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The importance of crowdfunding in small and medium- sized enterprises

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Master's in management

Supervisor:

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ISCTE – Instituto Universitário de Lisboa

November, 2020

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BUSINESS
SCHOOL

Department of Marketing, Operations and General Management

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Resumo

O objetivo deste estudo é analisar qual é a importância do crowdfunding nas PME em Portugal, e desta forma, foi realizada uma pesquisa empírica das contribuições bibliográficas mais recentes sobre o crowdfunding e elaborada uma pesquisa de forma a caracterizar o fenómeno em Portugal, nomeadamente a identificação e funcionamento das plataformas ativas, a regulamentação existente, os fatores de sucesso dos projetos e alguns casos bem sucedidos. Foram também identificados alguns dados sobre a importância das PME em Portugal e da evolução dos empréstimos bancários, bem como da evolução do crowdfunding em Portugal.

Todos os dados empíricos ao longo do estudo são, sempre que possível, com referência a dezembro de 2019.

O resultado das pesquisas efetuadas evidencia a importância que as PME têm na economia portuguesa e em como ainda são muito dependentes dos bancos na obtenção de empréstimos a longo prazo, estando, no entanto, essa tendência a diminuir ao longo dos anos.

O crowdfunding tem vindo a ganhar cada vez mais importância ao longo dos anos tanto em Portugal, como no resto do mundo, e tem demonstrado ser uma mais valia na redução da dependência dos bancos, tornando-se uma alternativa cada vez mais fiável para as PME em Portugal, sendo importante criar uma economia mais enraizada na sociedade.

Código JEL: G210; O1

Palavras chave: crowdfunding, financiamento de PME, Portugal

Abstract

The main goal of this study is to analyse the importance of crowdfunding in SMEs in Portugal, and thus an empirical research of the most recent bibliographic contributions on crowdfunding was carried out in order to characterize the phenomenon in Portugal, the identification and functioning of the active platforms, existing regulation, the success factors of the projects and some successful cases. It was also identified through the collected data the importance of SMEs in Portugal and the evolution of bank loans as well as the evolution of crowdfunding in Portugal.

All empirical data throughout the study are, whenever possible, with reference to December 2019.

The results of the research carried out show the importance that SMEs have in the Portuguese economy and how they are still very dependent on banks in obtaining a long-term loan, however, there is tendency to decrease over the years.

Crowdfunding has been gaining more and more importance over the years both in Portugal and in the rest of the world and it has characterized itself as an asset in reducing bank dependence, making it an increasingly reliable alternative for SMEs in Portugal, being important to create an economy more connected with society.

Code JEL: G210; O1

Keywords: crowdfunding, SME financing, Portugal

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Glossary

SME – Small and Medium-sized enterprises

CMVM – Comissão de Mercado de Valores Mobiliários

ASAE – Autoridade de Segurança Alimentar e Económica

UN – United Nation

1. Introduction

This work focuses on the study of crowdfunding and its impact, both in small and medium-sized enterprises (SMEs) and in the Portuguese economy as an alternative of banks. This study aims to have a clearer view of the current crowdfunding scenario in the country and its importance, since to date no study has been identified in this context.

Bearing in mind the scope of crowdfunding at a global level, this is an innovative phenomenon, a way of complementing traditional financing, which has greatly contributed to economic development. Despite a late appearance in Portugal, compared to other countries, it has been growing over the years, in line with what has happened in the rest of the world.

In this sense, it is important to analyse the importance that SMEs have in Portugal, in order to understand how it can boost the economy and how traditional financing in Portugal has evolved in recent years, in order to better understand the importance of crowdfunding . Thus, this paper aims to answer the following question: "What is the importance of crowdfunding in SMEs in Portugal". This study aims to find a more advantageous financing solution for companies in Portugal, so that they are no longer so dependent on banks and may have other options that are very beneficial for companies and the Portuguese economy, through the participation of the entire population on this type of investment.

Over the years many authors have defined the term crowdfunding as a fundraiser made by a large group of people, but in small amounts each, helping entrepreneurs to finance their projects through a website or another tool, instead a regular approach as a bank.

Crowdfunding based on rewards, donations, loans and capital are the four types of crowdfunding mentioned throughout this work. The first two are characterized as support for borrowers while, the remaining are focused on investments, on a business nature, and it is in the last two that this work will have a greater impact, since they are the most common in financing SMEs.

The data collected comes from some interviews conducted with employees and administrators of crowdfunding platforms in Portugal and research on their websites and news interviews in the national press. The platform characterization data was collected on the website or provided by the platforms and organized on a basis for further analysis. In order to facilitate the understanding of the results, some data were arranged and organized in the form of a graph or table. All data throughout this work is with reference to December 2019, with some exceptions where it was not possible to obtain such recent data.

The study shows that despite Portugal's late adherence to crowdfunding and the few existing platforms active so far, compared to the rest of the countries, crowdfunding has become increasingly important over the years. Currently Portugal has 10 active platforms, with more than 148 million euros invested until 2019, three of them with very common objectives, to help SMEs to grow and make the Portuguese economy more resilient.

This work is structured as follows. First, it was conducted a literature review on crowdfunding where it was presented the main studies and conclusions on this subject. Then the methodology was carried out, where it is outlined all the process that were done during the study. Finally, all the conclusions regarding this study and its limitations are presented and discussed.

2. Literature Review

2.1. Concept

Crowdfunding is already defined by many authors, and they all agree that crowdfunding is a type of fundraising in which small contributions are doing by large group of people, helping entrepreneurs to finance his projects by using a website or other tool to solicit funds, instead of professional parts.

The term crowdfunding comes from a more extensive concept: crowdsourcing. Crowdsourcing take place when a company decides to outsource a specific task like production, with the intention to animate individuals to make contributions to the firm. When crowdsourcing happens, the crowd is part of the production process being capable to create value and they are able to feel that they are a part of the corporate structure, almost as if they were real employees.

Crowdfunding is defined by Schwienbacher & Larralde (2010) as “an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes”. Crowdfunding can also be a new form of entrepreneurial bootstrapping used by innovative start-ups with limited resources (Bellavitis et al., 2017).

Baldwin et al., 2006, David & Shapiro, 2008, Von Hippel, 2005 argue that online communication is able to influence the creation of new projects. That said, entrepreneurs raise money directly from the crowd, they do not need intermediaries. Start-ups must be able to access financing directly from anonymous investors through these online mechanisms, where personal communication is replaced by other personal forms of communication, such as videos and social messages (Moritz et al., 2015). The objective is to take advantage of the power of the crowd to finance projects, since it is not easy to raise funds by the traditional means - bank loans, business angels and venture capital.

Crowdfunding is a powerful mean, not only to create value, but it is also a vehicle for share value creation (Baumgardner et al., 2015), and like Porter & Kramer (2011), said, shared value is “Policies and operational practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates”.

2.2. History of crowdfunding

The main precursor to crowdfunding was microfinance and it was in 1700 in Ireland that the first documents existed. In that decade, Ireland suffered a great famine in the nation, and to face that crisis, Jonathan Swift raised 500 pounds through crowdfunding, to lend the poor commercial and in a short time, fundraising was all over the country (Baumgardner et al., 2015).

On the other hand, in 1974, during the famine in Bangladesh, Mahammad Yunus first came across the idea of microcredit, while studying the lives of poor entrepreneurs, lending money to small groups of women and structure the distribution funds and repayments plans. This initiative improves dramatically the lives of those women and their families giving them a sustainable source of income (Baumgardner et al., 2015).

However, nowadays, crowdfunding is only a possibility due to the emergence of the “Web 2.0”. If “Web 2.0” does not exist, companies will not be able to reach so easy to a large network of consumers and without this huge consumer’s network, companies will not be able to finance their projects. By the end of 2005 it estimates that crowdfunding has created more than \$62 million in new capital, mostly for entrepreneurs and small and medium-sized business enterprises (SMEs) and this is possible due to the simply broken down the geographical barriers (Baumgardner et al., 2015). Although, the goal of raising capital is the most important, this concept has other benefits. In some cases, this allow funders to be part of some decisions, but some questions are raised: Should they be able to make decisions about the company? How much power would they get? In relation to the first one, it is necessary to understand the credibility of the crowd. Then, when a number of investors is large, they are given the power to decide about some specific decisions, for example about the design of the product. Other characteristic of the “Web 2.0” it that allows the combination of knowledge and resources (Lee et al., 2008).

The first platform was launched in 2015, Kiva, allow entrepreneurs to lend money to developing areas across the world, and now is one of the most successful microlending platforms, having raised over then \$165 million though crowdfunding and with an outstanding 98,83% repayment rate (Castrataro, 2011).

2.3. Type of Crowdfunding

In this section it will be explained the four different types of crowdfunding and the differences between them - donation-based, reward-based, loan-based and equity-based. But, besides that, whatever the type of crowdfunding, the principals are the same, all investors expect successful outcomes. The first two types are characterised by patronage and support, while the last two

are focus on investments, that is, in the business nature. After that, it is explained the type of participation that investors can have.

