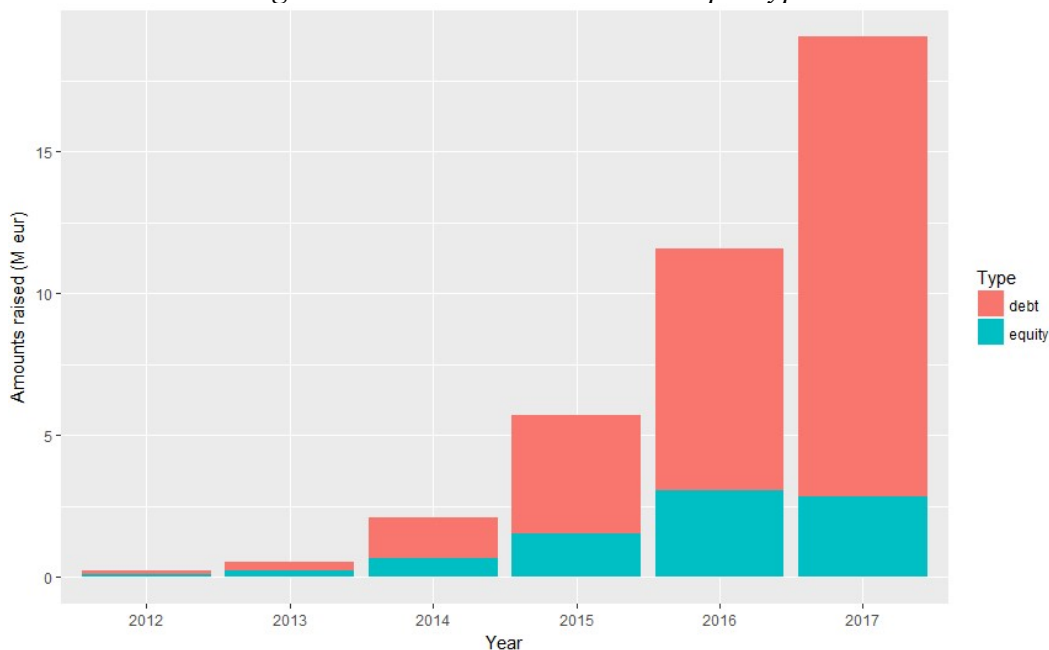
The “3rd European Alternative Finance Industry Report” of the Cambridge Center for Alternative Finance (University of Cambridge) enables a comparison at the European level.

⁷ Indeed, the Law of 18 December 2016 also introduced a new crowdfunding exemption: no prospectus is required for offers below €300,000, provided that each individual investor invests up to a maximum of €5,000 and that the offer is made through a platform under the supervision of the FSMA. Note that a new prospectus regime is in place in Belgium since July 2018, but this does not cover the period under study.

Selecting from that report⁸ the forms of crowdfunding that are the most similar to what is available in Belgium provides a total of about €600 million raised in Europe (excl. UK) in 2016. The totals for the Netherlands and France amount to about 170 million and 120 million respectively. Those figures are to be compared with approximately €12 million in our data set relative to Belgium for the same period.

The majority of the campaigns under analysis are debt campaigns (57% of the number of campaigns and 78% of the amounts raised). Figure 3 indicates that the recent growth of crowdfunding in Belgium has been supported mainly by crowdlending. Crowdfunding campaigns financed by debt increased by around 96% from 2016 to 2017, whereas for the same period equity-based crowdfunding decreased for the first time in terms of amount raised (by around 7%). Crowdlending increased over the years faster than equity crowdfunding. While it seems that equity crowdfunding is stagnating (even declining), crowdlending is continuing to expand.

