The Legal Nature of Crowdfunding Platforms

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Abstract:

This study provides a comprehensive legal analysis of the nature of crowdfunding platforms as emerging financial intermediaries within the digital economy. Crowdfunding is examined as a mechanism for aggregating small-scale financial contributions from a large pool of individuals via electronic platforms, to finance entrepreneurial, commercial, or charitable projects.

The research is structured into two principal chapters:

Chapter One: Legal Classification of the Actors in Crowdfunding

This chapter delineates the tripartite structure of crowdfunding transactions, identifying and analyzing the legal standing of each of the following parties:

1.The Project Owner (Funding Requester): A natural or legal person seeking to mobilize capital to initiate or develop a project, typically in the form of startups or SMEs.

2.The Funders (Backers/Investors): Individuals or entities who provide financial support, either by way of donation, loan, or equity participation, depending on the nature of the crowdfunding model adopted.

3.The Crowdfunding Platform: A digital intermediary operating through online infrastructure, acting as the central facilitator between project owners and funders, and often assuming regulatory obligations depending on the jurisdiction.

Chapter Two: Legal Relationships Governing Crowdfunding Transactions

This chapter explores the legal configurations and contractual frameworks that govern the interaction among the aforementioned parties:

•Platform–Project Owner Relationship: Typically governed by a brokerage or intermediation agreement, defining obligations related to project presentation, compliance, and fund collection.

•Platform–Funder Relationship: Regulated by terms of service and, where applicable, formal investment or loan agreements ensuring investor protection and transparency.

•Project Owner–Funder Relationship: Varies according to the crowdfunding model:

•Donation-Based Crowdfunding: Constitutes collective donations and is excluded from the scope of traditional gift contract provisions.

•Lending-Based Crowdfunding: Characterized as a collective loan arrangement with fixed returns, resembling debt instruments.

•Equity-Based Crowdfunding: Analogous to public offerings, granting funders shareholder rights and participation in the project's capital.

The study further conducts a comparative legal analysis of the regulatory approaches adopted by various jurisdictions, including Saudi Arabia, the United Arab Emirates, Tunisia, Morocco, Lebanon, and the European Union. These comparisons highlight the evolving legal frameworks governing crowdfunding, especially regarding investor protection, platform licensing, and cross-border regulatory

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Introduction

Although crowdfunding is a relatively recent financial innovation, its novelty primarily stems from the utilization of digital platforms to facilitate the funding process. Nonetheless, the fundamental principle of crowdfunding—aggregating small financial contributions from a large number of individuals to support a project or idea—reflects a longstanding and traditional practice.[1]

Electronic crowdfunding platforms constitute the central mechanism through which the crowdfunding process is carried out, having been specifically developed to facilitate this form of financing. This process typically involves three main parties. The first is the project owner or idea creator, who utilizes the platform to present their project and seek financial support for their business or concept. The second party comprises the funders—individuals who are willing to contribute financially in support of the proposed project. The third party is the intermediary institution, namely the crowdfunding platform itself, which operates online and serves to connect project owners with potential funders.

1. Importance of the Research

The importance of this study lies in its focus on the legal nature of crowdfunding platforms, a subject of growing relevance in the era of digital transformation and financial innovation. Crowdfunding has emerged as an alternative financing mechanism for entrepreneurs, startups, and social initiatives. The significance of the research is demonstrated in several ways:

- Filling a legal gap by analyzing the unclear legal status of crowdfunding platforms and the relationships between stakeholders.

- Addressing regulatory challenges, especially in emerging markets, by comparing legislative approaches across jurisdictions such as Saudi Arabia, the UAE, Tunisia, Morocco, Lebanon, and the EU.

[1] Cecere, Grazia, Fabrice Le Guel, and Fabrice Rochelandet-2017-Crowdfunding and social influence: An empirical investigation- Applied Economics Taylor & Francis Journals, vol. 49(57), 5802–13, available at: https://ideas.repec.org/a/taf/applec/v49y2017i57p5802-5813.html
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- Supporting the development of fintech law, by offering insights into the role of platforms as financial intermediaries and their potential impact on financial inclusion and economic development.