2.3.1 Equity-based

Equity-based crowdfunding é defined as “a form of financing in which entrepreneurs make an open call to sell a specified amount of equity or bond-like shares in a company on the Internet, hoping to attract a large group of investors” (Ahlers et al., 2015, p. 955) and consist in the chance that investors have to get returns of their investment if the company became successful. This type of crowdfunding allows the entrepreneurs (shareholders) to spread the risk over the other investors. The returns can take some forms like, “shares of future profits or royalties; a portion of returns for a future planned public offering or acquisition; or a share of a real estate investment” (Schwienbacher & Larralde, 2010).

The advantage of this type of crowdfunding is related to the support/knowledge that those investors can bring to the company. Examples of equity investors are venture capital, business angels and strategic investors, and they can help the company in areas like sales, marketing, accounting and distribution, and it is for that reason that Keuschnigg, 2004, Bottazzi & Da Rin, 2001 considered that companies that benefit from external support have a better chance to succeed.

However, equity-based have high level of regulation (Heminway & Hoffman, 2012), which can be a problem for companies, being for that an uncertainty. Another problem is that this type of crowdfunding requires that investors have access to confidential information, which is a risk of competitiveness, however, entrepreneurs can protect their ideas via intellectual property rights, which implies again high levels of regulations to the entrepreneurs (Schwienbacher & Larralde, 2010).

2.3.2 Lending-based

Regarding to this type of crowdfunding, Schwienbacher & Larralde (2010) considered that invest in this type is provide “stupid money”, since they do not come with any support or knowledge, investors remain external parties of the company. That said, funders offer a loan, so they expect to receive the payback and also some rate of return. In this type, the entrepreneurs also face a huge risk, because they do not share the risk with the investors.

In this case is possible to say that there are some similarities to traditional funding, in which banks lend money to entrepreneurs, without having participation in the company/project, the bank only requires the repayment with some interest associated.

2.3.3 Donation-based

This type of crowdfunding is frequent in non-profit organizations, investors support a specific cause or company, but they do not receive direct return for their donations or any kind of reward. Mostly, funders invest in this type to support a cause that they believe. Funders believe in an emotional reward and entrepreneurs have no obligations to investors (Madarász; Kuti, 2014).

2.3.4 Reward-based

In the reward-based crowdfunding, funders do not expect financial benefits, they expect to receive the products in which they are investing. Funders are considered initial clients, allowing them to have access to the products before everyone else, for a better price or with some benefit. Funders opt for this type in cases where the cash flow is hard to verify, like music projects, films and books (Gutiérrez-Urtiaga & Sáez-Lacave, 2018).

Like the other types of crowdfunding (equity-based and lending-based), reward-based also rewards investors according to the investment made, the greater the investment, the greater the reward.

2.3.5 Participations of the crowd

However, even within each type of crowdfunding there can be two types of participations - passive or active.

Despite of the most organizations offering some form of reward, some of them do not allow the crowd to become actively involved in the initiative. Entrepreneurs are only interested in raising money and they do not want to give up from control, and that is called passive investment by the crowd.

On the other hand, besides to offer some reward, entrepreneurs can offer investors to became more active in the initiative. This can be a valuable feedback about the potential market demand and products characteristics. In this type of participations are two alternatives: the crowd are already consumers giving a credible signal about the product, where this allows the company to understand the market sentiment in general; giving the right to vote allow the company to have access to valuable information about how design the product and selecting the optimal consumer target.

2.4. Reasons to do Crowdfunding

Projects involving crowdfunding have a huge variety of goals. Although there is still not much research about crowdfunding, in particular about the motivations that lead both creators and investors to make crowdfunding, motivations are an important part of crowdfunding. However, it still exists, and it will be presented in the next section: What motivates entrepreneurs to create crowdfunding projects and what motivates funders to contribute to these projects.

2.4.1 Reasons to entrepreneurs

When analysing the motivations behind creators to engage in crowdfunding projects, it is clear to many authors that the principal reason is to raise money. However, there are other motivations that have a significant importance. According to Schwienbacher & Larralde (2010), there are other motivations like the public attention that the project may get and the validation of the products/services before the product starts being sold in the market.

It was through a study that Gerber et al., (2012) showed that it is possible to clarify some of those motivations. As expected, collecting money it is a principal reason, however, it is not only raising money that creators value, they also considered important the fact that the money is raised by small amounts, but with the contribution of a large number of people, allowing them to connect with their clients in an easy way. Crowdfunding also allows the entrepreneurs to establish relationship due to the direct contact and the direct collaboration with funders. Through this, creators receive validation which is important once they feel more capable/confident to do the project. And to finish, creators many times are motivated by other's success using crowdfunding "Knew that other can do, make me feel that I also can do it" (Gerber et al., 2012).

Another reason for entrepreneurs to resort to crowdfunding is due to the lack of financing on the part of the banks, since for various reasons banks are more reluctant to provide loans, especially institutions that are very exposed to risk (Brown et al., 2018).

2.4.2 Reasons to funders

In relation to the reasons that leads funders to engage in crowdfunding, it is not easy to create unanimity since when funders decide to invest in this type of financing they seek for different things. Due to that, authors also do not have a consensus about it.

In the opinion of Gerber et al., (2012), funders are looking to a reward (a product/service), they expect to receive the product in the first place or receive a limited edition. Funders want to feel that they support creators and causes, once many investors are friends and family, and

they want to feel that they are part of something good. The last motivation that Gerber et al., (2012) identified is the engaging and contribute to a trusting and creative community and for last strengthen connections with people in their social networks.

Other motivations are given by different authors, like Sympathy and empathy (Rick, Cryder & Loewenstein, 2007), happiness (Jennifer Lynn Aaker & Liu, 2008), identity (Jennifer L. Aaker & Akutsu, 2009). As it is possible to see, these motivations do not have nothing to do with the interest in making profit, they feel that are other things that they can win.

However, accordingly to Madarász & Kuti (2014), funders are also looking for access to investment opportunities and they feel motivated to support a product, service or idea.

2.5. Advantages and disadvantages of crowdfunding

2.5.1 Advantages

In addition to the great objective of raising capital, (Gerber et al., 2012) consider that entrepreneurs also have some considerations, they can connect with users and supporters, receive support and feedback and also receive inspiration from other entrepreneurs. On of the biggest advantage it is the functionality of crowdfunding, once is similar to social media, allowing the creators and funders make personal contact and communicate to with a large number of visitors.

Some advantages go far beyond the financial and legal issues like getting attention, managing to reduce costs with marketing campaigns, access to feedback, allowing them to do market testing and market validation and it is also a “way to gain better knowledge of consumer preferences” (Belleflamme et al., 2014)

Madarász & Kuti (2014), consider some other advantages, the access to global funders, provide information about the products, involve potential users in the conception and design of a product and facilitate the early development of an ecosystem around the product.

2.5.2 Disadvantages

Some investors tend to follow a "home bias" on lending-based crowdfunding platforms, once they prefer to invest in companies and stocks located in the same geographic area, often renouncing better alternatives, with lower risk and higher return (Lin & Viswanathan, 2014). Perhaps, due to the location of human capital and complementary assets, even with crowdfunding, resources flow disproportionately to the same regions, despite the dissociation between financing and location.

Threat of money laundering, business failure, lack of investor liquidity, scandal in the securities market and potential market rejection are some of the numerous risks of investing in crowdfunding (Banco Mundial, 2013). These risks lead to other risks, especially for small investors who are often unaware of their rights. Since participation is low, for many investors, significant negotiation between investors becomes quite difficult (Bradford, 2012).

On the other hand, platforms can also have a risk. The Jumpstart Our Business Startups (JOBS-) law, which is an incentive to equity-based crowdfunding, prohibits financial organizations from participating in this type of crowdfunding. Because of this, middle income investors end up being the target group, however this target group presents difficulties in diversifying their portfolio.

2.6. Factors that influence the success of crowdfunding

To have a successful campaign of crowdfunding, the first concern that entrepreneurs face is to raise money. That said, one important factor that funders are looking in a project is quality, when projects seems to have high level of quality have a large probability to be funded (Mollick, 2013), however sometimes it is not easy to understand what have quality or what does not have. To solve that problem, Mollick (2013), describes three important measures of quality: role of preparation, giving updates about the project and do not spelling errors. A different author identified that the size of the network is also important (Shane & Cable, 2002; Sørensen & Fassiotto, 2011; Stam & Elfring, 2008). Another important factor that influence the success of the fundraising is the geography (Knudsen et al., 2007; Saxenian, 1996). In terms of geographical location some authors showed that if individuals use crowdfunding platforms to finance his projects there is not a significant influence in the success of crowdfunding, according to them online platforms eliminate barriers related to the distance (Agrawal et al., 2011).

Agrawal et al., 2011, also said that the evolution of web 2.0 technologies had impact, made it easier to develop platforms, which is the main means of raising funds.

Although all these concerns and advantages of crowdfunding, it is important to know that are other factors that influence a successful crowdfunding campaign. In the first place it is important to know that our campaign depend on the audience, so, it is important to known how to communicate. Ware (2019) considers that, if entrepreneurs first seek financing from some important donors, it makes it easier for there to be more funders later on, since they can already see some work developed. On the other hand, it also important to be careful about the

crowdfunding platforms that is used, some of them keep part of the funds for itself, that is, not all going to the entrepreneurs or ask more donations to the audience.

