

# The causes of the differences in maturity of equity crowdfunding between the UK and the Netherlands

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## ABSTRACT,

This paper aims to identify which factors contribute to the difference in maturity of equity crowdfunding between the UK and the Netherlands. This is done through a literature study and web search. The findings are then validated/rejected and added to, by interviews with three industry experts. The factors that seem to contribute most are: the regulations, especially the Seed Enterprise investment scheme (SEIS) and the Enterprise Investment Scheme (EIS). The idea behind the regulations in the UK and NL are similar and backed by literature. The second factor that seem to contribute to the difference is the cultural difference between the UK and NL. The culture of the UK seems to be more risk oriented, which means that the public is more inclined to make risky investments through equity crowdfunding. Another factor is the fact that the early stage investing in the UK is the strongest in Europe and one of the strongest in the world. Especially London attracts small companies and global talent on a massive scale, which on their turn attract finance towards the already financial powerhouse. This results in the fourth factor which is the number of alternatives a start-up has when searching for capital. Companies from the Netherlands seem to move to the UK for a better chance on a capital investment. This means that the possibility that equity crowdfunding in the Netherlands is not necessary because other options are better, unlikely. The last factor is that the equity crowdfunding industry in the UK is more mature than in the NL and thus seem to be a more legitimate option when searching for capital.

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## Keywords

Equity Crowdfunding

Crowdfunding

Regulations

Culture

Alternative finance

# 1. INTRODUCTION

In order to grow their start-ups, entrepreneurs most likely need to raise money. Crowdfunding can help entrepreneurs to get their funding, as not only professional investors can invest but regular individuals as well. In the United Kingdom (UK) crowdfunding, especially equity crowdfunding, is doing well. The UK was the third largest national crowdfunding economy in 2014, after the US and China (Eposoti, 2014). Looking at table 5 and table 6 it is clear that equity crowdfunding is not a substantial part of the crowdfunding economy in the Netherlands as only 1.37% of the total capital is raised through equity crowdfunding. ("Crowdfunding in Nederland 2018," 2019). But what is causing these big differences in the equity crowdfunding industry between the UK and the Netherlands (NL)? The factors that seem to weight in the heaviest will be researched.

## 1.1 Research purpose

The purpose of this research is to formulate why the UK is a frontrunner in the equity crowdfunding scene, while equity crowdfunding in the Netherlands (NL) doesn't really seem to grow (table 5). This reality could have various causes, but one of the consequences could be that less capital is raised for start-ups in the Netherlands.

In the case of debt crowdfunding, research indicates that lenders prefer culturally similar and geographically proximate borrowers. This is called the home bias. An analysis of the marginal effects indicates that an increase of one standard deviation in the cultural differences between lender and borrower countries is associated with 30 fewer lending actions, while an increase of one standard deviation in the physical distance is associated with 0.23 fewer lending actions (Burtch, Ghose, & Wattal, 2013). Other research confirms that this home bias is present in other crowdfunding types as well (Lin & Viswanathan, 2015). The home factor limit's the potential of crowdfunding platforms to be able to provide the 'crowd' for more geographically distant entrepreneurs. In the UK this phenomenon is evident. Crowdfunding is the most active in the regions in and around London and the South East. These regions provide and raise the most funds (Baeck, Collins, & Zhang, 2014). 26% of those who raised reward crowdfunding are located in London, this figure rises to 41% for equity crowdfunding. When the South East is added than the result will be that 52% of those who are raising funds through equity crowdfunding and 50% of the funders are located in these two regions (Baeck et al., 2014).

This would mean that every culturally similar area with the same currency could benefit from having a 'local' crowdfunding platform to a certain degree. In the case of Europe, it is not possible to facilitate a Single European Crowdfunding Market as new regulations and legislation are necessary (Zetzsche & Preiner, 2018). For European countries, this could mean that developing their own crowdfunding market might be beneficiary. In the Netherlands specifically it will help to look at how the UK grew to such a powerhouse in the equity crowdfunding circuit. Therefore, this research will focus on the Netherlands and the UK. The crowdfunding platforms in the Netherlands seem to be less developed than platforms in the UK. The UK will be used as an example of why the Netherlands are behind in the maturity of equity crowdfunding. The UK will be used as it was in 2014 the third largest crowdfunding economy and the biggest in Europe (Eposoti, 2014). When it is clearer why the equity crowdfunding industry is doing well in the UK, this information could benefit the

Netherlands, and other countries that want to stimulate equity crowdfunding in their country.

## 1.2 Research objective

This research aims to complement existing knowledge on crowdfunding. More precise, it aims to enrich the knowledge of why crowdfunding in some countries is more mature in size and growth than in others and what factors make a good landscape for successful crowdfunding platforms.

The goal of this research is to find out to what extent equity crowdfunding is more mature in the UK than in the Netherlands and why. This should result in a clear framework of a fruitful equity crowdfunding landscape and a not so fruitful equity crowdfunding landscape as well as what is causing these differences. In the end, this research will make a useful contribution to countries that want to create a successful equity crowdfunding landscape. Or to equity crowdfunding platforms and start-ups which want to push towards a more successful equity crowdfunding landscape in their country. Currently there is a research gap in the literature on equity crowdfunding. The current as 'is' state, is that no clear literature exists on factors which cause the equity crowdfunding landscape to be successful or not. This thesis aims to fill up this gap to the 'ought' state, which is that there is clear literature on substantiated factors which cause the equity crowdfunding landscape to be successful or not.

## 1.3 Research question and sub-questions

Literature shows that having a successful crowdfunding platform nearby can benefit the start-ups in the area (Burtch et al., 2013). This, together with the knowledge that the (equity) crowdfunding is more mature in size and growth in the UK than in the Netherlands triggered the leading research question:

*To what extent is equity crowdfunding in the United Kingdom more mature in size and growth than in the Netherlands and what is causing these differences?*

The research question explores first to what extent equity crowdfunding is larger in size and growth in the UK than in the Netherlands. This part will be answered by obtaining knowledge on the total capital invested through equity crowdfunding in both countries. As well as investigating what platforms contribute most to the total invested. The first sub-question will help answer this part of the research question:

*1. How much capital is invested through equity crowdfunding in the UK and the Netherlands and which platforms contribute most?*

The second part the research question explores is more comprehensive, namely what is causing the differences between the level of maturity of equity crowdfunding between the UK and NL. A lot of factors influence the development of crowdfunding, especially equity crowdfunding. In order to find out what factors are the cause of the difference in maturity between the UK and NL, it is important to understand how this situation originated. Therefore, it is important to describe how the landscape of the UK and NL developed to the current level. The second question is as follows:

*2. How did the UK and NL equity crowdfunding landscape develop to the current level?*

In order to answer the final part of the research question, what is causing the difference between the UK and NL, the third sub-question needs to be answered:

3. Why are equity crowdfunding platforms from the UK bigger in general than the equity crowdfunding platforms in the Netherlands?

To explore the equity crowdfunding landscape further, also important factors of success of the platforms itself are researched. Because there could be more important factors that were missed, and the interview can also shine more light on how important certain factors are in their experience. This resulted in the following sub-question:

4. What factors do industry experts identify as most important for the success of equity crowdfunding platforms?

## 2. THEORY

This chapter will look in-depth into crowdfunding in order to explain when crowdfunding is equity crowdfunding and thus can be considered under the scope of this thesis. Also, maturity, landscape and platforms will be explained to create a similar understanding of the research question, which is vital, in order to prevent confusion and avoid possible unintended conclusions from this thesis.

### 2.1 Maturity

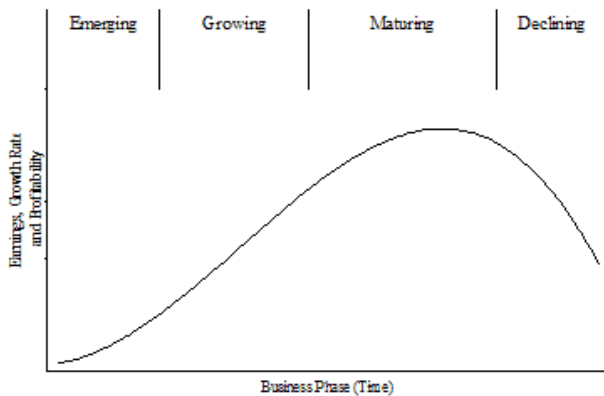


Figure 1: Industry growth stages, source: ("Mature Industry,")

In figure 1 the industry growth stages are visualised. In figure 1, on the x-axis is the time passed. The y-axis is the profit of the industry. When an industry gets more mature, the industry goes from the emerging phase, to the growth phase, mature phase and eventually the declining phase. When an industry gets more mature than the earnings, growth rate and profitability go up, till it arrives at the declining state.

### 2.2 Landscape

With landscape in this thesis is meant the economic landscape. In the case of crowdfunding the landscape is the economic surrounding crowdfunding operates in. For example, the regulations, the 'crowd', competitors, the government and all other economic variables a crowdfunding platform must interact with.

### 2.3 Platforms

With platform in this paper is meant an online platform. This is an online marketplace that places one party in touch with another, such as buyers and sellers.

### 2.4 Crowdfunding

According to (Mollick, 2014) "crowdfunding refers to the efforts by entrepreneurial individuals and groups – cultural, social, and for-profit – to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries." The idea behind crowdfunding is that not only sophisticated investors can invest in start-ups, but the public can invest in start-ups, with small amounts, as well (Rossi, 2014). The ease of use and high accessibility caused crowdfunding to grow rapidly in recent years (Beaulieu, Sarker, & Sarker, 2015). In crowdfunding a listing is generally considered as successful when it gets enough financial backers to at least reach the financial goal of the listing (Zhao, Harris, & Lam, 2019). Crowdfunding emerged in the UK and the United States of America (USA) around a decade ago and has thereafter emerged throughout Asia, Oceania and Europe (Eposoti, 2014). Crowdfunding is closely related to trends like 'the sharing economy', co-production' and 'crowdsourcing'. Some academics even consider crowdfunding as a form of crowdsourcing (Thürridl & Kamleitner, 2016). All these trends have in common that they make assets available through online communities (Arvidsson & Peitersen, 2013; Belk, 2014; Howe, 2008).

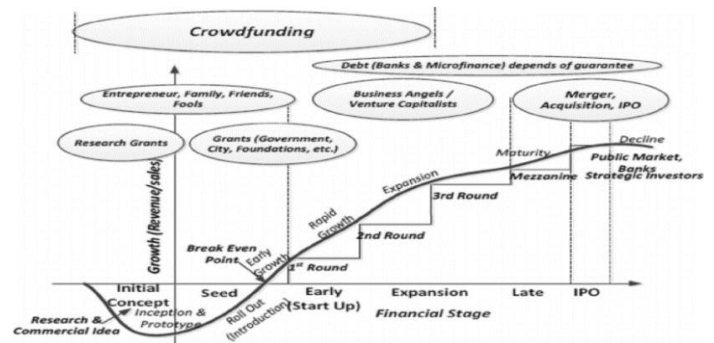


Figure 2: Financing lifecycle, Source: (Lasrado & Lugmayr, 2013)

Crowdfunding is a relatively early financing option for start-ups according to Lasrado's financing lifecycle (figure 2). The option to finance a start-up through crowdfunding is especially attendant in the seed- and early-stage. Traditional financing methods are harder or even out of reach for companies in the seed- and early-stage, therefore is the reason why crowdfunding is more attendant in these stages. The more traditional methods like, venture capital, business angels and bank loans, require more information in order to assess the risks (Schwienbacher & Larralde, 2010). This risk can be divided over different people instead of bearing the whole risk as one company or person. Therefore, crowdfunding can be a valuable option to raise the capital necessary for these small start-ups (Schwienbacher & Larralde, 2010).

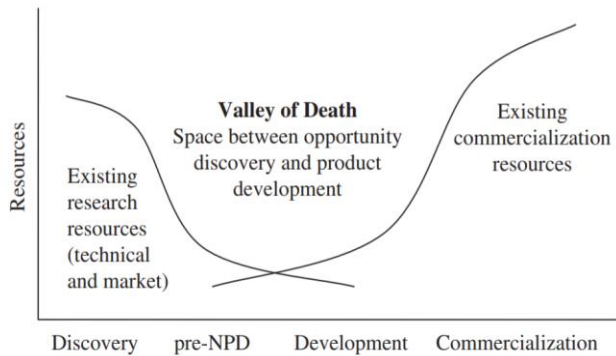


Figure 3: Valley of Death, source: (Markham, Ward, Aiman-Smith, & Kingon, 2010)

The period, when venture capital, business angels and banks think the start-up is still too risky to invest in, but funds are necessary to develop further. Is called the Valley of Death. In figure 3 the x-axis maps the level of development, while the y-axis maps the resource availability. The outcome of the graph suggests that enough resources are available during the research, but this often drops precipitously when more funds are necessary for commercialization. On the right side of the valley, resources appear again for the entry into commercialization. When more resources would be available, then it would be easier to get across the valley. Crowdfunding could be an option to increase the likelihood of getting funding during this period of elevated risk in the valley. Crowdfunding can be classified into four different groups (Mollick, 2014).