2. Research Problem (Problem Statement)

Although crowdfunding has become a popular and effective tool for financing diverse projects, the legal nature of the platforms facilitating these transactions remains ambiguous. The central problem of the research can be articulated as follows:

What is the legal characterization of crowdfunding platforms, and how should the legal relationships between the platform, fund seekers, and funders be defined and regulated within comparative legal systems?

This issue raises several sub-questions:

- Are crowdfunding platforms financial intermediaries in the traditional sense?
- What legal frameworks govern the contractual relationships between the three parties involved?
- How do different legal systems (e.g., EU, Arab states) define and regulate these platforms?

3.Research Objective

The primary objective of this study is to analyze the legal concept of crowdfunding by examining its definitions, types, legal frameworks, and regulatory models in comparative legal systems. It also aims to evaluate the effectiveness of existing legislative approaches and propose suitable legal solutions that can be adapted within Arab and developing countries

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4. Research Methodology

The study adopts a comparative legal methodology, combining descriptive, analytical, and evaluative approaches. The key features of the methodology include:

- Doctrinal Analysis: Examining scholarly definitions and legal theories surrounding crowdfunding platforms.
- Comparative Legal Study: Reviewing and comparing legislation from multiple jurisdictions to identify similarities, differences, and gaps.
- Case-Oriented Examination: Analyzing how different legal systems define the roles and responsibilities of each party involved in crowdfunding.
- Normative Evaluation: Assessing existing legal frameworks and proposing legal classifications or reforms that align with the realities of digital finance.

Accordingly, this research is divided into two chapters: the first chapter examines the key participants in the crowdfunding process—the project owner, the funders, and the platform—while the second chapter explores the legal relationships that arise among these parties throughout the financing process.

Chapter One: The Parties Involved in Crowdfunding.

Chapter Two: The legal relationships arising between the parties to the financing process

Chapter one

The Parties Involved in Crowdfunding

Introduction and division:

As previously noted, crowdfunding refers to the practice of collecting small financial contributions from a large number of individuals through an online platform to support a specific project or initiative. This process involves two primary parties, in addition to the crowdfunding platform, which functions as the intermediary. The first party is the project owner or funding requester, who seeks to raise capital for a particular idea or venture. The second party comprises the crowd—individuals who voluntarily contribute funds in support of the project.

The crowdfunding platform plays a pivotal role in facilitating this interaction, serving as the central infrastructure that enables communication, trust, and financial transactions between the involved parties. This chapter is divided into three sections as follows:

Section One: The Funding Requester ("Project Owner or Idea Creator")

Section Two: The Funders ("Supporters and Investors")

Section Three: The Electronic Crowdfunding Platform

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Section one

The Funding Requester ("Project Owner or Idea Creator")

The funding requester is the initiator of the crowdfunding process, taking the first step in seeking financial support. Typically, unable to secure financing through traditional means, they turn to crowdfunding platforms as an alternative funding solution.[1] They select a platform based on their specific needs and preferences, often comparing multiple options available online to determine the most suitable one.

The crowdfunding process is initiated on these platforms when the project owner or idea creator submits a formal request, indicating their intention to use the platform to raise funds for their project.[2]

The funding requester or project owner is defined as: "*Any person or institution seeking funds for a company, product, project, initiative, or charity, which may include a wide range of actors such as small businesses, NGOs, individuals, and startups*". [3]

In Saudi Arabia, the funding requester is referred to as the "*Institutional Beneficiary' under the 2021 Crowdfunding Regulations, defined as "a commercial entity registered in Saudi Arabia seeking funds through a crowdfunding platform*". [4]

The UAE's Crowdfunding Regulations (2020) define the project owner as "*a company registered in the UAE, including sole proprietorships, seeking a loan through a crowdfunding platform*". [5]

[1] Abdul Salam Abdullah Muhammad Al-Difar, Crowdfunding Platforms, PhD Thesis, 2021, p. 74.

[2] Regulation Crowdfunding: A Small Entity Compliance Guide for Issuers, u.s. securities and exchange commission, May 13, 2016 (with April 5, 2017 updates to reflect inflation adjustments to the dollar amount thresholds), available at:
https://www.sec.gov/info/smallbus/secg/rccomplianceguide-051316
last visit : 8-8-2025/ 2:00 pm.