2.7. Different types of platforms

“Crowdfunding platforms are websites that enable managers, entrepreneurs and the initiators of other projects to solicit funding through an open call and post details about the projects” (Madarász & Kuti, 2014). These sites make it easier to launch campaigns and raise funds. Massolution looked at more than 1,250 active crowdfunding platforms across the world, and the platforms use one of the following models.

In order to manage the funds, crowdfunding platforms can structure the allocation of funds to an “All-or-Nothing” (AON) model or a “Keep-It-All” (KIA) model (Cumming et al., 2014). In the first one, the funds are only given to the project if the limit predefined by the entrepreneur is met or surpassed, if the limit is not met, the investors are reimbursed, which can bring more funders, since they are more comfortable. On the other way, in KIA model there are no limit, that is, regardless of the amount raised, the creators always receive the money, however, this model are not so successful since the crowd are not comfortable seeing their money on a project with less funds that really needs (Baumgardner et al., 2015).

Within each of these platforms, some platforms are also divided by the type of initiative supported, specialized platforms, activityspecific platforms and general-purpose platforms. The first one, are more focuses on crowdfunding services that cater to specific industries, like video games, music recording or independent television. One of the first companies to be funding was the ArtistShare launched in 2013. The second one, focus on particularly typos of projects, like hardware, development or technology. The last one, include a huge variety of industries and individuals and do not make restrictions about what they will present (Baumgardner, Neufeld, Huang, Sondhi, Carlos, 2015).

2.8. Funding and Small and Medium-Sized Enterprises

The financing that the Banks grant to companies is highly dependent on the country's economic situation. According to Brown et al., (2018) with the crisis, banks and credit institutions become increasingly reluctant to lend to the business sector, especially credit institutions that were very exposed to risk.

It is necessary to keep in mind when it is said that banks have stopped lending to small businesses, it is important to take into consideration what types of small businesses banks are not willing to lend to. It is also important to consider the nature of the demand for loans from

small businesses. Loan demand is not expected to remain the same when experiencing a global financial crisis (Brown et al., 2018).

It is recognized that entrepreneurial activity and the growth of small companies can be restricted by limited access to financing resulting from imperfections in the capital market (Auerswald & Branscomb, 2003; Cressy, 2002; Revest & Sapio, 2010; Westhead & Storey, 1997). In small business loans, creditors charge higher prices to offset the greater uncertainty associated with this type of business.

The size and age of companies are two most common risk indicators used by financial institutions to evaluate small business proposals and although it is true that small companies have more difficulties in accessing external financing, in a sufficiently efficient market these companies are expected to be only rejected as a result of a rational assessment of their quality, thus deciding whether the investment is worth the level of risk incurred (Nightingale et al., 2009).

3. Methodology

In order to achieve the proposed objectives, the research carried out was exploratory, since in Portugal there are no studies on crowdfunding and its importance in small and medium-sized companies and the impact it has on the Portuguese economy.

In an initial phase, it was necessary to identify the crowdfunding platforms that exist in Portugal. In this sense, research was carried out in the national press, the Bank of Portugal, Comissão do Mercado de Valores Mobiliários (CMVM), an international report (Massolution) and the websites of the active platforms were also analysed. Since those are the platforms that are still active and will continue to have a long-term impact on the objective of this study, it is important to understand their activity flow over the years, their operation mode and the acceptance requirements to projects / companies.

In a second phase of the approach, contact was made with the platforms, namely with Yoan Nesme, Pedro Domingues and Francisca Onefre, from PPL, Novo Banco Crowdfunding and GoParity, respectively, in order to try to obtain information that is not available on the respective sites, in order to obtain more accurate and relevant information for this study. To this end, a guide was prepared for the interviews which can be found in Annex A. However, it was not possible to establish contact with all the intended platforms. Some research was also carried out in the national press to see if there were any interviews previously conducted.

Following, some attempts were made to contact some companies that in the past carried out crowdfunding campaigns to obtain financing, however, it was only possible to conduct one interview, to which the script is in Annex B.

Subsequently, the identification of existing legislation to date has been identified, providing a greater understanding of regulation in the country, with emphasis on Law no 102/2015 and Law no 12/2018 in order to understand in what type of crowdfunding legislation has a higher incidence.

Subsequently, in order to better understand the impact of crowdfunding on SMEs in Portugal, an examination was carried out using indicators that demonstrate the impact that SMEs have on the Portuguese economy. It was followed by a study on the evolution of bank loans over the past few years and on the evolution of crowdfunding in the world and in Portugal.

After collecting all the relevant data for the study, it was analysed to check what was possible to ascertain together with the platforms and the national press, as well as with the competent entities, gathering what was necessary in tables and graphics, for a better understanding of them.

Based on all the information collected, it was analysed the importance that crowdfunding actually has in the Portuguese economy and the benefits it brings and that it can continue to bring, in order to provide companies with reliable financing alternatives.

4. Presentation and analysis of results

4.1. Characterization of crowdfunding in Portugal

Crowdfunding platforms started to appear in Portugal in 2011. Through the research, it was possible to identify ten active platforms in Portugal. Although there were only ten active platforms at the moment in Portugal, in the past there have already been five others, that no longer develop activity. The platforms have different levels of activity, with emphasis on the pioneer PPL, Seedrs, Raize and Housers. Table 1 shows some data on the current active platforms.

Table 4.1 - Active Portuguese platforms

Platform	Year of creation	Type	Area	Campaigns funded	Total investment
PPL	2011	Reward-based	food/drinks, Agro-industry, environment, visual arts, citizenship/politics, science/Technology, dance/cinema/theatre, Sport, education, entrepreneurship, event, games, books/magazines, fashion/design, music, social, tourism/travel, video/photography, zoophile, others	1,117	3,923,458 €
Novo Banco Crowdfunding	2012	Reward/ Donation based	Social	133	605,422 €
Crowdfunding Networks	2012	Rewards, Equity, donations	environment, science / technology, cinema / theatre, dance, sport, education, events, books, fashion, music, catering, social, tourism, video / photography	-	-
Seedrs	2012	Equity-based	Not specified	14	4.839.460 €
Raize	2012	Lending-based	Not specified	-	21,700,000 € ¹
Housers	2017	Lending-based	Real estate projects, renewable energy, business	267	118,857,751 €
Izilend	2018	Lending-based	Real estate projects	-	-
Querido investi	2018	Lending and equity-based	Real estate projects	-	-
Seedimo	2018	Lending-based	Real estate projects	-	-
GoParity	2017	Lending-based	Sustainability	29	1,472,177€
				1,560	151,398,268 €

¹ 2018 value

Source: Self elaboration

4.2. A deeper look at the platforms

The pioneer PPL (meaning people), created in 2011 by the company Orange Bird, is one of the most active platforms in Portugal. PPL is also a founding member of the European Crowdfunding Network. It has helped from its creation until December 2019 1,117 projects that together reached 3,923,458 euros. PPL works only with the reward model and accepts projects from various areas. The policy practiced is the all or nothing policy, if the contributions do not reach or exceed the previously defined amount, the contributions will be returned to the supporters.

Novo Banco Crowdfunding was created in 2012 in partnership with the PPL Crowdfunding Portugal platform. Over the years, it has created 133 successful projects, totalling 605,422 euros raised. With a type of crowdfunding based on donations and rewards and the all-or-nothing policy, Novo Banco Crowdfunding supports social campaigns.

Crowdfunding Networks, created in 2012 by Markup, a company linked to marketing and digital communication, introduced a different concept, combining the needs of crowdfunding with the potential of social networks. Markup has developed a crowdfunding platform based on social media models, built on the idea that projects can only achieve success if they are properly disclosed and promoted to potential investors. Although the platform is active on the internet, it is possible to consider that it is not in operation since it does not have any project financed successfully and it was also not possible to verify data on any amounts financed over the years.

Seedrs is a crowdfunding platform based in England, founded by an Englishman and a Portuguese, and it is a platform based on equity. Accepts campaigns and investments in euros and pounds. In Portugal, since its creation in 2012, it has raised 4,839,460 euros, for a total of 14 financed offers. Its financing is mainly focused on SMEs

With more than 61,000 investors, Raize is one of the largest investment platforms, being a great reference for Portuguese companies. Standing out for the difference, Raize does not work with concrete projects, but with loans in which people lend directly to Portuguese companies, investing directly in the real economy. It is a low-cost financing alternative for SMEs with more than 2 years of activity, sole proprietors, companies with less than 2 years of activity, regular financial and tax status and must have a fiscal headquarters or permanent residence in Portugal. Loans formalized through the platform are then repaid by companies in monthly instalments, typically over a period of 12 to 48 months, with a constant interest rate. With its tight approval plan, it has an approval rate of less than 15%. *The Comissão do Mercado de Valores Mobiliários (CMVM)* registered Raize as the first entity managing crowdfunding platforms in Portugal.