1. The patronage model, also called donation-based crowdfunding. In this model individuals fund projects through donations, but don't expect anything in return. The projects funded through this model are generally art or humanitarian related (Mollick, 2014).
2. The second model, the lending model, is based on the 'crowd' offering loans to the entrepreneur. The loans are expected to be paid back with return on capital invested (Mollick, 2014).
3. The third model is reward-based crowdfunding. In this model funders get a reward for financing a project. The reward is non-monetary and can be the right on one of the first products, being credited in a movie, or given the opportunity to meet the creators of the project (Mollick, 2014).
4. The fourth model is equity-based crowdfunding. In this model the 'crowd' take, via an online platform, an equity stake in the business in return for their capital. This model is similar to venture capital however, through equity crowdfunding not only sophisticated investors can invest in start-ups, the general public as well (Mollick, 2014).

Equity crowdfunding differs from the other crowdfunding models in a number of ways. Firstly, a much higher average amount per backer pledged. Secondly, the goal of the listings is much higher on average and can approach the first-round investments of venture capital. And thirdly, the existence of a valuation before the company gets listed on the platform (Vulkan, Åstebro, & Sierra, 2016).

## 2.5 The conceptual model

The equity crowdfunding landscape is influenced by a lot of factors, like any other economic landscape. In order to have a successful equity crowdfunding platform, the demand and supply have to be increased.

The demand is the number of start-ups that seek investment through the equity crowdfunding platforms. The demand seems to be affected by a few factors. Firstly, the demand is affected by the regulations in the landscape, when the regulations are very strict then the transaction costs are high for the start-ups (Pasovs, 2016). Culture is the second factor that affects the demand side. When a culture stimulates risk taking then it seems to have more emphasis on entrepreneurship, which would result in more start-ups and thus more demand (Lee & Peterson, 2000). The third factor that influences the demand side are the alternative financing options. Equity crowdfunding is generally used as a last resort to get funding (Walthoff-Borm, Schwienbacher, & Vanacker, 2018), so when there are enough other options for financing then there will be less demand on the platforms. The fourth factor that affects demand is the amount of entrepreneurial talent. When a country has or attracts many entrepreneurial talents the logical consequence is an increased number of start-ups. The last factor that influences the demand side is the maturity of the industry. When the equity crowdfunding industry is more mature, it is possible that it is seen as a more valuable option for financing.

The supply side is the number of investors that are interested in investing in start-ups through equity crowdfunding. This side is also influenced by a few factors. Like the demand side, the supply side is also affected by the regulations. When regulations are not strict enough for example, the result is the chance on fraud increases, which would make equity crowdfunding less interesting for investors (Pasovs, 2016). The second factor is the culture of the landscape. When a culture stimulates risk taking more, then investors are more inclined to invest in start-ups, as this is a high-risk asset (Lee & Peterson, 2000). The third factor is maturity of the industry, when the industry is seen as a more legitimate option then it is possible that the investors will see the equity crowdfunding industry as more interesting to invest in.

All these factors can be seen in figure 4. There could also be more factors that influence that demand and/or supply side.

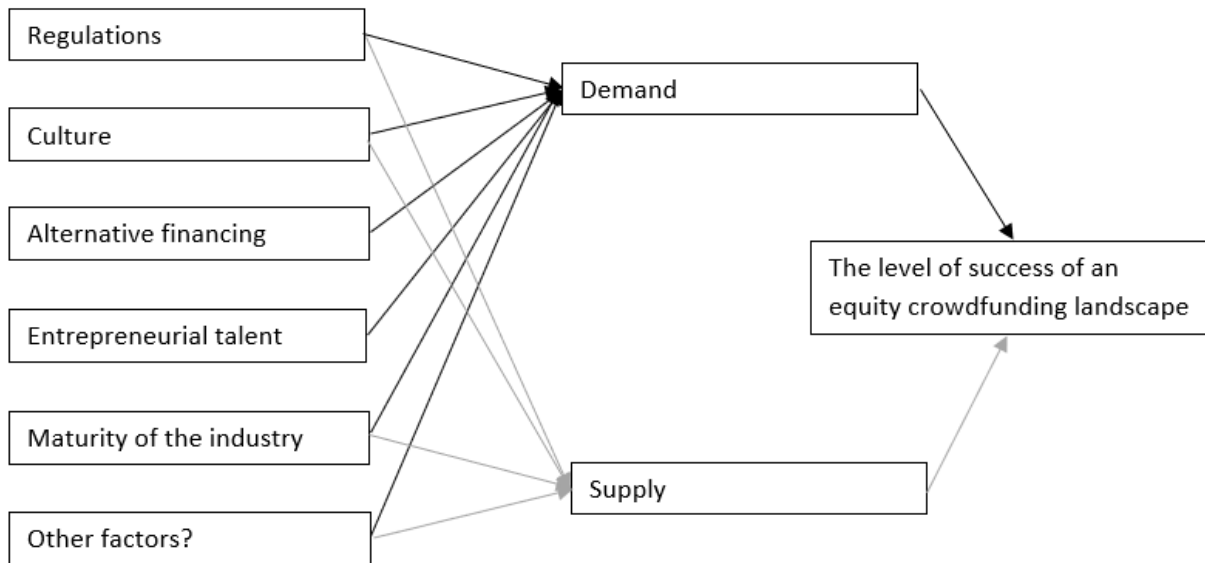


Figure 4: The conceptual model

All the factors in the conceptual model will be researched through literature and/or through interviews with three experts.

### 3. METHODOLOGY

Sub-questions one through three will be answered with the help of literature, web search and data from the sites from the platforms themselves. In order to answer sub-question four, primary data will be collected through interviews.

Sub-questions one through three are used to accumulate data from scientific sources and reliable web pages. Sub-question four, with the help of the interviews, is used to validate the information and to investigate if any significant factors for equity crowdfunding were missed.

In figure 5 the research methodology is visualised. The first step is to determine the main research question and sub-questions. Then, information is gathered in order to answer the first three sub-questions. This will produce results and in order to validate these results, interviews with three experts will be conducted. If the factors are validated by the experts, then the circle is completed.

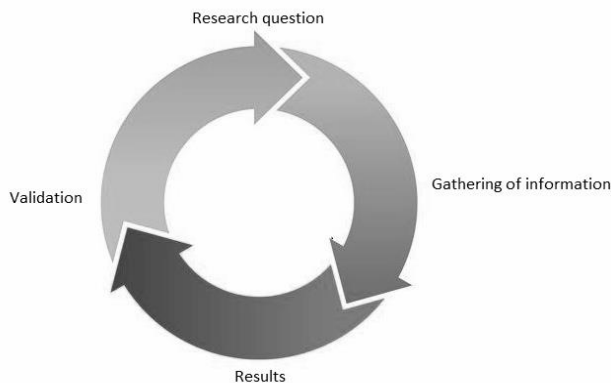


Figure 5: Research methodology

When the results of the interviews reject the outcome of thesis then the circle starts again with new changes and new research. In order to get a complete view on the UK and the NL experts from both countries will be interviewed, two experts from the UK and one expert from the NL. Two experts from the UK are interviewed in comparison to only one from the NL because the UK has a very large equity crowdfunding industry and thus probably more knowledgeable experts (Eposoti, 2014). The NL has only a small equity crowdfunding industry which was only 1.4% of the total capital invested through crowdfunding in 2018 (table 5 and 6). Which means that there are probably not many experts.

The literature study will be qualitative and inductive in design. The secondary data sources include research publications from academics, websites, regulatory authorities and equity crowdfunding websites. The websites are used to get up to date information on this relatively young topic.

The research design of the interviews is exploratory and collects qualitative data with a guided approach. The interview questions are based on the conceptual model. The guided approach ensures that the same general areas of information are collected from each interviewee. This allows a degree of freedom and adaptability in getting the information from the interviewee (Kvale & Brinkmann, 2009). The data will be collected from three industry experts. The interviews will collect primary data on the most important success factors of equity crowdfunding platforms. As well as information on why the industry experts think equity crowdfunding is more mature in the UK than the NL and which developments were important for the growth in maturity of the landscape.

In de end first all sub-questions will be concluded separately then the research question will be concluded after that. This structure is chosen because in this structure all sub questions can be answered and concluded fully, while still having a concise conclusion of the research question.

### 3. RESULTS

The results section is divided by sub-question. All information that is necessary to answer the sub-question will be presented in this section.

#### 3.1 How much capital is invested through equity crowdfunding in the UK and the Netherlands and which platforms contribute most?

In this thesis, two quantitative methods to measure the size of equity crowdfunding platforms are used. The total amount of capital raised by projects or the total amount of successful projects.

Table 1: EC platforms and their size as for 25/04/2019, the source are the EC platforms own sites ("Crowdcube," ; "Seedrs," ; "Symbid," ; "Syndicate Room,").

Platform	Total raised capital	Total successful projects	Location
Crowdcube	£626,618,118 (€725,623,780)	821	Exeter (UK)
Seedrs	£578M (€669M)	795	London (UK)
Syndicate Room	£215M(€249M)	170+	Cambridge (UK)
Symbid	£26,430,814 (€30,606,883)	214	Rotterdam (NL)

1 pound = 1.158 euro as for exchange rates at 25/04/2019

In the UK, Beauhurst estimates that the top three platforms account for 95% of the total market in 2016 (Beauhurst, 2017). The three platforms that account for this percentage are Crowdcube, Seedrs and SyndicateRoom. In the Netherlands, Symbid is the only 'big' equity crowdfunding platform. In table 1 all the total raised capital of these platforms can be found. Symbid which was responsible for €30,606,883 in total raised capital. According to (Crowdfundingcijfers.nl, 2019), €20.4M has been raised through equity crowdfunding from 2016 till the latest report from the end of 2018. This means that, without considering years before 2016, Symbid raised more capital since their founding than the whole of equity crowdfunding in the Netherlands. Which makes it highly unlikely that another platform that raises funds through equity crowdfunding has a significant presence in the Netherlands.

In table 2 it can be found how much capital has been raised through equity crowdfunding in the UK and in the NL in the last few years.

Table 2: The capital raise through equity crowdfunding in the UK and NL

Capital raised through ECF	Raised in the UK (all numbers are in millions)	Raised in the NL
2015	£155(€179.5) (AltFi, 2016)	
2016	£130(€150.5) (AltFi, 2016)	€5.7M(€4.9) (Crowdfundingcijfers.nl, 2019)
2017	£217.7(€252.1) (Beauhurst, 2019)	€10.2M(€8.8) (Crowdfundingcijfers.nl, 2019)
2018	£271.3(€314.2) (Beauhurst, 2019)	€4.5M(€3.9) (Crowdfundingcijfers.nl, 2019)

1 pound = 1.158 euro as for exchange rates at 25/04/2019

The sources from table 2 are all webpages. The reason for this is that these numbers are very recent, and it seems that these numbers are not mentioned in research papers. Although the data comes from webpages, or reports produced by these companies, the data is identified as reliable.

The data reported by AltFi (AltFi, 2016) is found reliable as they claim that: "It remains unique as an accurate study - performed by an independent third party". Also, AltFi is the self-proclaimed world's leading news site for the fast-growing alternative finance space. It seems that they have nothing to gain by publishing unreliable reports.

For Beauhurst it is the same. Beauhurst is a company that sells data to start-ups to help them grow and their mission is: We're on a mission to become the leading source of information on ambitious British companies ("Beauhurst website,"). This means that when they publish unreliable information, their whole business model becomes unreliable.

A factor that could be influencing the numbers somewhat is the possibility that AltFi and Beauhurst used different methods to gather their information, which means that the large leap between 2016 and 2017 might be somewhat larger or smaller. However, this is not crucial for the purpose of this table.

Crowdfundingcijfer.nl is also identified reliable as their data is used by the Dutch government, the Dutch Central Bureau of Statistics and Dutch banks (Crowdfundingcijfers.nl). Which means that the reliability of this website is crucial for its existence and thus probably an important factor in their data collection.

#### 3.2 How did the UK and NL equity crowdfunding landscape develop to the current level?

This sub-question is divided in two parts, the part about the UK and the part about the NL. For both parts, this paper will investigate the developments in terms of the growth in numbers and the regulations.