Figure 3: Amounts raised over time per type

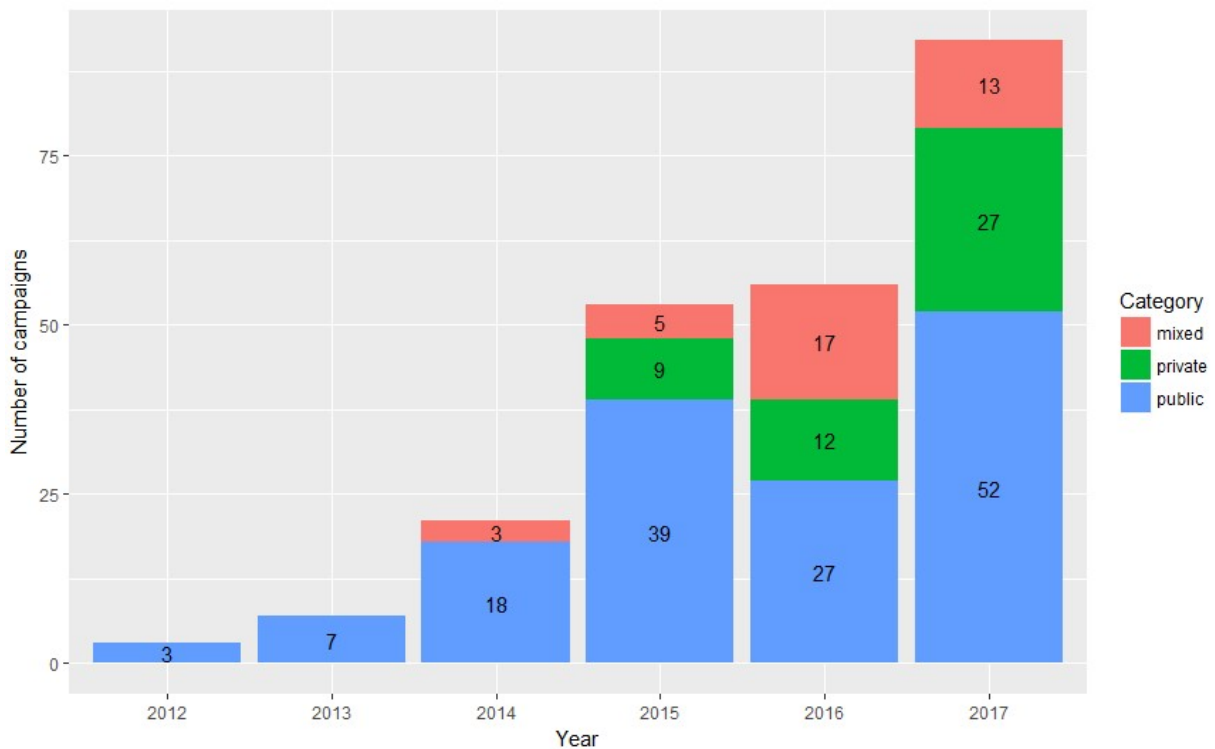


⁸ This report distinguishes many different forms of crowdfunding, ranging from “P2P consumer lending” to “balance sheet property lending” (see page 28 of the report). To make things comparable, we focus on the forms which are the most similar to crowdfunding as it is available in Belgium and understood in the present paper. We have thus selected “P2P business lending”, “Equity-based crowdfunding” and “Debt-based securities”.

Source: https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2018-02-ccaf-exp-horizons.pdf.

Having a look at the category of the campaigns, while almost non-existent before 2015, private and mixed campaigns increased in number over the years. Figure 4 shows that before 2014, all the campaigns were public while in 2014, 3 were mixed. In 2015, about 26% of the campaigns were mixed or private only while in 2017 this percentage amounted to about 43%.