Housers was created in Spain in 2015, initially only in the real estate area. In 2017 it started its internationalization strategy in Italy and Portugal, becoming a leader in real estate investment in Europe. In order to further boost their growth, they launched two new business lines, Housers Green (2019) and Housers Corporate (2020), the first of which supports renewable energy projects (eg. solar parks, photovoltaic plants or wind turbines), while the second facilitates access to credit for the development of business projects. As it was possible to see in more than 267 financed projects, 118,857,751 euros were invested.

Izilend is a short-term collaborative real estate financing platform, with the aim of meeting interests between real estate developers and qualified investors. Lending-Based crowdfunding was the type of financing chosen by the platform's founders. As part of its strategy to become a leader, the platform has also entered Spain.

Querido, Investi numa Casa! founded in 2018, it is a pioneer in the collection and management of collaborative financing especially oriented towards realizing and managing real estate investments, with lending-based financing.

Seedimo is also a real estate investment platform, created in 2018. Due to the Covid-19 pandemic, it is temporarily suspended until November 2020. This platform puts real estate developers in direct contact looking for financing for their projects with people with financial availability to invest to obtain greater profitability.

GoParity, created in 2017 with the objective of democratizing investment and generating benefits for the environment, aims to support sustainable development and energy efficiency projects, instituted by the United Nations (UN), through the loan financing model. Since its creation, the platform has financed 29 projects, having raised 1,472,177 euros.

4.3. How Portuguese platforms work

In order to obtain financing through crowdfunding, three players are needed, including the crowd that are the investors, the promoter of the campaign and the platform. Since platforms are the link between promoters and investors, and each platform has its own characteristics, in order to understand how crowdfunding works in practice, it is necessary to understand how each one of them works.

Each platform only accepts projects in certain areas, defined by the platforms themselves, such as Novo Banco Crowdfunding that supports social projects, GoParity that looks for projects related to sustainability and Izilend that focuses on real estate projects.

In the following paragraphs, the acceptance process for each project will be detailed, which is similar across the different platforms.

The first step is to register on the platform, according to the intended purpose, either as promoters of the campaigns or as investors. Both users must take into account the type of platform on which they are registering, whether on a platform with a donation, reward, loan or capital modality. After registration, the campaign promoter submits your project to the platform in writing and also through an explanatory video. When presenting the campaign, promoters must indicate the amount to be raised, what kind of compensation they are willing to give to supporters, description of the team and the project, budget and deadlines.

With each platform having specific guidelines, the projects go through an approval phase, in which some characteristics are analysed, such as the feasibility and seriousness of the projects and the reliability of the promoters. In this phase, some platforms try not to be too critical since they may not have a very deep knowledge about a certain type of projects.

After the approval of the projects, promoters must define the maximum term and the minimum amount to raise. It is necessary to keep in mind that each platform can impose a minimum amount of fundraising and sometimes also define the term, as is the case of Novo Banco Crowdfunding, which up to 2,500 euros use a 45 days and if it is up to 5,000 euros the term is 60 days. On the other hand, investors also have an investment limit. Investors with an annual income of 70 million euros or more can invest up to 5 million euros, the remaining investors will not be possible to spend more than 3,000 euros per offer or 10,000 in a period of twelve months.

Over the duration of the campaign, promoters are advised to publicize the projects as much as they can, namely in social networks, to increase the chance of being successful in fundraising. However, platforms do not allow the same project to be published on more than one platform and it is also not possible to have more than one project on each platform.

When the campaign deadline comes to an end, an analysis is made to check whether the target amount has been reached or exceeded since the Portuguese platforms work on an "all or nothing" system, meaning that the campaign promoters only receive the funds if the desired minimum is reached, otherwise the investors receive back all the money they have invested and the promoters do not receive anything. With this system, the platforms believe that the creator of the campaign has more attention on the amount to be requested, requesting the minimum amount with which it is already possible to carry out the project, so that there is a greater probability of receiving the desired amount, always taking into account that some platforms set a minimum amount, as previously mentioned.

It is important to remember that when the desired amount is raised, platforms charge a commission fee, which varies between 2% and 7.5%, in order to also generate some

profitability. On the other hand, platforms are also not responsible for ensuring the delivery of rewards, but they help to minimize this risk by monitoring and evaluating the entire process.

Despite the common characteristics presented, the platform Raize has specific rules regarding its operation. On this platform, people lend money to companies, which must have a fiscal headquarters in Portugal, with an ongoing and sustainable commercial activity and do not have any type of debt in the banking sector or with the Tax and Social Security Authority.

In Raize, investors define the amount (minimum 20 euros and maximum 2,495 euros) and the interest rate they intend to offer and it is through an auction, with a maximum duration of 60 days, that companies decide whether or not to accept the conditions for the loan, up to a maximum of 250,000 euros.

4.4. Legal documentation

As a result of the difficulty that companies face in obtaining financing, namely start-ups that have great difficulty in acquiring financing at the beginning of their activity and with crowdfunding in Portugal gaining more and more players, in 2015 the Government drafted the law No 102 / 2015. This law regulated this economic activity, in order to guarantee security in transactions and to transmit credibility and reliability to all stakeholders.

This diploma defines Crowdfunding as a "...financing of entities, or of their activities and projects, through their registration on electronic platforms accessible through the Internet, from which proceed to raise investment instalments from one or more individual investors...", identifying the four types that exist in Portugal:

- Donation: the financed entity receives a donation, with or without the delivery of a consideration.
- Reward: the financed entity is obliged to provide the product or service in exchange for the financing obtained;
- Equity: the financing obtained is remunerated through participation in the respective share capital, distribution of dividends or profit sharing;
- Loans: the financed entity remunerates the financing obtained through the payment of interest fixed at the time of raising.

According to the diploma, for platforms to start their activity, they must register with the responsible entities. In the case of platforms based on donations and rewards, they must only communicate the beginning of their activity to "*Direção Geral do Consumidor*", distinctly,

platforms based on loans and equity are registered with the CMVM, being this entity responsible for the regularization and supervision of its activity.

When referring to beneficiaries of financing are any natural or legal persons, national or foreign, who are interested in raising funds for their activities or projects through this type of financing. Their adhesion to the platforms is carried out through a contract in which the identification of the two parties, the financing modalities to be used, identification of the project or activity to be financed, the amount and the term of the fundraising must be included, as well as the financial instruments to be used to raise funds.

Regarding to the procedures to be followed by the platforms, they must ensure that investors have access to and confidentiality of information, as well as information received from beneficiaries of the investment, that is not publicly disclosed, compliance with rules and preventing fraud and existence conflicts. On the other hand, they cannot make recommendations regarding the investments to be made, provide compensation to their managers or workers for the offer or sales volume and manage investment funds or hold securities.

Providing and keeping up to date all the necessary information to be transmitted to future investors are some of the duties of the beneficiaries of the financing. In the case of loans and equity, financial information is required from both the platform and the CMVM on the fulfilment of the respective tax and contributory obligations, on the respective capital structure and annually on the respective activity reports.

Regarding the offers, some characteristics and information are defined that must be provided to both platforms and investors. It is also explained in this diploma that when the defined amount is not raised in its entirety, the beneficiaries of the investment must return the amounts they had received so far, however, the term can be changed if this fact was initially communicated to investors, and platforms should notify all investors of the changes made. This term can only be changed once, and investors should be given a period to cancel subscriptions already made.

As they represent a high risk for investors, the loan and capital modalities need special regulation. Thus, the diploma requires the existence of an annual and global maximum limits for investors to invest in these types of modalities. These limits were later defined by the CMVM.

In this diploma, a little in-depth sanctioning regime was presented. For this reason, on February 9, 2018, another diploma was published, Law No. 12/2018, which better defines the

sanctioning regime applicable to the development of crowdfunding activities and also presents the first amendments to the first Law No. 102/2015.

The new diploma defines who is responsible for the crowdfunding supervision regime. In the case of crowdfunding based on loans and capital, the CMVM has the powers to regulate, supervise and inspect, as well as to investigate violations, process instructions and impose fines and sanctions. Regarding crowdfunding based on donations and rewards, the “*Autoridade de Segurança Alimentar e Económica*” (ASAE) is responsible for supervising, processing instructions and imposing fines and sanctions. The offenses foreseen in the new diploma, refer to the violation of the duties provided in Law nº 102/2015.

It should be noted that with the changes made to the first Law, platforms through donations and rewards start communicating their start of activity to “*Direção Geral das Atividades Económicas*”.

From the platforms’ perspective, the introduction of regulation in this industry had a positive impact on the number of investors and companies. The fact that companies need to register with the CMVM can be positive for the activity, but it is necessary to bear in mind that there cannot be too many barriers to entry that can restrict access to new platforms and conditioning the growth of activity in Portugal. If these barriers to entry are very high, it may make it impossible for Portuguese entrepreneurs to take the risk of creating new platforms. About the activity growth, the imposition of very restricted investment limits can affect.

Regarding to investors, as it was able to verify with the platform managers, the receptivity to the Law was complicated, since they have to provide a lot of personal information, even to donate a small amount. With more expressive values, it is an important measure to avoid money laundering and terrorist financing.

4.5. Crowdfunding importance

In order to demonstrate the importance of crowdfunding in small or medium-sized enterprises (SME) in Portugal, it is crucial to show the weight of SMEs and their importance in the Portuguese economy and the evolution of loans in Portugal.