### 3.2.1 Part 1: The development of the equity crowdfunding in the UK in numbers

Between 2010 and June 2017, the number of equity crowdfunding platforms in the UK has increased from four to thirteen. The sector is very concentrated, Beauhurst estimates that the top three platforms account for 95% of the total market in 2016 (Beauhurst, 2017). By June 2017, more than 400.000 potential investors have invested more than £500 million for 1538 entrepreneurial pitches through equity crowdfunding platforms (Estrin, Gozman, & Khavul, 2018). Equity crowdfunding platforms sort out 90% of the initial inquiries by entrepreneurs and only around one-third of the eventual pitches are funded. This means that around 45.000 entrepreneurs have sought capital via equity crowdfunding between 2010 and June 2017.

The number of investors per successful pitch, for equity crowdfunding, is low in comparison to other forms of crowdfunding (Mollick, 2014). For equity crowdfunding, on average, there are between 200 and 250 investors per successful pitch, on average investing £2000 each (Estrin et al., 2018).

The equity crowdfunding platforms also show rapid growth of the social network. For example, Crowdcube's size of the investor network grew exponentially from around 10.000 at the start of 2012 to more than 400.000 by June 2017. The growth numbers can be found in table 3. Interviews conducted by Vulkan, Estrin and Khavul suggest that other platforms achieve the same growth numbers (Estrin, Gozman, & Khavul, 2016; Vulkan et al., 2016).

Table 3: Estimated number of the investor's network of Crowdcube. Source: (Estrin et al., 2018)

Beginning of the year	Estimated number of the investor's network of Crowdcube	Yearly growth in percentage
2012	10.000	-
2013	30.000	300%
2014	50.000	67%
2015	100.000	200%
2016	200.000	100%
(June) 2017	400.000	100%

Table 4: The capital raise through equity crowdfunding in the UK

Year	Capital raised through equity crowdfunding in the UK (all numbers are in millions)	Growth in percentage
2015	£155(€179.5)(AltFi, 2016)	-
2016	£130(€150.5)(AltFi, 2016)	-13%
2017	£217.7(€252.1)(Beauhurst, 2019)	67%

2018	£271.3(€314.2)(Beauhurst, 2019)	25%
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1 pound = 1.158 euro as for exchange rates at 25/04/2019

Not only the investor network is growing, but the total raised funds (table 4) and the average investment per pitch as well. The growth dip in 2016 is caused by the turbulence of the Brexit referendum (Beauhurst, 2017). The average investment per pitch grew from £99.000 in 2012, £243.000 in 2013, £357.000 in 2014, £508.000 in 2015 to £551.000 in 2016 (Estrin et al., 2018). The same source also suggests that the failure rates average around 8% per annum and more than 30% over a five-year horizon. The failure rates are measured from the moment that the start-ups got their funding, not from the moment they got founded and thus these should not be confused with survival rates. The failure rates are high, but below the norm for early-stage entrepreneurial firms (Ucbasaran, Westhead, Wright, & Flores, 2010). This means that investments through equity crowdfunding bear more risks than most other asset classes but are not riskier than other forms of investments in early-stage entrepreneurial ventures.

### 3.2.2 Part 1: The development of the regulations of equity crowdfunding in the UK

In the UK equity crowdfunding is regulated by the Financial Conduct Authority (FCA) (Zhao et al., 2019). The FCA overall has adopted a sympathetic approach to equity crowdfunding. At the start the FCA adapted the existing regulations to allow equity crowdfunding and then, in 2014, they introduced formal rules ("Beauhurst website, "). The rules include that since 2014, the FCA requires investors to certify themselves, the investors will have to take regulated advice, qualify as high net worth or sophisticated investors or the investor has to confirm that they will invest less than 10% of their net assets (Pasovs, 2016). This means that they would understand the risks, which would result in no restrictions on the type of investors to which the platform could appeal (Pasovs, 2016). The platforms are required to check whether the investors understand the risks and the mechanisms created to protect them. The main rules are created in order for the FCA to protect investors in the equity crowdfunding market and to ensure investors can get access to clear information ("Financial Conduct Authority (FCA) website, "). After the introduction of the new regulations, equity crowdfunding's volume started to rapidly (Kshetri, 2015). With this pro-innovation approach the UK has become the precursor in equity crowdfunding and has the most capital raised through equity crowdfunding as well as the most companies funded by it (Estrin et al., 2016).

To further bolster the equity crowdfunding landscape (and the investment landscape in general) the FCA created two tax incentives. In 1994 the Enterprise Investment Scheme (EIS) and in 2014 the Seed Enterprise Investment Scheme (SEIS). The EIS helps investors to raise finance by offering significant tax reliefs to investors. While the SEIS offers tax relief to individual investors who purchase new shares in new companies. These policies were probably significant in the brisk expansion of equity crowdfunding in the UK (Vulkan et al., 2016).

Most of the crowdfunding in the UK is centered around London (Bank, 2014). London is a global powerhouse on the topic of finance. This makes that London's ecosystem for entrepreneurial

finance, together with the sympathetic regulations and tax relieves is a perfect fit to nurture innovation (Estrin et al., 2016).

### 3.2.3 Part 2: The development of the equity crowdfunding in the NL in numbers

Equity crowdfunding in the Netherlands started in 2011 with the founding of Symbid. They claim to be the first equity crowdfunding platform in the world ("Symbid,").

A lot less information is available on the equity crowdfunding landscape in de Netherlands. Most probably because the Netherlands is not a large equity crowdfunding nation. Which results in less research into this topic.

There is only numerical information on capital invested through equity crowdfunding available from 2016 onwards.

Table 5: Capital invested through equity crowdfunding in the NL, source: (Crowdfundingcijfers.nl, 2019)

Year	Capital invested through equity crowdfunding in the NL	Growth in percentage
2016	€5.7M	-
2017	€10.2M	79%
2018	€4.5M	-56%

Table 6: Capital invested through crowdfunding in the Netherlands, source: (Crowdfundingcijfers.nl, 2019)

Year	Capital invested through crowdfunding in the Netherlands	Growth in percentage
2012	€14M	-
2013	€32M	129%
2014	€63M	97%
2015	€128M	103%
2016	€170M	33%
2017	€223M	31%
2018	€329M	48%

While crowdfunding, in general, keeps growing rapidly, equity crowdfunding doesn't keep up with the numbers. As can be seen in table 5 and 6. The growth percentage of 79% in 2017 relative to 2016 is impressive. Especially when crowdfunding, in general, grew only by 31% as can be seen in table 6. However, the next year equity crowdfunding collapsed and declined by 56% while crowdfunding, in general, grew by 48% that year.

### 3.2.4 The development of the regulations of equity crowdfunding in the NL

Regulations in the Netherlands are made by the AFM (autoriteit financiële markten). Equity crowdfunding platforms are usually only considered, in the Netherlands, when they fall within the scope of the MiFID II (Markets in Financial Instruments Directive)

investment activity/service (Crowdfunding in Europe). The MiFID II is the European directive for investment- and trading platforms. The AFM uses licenses and exemptions in order to protect investors (Baukema, 2018). The requirements of the AFM date originally from 2012 and were renewed in 2015. The AFM mainly restricts the number of investors per project and the total capital that is allowed to be invested in a single project (Baukema, 2018). The platform has a duty of care towards the investor, the platform has to have a required investment exam and rules regarding securing investors' funds by means of asset separation (Baukema, 2018).

## 3.3 Why are equity crowdfunding platforms from the UK bigger in general than the equity crowdfunding platforms in the Netherlands?

The conceptual model has brought a few factors forward which could affect the size of equity crowdfunding platforms in a country. Not all these factors were mentioned prevalent in the literature. Thus, in this section only the regulations and culture factors will be broken down.

### 3.3.1 The role of regulations

In order to analyse why equity crowdfunding platforms are in general bigger in the UK than in the Netherlands, first the most desirable landscape should be formulated. Then the landscape of the UK and the Netherlands should be compared to see which is more exhilarating for the platforms. The ideal landscape will be researched through literature analysis as well as looking into the current UK landscape for parts where no theory is available. The UK landscape is very successful and thus will be used as the framework when the theory is inadequate.

### 3.3.2 The most desirable equity crowdfunding regulations according to theory

For a landscape to be stimulating for equity crowdfunding, the regulations are crucial. In Italy and Switzerland platforms are mostly exempt from regulations and this can cause problems as this hurts the investor protection. Without the regulations, the investor protection only relies on platform conditions and this will eventually hurt the final success rate of the pitches (Pasovs, 2016). It is important that the regulations lay down some ground rules and investor protection, however, the regulations also should not be as heavy, as for example the regulations under Title III in the US. Too heavy regulations can hinder the key factors for equity crowdfunding, namely easiness and speed (Pasovs, 2016). When regulations force comprehensive legal rules than the initial value of equity crowdfunding would decrease.

The regulations should focus on platform providers. Regulating the platforms does not protect investors in a condescending manner but it protects the investors from risks as negligence and fraud (Zetzsche & Preiner, 2018).

Both too little and too many regulations are harmful. The UK is a good example of how the regulation can target important issues but remains soft or flexible (Pasovs, 2016).

Another important point that is handled by the theory is the maximum sum that a start-up is allowed to raise. Using the UK as an example, it is clear that the target sum can be exceeded and that companies could benefit enormously if regulation would allow a larger maximum amount (Pasovs, 2016). The cap in the UK limits at 5 million euros, which is also the cap under EU law. Otherwise, maybe the UK would allow raising higher amounts, although



higher amounts could also increase the risks, while the current cap should be satisfactory for small and medium-sized enterprises. Higher amounts could increase the risk of fraud and failure. The cap of 5 million euros seems to be a good balance.

Also setting a reasonable amount to be invested for investors per project seems to be the best approach. The highest amount allowed needs to contain the sophistication of the investors, so angel investors and high net individuals are allowed to invest more than regular investors (Pasovs, 2016).

Another important contributor to the success of the equity crowdfunding landscape in the UK is the sympathetic tax system (Drover, Wood, & Zacharakis, 2017; Estrin et al., 2016; Estrin & Khavul, 2016). These regulations are EIS and SEIS, which were mentioned before.

### 3.3.3 The situation in the UK compared to the most desirable situation

The regulations in the UK are a good example of the ideal situation mentioned previously. The regulations target the most difficult issues but remain flexible (Pasovs, 2016). The regulations in the UK are platform focused, which is in-line with the theory on the most stimulating landscape for equity crowdfunding (Zetzsche & Preiner, 2018)

The maximum sum allowed to be raised through equity crowdfunding in the UK is €5.0M which is the maximum allowed to be raised in the EU (Pasovs, 2016).

### 3.3.4 The situation in the NL compared to the most desirable situation

The regulations in the Netherlands are made by the AFM (autoriteit financiële markten). Equity crowdfunding platforms are usually only considered, in the Netherlands, when they fall within the scope of the MiFID II (Markets in Financial Instruments Directive) investment activity/service (Crowdfunding in Europe). The MiFID II is the European directive for investment- and trading platforms, both the UK and NL are regulated by this framework (Gov.UK, 2018). The MiFID II limits the space to deviate from the framework nationally.

As stated in the part on the ideal landscape, the regulations are most stimulating when the focal point are the platforms. The Platform-focused approach is notably used in the UK but also in the Netherlands (Zetzsche & Preiner, 2018).

Maximum sum allowed to be raised through equity crowdfunding in the Netherlands is €2.5 million (Pasovs, 2016; Torris, 2015) this could be an obstacle for the equity crowdfunding in the Netherlands, however this obstacle is not very significant as the maximum sum of €2.5 million is still very high (Pasovs, 2016).

### 3.3.5 The role of culture

Not just the regulations have an impact on the performance and thus the size of equity crowdfunding in the UK and NL, but the culture as well. In order to analyse the difference, the cultural dimensions of Hofstede are used. The scores of the United Kingdom and the Netherlands can be found in figure 6.

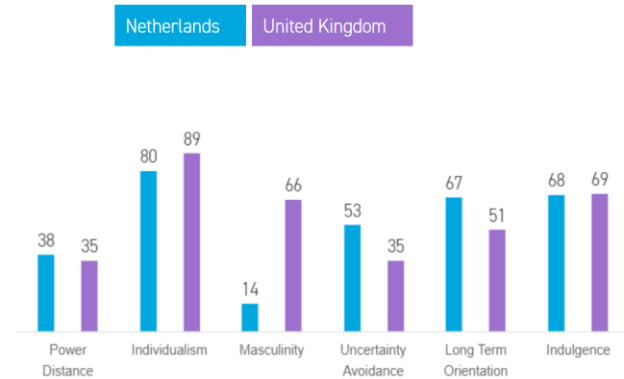


Figure 6: Hofstede cultural dimensions of the NL and UK, Source:(HofstedeInsights, 2019)

Two important dimensions for this paper are individualism and uncertainty avoidance. Research suggests that banks in societies with higher individualism and lower uncertainty avoidance are more likely to show aggressive risk-taking (Kanagaretnam, Lim, & Lobo, 2011). This research shows that culture has a serious influence on decision making in the financial sector. Other research (Li, Griffin, Yue, & Zhao, 2013) shows that individualism is positively and uncertainty avoidance negatively correlated with risk-taking in non-financial sectors. (Mihet, 2013) Even states that: “Risk-taking by foreign firms is best explained by the cultural norms of their country of origin.”