[3] Heba Abdel Moneim, Rami Youssef Obeid, Crowdfunding Platforms: Prospects and Regulatory Frameworks, published in the Arab Monetary Fund Journal, 2019, p. 12, available at: https://www.amf.org.ae/sites/default/files/publications/2022-01/crowdfunding-platforms-prospects-and-regulatory-frameworks.pdf

[4] Updated Rules for Crowdfunding Activities with Debt No. (M/51) of 2021 - Article 1 of Chapter One, para 5. Available at: https://www.sama.jov.sa

[5] Loan-Based Crowdfunding Regulation of the United Arab Emirates, No. (2) of 2020 – Article One, Chapter One – Paragraph One. Available at: https://www.centralbank.ae
last visit : 8-8-2025/ 2:30 pm.

Similarly, the Lebanese Securities and Exchange Commission defines the project owner as "*small and medium-sized businesses or startups seeking funding through crowdfunding*". [1]

In the European Union, the term "project owner" is defined in the Crowdfunding Services Regulation as "*any natural or legal person seeking funds through a crowdfunding platform*". [2]

Thus, the project owner—also referred to as the funding requester—turns to crowdfunding platforms as a more accessible and efficient means of securing financing. These platforms offer the potential for faster and larger-scale funding while circumventing the challenges and complexities often associated with traditional financing methods. Additionally, crowdfunding provides the project owner with increased visibility, enhancing the project's appeal and potentially attracting a broader base of future investors. [3]

Accordingly, a funding requester may be defined as: "*Any person or institution seeking funds to start or expand their project via a crowdfunding platform*."

See also: Cabinet Resolution No. (36) of 2022 regulating the activity of the operator of the crowdfunding platform in the UAE.

[1] Tunisian Participatory Financing Law No. 37 of 2020 - Chapter Two of Part One - Paragraphs Five and Six.

[2] REGULATION (EU) 2020/1503 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937
https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R1503&rid=4
last visit : 8-8-2025/ 3:00 pm.

[3] Al-Salihin Muhammad Al-Aish, Governance and Crowdfunding, Kuwait International Law School, 2016, p. 630.

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Section Two

Funders ("Backers" and "Investors")

While the first party in the crowdfunding process consists of fund seekers—typically project owners aiming to bring their ideas or ventures to life—the second party is represented by the funders. These individuals contribute financial resources through crowdfunding platforms to support the proposed projects. Funders are often motivated by a desire to support innovative ideas, social causes, or potential investment opportunities, and their contributions are essential to the realization of the funding requester's goals.

It can be said that funders are "*individuals or entities who contribute part of their funds as a portion of the target funding amount to be raised through crowdfunding, either as a contribution, loan, donation, or grant, with this being determined based on the type of crowdfunding offered via the electronic platform. The success or failure of the funding process depends on the extent to which the funders believe in the project and their willingness to participate financially in it*". [1]

It has also been stated in their definition that they are "*a very large number of people who contribute small amounts of money to promising and emerging ideas and projects, and they can be generally categorized into three groups: those who donate based on emotional attachment or their social connection to the project owner, those seeking financial returns, and finally, those who are a mixture of the two*". [2]

Funders have been defined as "*the parties participating through donations or funding, and they may be individuals or institutions*". [3]

In the Saudi Arabian Crowdfunding Practice Rules, the funder is referred to as the "*participant,*" defined as: "an individual or legal entity who provides an amount to the crowdfunding institution as a loan or grant to finance the beneficiary entity". [1]

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[1] Reda Mohamed Abdel Gawad, Towards a Legal Regulation for Crowdfunding, Journal of Legal Studies, 2022, p. 12.

[2] Melissa Chohen - Crowdfunding as a financing resource for small businesses, Op. cit., p. 3,
Cited by Abdulsalam Mohammed Al-Difar - Crowdfunding Platforms, available at: https://core.ac.uk/download/pdf/147838406.pdf
last visit : 8-8-2025/ 5:00 pm.

[3] Heba Abdel Moneim, Rami Youssef Obeid - Crowdfunding Platforms: Prospects and Regulatory Frameworks, Op. cit., p. 12.