Figure 4: Number of successful campaigns over time per category

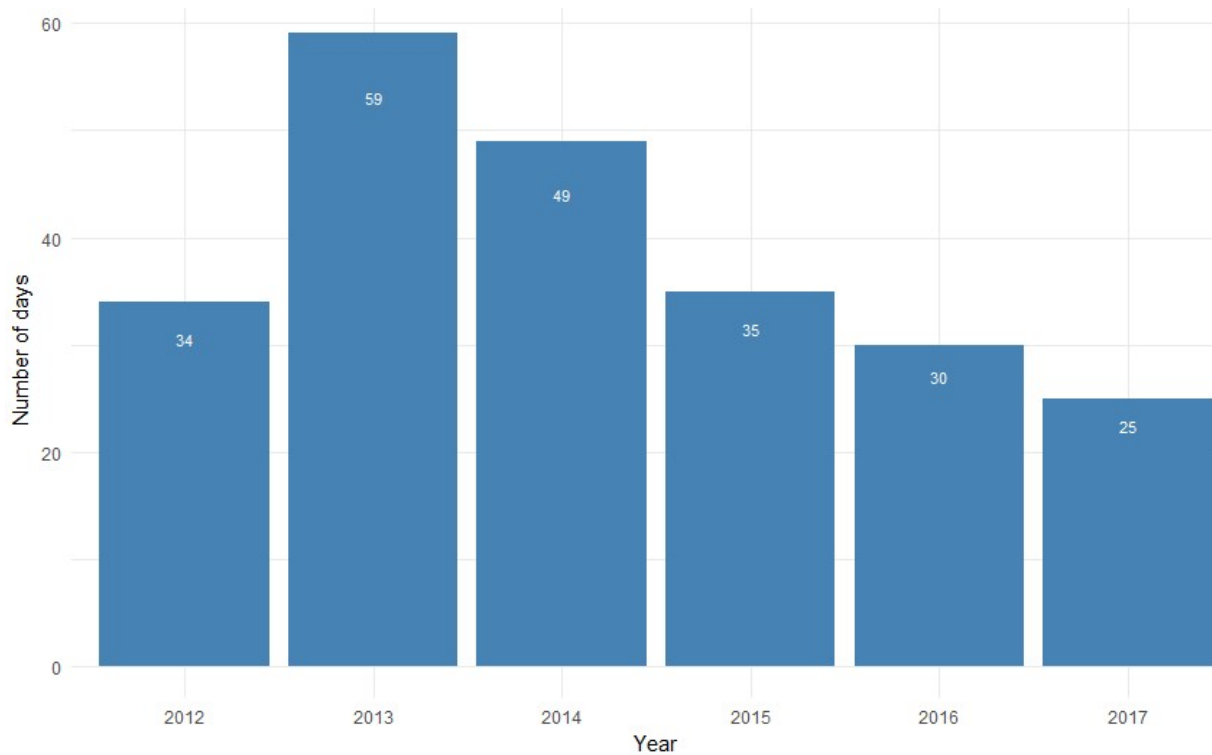


Over the 2012-2017 period, the amount raised by public campaigns was €17,226,209 while private campaigns and mixed campaigns raised €8,386,742 and €14,412,000 respectively. However, on a per campaign basis, private-only campaigns raised more than public campaigns (€174,724 vs €117,987). This finding suggests that even though private campaigns are open to fewer investors, they were able to raise more funds. €379,263 is the average amount raised by mixed campaigns.

For the majority of crowdfunding campaigns, the amount targeted was raised within 13 days or less while 25% were funded within one day. Figure 5 shows that the average time needed

to fund a campaign diminished over the years. In 2013,⁹ a successful project would stay on a platform around two months on average. In 2017, a project would spend only an average of 23 days on a platform.

Figure 5: Average time needed to get financed over time



Equity campaigns needed more days on average to get funded than debt campaigns (62 vs 13). This suggests that when projects are riskier and the outcome of the investments are unknown or more volatile, they take longer to be funded. Private campaigns needed on average 14 days to get financed while public campaigns took 44 days.

⁹ Interpreting the (relatively low) average of 2012 may be difficult since only 3 campaigns were launched that year.



Investors

Our analysis of the investors in the Belgian crowdfunding market is based on a subsample, since not all the platforms provided granular information. Our analysis nevertheless presents several findings that offer some insights into the investment behavior of the average Belgian crowdfunding investor.

The aggregated number of subscribers registered on the (subsample of) crowdfunding platforms under analysis is 67,493. The aggregated number of investors active on those platforms is 6,796. Those figures demonstrate that there is a huge difference between the number of subscribers and the number of investors. The reported figures are nevertheless subject to two caveats: (i) As previously mentioned, not all the platforms reported such data, which may lead to *underestimation*, and (ii) we are not able to take into account multiple counting across platforms, which may lead to *overestimation*.

Crowdfunding in Belgium remains mainly a local phenomenon. While the number of different countries in which investors are based ranges from 1 to 58 across platforms, the proportion of investors based in Belgium ranges from 92% to 100%.

Regarding gender, about 80% of the crowdfunding investors in our subsample are men, although the proportion of women varies significantly from platform to platform (from 8% to 86%).