Culture has a direct impact on corporate risk-taking, financial and non-financial, not merely through indirect channels such as regulatory and legal frameworks (Mihet, 2013). The same source suggests that firms in countries that have high uncertainty avoidance and low individualism tend to take significantly less risk in informationally non-transparent sectors such as finance. Not only does culture affect corporate risk-taking, but individual risk-taking at micro level is affected the same way (Halek & Eisenhauer, 2001; Hilary & Hui, 2009). Also on micro level, individualism is linked to over optimism and overconfidence and thus significantly positively correlates with individual financial risk-taking and the decision to own stocks (Breuer, Riesener, & Salzmann, 2014).

(Lee & Peterson, 2000) find that countries with a higher score in individualism tend to have a strong entrepreneurial orientation, and thus more entrepreneurship and global competitiveness. Also cultures with higher individualistic scores tend to be more inclined to offer individuals “a fresh start” in order to position itself to re-join the economy as a productive member of society (Efrat, 2002).

As can be seen in figure 6, the score for individualism of the UK is higher than that of the NL, 89 against 80 and the score for uncertainty avoidance of the UK is lower than that of the NL, 35 against 53. This means that the culture in the UK stimulates more individual risk taking than in the NL. Investing through an equity crowdfunding platform means investing in an early stage business. This is a riskier investment which would be stimulated more in the UK than in the NL. Also, the research of (Lee & Peterson, 2000) suggests that the UK would have a stronger emphasis on entrepreneurship, which means that you would expect more start-ups and a more stimulating landscape in the UK than the NL. These factors all weight in for more successful equity crowdfunding platforms.

## 4.0 DATA COLLECTION FOR THE INTERVIEWS

In order to confirm or reject the findings in the theory and the web investigation, interviews will be conducted with three industry experts, two experts from the UK and one expert from the NL. This information will help confirm important factors mentioned in the theory, invalidate other factors and might bring up new important factors. The interview questions are based on the literature and web research. The questions that were asked to the experts from the UK differ from the questions that were asked to the expert from the NL, although the idea behind the questions remained the same. The reason for the difference in the questions is that the experts from the UK were asked questions more specific to the circumstances in the UK and the expert from the NL vice versa.

For both group of questions, the set-up is the same. The first question will define a general picture of what the expert thinks are important factors for the success of equity crowdfunding. The first question is crucial. This question is asked first in order to avoid the availability bias. Thereafter other questions are asked in order to make sure all factors that will come forward in the literature and web investigation are covered and to investigate if important factor were missed. This interview is semi-structured, which means that other questions can be asked in between if they come up in the conversation (Longhurst, 2003). Because the interviews are semi-structured, some questions are formulated in advance, these questions can be found below.

Interview questions for the experts from the UK

*Introduction question: What is your relationship with equity crowdfunding?*

1. *What factors do you identify as most important for the success of equity crowdfunding platforms?*
2. *Do you think equity crowdfunding in the UK is successful? Why?*
  - 2.1. *Do you think culture is an important factor, why or why not?*
  - 2.2. *Do you think regulations is an important factor, why or why not?*
3. *Do you think other countries could emulate this success, why?*
4. *In the UK there are the Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS), what do you think of these tax incentives?*
  - 4.1 *How would the equity crowdfunding industry in other countries be affected, if EIS and SEIS were introduced?*
5. *Can you name more important developments in the crowdfunding landscape which were significant for the growth in maturity?*
6. *Are there any significant developments expected in the near future?*
7. *Would you change something in the regulations?*

Interview questions for the expert from the NL

*Introduction question: What is your relationship with equity crowdfunding?*

1. *What factors do you identify as most important for the success of equity crowdfunding platforms?*
  - 1.1 *Do you think culture is an important factor, why or why not?*
  - 1.2 *Do you think regulations is an important factor, why or why not?*
2. *What do you think of equity crowdfunding in the Netherlands?*
3. *Why do you think equity crowdfunding in the UK is so much larger?*

4. *Are there any significant developments expected in the near future?*

5. *Would you change something in the regulations?*

### 4.1 What factors do industry experts identify as most important for the success of equity crowdfunding platforms?

This section will present the answers on the interview question per interviewee. The answers presented here are not direct quotes, the text is altered, to make the answers more structured and readable. However, the scope of the answers is the same. Some interesting answers were given on other questions or in between questions, these answers will be presented after the answers on the interview questions. The whole transcribed interviews can be found in the appendix.

#### 4.1.1 Interview 1, the interview with Oliver Hammond, senior analyst of Syndicate Room

*What factors do you identify as most important for the success of equity crowdfunding platforms?*

Probably one of the largest, one of the biggest factors I think is regulation.

*Do you think equity crowdfunding in the UK is successful? Why?*

Depends, don't get me wrong I mean the U.K. crowdfunding industry does well but keep in mind that in a lot of cases the U.K. crowdfunding industry is a massive PR machine. So, there's a lot of stories out there about how much crowdfunding brings to rounds and how much crowdfunds are involved. But also keep in mind that things go badly.

A factor that makes equity crowdfunding successful in the UK is the fact that early stage investing in the UK is strong, by a significant margin the strongest in Europe and one of the strongest in the world. The UK and especially London is a massive attraction for people looking for investing in companies.

Also, the UK culture does influence it somewhat. I would say that London does not just attract UK investors, London attracts pan-European and global investment. So, what is called Tier 1 money for Chinese private investment. We attract a lot of money from the continent so from the rest of Europe. It's not just the UK investing it's a global occupation and I think that's really because London has cemented itself as a financial hub. I think it's because London tends to attract a lot of talent, so it becomes a service economy. London attracts top talent especially from places in the rest of Europe, places like East Europe and Southern Europe and things like that. These people start their companies in London as a result London attracts investment but because London attracts investment it attracts more talent because talent wants to go to London for these reasons. I mean I've come across tons of companies who have staffed up in places like, Romania, Italy, Denmark the Netherlands far like and what they've done is they've staffed in these countries and then they've moved their headquarters to London on the basis that they think it's easier to attract VC investors. I think that's probably one of the reasons why.

*Do you think other countries could emulate this success, why?*

All things being equal they are now, I would say that a lot of countries would struggle, especially European countries. Because, London is just such a powerhouse. It's very difficult for countries to catch up. I would say in the wake of Brexit there is probably

going to be opportunity for other European countries to come to the forefront.

*In the UK there are the Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS), what do you think of these tax incentives?*

They are significant for the equity crowdfunding. I would say that EIS and SEIS are the biggest drivers of investment towards equity crowdfunding in the UK. In my experience equity crowdfunding would be close to collapse without them.

*How would the equity crowdfunding industry in other countries be affected, if EIS and SEIS were introduced?*

It would help it grow, yes. Even outside of equity crowdfunding. I think that SEIS EIS are one of the biggest drivers for Angel and ultra-high net worth private investment and it's a scheme like no other. And it's probably one of the best things that, in my opinion, the UK government has done. Because what it does is it encourages those investments into small businesses like nothing else. So yes, it is a major factor if you want equity crowdfunding to grow.

*Can you name more important developments in the crowdfunding landscape which were significant for the growth in maturity?*

No interesting quote on this topic.

*Are there any significant developments expected in the near future?*

I think one of the things that could change are SEIS and EIS. There is some talk that the incentives might go away, which would be devastating. But at the moment from the regulatory point of view there's nothing that I'm aware of that's going to cause significant change.

*Would you change something in the regulations?*

I don't think I would on the basis that I'm aware. I mean obviously I'm regulated myself. I work within the realms of regulation. During my day to day role, I don't come across anything that I think is particularly overbearing. I think those processes are certainly onerous for a reason and I think they're done for the right reasons. UK financial sector is very heavily regulated, and I think it's probably right too. There is nothing that I have come across that I think is particularly overbearing.

*4.1.2 transcribed interview with Nir Vulkan, professor of Business Economics from the University of Oxford and author of (Vulkan, N., Åstebro, T., & Sierra, M. F. (2016). Equity crowdfunding: A new phenomena. Journal of Business Venturing Insights, 5, 37-49).*

*What factors do you identify as most important for the success of equity crowdfunding platforms?*

There's many but, two main ones, I think. First is the regulations and the second thing are of course the tax breaks. They are not specifically for equity crowdfunding, but equity crowdfunding took advantage of them. The tax breaks are basically to encourage start-ups and so they give any investors, angel investors, high net worth investors and also the general public, they give them quite a generous tax break. It creates a lot of supply of capital.

*Do you think equity crowdfunding in the UK is successful? Why?*

Yes, so the regulator here has been proactive in encouraging equity crowdfunding. This is very different in other countries for example

in the U.S. the regulator it is seen as someone who is enforcing the law. So, their job is to catch the bad guys. Whereas in the UK the government really wants the regulator, the FCA, to be strategic so not just focussed to catch bad guys and of course the tax breaks.

*Do you think culture is an important factor, why or why not?*

I think it is. I mean, we all are kind of pro market and a little bit a nation of gamblers right. I mean people here like to, like to gamble. Really it certainly helps, for example I know that it's very hard to make the German take risks. And the fact that entrepreneurship became fashionable in the UK, the fact that start-ups are sexy. and it's been a good time, to be an entrepreneur in the UK. You know entrepreneurs who have succeeded are a little bit like heroes.

*Do you think other countries could emulate this success, why?*

I mean in the U.K. there is a belief that Start-ups is the engine of growth and this is how you move forward. I think the Netherlands share this idea. The difference in different countries is, in the U.K. with its Anglo-Saxon culture, it's very pro-market, pro risk. Each country has its own attitude and has to think about it.

*In the UK there are the Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS), what do you think of these tax incentives?*

I think they are very significant. I mean there are two ways to look at it. There are companies that are not UK based who have raised capital. They don't get the tax break, there have been a lot of them, and they've been successful too. The investors that invest in them are typically also from a different place. So, what we had in the U.K. in the early years, a lot of Portuguese companies and many of the Portuguese people invested in them. So, there is evidence that this works without the tax breaks. But kind of for a different crowd because they are basically investors who are not UK taxpayers anyway and the companies are not from the UK.

I think the EIS and SEIS helps, I also think it's probably going to go away. I think the government will stop this anytime soon because these are all only a temporary thing anyway. So it might become less generous in the future in the sense that it's created enough momentum for it to go.

*Can you name more important developments in the crowdfunding landscape which were significant for the growth in maturity?*

I think equity crowdfunding is becoming more mainstream. Research shows that many more angels are using equity crowdfunding. And I think that's a good thing because it means now the public feels more reassured that's what the professionals are doing as well. So, it became kind of a mixed platform for the angels, it gave it a legitimacy.

When equity crowdfunding started there was a little the idea that if you're good you go to the Angels. If you can't get on the Angels, you go to the crowd. Now it's not so much like that. It's more of the mix. So, I think that's been positive. I mean the numbers have been growing that also important. You know there's been some good IPO's some good exits. I think it's maturing.

*Would you change something in the regulations?*

I don't know. I don't think so.

*Do you think that the equity crowdfunding industry will collapse without the tax incentives?*

I don't know if the equity crowdfunding industry will collapse. I think that sounds to me a bit strict. Yeah. I did. This is what we just

said though. I think it will help. It will take a blow, but I don't think it will collapse. As I said there is evidence that there is been. Investment without taxes breaks as well. Well of course it will make a difference. I think it's I think it's a too strong of a statement.

#### *4.1.3 Interview Ronald Kleverlaan, Chairman stichting MKB-financiering and alternative finance expert*

*What factors do you identify as most important for the success of equity crowdfunding platforms?*

The most important one is culture. The culture of investing and a culture of investing from the business angels and investor. As well as the culture of entrepreneurs, who are looking for equity funding in general. So, you see that countries where the market of equity funding is much more developed and risk taking for entrepreneurs, is much more developed such as the UK.

You see that it is much easier to do equity crowdfunding in these countries. They see it more as a normal way of investing.

*Do you think regulations is an important factor, why or why not?*

Not that much. You see that for new industries like equity crowdfunding was the problem, which is positive for the platforms, is that there is no regulation or just not so much regulation. This makes it easier to get started. But the downside is that because there is no clear regulation it that it's not growing. The growth has now stopped because it's really difficult to find institutional investors, pension funds, but also large companies to use because the regulations are not that clear.