4.5.1 PMEs importance

It is important to start by defining what makes a company a small or medium-sized company, it has a maximum of 250 workers, a turnover of less than 50 million euros and also have a total balance sheet of less than 43 million euros.

In order to understand the importance of SMEs, it is necessary to understand that they represent the vast majority of companies in Portugal. According to Pordata, in 2018 they accounted for 99.9% of the total companies, with 96.1% being micro companies and only 0.5% are medium companies. In this way, we can see that it is the micro and small companies that dominate the Portuguese business fabric.

There are some factors that demonstrate the influence that SMEs have on the Portuguese economy, among them, the volume of business they generate, which in 2018 was 238,522 euros, representing 56% of the total business volume and also employability where SMEs are responsible for 78.48% of the active people, the vast majority of whom are employed by micro companies that are in the vast majority in the Portuguese business fabric. For these reasons, the performance of SMEs and, in particular, micro-enterprises have a great impact on the Portuguese economy, being fundamental for the promotion of productivity, contributing to employability, bringing added value to the country, creating wealth and to an increase in exports.

4.5.2 Bank loans in Portugal

In order to understand the importance of crowdfunding, it is necessary to understand the evolution of loans in Portugal, mainly in SMEs.

According to the OECD, in 2016, business credit decreased by 1.2%, overall, while for SMEs, this decrease was 1.3%, confirming the downward trend since 2010. Short-term loans showed the most significant decrease, having reduced by 66% in the period from 2009 to 2016. Despite the downward trend, the percentage of government guaranteed loans in total loans increased by 3.6%, thus showing some support for SMEs in obtaining financing.

According to this same study, financing conditions have also been improved, with the interest rate and its respective spread being reduced to 3.8% and 1.1%, respectively, in 2016.

According to the most recent data from Banco de Portugal (Figure 4.1), there has been a significant reduction in new financing for companies over the past few years. Until December 2019, the downward trend that was observed was slightly reversed, however, there was not a very significant increase. It is estimated that in 2019 32.791 million euros were made in new loans, compared to 45.562 million euros made in 2012, representing a decrease of 21 million euros (-28%).

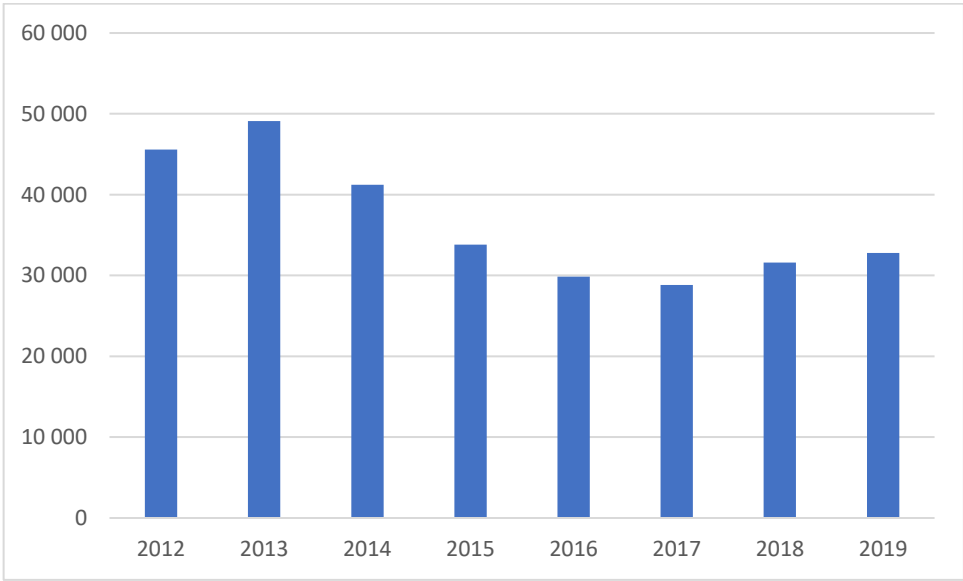


Figure 4.1 - Evolution of new bank loans. Source: Bank of Portugal

Justifying this significant drop in the granting of new loans to companies are loans to micro companies, which were the companies with the sharpest fall. In 2019, micro companies had an outstanding debt of 21.768 million euros while in 2012 they had 33.358 million euros of debt, which represents a 40% decrease. This decline in new loans in Portugal is due to the fact that financial institutions are increasingly risk averse when lending to SMEs. In the case of large companies, the drop was 21%, with companies having a less pronounced decline, which can be justified by the fact that they have greater negotiating capacity with the banking institutions and also with their customers and suppliers.

It is also important to take into consideration what type of loan is granted to companies, whether they are short, medium or long term. According to data from Banco de Portugal, Raize stated that, in 2017, most of the national micro and small companies use only short-term financing: of the 17 billion new loans, only 5% were medium / long term and this management practice has costs and risks for companies and creates problems of investment and sustainable growth.

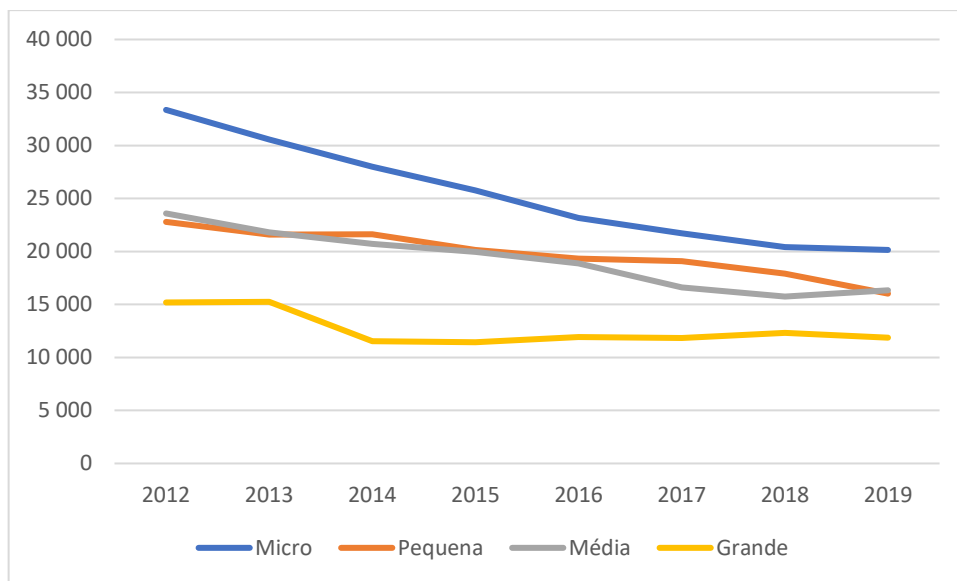


Figure 4.2 - Evolution of the companies' debt value. Source: Bank of Portugal

4.5.3 Crowdfunding evolution

Since the beginning, crowdfunding has been growing, registering in 2009 only 530 million dollars raised and in 2014 it registered 16,2 billion dollars. The first biggest grow (167%) has been registered from 2013 to 2014, according to Massolutions's 2015 Crowdfunding Industry Report.

In 2015, the report pointed to a growth of 112% compared to the previous year, predicting that the total amount invested will reach 34.4%, as can be seen in the Figure 4.3.

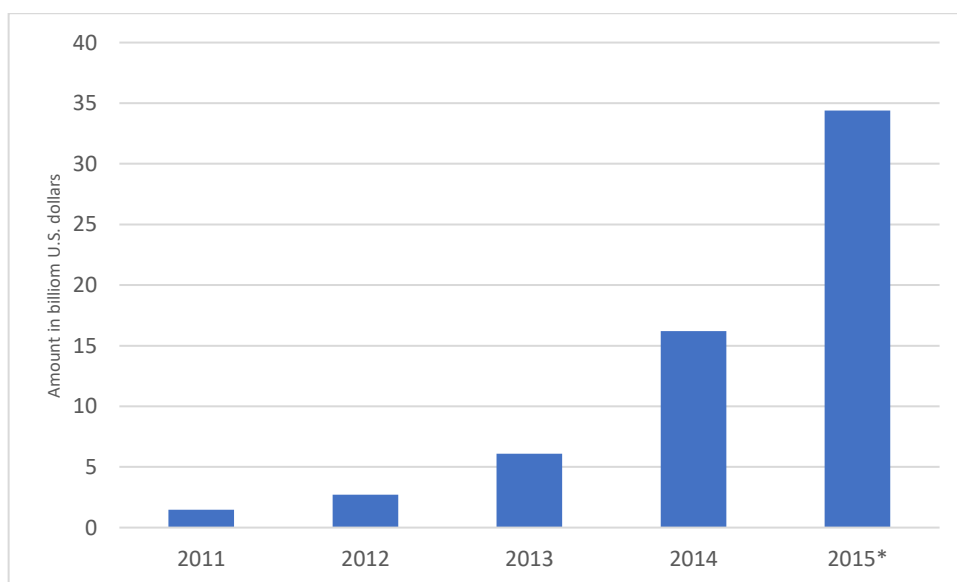


Figure 4.3 – Evolution of the amount invested with crowdfunding. Source: Massolution Report 2015

In relation to the types of crowdfunding, lending is the largest type, continuing to rise, following by reward, donation and lastly equity-based crowdfunding. The annual growth of lending-based crowdfunding in 2014 was 223%, contributing with US \$ 11.09 billion to the total volume of global financing, which represents 68% of the market share.