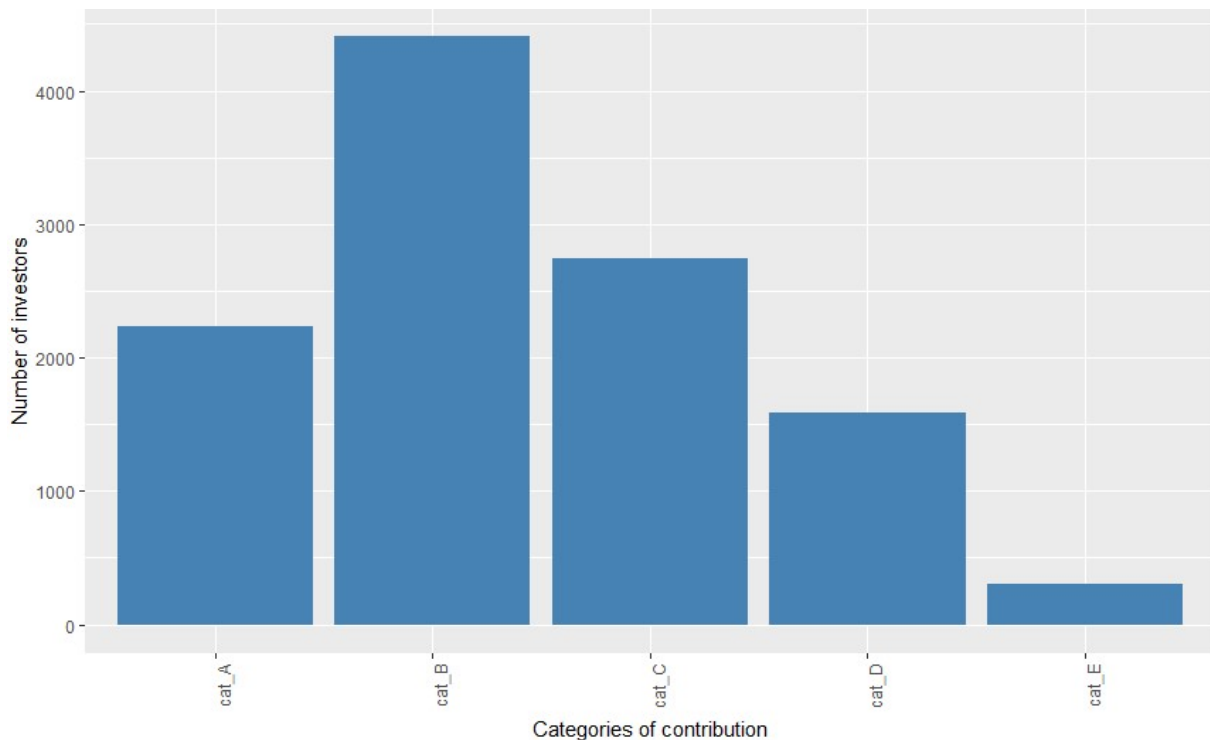
As for age, on most platforms, the 55+ category is the most highly represented among the investors. Our analysis suggests that about a third of the investors are older than 55. The data further shows that about half of the investors are 46 or older. Only about 5% of the investors are under 25. This finding suggests that, although crowdfunding is an online phenomenon, the key driver of participation tends to be the financial capacity of the investors rather than their digital savviness.

The average campaign was financed by 100 different investors. Relative to equity campaigns, debt campaigns were funded by a higher number of investors (112 vs 95 on a per campaign basis). Private campaigns received funding from many fewer investors in comparison with public campaigns (18 vs 121).

When he decided to invest in a crowdfunding campaign, the average investor seems to have adopted a relatively cautious approach regardless of the type and the category of campaign. The average amount invested per investor and per campaign is €2,870. Besides the average amount invested by investor per campaign, the platforms were also asked to report the

number of investors that invested in a campaign distinguishing 5 categories of contribution.¹⁰ Summing the number of investors per category across all the campaigns leads to Figure 6. This figure shows that the majority of investors (about 59%) invested relatively small amounts (€500 or less) on a per campaign basis. Less than 3% of the investors invested more than €5,000 per campaign.

Figure 6: Distribution of investors across categories of contribution



Our analysis shows that the average debt campaign attracted a larger investment on a per investor basis, relative to its equity counterpart (€4,136 vs €2,388). In comparison with public campaigns, private campaigns attracted a larger investment per investor (€9,582 vs €1,119).