The level of required regulation is also depending on the maturity of the ecosystem. When you start with an Eco system, equity crowdfunding for example. You don't want to have too much regulation, just the basic regulations. These should be in place first and then slowly together with the growth of the industry, you should also grow the regulations and in the end, it should be a level playing field where you just have financial regulations for traditional finance and alternative finance. But you shouldn't start with that, when you create a lot of regulations in the beginning then you kill the industry.

*What do you think of equity crowdfunding in the Netherlands?*

I think it is mostly not different than other West European countries. So, in the UK it is much more developed than that, because of the different culture than Germany, the Netherlands and France.

*Why do you think equity crowdfunding in the UK is so much larger?*

Besides the culture, also the tax incentives are a factor. I really liked it and was always in favour of having those in the Netherlands as well. I think that is still important to do. You see that in the U.K. but also Belgium, that it really helps to attract additional funding for the start-up's equity funding. It shouldn't be just for equity crowdfunding. It should just be for equity funding in general. If you are just a business angel or using equity crowdfunding that shouldn't be different.

*Are there any significant developments expected in the near future?*

I think one of the interesting elements here of course is the development of the security token offerings. In fact, I see it's just a digital or even more digitized version of equity crowdfunding. It is the same you are providing funds for equity, but you are calling it

a token. That token which should be connected to a certificate or a share and if you are doing that through tokens it makes it easier to trade, to exchange them. The problem that normally it is difficult to sell the shares in the company if you want to sell, you'll have to wait for the company to be sold. So, if you are able to sell it in between it makes it much easier for people to invest and thus, also easier to raise money. This blockchain equity funding is now at the stage where we were five, six years ago with equity crowdfunding

*Would you change something in the regulations?*

No. It's easy because I know from industry people, that they always want to have less regulations, or they complain about the regulations. But the regulations are not that complicated, they are clear. So, no, I'm not seeing problems now really.

*Do you think that the alternative financing in the Netherlands is on the same level as the as in the UK?*

No, the industry in the UK is three years ahead of the Netherlands so the growth figures we saw four years ago in the UK are the same growth figures that we see now, only a few years later. We see that all types of alternative finance are also growing really fast in the Netherlands. The size of it is still much smaller than what's currently in the UK. It also shows what the potential is that in the next couple of years it will catch up or at least catch up where the UK is now.

## **5. DISCUSSION**

Now all the data collection is finished, a brief conclusion will be made for all the sub-questions. After the conclusions, the results of the literature/web study and the interviews will be commented on if there are differences between the outcomes of the two data collection methods.

### **5.1 Concluding the sub questions**

*How much capital is invested through equity crowdfunding in the UK and the Netherlands and which platforms contribute most?*

A significant amount of capital has been invested through equity crowdfunding, in the last few years. There is a significant difference between the UK and NL as can be seen in table 2. There is also a big difference in the total raised capital between the UK and NL as can be seen in table 1. In 2016, 2017 and 2018 the UK have raised respectively €150.5M, €252.1M and €271.3M through equity crowdfunding with the biggest contributors being Crowdcube, Seedrs and SyndicateRoom. In the Netherlands equity crowdfunding raised respectively €5.7M, €10.2 and €4.5M with as biggest contributor Symbid.

*How did the UK and NL equity crowdfunding landscape develop to the current level?*

The development of the landscape is looked at in terms of growth in numbers and the regulations for both the UK and the NL.

In terms of the capital invested through equity crowdfunding in the UK and NL, there is a significant difference. The capital raised in the Netherlands is in comparison to the UK insignificant.

This is probably also the reason that there is not much data available for capital invested through equity crowdfunding in the Netherlands. With so little data points no significant conclusions can be made. However, the fact that the capital invested through equity crowdfunding in the NL grew by 79% in 2017, only to decrease by 56% a year later (table 4), could indicate that no real

growth is seen in this industry. While the numbers for the UK could suggest a high growth industry (table 5).

In terms of regulations the UK is regulated by the FCA. In 2014 the FCA adapted existing regulations and introduced formal regulations for equity crowdfunding. The NL is regulated by the AFM since 2012 and the regulations were renewed in 2015. Both the UK and NL fall under the MiFID II European framework. In both countries the regulations are focussed on informing the investors in order to protect them and to make no restrictions on the type of investors to which the platforms can appeal. The UK has two tax relief regulations, the EIS which was created in 1994 and SEIS which was created in 2014.

*Why are equity crowdfunding platforms from the UK bigger in general than the equity crowdfunding platforms in the Netherlands?*

In terms of regulations there are almost no significant differences between the UK and NL. In both countries the regulations are platform focussed, which is in-line with the theory on the most stimulating landscape for equity crowdfunding (Zetzsche & Preiner, 2018). Both countries have high limits for the maximum allowed capital to be raised, the limit in the UK is higher, €2.5M versus €5.0M but this will probably don't make a significant difference (Pasovs, 2016).

One very important difference is that the UK uses two tax incentives, the EIS and SEIS to stimulate equity crowdfunding. In terms of culture has the UK also the upper hand.

The UK has higher individualism and lower uncertainty avoidance in Hoffman's cultural dimensions (HofstedeInsights, 2019). Both are respectively positively and negatively correlated with individual risk taking. So, the public in the UK is more inclined to take risks and thus more inclined to invest in start-ups (Breuer et al., 2014).

*What factors do industry experts identify as most important for the success of equity crowdfunding platforms?*

In the interviews all factors have been researched. There were small differences between the experts, but all interviews resulted in comparable conclusions.

A factor that was significant in very interview was regulations. The two experts from the UK identified this as the most important factor. From these two interviews came forward that the regulations need to be pro innovation and the regulator should not be just trying to "catch the bad guys". The self-regulation approach in the UK works well, in order to make sure the opportunity to invest is democratized as much as possible. The expert of the Netherlands also identified the regulations as important, but much less so than the experts from the UK. The very important part was to have the regulations grow together with the sector, because when you start with many regulations, the sector might not survive.

A very significant part of the first factor: regulations, are the tax incentives EIS and SEIS. These are very crucial for equity crowdfunding in the UK and are probably the single biggest drivers of investment towards equity crowdfunding in the UK. There is evidence that investments will also be made without the tax incentives. The tax incentives also created enough momentum for equity crowdfunding to go on, when the incentives would get less generous. Nonetheless, removing the EIS and SEIS will have a significant impact on the industry.

Culture is also a significant factor, in the case of the UK it helps the equity crowdfunding industry, as the UK is a "gamblers" nation, which is pro risk and pro market. This makes it that entrepreneurship is "sexy" and successful entrepreneurs are almost heroes. Which could cause more start-ups and more people willing to take the risk to invest in start-ups. The expert from the Netherlands identified culture as the most important factor for the success of an equity crowdfunding landscape.

The alternative finance possibilities is also a factor that weights in. In the interviews came forward that there are many companies who have staffed up in places like Romania, Italy, Denmark the Netherlands moved their headquarters to London on the basis that they think it's easier to attract VC investors. This could indicate that the possibilities on other types of funding are better in the UK as in the Netherlands.

The factor of entrepreneurial talent is also present according to the experts. This comes forward through the fact that the early stage investing in the UK is the strongest in Europe and one of the strongest in the world. Especially London attracts small companies and global talent on a massive scale, which on their turn attract finance towards the already financial powerhouse.

The maturity of the industry is the last factor that is researched, according to the Dutch expert, is the industry in the UK three years ahead of the Netherlands. So, the growth figures from four years ago in the UK are the same growth figures that appear in the Netherlands now, only a few years later. This means that the UK is a few years ahead of the Netherlands in terms of maturity. This is prevalent in the UK as equity crowdfunding is becoming more mainstream. Research shows that many more angels are using equity crowdfunding. That means public could feel more reassured as the professionals also use the platforms. So, it is becoming a mixed platform for the angels and the public, which gives it a legitimacy.

## 5.2 Comparing the results

In the conceptual model (figure 4) six factors are mentioned which could influence the success of an equity crowdfunding landscape. Most of these factors have been researched through a literature and web study as well as the interviews. The results of the factors that have been researched through both the literature and web study as the interview will be compared in this paragraph.

The first factor is the regulations, both the literature/web search and the interviews confirm the importance of the regulations. The difference is that in the interviews especially the EIS and SEIS tax incentives were mentioned, these are mentioned in the literature, but not as prominently as during the interviews. During the literature study, more small rules and regulations were mentioned which influences the equity crowdfunding landscape, these were not mentioned during the interview. But, as these regulations are somewhat specific, it might have a stretch to name all of the during an interview.

The factor culture is also confirmed to be important during both the literature/web search and the interviews and both result in the UK's culture being more risk-taking. While the literature is very quantitative about the cultural difference, the interviews are very qualitative about the difference in culture. While there is a difference between the culture in the literature, it is not that large. During the interviews, the cultural difference became very apparent and it might be the most important difference between the UK and

NL. What was apparent during the interviews was that the experts from the UK, which has the more risk-taking culture, thought the regulations were most important. The expert from the NL, which has a less favourable culture, thought that the culture was most important. The view of the expert from the NL is more persuasive, as the NL has stimulating regulations, but equity crowdfunding doesn't seem to grow. However, the fact that the NL doesn't have the same tax breaks as the UK can also be a major factor.

The factors alternative finance, entrepreneurial talent and maturity of the industry are all only researched through interviews and will thus not be discussed in this section.

There are probably more factors which influence the difference in maturity of equity crowdfunding between the UK and the NL however, these factors were not mentioned in the literature nor in the interviews.

## 6. CONCLUSION

This thesis aims to answer the following research question:

*To what extent is equity crowdfunding in the UK more mature in size and growth than in the NL and what is causing these differences?*

This question is answered through a literature/web study which is validated and added to by interviewing three industry experts.

When in table 2 the UK and NL are compared, it is clear that the UK is far more mature in size and although there are not much data points available, also clearly more stable in terms of growth.

These differences are caused by a few factors. Regulations is the first factors that is a cause of the difference between the UK and the Netherlands. There are, in terms of regulations not many significant differences between the UK and the NL, except for the EIS and SEIS tax incentives. These incentives are confirmed to be very significant by the experts.

The cultural difference between the UK and NL also seems to be a mayor factor. The UK has higher individualism and lower uncertainty avoidance in Hoffman's cultural dimensions (HofstedeInsights, 2019). Both are respectively positively and negatively correlated with individual risk taking. So, the public in the UK is more inclined to take risks and thus more inclined to invest in start-ups (Breuer et al., 2014). This is also confirmed by the interviews.

The next factors are only researched through the interviews. The alternative finance possibilities is also a factor that weights in. In the interviews came forward that there are many companies who have staffed up in places like Romania, Italy, Denmark the Netherlands and moved their headquarters to London on the basis that they think it's easier to attract VC investors. This could indicate that the possibilities on other types of funding are better in the UK as in the Netherlands. So having enough other option for financing and thus no need for equity crowdfunding in the Netherlands, seem to be false.

The factor of entrepreneurial talent is also present according to the experts. This comes forward through the fact that the early stage investing in the UK is the strongest in Europe and one of the

strongest in the world. Especially London attracts small companies and global talent on a massive scale, which on their turn attract finance towards the already financial powerhouse.

The maturity of the industry is the last factor that is researched, according to the Dutch expert, is the industry in the UK three years ahead of the Netherlands. So, the growth figures from four years ago in the UK are the same growth figures that appear in the Netherlands now, only a few years later. This means that the UK is a few years ahead of the Netherlands in terms of maturity. This is prevalent in the UK as equity crowdfunding is becoming more mainstream. Research shows that many more angels are using equity crowdfunding. That means public could feel more reassured as the professionals also use the platforms. So, it is becoming a mixed platform for the angels and the public, which gives it a legitimacy.

## 7. LIMITATIONS

Because of the time limitation, not every factor could be researched during the literature and web study, the factors alternative finance entrepreneurial talent and maturity of the industry were only researched during the interviews. The literature and web study would have added a more complete view of these factors. Not researching the literature on these factors is a limitation of this thesis. At the moment all the outcomes of the literature/web study and the interviews are in-line, which explains the short discussion section.

### 7.1 Future research recommendations

The limitations mention that not all factors from the conceptual model are researched through a literature and web study. Future research can research, if these factors can be linked to literature and then if this literature is in-line with what the interviews from this thesis suggest. The factors that can be looked into are the alternative financing options of the countries, the entrepreneurial talent in the countries and the maturity of the equity crowdfunding industry.