There are some categories that have more expression in those number, like business and entrepreneurship, being the most popular, collecting 6.7 billion dollars in 2014, representing 41.3% of total crowdfunding volume. Social causes represent the second most popular category with 3.06 billion dollars and following by films and performing arts (1.97 billion dollars).

Taking into account what was possible to find with the platforms, regarding the Portuguese market, crowdfunding started to gain more impact with the beginning of PPL's activity, but it was in 2017 that Portugal raised the highest amount, raising 9 million euros. Not only in Portugal but also in Europe, 2017 was the year in which the market was greatly boosted, growing 36%, with 597 platforms across Europe, worth more than 10 billion euros.

Since it was not possible to determine the evolution of their financing over the years, the figure 4.4 shows the evolution of the 3 platforms from which it was possible to extract the information. Since 2011, when the PPL platform appeared, crowdfunding has been increasing its funding from year to year, starting with just 14,000 euros invested in PPL and by the end of 2019 more than 151 million euros had been invested.

Of the total of ten platforms in Portugal, two of them contributed significantly to the increase in the invested amounts. Raize had 21.7 million euros, until 2018 and Housers, obtained more than 118 million euros.

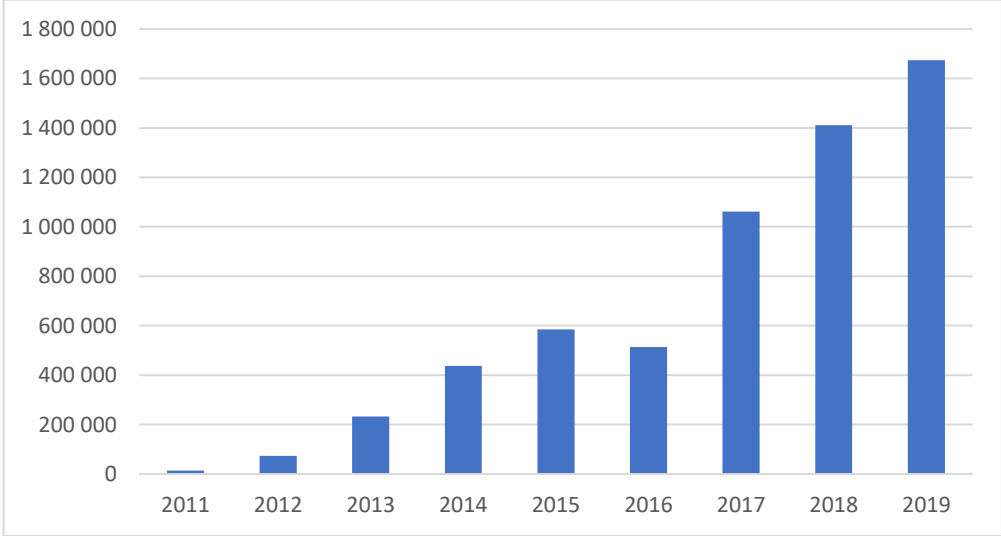


Figure 4.4 - Evolution of the amounts invested with crowdfunding in Portugal. Source: self elaboration

4.5.4 The importance of crowdfunding in SMEs in Portugal

Given the importance of SMEs to the Portuguese economy in terms of productivity, employability and exports, it becomes even more important that they are able to access financing when they need it, since SME financing is important at all stages of the life cycle in order to allow these companies to start, develop and grow. As demonstrated, Portugal is a country of micro and small companies, employing around 63% of the total number of active people, being the group of companies with a lesser capacity to increase investment, confirming the need to ensure the functioning and the competitiveness of the economy. The lack of capital for SMEs is also a problem that can affect future investment, since those who lack liquidity hardly invest and grow the business.

Over the past eight years, 21 million euros less will had been made in new loans to companies, a reduction of 28%. When banks cut back on financing, large companies are the least affected, since they can turn to other alternative sources, such as bonds, equity financing and venture capital. However, in the case of micro and small companies, they have no capacity to support this type of financing, so it is important to look for options with less costs, always analysing the conditions of opening and maintenance. This lack of financing is very detrimental to the competitiveness of the national economy.

It is important to bear in mind that according to Raize, the vast majority (95%) of micro and small companies use short-term financing, which generates great costs and responsibilities for companies. Short-term financing obliges companies to make recurring renewals that often entail costs, time and management availability, and may also be subject to renegotiations without much margin for the company. Of the medium / long term financing, 50% is made with state support, which offers a guarantee to the banks, thus covering practically all the capital risk. Given the great discrepancy in access to financing between small, medium and large companies, leaving small companies behind it is necessary to create financing alternatives, not allowing these companies to be dependent on support from the State and the Banks, since in the previous ones financial crises this dependency has brought real negative results.

To reverse the trend of great dependence that exists on the banks, it is necessary to increase the initiatives to promote financial literacy of the Portuguese community (according to McGraw Hill Financial, Portugal has a financial literacy index of 26%, while the global average is 33%) so that they can better understand the financial system, its functions and risks. For many Portuguese, banks are the only source of financing they have to fund their companies, and the lack of literacy prevents the Portuguese from searching for investment alternatives with knowledge and awareness.

According to the British economy ministry, SME financing is very dependent on large banks and to have a properly functioning financing market, more competition is needed. In order to combat this dependency, a great alternative is crowdfunding, since there is a need to have an economy more rooted in society, with people investing directly in the economy. This change has been happening over the years, with more and more investments being made, and it is estimated that by the end of 2019, more than 151 million euros had already been invested in all platforms and more than 28 million euros on platforms aimed mainly at SMEs, Raize, Seedrs and GoParity. The model is simple, instead of being the banks that finance companies, it is investors from all over the country that invest directly in the real economy, filling the gap in corporate financing and supporting employment. Raize platform believes that “if we all invest 20 euros, we can inject more than 100 million euros into the economy. If we do this every month, we are talking about 1.2 billion euros every year, which represents 10% of the total loans made to SMEs every year. It has a very real weight in the economy” (2016).

Crowdfunding allows, on the one hand, SMEs that are unable to obtain medium / long term financing in banking (which permits them to support treasury and new projects), to have other options, in a simple and quick tool, since the process is all carried out online and travel to branches is not necessary. On the other hand, investors have the possibility to invest directly in the Portuguese economy, often with a symbolic value, diversifying their investments in various companies and thus reducing the associated risk, being able to obtain liquidity of return on your investment whenever they wish, being one of the main reasons why crowdfunding has been so successful. This model already exists across Europe and it has been considered by the European authorities as a new priority to support the financing of the economy due to its simple and fast process followed, with competitive interest rates and reduced commission costs for companies. This new financing model gaining importance with companies, the investor community due to its positive impact, and in fact in the UK, in 2015, 14% of new loans to SMEs were already made through crowdfunding and in the USA the government already uses this platforms to get money to companies in a faster way.

Although crowdfunding platforms are an asset for companies, it is not any company that actually gets the funding. In order to minimize the existing risk, all platforms have their acceptance prerequisites, such as the company's business area, the amount to raise, the clear identification of people responsible for the company and a whole set of data on debt that may exist at the time. This information will allow platforms to assess the risk associated with that company and whether it is safe to grant that loan, that is, if they are able to meet the payment

of the loans that come to borrow. As an example, the approval rate for Raize is only 15%, as said previously.

This type of financing, through crowdfunding, is also often used to test new ideas or new projects, but the main objective is to help companies finance their activities, investing in new investments or strengthening the treasury. It is very important to maintain a good treasury management given that when the growth of the industry slows down, it is more prone to failures in payments by customers and companies have to endure these slips and according to the data collected, only 16% of Portuguese companies comply on average payment terms.

