

Crowdfunding

Test cases

Participant	Participant's core business	What is in the sandbox	Testing status
The People's Fund	The People's Fund is a crowd-investing platform that facilitates raising capital for micro, small and medium-sized enterprises with consumers willing to invest. The investments are used to fund these organisations' purchase orders, products or assets.	The sandbox sought to clarify the treatment and appropriate framework for the intermediation of crowd-investing platforms.	Testing was successfully completed during July 2021.

Insights gained during RSB

The RSB test focused on a rewards-based model (funding is provided for a return), with working capital provided to micro, small and medium-sized enterprises (MSMEs) through purchase orders (POs) to supply goods to either government or corporates, with funding obtained from retail investors (the crowd). The type of crowdfunding and business model may impact on the relevant regulation. Crowdfunding platforms play an intermediary role between those in need of capital and those looking to provide it for a return. Some of the key considerations during the RSB test included:

- whether the funds provided by the lenders/investors could be considered as deposit-taking, potentially making a crowdfunding platform subject to deposit taking (as defined in the Banks Act 94 of 1990) and subject to regulation by the PA;
- crowdfunding platforms must consider whether it meets the three requirements of a credit transaction specified in the National Credit Act 34 of 2005 (NCA), namely, whether (i) it advances money to MSMEs; (ii) defers the repayment of the advanced money; and (iii) charges interest/a fee for the deferment;
- in the absence of a bespoke regulatory framework, the above licensing requirements may be individually relevant, dependent on the business model; and
- crowdfunding, or lending, platforms could be considered under the Conduct of Financial Institutions (COFI) Bill as the facilitation of intermediation services of lenders and borrowers and under the NCA for the facilitation and issuance of a credit product.

Next steps

Regulators have taken note of the development of crowdfunding and are considering its implications; however, bespoke regulation has not been developed yet. Crowdfunding does hold the potential to address part of the funding gap, particularly for MSMEs, and the policymaker and regulators will continue to monitor its development.