This thesis made it clear which factors positively influence the UK equity crowdfunding landscape. Two very significant factors are the EIS and SEIS tax breaks. It would be interesting to research what impact the same tax breaks would have if they were introduced in the Netherlands. Could these incentives also bring the equity crowdfunding landscape in the Netherlands up to speed? The Dutch expert in this thesis was always in favour of implementing similar tax breaks in the Netherlands, even while he thought that culture was the biggest factor for equity crowdfunding success.

This research can be expanded on in the future by interviewing more experts. More opinions can give a clearer view of which factors are most important. The experts could rank the factors and a more quantitatively view of the current conceptual model can be realised.

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## 10. APPENDIX

In the interviews the **Q** stands for the interviewer, the **A** stands for the interviewee.

### 10.1 transcribed interview with Oliver Hammond a senior analyst from Syndicate Room

**Q** Okay. Thank you. Well what the first question is actually. Well I think I stated in the e-mails Well what are the factors that you would identify as most important for the success of an equity crowdfunding platform.

Specifically, a platform or for a raise on an equity crowdfunding platform for the platforms like regulations.

**A** Yes. So so yes. So actually it's probably one of the largest one of the biggest factors I think is regulation. So Syndicate Room is next year a FCA regulated platform. Yes. The Financial Conduct Authority just picked up in body financial companies in the UK. There was a there was a time when crowdfunding platforms even equity crowdfunding platforms did not need to be regulated by the FCA. It's a relatively new industry. FCA hadn't quite caught up yet. Yes that's certainly now. And it's a very very big factor and really if you've been a stock and involved there something you need to consider something that crowdfunding platforms need to take notice of. I think as well what we found in the UK is that there's a couple of different models of crowdfunding and how you go how you progressed with that model it really dictates what what you need to consider.

So if you look at someone like if you look at the three big players in the U.K. equity crowdfunding market they would be Crowdcube, seedrs and syndicate room. Although im happy to go into a bit more detail later. Syndicate room is actually pivoting a little bit but like I said. Okay. Yeah.

But the two largest in the two best known brands would be crowdcube and seedrs in the UK probably probably across Europe as well. Probably the two best known brands that you have for equity crowdfunding.

Yeah especially for equity crowdfunding. But they base themselves on, on a premise that the essentially they facilitate what the FCA would call everyday retail investors in the UK. We have three classifications investors. We have everyday retail individuals who have absolutely no qualification around early stage investing. Yes. we have what we call sophisticated investor. So these be investors have some level of qualification either early stage directorships already stage investing but we also have what's called a high net worth investor. Progress or high net worth investor is an investor needs certain financial milestones and as a result can be classified as a high net worth investor. When it comes to early stage investing. Now crowdcube and seedrs do deal very much with what's called the everyday retail investor category.

So they deal with minimum investment sizes of 10 pounds. And they have networks of 300 400 thousand people. The majority of which would be everyday retail investors. So these are investors that would usually invest somewhere between 10 pounds and 500 pounds. And like I said no real quantification around early stage investing that you have to be very product focused. So they tend to focus very very much on what the company does or what the company offers as opposed to the terms of the round. And and as a result. Crowdcube and seedrs although I don't if seedrs do any more but crowdcube certainly still do the deal with things A and B class shares. So if you're addressing the other set them out make a class share voting rights. Yeah. well you get. And that's a preemption things like that. but that B class shares don't always carry those

rights and those vessels shape that retail investor might have access to the company. It means that you don't have to deal with those investors to to close those very large cap tables but you don't have to deal with those bets in the day to day basis.

Okay.

Syndicate room and how syndicate room operates is a little bit different. syndicate room only ? for sophisticated and high net worth investors. Okay. so we had minimal investing size and thousand pounds that's a similar model to another crowdfunding company in the UK called investors who had minimum investment size of 25000 pounds. And again only dealing with that sophistication high net worth investor audience. So it really sort of depends in terms of what model you're going down if you're going down that retail model and those platforms tend to be very very big marketing platform. So a lot of companies go after the marketing resource things like London Underground ads and they do stuff like that to interpret what Market to focus on. Syndicate room investors don't really follow that bridge. We tend to work with more insular networks our networks seem to be smaller. So the Syndicate room is about 35000 globally. But on an on a case by case basis an average investment is an average individual investment is larger. So our average individual investor is somewhere to nine ten thousand pounds per individual. Because of that. That can really change how how we deal with how not not only how we deal with companies but also companies we tend to attract. So syndicate room Crowdcube and seedrs are all what we refer to as sector agnostic so we don't discriminate based on sector I'm really happy to take a look at most sectors. There are some sectors that fall outside of that like gambling but that that's something syndicate room doesn't deal with. things like film Crowdcube and seedrs don't really deal with film well syndicate room have dealt with film in the past. Okay. But because of the way that we deploy our capital could be that the investors that we attract we tend to attract different types of companies so crowdcube and seedrs this would be ?. They would do a lot of retail stuff so they'll do it things like breweries and they'll do and fast moving goods and they'll do consumer software or consumer products so this is where people at the monsos and the revolutes and the things like that will come into the causality. So what they are looking for is audience more than anything else they will be coming in and they'll be looking for that for a large audience for that platform. Yeah in the majority of cases those sorts of companies that go to people like crowdcube and seedrs already have a large amount of the round already filled usually with institutional money or high net worth money. Really what they're looking for is to open up that Investors base. To increase their audience. Okay. And so that those people become users and then those people tell their friends that they tell their friends of that way the market. It's network effects that's where these people are looking for syndicate room on the other hand. I can't speak for investors but I imagine if it is relatively similar since syndicate room has about ? and B2B. And so we deal with companies that don't really want. Or don't really have need or are not particularly attractive to retail investors a little bit more unsexy but in that in their own right highly technical high and scalable we take really relatively IP heavy companies. So we do a lot of things like swapping assets for example for life sciences at Nettek biotech pharmaceuticals. We do lot of software and we do a lot of hardware and engineering manufacturing clean tech and green tech fast moving consumer goods makes up a very very small amount of what we do. And historically it's not something that we take we've done particularly well at we've noticed.

Okay. So that gotten? module can really you can really. Can really change how.

What sort of companies you have to deal with and then the sorts of investment you deal with as well.

**Q** Okay. Very very interesting actually I never I never read something like this on the Internet there are no academic.

**A** So it's not something yeah it's not something that generally people talk about from our point of view we're very happy with majority B2B and things like that what we don't or we don't want to be. It's very it's only forward about it. the key reason being is that. Because we say track agnostic we don't want to dissuade people come from. fast moving consumer goods company. So again in their own right. Strong company successful can be very very successful. We don't want to dissuade them from actually approaching us what we want to do is actually have a conversation with them and then make our decision.

Okay yeah.

Fair to know and we don't want to discourage them at that early stage. We want to be approached by a range of three I'll go is to the diversity for our guests.

**Q** Yeah of course. Okay. Well for that for the second question why do you think equity crowdfunding especially the UK is so successful.

**A** That's a good question. It depends what you mean by successful if i'm honest. So equity crowdfunding needs needs. to the UK focus okay. That that's be the best for it to go.

Early stage investing in the UK is its strong by far by significant margin the strongest in Europe.

Okay. And one of the strongest in the world. the UK and especially London is a massive attraction to small funds standing offices we see private equity London just attracts that and likewise the UK as well is a very very attractive market for people looking for investing in companies.

Look for London alone for London is it something because London is a very big financial hub or is it more the UK culture that stimulates the early investments. Well I could say UK culture and the UK culture does have a habit had a level of I guess.

UK culture does does influence it somewhat. I would say that London does not just attract UK investors London attracts pan-European and global investment. So we a lot of what was called Tier 1 money for Chinese private investment. We attract a lot of money from the continent so from the rest of Europe. So it's not just the UK investing isn't in London it's not just UK occupation it's it's really a global occupation and I think that's really because London has cemented itself as a financial hub. I think it's because London tends to attract a lot of talent so it becomes very it becomes a service economy. So yes London attracts top talent especially from places in the rest of Europe places like East Europe and Southern Europe and things like that. so London tends to attract top talent. These people start their companies in London as a result London attracts investment but because London attracts investment it attracts more talent because want to go to London for these reasons. I mean I've come across tons of companies who have staffed up in places like. Romania Italy Denmark the Netherlands far like and what they've done is they've staffed in these countries and then they've moved their headquarters to London on the basis that they think it's easier to attract VC investors. So I think that's probably one of the reasons why. And I think equity crowdfunding then plays off of that. Because especially in the UK because there's this strong culture towards investing from angels and from early stage investors what equity crowdfunding allows these investors to do is to have access to a very diverse range of companies. From the comfort of their

own home. Yeah so they don't have to go to the event, they don't have to move and they don't have to do the needle in a haystack work. They can use equity crowdfunding to source part of their deal flow and then they can invest through those platforms those platforms alone hold that portfolios and they can or check up and they'll get updates and things like that. I think where equity crowdfunding especially in the UK has benefited is from. Government. Regulation. So I don't know if you've come across. You come across SEIS and EIS tax break?

**Q** Yeah yeah definitely. It is one of the is actually the third question is about it.

**A** I mean I love to talk more about that why it has to do a lot with it as well as what it does is it just allowed diversification. Yeah.

**Q** Okay. Well well the second part of the second question we talked we talked about the Why do U.K. so successful in equity crowdfunding do you think that other countries could emulate the success of the UK?

**A** owh that is a good question.

**Q** Well of course they don't have the financial hub as London but if they if they emulate the regulations.

Yeah everything. So I would say that wherever ? and all things being equal they are now. I would say that a lot of countries would struggle especially European country of Europe is where I tend to put a lot of my focus. European countries struggle because London is just such a powerhouse.

It's very very difficult for countries to catch up. I would say in the wake of Brexit there is probably going to be opportunity. Okay. But that's I mean if it happens who knows you know things like switch and change and I'll see we've just had our European elections and whatever things might change who knows. But in the wake of Brexit there could be opportunity for other European countries to come to the forefront. But.

It really depends. I think it really depends on UK policy because actually if the UK becomes isolationist yes obviously I hope I hope it doesn't. If the UK comes I if the UK leaves Europe and becomes isolationist then I think it will be there will be some significant opportunities for other countries to other cities like Berlin or Frankfurt or Paris or whatever it might be to come forward and take that position. Okay.

I also think if the UK becomes more globalist. So you know in leaving the EU it opens itself up to international. Investment and international integration. Safer Places like China and India and Australasia and the United States. Yeah. Then. I think Europe will struggle. I think Europe will struggle to catch up and

There are so many variables so many variables at the moment. There was a lot of variables that that that mean that is it. I like I can say but there's definite opportunities. Okay I would say.

**Q** When UK would leave the EU and become an isolationist. Then there would be an opportunity to catch up maybe.

**A** Certainly, I think that if that were to happen there would certainly be opportunities for others to catch up and other cities might do badly. I mean you get I think Berlin's a really good example. Some very strong venture investment going to Berlin. And Sweden is a fantastic example so Stockholm and some of the biggest. European unicorns. Sorry, some of the biggest unicorns in Europe are based in Sweden. So people like Spotify and things like that. Sweden's a better anomaly. I mean the Nordic countries in general are a little bit of an anomaly because they tend to put out these fantastic companies.

Really really well and to be honest I'm not entirely sure why I operate almost solely in the UK.

I'm not entirely sure why is that. Yeah.

For some reason they're doing really well. Yeah exactly and you do have you do have.

Crowdfunding successful crowdfunding companies coming up those areas. So people like Funderbeam people Investor.

Yeah. They are both Nordic crowdfunding platforms and they both seem to do very very well.

**Q** Okay. Okay. Well we touched on this topic a little bit. But do you think that the UK tax relief regulations the Seed Enterprise Investment Scheme and Enterprise Investment Scheme. Do you think they are significant?

To Crowdfunding.

**A** Yes significant for the equity crowdfunding yes so I would say that EIS and SEIS are the. Biggest drivers of biggest drivers of investment towards equity crowdfunding. Okay. in the UK. Definitely they are they are in my experience equity crowdfunding would. Be close to collapse without them.

**Q** Okay Very very interesting. Then in the Netherlands you actually see that the equity crowdfunding is not. Well it's not getting the same numbers in growth than the normal crowdfunding normal crowdfunding is actually growing 40 50 percent per year. And equity crowdfunding grows 70 percent one year and decreases 50 percent other year when the Netherlands would, when they would use the same kind of tax relief. Do you think it would help equity crowdfunding grow.

**A** Yes. In sort, yes. I. Even even outside of equity crowdfunding. I think that SEIS EIS are one of the biggest drivers for Angel and ultra high net worth private investment. Yeah. And it's a scheme like no other. And it's probably one of the best things that in my opinion probably one of the best things that the UK government has done. OK. Because what it does is it encourages those investments into small businesses like like nothing else. So yes it is a major major factor.