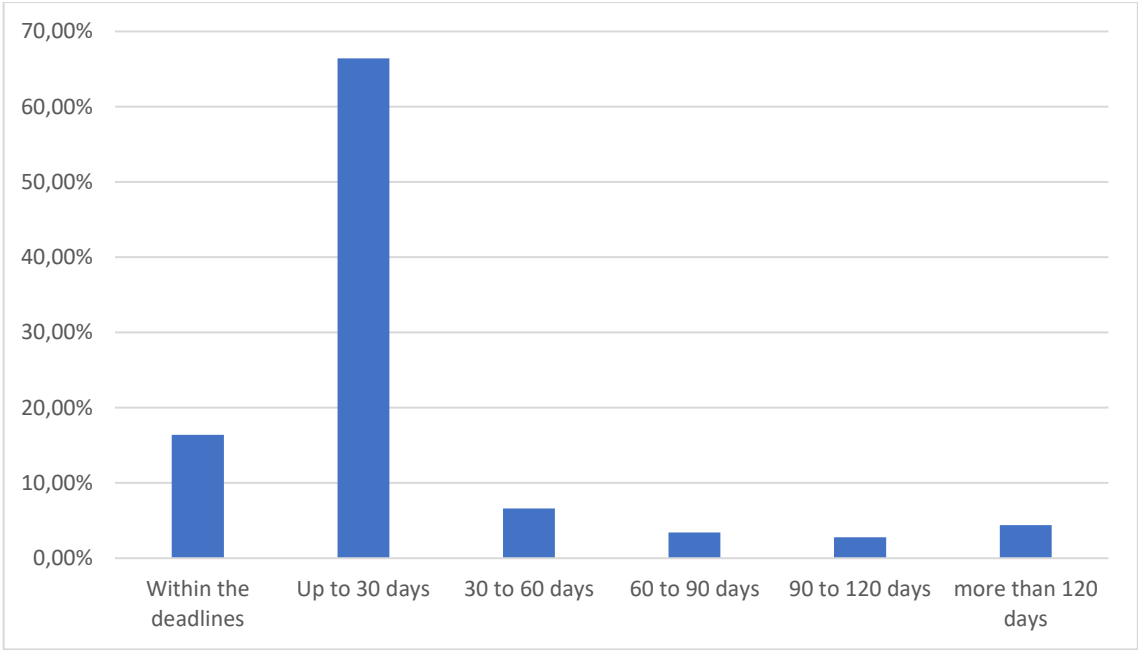


Figure 4.5 - % of entities with late payment (December 2019). Source: Informa D&B

In Portugal, there are three companies that stand out in terms of support to SMEs, Raize, GoParity and Seedrs. The first two presenting crowdfunding based on loans, an added value, since with the term loan there is an obligation to repay the amounts invested and thus pose less risk to investors, also having the possibility to diversify their investments by many companies. The latter with equity-based crowdfunding, which can be an asset for both investors and companies, since it enables investors to be part of the business, with knowledge sharing, enabling greater business growth.

Not only private investors can benefit from risk mitigation when investing in several companies. Platforms have the possibility of partnering with banks, in order to captivate their investment for several companies, since the risk is much lower than bank loans.

This type of partnership is used internationally and has already been carried out by a platform in Portugal, Raize, and by Banco BNI Europa, where the Bank has agreed to invest 10 million euros in national SMEs within two years. There are no differences between bank investors and individual investors, both have access to the same information and are subject to the same rules. This financing model is, according to one of Raize's co-founders, "very important to help diversify the economy's sources of finance and to ensure that SMEs always have good alternatives to finance their businesses".

4.6. Project success factors

It is a fact that SMEs in Portugal today have an alternative to banks, something they did not have for a few years, thus showing the evolution that has existed in the Portuguese market. The success of crowdfunding is very much associated with the success of the campaigns and for this reason they have to be well prepared and structured and must take into account some factors such as the duration / urgency of the campaign, target audience and the attractiveness of the project, because the more the projects attract, the better the financing conditions.

Based on the information made available together with the platforms, it was possible to identify the main factors that contribute to a successful campaign:

- **Communication / Dissemination:** communication must be dynamic and well directed to the target audience. Often this communication starts in your own contact network, whether family, friends or business partners, often obtaining better financing conditions.
- **Transparency:** Both with the network of contacts and with possible investors, it is necessary for the campaign promoter to show responsibility and professionalism, demonstrating that he has the capacity to comply with commitments.
- **Information made available:** Companies must also keep their financial information up to date, which is often only updated once a year, fill out the loan application carefully so that investors get to know the company's history and motivations before investing.
- **Counterparts:** The return that investors expect to receive is also an important constraint, since it is a great incentive to support the associated risks. They must be realistic so that it is possible to deliver on what was promised within the established deadline.

4.6.1 Success stories

The following are some success stories of companies that managed a successful campaign on Portuguese platforms.

4.6.1.1 Campaign 1 – Wine with spirit

It is a Portuguese wine producer whose mission is to take “Enotainment” - a universe of sharing and interaction where entertainment and fun are the basis of a new way not only of drinking wine but of looking at life - to the world and that combines innovation in the way of producing, selling and drinking wine with the experience of a century-old industry. In 2014, they were considered the most innovative winery in the world, for the Wine Business Innovation Summit edition. Unlike the other producers, Wine with spirit, works its wines from the shelf to the vineyard, that is, the consumer's needs are first identified and only then does the winemaker take the information to the vineyard in order to produce high quality wines. that meet the initial briefing.

Only in the first day, they managed to raise 30% of the intended value of 450,000 euros, which was reached within five days of the campaign's deadline, with 115 investors, in exchange for 5.37% of the capital. The campaign remained active on the Seedrs platform, and by the end of the campaign, the company had raised almost 500,000 euros from 141 investors.

The objective of this campaign was to raise funds to invest in the digital distribution platform that was launched, Lyfetaste, and in the expansion of the distribution network, assuming itself as the “disruptive alternative to traditional channels” when combining online commerce with affiliation marketing, producing the wine for a given moment or emotion identified in the consumer. According to João Pedro Montes, CEO and founder of the company “we are looking for a way to accelerate the growth of our digital distribution platform and increase its potential, as well as to reinforce the existing technological infrastructure, in order to respond to the strong demand that we have registered and that we expect it to increase at the end of 2016 and next year. The equity crowdfunding financing model allows us to reach a large number of investors easily and quickly, both privately and with large institutional investors of venture capital”.

4.6.1.2 Campaign 2 – Agroop

It is an online technological platform that links farmers and associations. It is a tool capable of helping farmers to monitor activities in the field, process data in real time, provide assistance, receive alerts on the weather, quantify costs and even manage human resources.

The Portuguese start-up has already used the crowdfunding campaign through Seedrs four times, having raised more than 900,000 euros in total. In the most recent campaign, which ended in May 2019, with a duration of 60 days, Agroop obtained a value of 530,000 euros from 468 investors, in exchange of 11% of the capital.

The value raised in this campaign aims to enable Agroop to continue to innovate and reinforce its value proposition, but above all to reinforce its international expansion, after the funding collected in previous campaigns has allowed it to create its team and started to develop its product. . The company considers that it is time to focus on internationalization, especially in two markets, with which they already had some relationship: Australia and the United States of America (USA).

4.6.1.3 Campaign 3 – Descontrair & descansar, Lda

It is a company created in 2011 and provides furnished accommodation for tourists.

Being a desire of the managing partner to expand the business, he had two options, to collect the amount he needed: consult his bank as usual or test another alternative, in this case he chose to get capital through Raize. According to the partner, the option fell on Raize in order to diversify its sources of financing and he was admired for the speed shown in raising capital. Through Raize, the businessman realized that he would get the necessary money, 30 thousand euros, in just two weeks. The campaign managed to attract the attention of 200 investors, who received a monthly payment of capital and interest at an annual rate of 6.5% on average.

4.6.1.4 Campaign 4 – VanguardPassion

It is a company created in 2013, based in São João da Madeira, and they are designers, manufacturers and exporters of footwear for ceremonies - 100% personalized - for weddings and special events, being represented by the brand Andlwonder. They are essentially focused on the comfort of the shoes, constantly improving the components to be used. The company's operational model is supported by an online sales platform that allows shoes to be exported to other markets.

The Portuguese company financed through Raize in order to gain market share in the most relevant markets, such as the United Kingdom, France and Switzerland. With this financing, they were able to reinforce investment in the online sales platform and accelerate the internationalization process.

4.6.1.5 Campaign 5 – Infinitebook

The idea for this company came up in 2014 when its founder faced three problems: the pencil did not slide well on the paper, creating a certain friction, the pen created a level of commitment that, while studying, was not the ideal and when he thought that the solution was to buy a white

board for the board, he realized that it forced to study standing up and did not allow taking notes in the class. That's how the first A4 version of the Infinitebook came about.

The founder's initial idea was to create for his own benefit, however, when shown to other people he realized that he could do something more with his idea. With the intention of moving forward with the project, he came across two important factors, money and people interested in his idea. It was in this way that the idea of carrying out a crowdfunding campaign on the PPL platform arised, with the aim of raising 1,250 euros, which in the end turned into 2,300 euros, with the help of 101 people.

This campaign allowed to test the market with the prototype. In other words, it did not have a product produced, in storage or ready to be delivered. With the amount raised, it was possible to increase the production process and thus start looking for people interested, after the approval received with a successful campaign. With the help that crowdfunding gave at the beginning of the project, it was possible to reach another Portuguese working at Amazon who was very interested in the product. The product reached the top of Amazon sales in the “office” category and has reached more than 50,000 people.

4.6.1.6 Campaign 6 – Gabrimat

Founded in 1989, it has been growing and consolidating itself in the universe of Industrial Production of Plastic Products. It aims to be a reference in the market for the sale, development, injection and assembling of plastic parts, guaranteeing safety and health at work with minimal environmental impact, responding effectively to the needs and expectations of customers.

Being a company increasingly concerned with energy and resource efficiency, it turned to GoParity, in 2018, in order to install photovoltaic solar panels for self-consumption at the factory with 94kWp of installed capacity. He managed to raise 83.355 euros in just 2 months.

5. Conclusion

This work aimed to answer the research question: "What is the importance of crowdfunding in SMEs in Portugal".

In the research for this study, several platforms were identified in Portugal, however, only ten are active and those are the ones considered, since they are important to the conclusions of this paper. The first platforms started to emerge in 2011 and since then they have had a rapid expansion and acceptance of the concept.