Debt and equity characteristics

¹⁰ Cat_A: < €100; Cat_B: €101-€500; Cat_C: €501-€1000; Cat_D: €1,001-€5,000; Cat_E: > €5,000



Debt campaigns

The weighted average maturity for the debt campaigns in our sample is 45 months (nearly four years). This average decreased from 72.5 months in 2013 to 45.8 months in 2017. This decrease can in part be explained by the growing amounts raised privately from 2015 onwards. Indeed, projects that raise funds privately tend to have a shorter maturity.

Debt campaigns offered an average yield-to-maturity (YTM) of 7.42%. Investors in private campaigns were rewarded with a higher YTM. 5 out of the 148 crowdlending campaigns under analysis defaulted. Before going into default, those 5 campaigns had raised €551,600 (i.e. 1.75% of the total amount raised through crowdlending). The companies that defaulted on their debts were relatively young (with dates of establishment between 2007 and 2012). One campaign took place in 2012, two in 2015 and two in 2016.

Equity campaigns

The Belgian government extended the so-called ‘tax shelter’, a tax incentive scheme, in particular to investments in the equity of start-ups through crowdfunding platforms. The regime provides that an individual investor can deduct from personal income taxes 30% (for SMEs¹¹) or 45% (for micro-enterprises¹²) of the sum invested in start-ups made through an authorized crowdfunding platform, if certain conditions are met.¹³

Data collected show that no campaign operated through the 30% tax shelter regime for SMEs, but 24 campaigns did so through the 45% tax shelter regime, for an amount of €2,012,668. This is 23.75% of the total amounts raised through equity crowdfunding during the period studied. This represents 81.85% of the amounts raised through equity after the implementation of the regime in 2017. This figure may be considered evidence that the tax incentive scheme had an impact.

At the time of collecting the data, 2 complete collective exits for equity campaigns had been organized. The first exit took place one year and 8 months after the initial investment and provided a high return to its investors (100% net of fees). The other one took place after two years and four months and saw its investors lose money (-4%).

Seven companies (responsible for 8 of the 84 equity crowdfunding campaigns) had gone bankrupt or announced their liquidation at the time of collecting the data. Those cases represent a total amount of €691,300 of initial investment (8.16 % of the total). One company was founded in 2007 (investment completed in 2014), one in 2010 (investment completed in

¹¹ Defined in Article 15 of the Belgian Companies Code.

¹² Defined in Article 15/1 of the Belgian Companies Code.

¹³ See the Programme Law of 10 August 2015.



2014), 4 in 2013 (all investments completed in 2015) and one in 2014 (investment completed in 2015).

These figures show that investing in crowdfunding is not riskless. The risk of losing money is real. As for equity-based crowdfunding, of the two exits that took place, one provided a high return but the other one saw its investors lose money. This was in addition to the bankruptcy cases that currently represent 10% of the campaigns that were successfully funded. As for debt campaigns, even though the failure rate is lower (5 out of 148 campaigns), our figures show that investors should also be aware of the counterparty risk present in crowdlending. Finally, the liquidity risk must not be neglected, as it may be difficult for investors to exit a crowdfunding project.

Conclusion

Based on a survey carried out by the Financial Services and Markets Authority (FSMA) of the five major platforms acting on the Belgian market, this paper provides insight into the Belgian financial return-based crowdfunding landscape.

The paper shows that this form of crowdfunding grew steadily over the 2012-2017 period, both in terms of the number of crowdfunding campaigns launched and in terms of the amounts raised. Between 2012 and 2017, 232 crowdfunding campaigns were successfully financed, raising €40,025,000 in total. In 2017, 92 campaigns were financed and €20 million were raised. Over the 2012-2017 period, crowdfunding experienced an average annual growth of about 100% in number of projects and about 140% in amounts raised.

Recent cases of successful crowdfunding campaigns that were publicly reported in the course of 2018 show that crowdfunding in Belgium is still growing. This is as expected, since the new prospectus legislation that entered into force in July 2018, with the transposition of the (EU) 2017/1129 Regulation, states that no prospectus is required for offers below €5,000,000. There is therefore some confidence that the observed trend will continue in the future.

However, the figures must be put into perspective. Crowdfunding is still a marginal form of investment and source of funding in Belgium in comparison to:

- €250,000 million of cash on regulated saving deposits (in 2017)
- €131,000 million of loans granted to companies by financial institutions (in 2017)

Those amounts highlight that crowdfunding in Belgium still has a long way ahead before being considered as a significant alternative source of funding.