**Q** Okay. Thank you. Very interesting. Are there any other very important developments in a crowdfunding landscape which were significant for the growth.

**A** Hmm, I think I think one of the things that you will find and. Don't get me wrong I mean the U.K. crowdfunding industry does well but also just keep in mind that in a lot of cases the U.K. crowdfunding industry is a massive PR machine. Yeah. Okay. So there's a lot of stories out there about how much crowdfunder brings to rounds and how much crowdfunds are involved. Things like that. And then also keep in mind that things go badly.

So I would fully encourage you to look at things like trust pilot if you look at trust pilot. You might see some of the and some of the feedback from companies who maybe haven't done so well and investors that are also pretty. Pissed off. Yeah. And. Obviously the PR is dominated by the big success stories but that's always the resolute that comes and Brew Dog. I don't know if you ever had brewdog but Brew Dog was a company that went through crowdcube. No stories. Absolutely dominate. Yeah. But I would encourage you to look into doing a little bit closer. And luckily we've never been on the edge of that sort of thing. But I would encourage you to look at things like. Investor risk investor response to. The Brew Dog. For example when then when their founders exited I would encourage you to look at also failures of crowdfunding failures because for all those success stories. There are failures. And I think that those probably just sometimes get swept under the carpet a little bit just by the industry as a whole. And I think it's important that they get looked at as well. So I think the U.K. Crowdfunding does well I think it can do much better can do much better for companies.

I think it could do much better for investors as well. And the problems that we have is that. It's the the approach that makes it very very difficult.

Because when you look at people like investors and syndicate room you have a much more curated approach. So we probably have only average. five deals like at any one time. So And. That's because we have. When we were when we were crowdfunding which we're not anymore. But when we were we had relatively high barriers to entry. So we had 40 percent minimum in terms of the investment. Yes. And we had minimum round sized criteria. We had minimum runway criteria our review process was was pretty diligent and sort of on the level of institutional investor diligence. But. What I meant is that you know you needed to even break even and you need to attract quite a lot of money into a company to a deal before you even got to that break even point.

The other side of things is the crowd. You can see this model which is very much stuck and high. Yeah. So you have companies. You'll have companies on there that won't go through due diligence process until they're 50 percent funded. You know. I think. There are there are arguments out there to say that the due diligence process is not off the standard. I think some investors would like it to be. And I think that really the point of crowdfunding is that all investors should do their own due diligence as well. But I imagine if you sort of dig a little bet and I tell you a really good place to look and I just point in the direction just because I keep in mind this guy is the ultimate, the guy i'm about to point you to is the ultimate cynic. So obviously change happens and he says with a pinch of salt and b b be prepared to be critical about it. But there's a guy called Rob Murray Brown who does. He does. A blog. Called Fantasy equity crowdfunding. OK. And I mean he he basically uses this blog to actually slate the crowdfunding industry mainly. Mainly. Crowdcube

And sometimes seedrs.

But but but he's just switching to really switch from guy but he's the ultimate cynic. Oh so just keep that in mind when you read it. but for a dissertation from a diversity quantity for a diverse European point of view that would be a pretty good place to go without the confirmation bias. Basically.

**Q** Exactly Okay. Very interesting thank you. Are there any significant developments in the landscape of regulations expected in the near future?

So probably not expected. It's probably not expected.

**A** I think one of the things that I think at the moment one of the things that could change the industries at this stage. SEIS EIS. What what what's going to happen with that.

I mean that there is some talk about some people some parties buying such a power at the moment she might do away with it which I think would be devastating. But by the by at the moment from the regulatory point of view there's nothing that I'm aware of that's going to cause significant change.

**Q** Okay. And if you could change something about the regulations would you change something?

**A** Good question. Would I change something. So I think the safe answer for me is no.

I don't think i would on the basis that I'm aware. I mean obviously I'm actually regulated myself. I work within the realms of regulation that crowd funding my day to day job allows me to do that and I don't. During my day to day role. I don't come across anything that I think is. Particularly onerous. Or. Particularly overbearing is the right word. Yeah okay. I think those processes are certainly onerous onerous for a reason I think they're done for the right reasons. UK financial sector is very very heavily regulated

and I think it's probably right too. It's right to be so. There is nothing that I have come across that I think is particularly overbearing.

**Q** Okay. Oh well in a lot of academic papers and academic. The writers they describe the UK actually funding regulations as empathetic, do you agree?

**A** As sorry what sorry? as pathetic?

**Q** I'm sorry, empathetic.

**A** Ohw Empathetic Do I agree, hmm I'm not sure what I mean by that. And if I take. Do I think, empathic towards whom?

**Q** Towards the, Oh towards the platforms.

**A** Yeah. Okay. Do I think they are unfair. I mean do I think there's going to be more regulation in some play. I mean there probably will be regulation changed all the time. That's the nature of regulation. Do I think it's particularly upsetting toward the platforms, to an extent. I think there's probably there's probably. I tell you one of the things that that probably would come under scrutiny quite hard is I think you'll probably see this when you read about Mary Brown and these financial promotion. Was confined to promotion complaints and the FCA is about people saying all this we're going to be earning this much money in this many years and we're going to exit it for this amount. And you just got to be very careful with the wording and very careful how you frame it and very careful about what you show and what you don't show. Now syndicate room and like I said in my day to day role we feel we've structured syndicate room in such a way where we don't really see those problems because we we we we take a lot of investor documents offline we don't host them online and we because of our due diligence process beforehand. There are still a lot of those issues later down the line because we put that up front. We do that work upfront and that they're not work taken into account in the review process. So for us it's not really a big issue because I do think the review process that we do do which is a very very strong due process is warranted. So.

Where do you take to see it where you tend to fear become a problem is in the retail side of things that retail platforms so with people like Crowdcube I used as an example only because at the most publicized yes.

You will have people like Emove?. It was it was it was a big one. Were a lot of investors start either financial promotion regulation was was was barely done or was not followed. And you'll see this you'll see from trust player and you'll also see this from Murray Brown discusses it quite a lot as well. And you'll get a full breakdowns of what happened. I know that Murray Brown was speaking to some of the investors and get feedback from them and like I said the trust pilot is very very public about that as well. Okay. I read about I think those two retail platforms suffer because because of the quantity element they have to meet. They average probably about 20 to 30 companies live at any one time because of that element of quantity that they have to meet and sometimes they fall a bit flat on their face when it comes to stuff like financial promotional compliance.

**Q** Okay so if you were. Give a basically a tip to other active crowdfunding platforms in Europe it would basically be that have a very heavy due diligence. Process and don't. Have. Too many. Startups. In the process.

**A** I mean it depends on the model but you also have to work. You also have to work within. The. That. within the rules frame that you've got really. So it's a case of you know in the UK we have. Sort heavy regulation and that regulation needs to be adhered to. In other countries the regulation might be different and all companies can do is work within the regulation regulatory framework that they have. There's nothing wrong with the retail approach. You know if

you're saying to investors that. We've been showing you a range of opportunities it's your job that you do the due diligence on these opportunities. We do a certain level of due diligence to make sure that we check all the boxes the financial compliance and regulatory compliance. And then you need to do the due diligence and that's fine. That in itself is a business model. And as long as you know that the investors that you are attracting have the ability to do that due diligence as long as you know that you're providing them the information they need not to do that together. Yes. And as long as you are keeping within that regulatory framework then there's nothing more that you can do. One of the things I was struck as well is that. You know regardless of the model if we're talking about, we're talking about the UK and some of the biggest. Market for equity markets. But regardless of the model whether you're a retail platform like seedrs or crowdcube or whether your platform might just indicate room or investors none of us are making money. OK margins within crowdfunding the margins within equity crowdfunding are small.

To None None. None of these companies are making profits.

The company being the platforms themselves not the companies that they are funding. But none of these companies are making any profit, so you know these companies are having to diversify their product to also make that profit. At the moment the margins are so low that these companies are struggling.

## **10.2 transcribed interview with Nir Vulkan, professor of Business Economics from the University of Oxford and author of Vulkan, N., Åstebro, T., & Sierra, M. F. (2016). Equity crowdfunding: A new phenomena. Journal of Business Venturing Insights, 5, 37-49.**

**Q** Thank you. First of all I was wondering how did you get into the topic of equity crowdfunding.

**A** That's interesting. I mean first of all I'm interested in general in fintech. It's an area I've been looking into and researching for some time even before that. My interest is, lies In if you like between economics and finance and technology. Yes. When fintech started it was the perfect thing for me. For fintech. I used to work with the e-commerce company. But you know I come from a background of mathematics and computer science. I see, but with a PHD in economics. So that's how I got into it. And more specifically with equity crowdfunding two my students. In Oxford. Have started a company called seedrs. And amazingly when I was their mentor when this was initially an academic project in Oxford and I was the supervisor for this project. So I know it. Early on and they started seedrs. It wasn't even legal to do that kind of stuff. There was no regulation. They were the first company in the U.K. and in order to survive they need to get regulated. Yes. So they're kind of. And so through them I know it extremely well. So that's my background.

**Q** Very interesting. Thank you. Well to just get right to the chase. When you look at the landscape in the in the U.K. What do you think. Are the most important factors for the success of equity crowdfunding platforms?

**A** Well there's been two if you like. I mean there's many but two main ones I think. First is that the government the regulator here has been proactive in encouraging this. OK. This is very very different in other countries for example in the U.S. the regulator it is seen as someone who is.

Enforcing the law. Yes so their job is to catch the bad guys. Yes. Whereas in the UK the government really wants the regulator, the FCA to be strategic so not just to catch bad guys but also to help the city make competed.

And so they worked with the startup up for example, what they did with seedrs is that they allow you know with seedrs and equity crowdfunding basically the public invests in high risk companies. Yes. In startups and so traditionally like in the U.S. this thing I think that has to protect the public and a way to protect the public. It's just to say no you cannot do this. But in the U.K. they sought of something more creative and what they did is they allowed them to self regulate. So in seedrs you go through a questionnaire, a tutorial and then you pass a little exam. And then. You you self certify yourself that you understand. And I think that's a very clever idea because. If you go through this tutorial Luuk it's very straightforward. It's clear it said to the public, do you understand that many of these firms would fail. Do you understand like maybe five or six or seven or ten would fail Yeah what you are doing and the way you should do it is that you should invest in a lot of them. So hopefully the ones that make it compensate the ones that fail so once they've done that and people have understood that they self regulate so. So. So this is number one the attitude of the regulator. OK. And the second thing for the success is of course the tax breaks. Yeah. Tax breaks in the U.K. are significant. And they are not so much to do with equity crowdfunding but equity crowdfunding took advantage of that. So if this tax breaks are basically to encourage. Startups. Yes. And so if they give any investors angel investors the high net worth investors and also the general public. They give them. Quite quite a generous tax breaks basically if things fail you get real all your money is. What you can write it off your taxes. So is very significant up to 100000 and did it it's created. A lot of push a lot of supply.. So these are the two main factors. Okay the regulator and the tax incentives.

**Q** Okay. Thank you. Well we'll look at equity crowdfunding in general are these also to two important factors. If you want to make. Equity crowdfunding successful in for example the Netherlands.

**A** Yes.

**Q** Are there any other factors that would be very significant? When we would would like to emulate the success for example of the U.K.. would these also be the two most important factors to look at for example the to to to emulate the success of the U.K. in the Netherlands?

**A** I think this would be the two main one. I mean what else can you do is the government that I mean all you could do is regulation.

**Q** Yeah of course.

**A** And so this is the main thing. I mean the question is do you want to do it.

I mean in the U.K. there is a belief that Start-ups is the engine of growth. Yes. And this is how you move forward. I think I share the same with the Netherlands as well. Yes. So the people I met with the Netherlands, the government understand that. Yes but I think the regulator is still a little bit more. Maybe more conservative. Look there's always a there's a risk involved here because you could have. A. Very bad company. Picking up on this and it becomes a bad idea. I think if people start taking money from the from the stupid public this could be bad and you have seen with reward crowdfunding. with example things like Kickstarter. There had been fraud not much but there have been some fraud. People that would have made up projects took the money and ran away. I think there's less of an issue with equity crowdfunding because the platforms must. Check that the company exists and that the investment goes to the company and the company had to report it.

I think it's a little bit more difficult but nevertheless it is risky. We must understand that this is risky and the public. So there is a balance that the balance to be struck. And I think you have to always tread carefully. And it could be different in different countries you know in the U.K. with its anglo saxon it's very pro market pro risk. pro You know you take your office that's your problem. Yeah. I don't know how much of it to some extent you know each country has its own attitude and has to think about it. But you know overall in personally now I I think encouraging growth through encouraging startups. That's a really good thing.