The role that crowdfunding platforms play is very important since they act as an intermediary in the relationship established between promoters and investors. In this way, it is important that they convey confidence, making the information contained on the website as clear as possible, helping both promoters to publicize their campaign and investors in the investment process.

The success of the platforms is not directly related to the type of crowdfunding used, but is, rather, very dependent on the three players in the campaigns, the platforms need to perform well as intermediaries, the promoters must be professional and disseminate clear information, relevant and reliable and investors have a role to support campaigns. The criteria that each platform has for the acceptance of projects is also a very important factor for its success, since it is not any project / company that obtains financing on its platform, thus reducing the risk of a campaign not being successful and conveys greater confidence to investors.

From the interviews carried out, it was possible to draw some conclusions about the main difficulties that promoters face when they intend to obtain financing through crowdfunding. It is necessary to have a well-structured plan, structure the dissemination interactions, to have daily interactions as most as necessary so that the projects does not get forgotten, to know the target audience of the campaign and to be completely aware of the regulation in this activity, which has proven to be an asset in the regulation of the activity. However, it brought an embarrassment to investors, who were forced to provide a greater amount of information, even for a very small amount and the PPL platform administrator said "It would make more sense to ask for this type of information when the amount invested is high , to prevent money laundering and terrorist financing ”.

Law no. 102/2015 was the first law to regulate crowdfunding activity in Portugal, in order to ensure security in transactions and transmit credibility and reliability to stakeholders. This law is important because all platforms must register together with the responsible activities, in the "*Direção Geral dos Consumidores*" if they were platforms based on rewards or donations

or in the CMVM if they are platforms based on loans or capital in order to be subject to additional regulation and inspection. As they represent a greater risk for investors, the modalities of loans and capital require special regulations, such as the annual maximum investment limits. To better define a sanctioning regime, Law No. 12/2018 was published and stipulates those responsible for supervision. In the case of crowdfunding based on loans and capital, it is the CMVM that has the competence to regulate and supervise, as well as investigate violations, with respect to the crowdfunding platforms based on rewards and donations, these are supervised by the ASAE.

SMEs are very significant in Portugal since they represent 99.9% of the total companies in the country, with micro and small companies representing 96.1%. From these data, we can conclude that these companies have a very significant weight in the Portuguese economy, being responsible for the majority of the turnover generated, for employing a large part of the active population in Portugal, being fundamental to bring added value to the country, for the promotion productivity and for creating wealth.

Over the past few years, bank loans have been greatly reduced and micro companies have been the most affected, since financial institutions are very averse to risk when it comes to lending to SMEs. Since smaller companies do not have the ability to resort to other types of investments as for example bonds which are more expensive, crowdfunding has become a simpler, faster and cheaper alternative, allowing SMEs to obtain medium- and long-term loans.

In fact crowdfunding has been gaining a lot of importance around the world and although Portugal started this activity late, crowdfunding is today of great importance with Portuguese SMEs.

It was possible to conclude in this study that it is necessary to reverse the trend of dependence on banks and for that it is necessary to increase the level of literacy of the populations, in order to make crowdfunding a reliable option so that the financing market works properly, with an economy more rooted in society and less dependent on banks.

Crowdfunding has enabled SMEs to obtain medium and long-term loans, which are quite difficult to obtain together with banking institutions, in order to maintain good treasury management, invest in new projects and also test new ideas directly on the market.

Regarding the limitations of this study, we must point out the weak adherence of most platforms considered initially which could bring very interesting inputs given its experience in the market, that could have led to an advantage in the development of this study.

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7. Annex

7.1 Annex A – Platform interview guide

7.1.1 GoParity

1) What are the requisites for accepting projects?

- Environmental or social impact;
- It doesn't necessarily have to be a brand
 - Companies in transition to be more sustainable
- SMEs
- Organizations
- National or international projects
- It cannot be a private person

2) In what year was it created?

- 2017

3) What are the accepted areas for the projects?

- Projects aligned with sustainability objectives

4) What type of crowdfunding is used in your platform?

- Lending-based

5) What factors contribute to the success of the projects?

- Communication is essential
 - Publish projects a lot
- Depends on risk
 - Higher risk is more complicated
- Smallest duration can be closed in hours
 - When it closes quickly, investors prefer to receive money faster, plus interest
- More attractive projects like solar panels, because companies will always make a profit

6) What are the main difficulties that companies face when financing themselves through crowdfunding?

- Large projects have more difficulties
 - People prefer to diversify the portfolio
 - Can give more days for the project to be financed
 - They will always extend the deadline until the project is closed

7) What is the interest rate on projects?

- Between 3.75% and 5%.

7.1.2 Novo Banco Crowdfunding

1) What are the requisites for accepting projects?

- Promoters must be social organizations - IPSS, support for the most disadvantaged, support for education.
- Do not accept campaigns to help animals

2) In what year was it created?

- 2012

3) What are the accepted areas for the projects?

- Social

4) What type of crowdfunding is used in your platform?

- Reward and donation-based

5) What is the total investment made in Portugal?

- 605,422 euros

6) How many success projects have you had since the platform was created?

- 133 projects

7) What factors contribute to the success of the projects?

- The communication that is made is very important:
 - Know the target audience, reach a wide and dynamic audience
- It depends on the need and urgency of the campaign
- The organization's credibility
 - However, some are so well-known that it makes people think they don't need that much funding because they already have

8) What impact does the legislation have on the operation of the platform?

- Greater identification of supporters, which constitutes a barrier, to donate little money a lot of data is needed.
- In the case of the promoter, it only influences that with supporters having to disclose more personal data, some do not even support it.

9) What are the main difficulties that companies face when financing themselves through crowdfunding?

- The law came to make everything a little difficult
- There are no full-time people on the projects, which makes fundraising difficult, which make communication difficult

10) In your opinion, what role does crowdfunding play in the development of small and medium-sized companies in Portugal?

- Market tests
- Pre-sale
- Measure the level of acceptance of a new idea

7.1.3 PPL

1) What are the requisites for accepting projects?

- All projects that enter in the platform are validated and try to be as objective as possible, but some subjectivity is always needed
- Prerequisites:
 - Video
 - Amount to raise
 - 2 rewards
 - Main image
 - Description of the campaign and the promoter
 - Description of budget and deadlines - Cost budget (describe how the money will be invested - To record a CD use X for the studio, Y for duplicating CDs)
 - Try not to be too critical about the feasibility of the project
 - Description of the team and the project
 - BI (full name address....) A lot of information required by law - verification of the person behind the campaign

2) What is the acceptance rate?

- At the beginning they had a rejection rate of 40%.
- 2019 they rejected 7 projects, around 2%
 - There is a greater awareness in the projects presented

3) In what year was it created?

- 2011

4) What type of crowdfunding is used in your platform?

- Reward-based

5) What is the total investment made in Portugal?

- 3,923,458 euros

6) How many success projects have you had since the platform was created?

- 1,117

- 7) What factors contribute to the success of the projects?
- Promoter's job (how much he believes and discloses)
 - Disclosure of the project
 - Share on social networks, family, friends, influencers, the media - diversify the dissemination
 - Video (with the promoter, a guy creates a connection with the supporters, explain the motivations)
 - Rewards, even in social projects
 - Postcards from the kids involved
 - Things with emotional value - makes people feel they contribute
 - Rewards vary depending on the amount invested.
- 8) What are the main difficulties that companies face when financing themselves through crowdfunding?
- Demand more work than people think
 - It cannot be any project
 - Vague ideas don't work, they have to be well structured, quality campaigns, good video
 - The well-structured dissemination plan, projects with two months get a lot of support at the beginning, but then the “thing” dies a little
 - It is necessary to schedule and structure disclosure interactions.
 - Almost daily interactions so the project does not fall by the wayside
 - Know the target audience of the campaign well
- 9) What impact does the legislation have on the operation of the platform?
- PPL always paid attention to filtering the people who presented the projects from the beginning, for their own protection and the protection of investors, so as not to tarnish the image
 - It came to complicate the investor's perspective, they have to give a lot of personal information (full name, full address, BI), even to give 5 euros to a social project, it is not proportional. It would make more sense to ask for this type of data when the amount invested was large, to avoid money laundering and terrorist financing.

7.2 Annex B – Interview guide for companies

7.2.1 InfiniteBook

- 1) Have you tried to use loans in more conventional ways? If so, what are the biggest obstacles?
 - No, we used crowdfunding not only as a means of financing but also to test market acceptance.
- 2) What advantages did you find by using this type of financing?
 - The main advantages end up being risk mitigation and the possibility of testing the market with prototypes. That is, we do not need to have the product produced, in stock and ready to be delivered to carry out the campaign. We can only have one prototype that we believe will be successful and we can see if there is a market and if the values are within the acceptable range.
- 3) What were the main difficulties faced?
 - Maybe just the difficulty of raising the first 10% to start the snowball effect
- 4) Do you have any estimate of the cost savings you had when using crowdfunding?
 - The cost reduction was the value raised. We didn't have the money to start the company and without crowdfunding Infinitebook would never have been born.