**Q** Yeah I agree I agree definitely in the UK.

**A** In the end if you look at Holland the country where you have the fantastic education and education system . So you have good technology good people but you haven't had great finance. So most Dutch companies kind of move away basically and they grow. So and there still is this idea I have to be in London because the banks are there so I mean if you can create, the government can create kind of a start up zone around places like Utrecht, like Amsterdam where the universities are. I think it would be good.

**Q** Thank you. Do you think that the the the the UK culture is an important factor as well?

**A** Yeah that's what I just said. I think it is. I mean. You know the fact that we all kind of pro market we're seeing things and actually A little bit a nation of gamblers right. I mean yeah people here like to, like to gamble. Yeah definitely. Really It certainly helps. I think. We did. You know I don't really know. I'm not an expert on the Dutch. I say for example I know that the German it's very hard to make them take risks But I don't know so much about the culture. I do think the culture in the U.K.. Has And the fact that it became fashionable the fact that startups are sexy you know doesn't mean you hear of these things in the way that you didn't like 20 years ago 15 years ago. So it is it is a good time to do it here. And it's been a good time. To be an entrepreneur in the UK. OK. OK. You know some of it is cultural. You know the television programs where people you know raise money and do well that there is a bit of you know entrepreneurs have succeeded are a little bit like heroes. You know what i mean. Yes there is that there is there is a culture element. Yes.

**Q** Yeah. Okay yeah. There in the Netherlands the government also wants to move more in the direction of entrepreneurship. And there have been talks not directly from the government that basically wants to be the more of the the entrepreneurial hub and in Europe. So I think it's very important for the Netherlands too to look at this topic more than they do at the moment because at the moment the lending platforms who are lending money to the startups. Those are very very big in the Netherlands and equity crowdfunding is actually very small still. For the next question Well you already said that the two tax relief systems. that they are significant. But how significant are they. Are they for for the equity crowdfunding in the U.K.?

**A** I think very significant. I mean they don't really know. I mean there are two ways to look at it. You could you could you could look at hmmm there are companies. Are raising money on the exchange. That are not. U.K. based OK. So they don't get the tax break. Yes. And there have been a lot of them and they've been successful too. OK. Typically also from a different place. So what we had in the U.K. in the early years a lot of Portuguese companies. to raise money on Seedrs. And many of the Portuguese people invested in them. And we heard a lot from the Balkans as well places like Croatia Serbia and you don't get a tax break. So the evidence that this works without the tax breaks. Okay. But kind of for a different crowd because it's basically investors who are not

UK taxpayers anyway and the companies are not UK. So I think if we work in any case I think it helps. I also think it's probably going to go away. I think the government will stop this anytime soon because you know once we have a new government I think it will change because these are all only a temporary thing anyway. They're gonna create. So it might become less generous in the future in the sense that it's created enough momentum for it to go. So look the idea of equity crowdfunding is to democratize. You know allowing the general public to invest in the sector. Yes because if you look at the sector if you look at Angel Investors angel investors had decent return in the last 20 years. So this you're saying look here the public you can participate as well. So if you look like that, you don't need tax incentives. The tax incentives are really for the entrepreneur. So I think the tax break will probably will diminish in time as I said there is ? evidence that will continue after. But of course we will not. We have to double dip. We have a double whammy as well which course. Which which. Would you call it with the. Brexit. And.

There's a lot going on. Yeah definitely.

**Q** Yeah uh someone else I interviewed um he said that uh that the UK crowdfunding could be close to collapse without the uh. The. Two tax relieves. So in this case you won't agree with that?

**A** I don't know if it will collapse. I think that sounds to me a bit strict. Yeah. I did. This is what we just said though. I think it will help. It will take a blow but I don't think it will collapse. As I said there is evidence that there is been. Investment without taxes breaks as well Okay. Well of course it will make a difference. Yeah okay. I think it's I think it's a too strong of a statement.

**OK.** I think it will withstand it But of course it will have an impact. Okay.

**Q** Thank you. Well of course the the these tax relief were very important. Developments. In the equity crowdfunding landscape. Were there any uh could you name any more significant. Were there any very significant developments in recent years. For the. Landscape.

**A** For early stage financing a general?

**Q** for the equity crowdfunding landscape.

**A** Also just focusing on equity crowdfunding. What else might affect it. That's the question.

**Q** Oh well in the last few years were there any more important developments in the equity crowdfunding landscape in the U.K.

**A** Yes sorry.

**Q** No I'm sorry.

**A** I think it's becoming more mainstream. I mean it's been positive largely and I went to people on it's on research policy. That shows that many more angels are using equity crowdfunding. And I think that's a good thing because it means now the public feels more reassured that's what the professionals are doing as well. So it became kind of a mixed platform for the angels. So it gave it a legitimacy. because when it really started there was a little bit like oh if you're good you go to the angels. If you can't get on the Angels you go to the crowd. Okay. Now it's not so much like that. It's more of the mix. So I think that's been positive. I mean the numbers have been growing that also important. You know there's been some good and there have been some IPO's some good exits So I think it's maturing and it's getting you know more established.

**Q** Okay. Thank you. If you could change something about regulations would you change something?

**A** I don't know. I mean until. Just specifically a question for equity close funding I don't know. I don't think so. I mean those issues with peer to peer lending but that's beyond your scope right? Yes.

### **9.3 Interview Ronald Kleverman Voorzitter stichting MKB-financiering en alternative finance expert**

**Q** When you look at the landscape of crowdfunding what factors do you think are the most important for the success of such a landscape.

**A** Are we talking about. Europe in general or general?

**Q** In general.

**A** The most important one is culture. Cultural. The culture of investing and a culture of investing from the business angel or the investor but also the culture of entrepreneurs, who are looking for equity funding in general. So, you see that countries where. It is much more where the market of equity funding is much more developed and risk taking for entrepreneurs is much more developed such as the UK. You see that it is much easier just to do also equity crowdfunding. So, it's much more normal for a company to have external stakeholder or shareholders. So that helps. Which is also for the innovative investors. They see it more as a normal way of investing.

**A** Okay. And like for example the regulations are they an important factor as well?

**Q** Not that much. It's of course, if you want to start something new and there is existing regulations. That can also be it can always be expensive to start. So, in the not aside the positive element of having regulations is that you are operating in. A. Landscape where the rules are clear. So yeah. more investor more entrepreneurs It's just much more trusted. So, if you have for example in the Netherlands, you also have A crowd lending.

And the problem one side is positive for the platform is that there is no regulation or just not so much regulation so it's easier to get started. But the downside is that because there is so much because there's no clear regulation it that it's not growing. It's now the growth has now it's stopped because it's difficult to find institutional investors pension funds but also large companies to use because the regulations are not that clear.

**Q** So, you should actually find a sort of middle way between having? Good strict regulations but not too strict to to limit the freedom of the companies?

**A** Yeah. And it's also depending on the maturity of the ecosystem. So, what I mean what I'm using as a researcher is as a model i have developed. This alternative financing maturity model. And it means that when you start with it an Eco system which crowdfunding for example or other types of alternative finance you don't want to have too much regulation just the basic regulations that these are in place first first and then slowly together with the growth of the industry. You should also grow the regulations and in the end it should be a level playing field where you just have financial regulations for traditional finance and alternative finance. And that should be even or more it should be just one type of financial regulation.

**Q** Yeah OK.

**A** But it shouldn't be that you shouldn't start with that. I could create a lot of regulations then you kill the industry.

**Q** What do you think of the equity crowdfunding in the Netherlands. Because it's it's not very developed in comparison to other forms of crowdfunding in the Netherlands. Specifically. What do you think about this topic?

**A** I think it is mostly it's not different than other West European countries. So, in the UK it is much more developed than that. What I explained is because the different culture in Germany and France. It's also not so much bigger. Of course there. There are some. Examples that perhaps are a bit more successful but it is not A lot

more successful. So I think that's. We've had some experiments which with investments through symbid for example did a lot of promotion but also we're not able really to grow. But it is also what is the definition of equity crowdfunding. So a platform like NPEX example. Kind of an exchange. They have a different license they don't have a crowdfunding license but they have an MtF license. So to run kind of a small exchange. But in fact they're doing crowdfunding because there are individual investors investing in their bonds or equity they will provide there. So that's it's and that's just for projects. So these are. The larger companies looking for capital or looking for equity capital but too small to do an IPO yet. But here's the stage before. And that's that's quite successful. And more and more companies are using that nowadays. So I think that's one of the positive examples. What's what's working now in the Netherlands

**Q** Definitely. Yeah. Do you think that. The Netherlands should. Use some kind of tax break like they do in the UK to stimulate the crowdfunding in the Netherlands?

**A** That was me you know. Yeah. I really liked that was always in favor of that. So. Sure. I think that is still important to do. You see that in the U.K. but also Belgium. It's it really helps to attract additional funding for the start-ups equity funding It shouldn't be just equity crowdfunding. It should just be equity funding. So you are using if you are just a business angel or using equity crowdfunding that shouldn't be different.

**Q** Yeah I agree. So so basically the same thing as they do for the for the UK with general equity investments.

**A** Yes

**Q** OK. Are there any significant developments expected in the Netherlands in this landscape in the near future?

**A** I think one of the interesting elements here of course is the development of the security token offerings. What in fact I see it's just a digital or even more digitized version of equity crowdfunding. It is the same you are providing funds for equity but you are calling it a token. That token which should be connected to a certificate or a share. That makes sense. And also if you are doing that through tokens it makes it easier to trade, to exchange them. So that's a very interesting one. I think it will take some time before it is all formalized and we have some stabilization there. you see now what's happening in that area of interest, it produced ICO's STO's now so the whole digital way of distributing. Stocks through the blockchain. Is now at the stage where we were five six years ago with equity crowdfunding so everybody was just investing the wheel tried to figure out what kind of regulation we should use a lot of these companies where raising money themselves instead of using a platform. So I think that they will get these platforms and I either they you could license to do that or an MtF license. With as. If they are using a MtF license, the positive side is, they have an exchange connected to it. So. You can also sell the tokens also easily.

**Q** Okay. That's actually very interesting. Thank you.

**A** Because of the other trends. Such an exchange that's one of the USP's where space where it will show, that's one of the problems in the equity scene to if you have a business angel or invest in a startup through equity crowdfunding. The problem is the same that share in the company but you're not able to sell they have to wait for the company to be sold. So if you are able to sell it in between it makes it much more easier for people to invest and thus also easier to raise money.

**Q** If you can change something in regulations in the Netherlands would you change something?

**A** No. It's easy because I know from industry people they always want to have less regulation or they complain about the regulation but relations. Are not that complicated, they are clear. So we even asked we even have a European framework like on a European level sort of makes it possible to raise money from all over Europe, for companies from all over Europe. I think that a lot of companies are not using this right now they should use that much more.No, I'm not seeing problems now really.

**Q** It's very interesting the literature also mentions that the Netherlands actually have the most positive idea behind regulations in order for equity crowdfunding to grow. So yeah it's interesting that you say that you wouldn't probably change something. But you would probably if possible have some kind of tax break?

**A** yeah that would definitely help indeed.

**Q** Okay. And in terms of alternative financing in the Netherlands. Because research shows that equity crowdfunding. Is probably one of the last resorts for businesses to get financing. Well it's getting better in the last few years. But. Do you think that the alternative financing in the Netherlands is on the same level as the as in the UK?

**A** No, the industry in the UK Is three years ahead of the Netherlands so the growth figures we saw four years ago in the UK are the same growth figures that we see now only three years later. So all of course there are differences in these industries but we see that.

All types of alternative finance from direct lending and leasing horse trading are also growing really fast. In the Netherlands. The size of it is still much smaller than what's currently in the UK. It also shows what the potential is that in the next couple of years it will catch up or at least catch up where the UK is now. So there is huge potential there and we're now talking about a market it is past one billion euro already in the Netherlands. So that's significant and it will continue to grow in the next couple of years.

**Q** Well these were oh my oh my questions. Did I forget something that should be important to ask?

**A** Two main topics that I see in this industry that really would help develop equity crowdfunding or alternative finance in general.

Are more knowledge and education about alternative finance to the entrepreneurs, they should be much more aware of this potential and that can be done by using case studies examples of other organizations that use this, really a big promotion of alternative finance.

So that should be much more important. And the other thing is the role of the financial advisor. So, because we have much more. Availability of financial solutions with alternative finance. It makes it so much more complicated for the financial advisors for the companies to help them find the right source of funding. So Also, that industry of financial advisors should be trained, educated. Perhaps. Have a kind of permanent educational scheme. Because then you know for sure that the quality will be much higher and also that. Entrepreneurs will be able to find the best advisor to advise them and perhaps do equity crowdfunding.