Similarly, the definition of the funder in the UAE's crowdfunding practice rules based on loans is under the term "*lender*," as these rules regulate crowdfunding activities based on lending and define the "lender" as: "a person for whom the crowdfunding platform conducts or intends to conduct activities subject to regulation under this system". [2]

The funder was also defined in the Tunisian Participatory Law Rules as a "participant," described as: "a participant is any individual or legal entity, whether residing or not, who has contributed to the funding of a company or project via participatory financing". [3]

Moreover, the Lebanese Capital Market Authority defined funders in Article 1 under the term "investors," describing them as: "investors are natural or legal persons who invest by raising funds". [4]

In the same context, the Moroccan Cooperative Financing Law defines investors in Article 2 of Chapter One as: "*an investor is any natural or legal person, resident or non-resident, who contributes via a cooperative financing platform to fund a project*," and depending on the type or nature of the cooperative financing process, the contributor may be an investor, lender, or donor.[5]

An investor may be a natural or legal person with expertise in finance or business, and who possesses sufficient independent financial capacity that qualifies them to participate in the financing of a project.[6]

The European Union Regulation (EU) 2020/1503, submitted to the European Parliament, defines the funder—referred to as the 'investor'—"*as any natural or legal person who*

[1] Updated rules for practicing debt crowdfunding activity No. (M/51) of 2021 - Article One of Chapter One - Paragraph Six.
[2] UAE Loan-Based Crowdfunding System No. (2) of 2020 - Article One of Chapter One - Paragraph Twelve.
[3] Tunisian Crowdfunding Law No. 37 of 2020 - Chapter Two of Part One - Paragraph Four.
[4] Decision No. (3) of the Chairman of the Lebanese Capital Market Authority regarding mobilizing financing - Article One.
[5] Moroccan Cooperative Financing Law No. 18-15 of 2018.
[6] Ayyoub Awish, Readings on Draft Law 15-18 on Moroccan Cooperative Financing, issued in light of the Decree on the Special Fund for the Management of the COVID-19 Pandemic, available on the website: https://www.droitetentreprise.com/18909
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provides loans or acquires transferable securities or other admitted instruments for the purposes of crowdfunding through a crowdfunding platform". [1]

Although the European Union regulation has set specific rules for what it calls the “sophisticated investor,” this refers to a natural or legal person who is considered a professional client according to the points (1), (2), (3), or (4) of the annex or any natural or legal person approved by the crowdfunding service provider as a sophisticated investor. [2]

Finally, it can be said that funders are “the large number of individuals and organizations who wish to allocate a small portion of their funds to support projects eligible to receive funding within the public crowdfunding program”. [3]

It can be observed that the role of the funder in the crowdfunding process, as previously outlined, is not confined by the principle of territoriality. Funders from various countries may participate in financing a project, making crowdfunding a globally accessible mechanism that attracts investors from around the world to support innovative ideas and ventures. However, despite this cross-border potential, regulatory approaches vary. While some jurisdictions permit international participation in crowdfunding campaigns, others restrict access to domestic investors only—an approach often referred to as a “closed network” model. [4]

The funder’s motivation for contributing financial support varies according to the nature and type of the crowdfunding model. In investment-based crowdfunding—such as equity or lending models—the primary objective is typically to generate profit or financial return. Conversely, in donation-based or reward-based crowdfunding, the funder's goal may be humanitarian, social, or cultural in nature, particularly when the contribution is made without expectation of financial compensation. [5]

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[1] REGULATION (EU) 2020/1503 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937

[2] Consolidated European Union Regulation, Op. cit., paras (j) and (k).

[3] Imran Abdel Hakim, Farid Mustafa, Crowdfunding Platforms as an Innovative Mechanism for Financing Projects, Institute of Law and Political Science, 2018, p. 301.

[4] The final Report Identifying market and regulatory obstacles to cross-border development of crowdfunding in the EU (Dec. 2017).

[5] Andreas Dietrich and Simon Amrein, Crowdfunding monitor Switzerland, Institute of Financial Services Zug,

After identifying the two parties involved in the funding process—“*the fund seekers*” from project owners and “the funders” providing financial support for these projects—the only remaining party that underpins the crowdfunding process is the electronic platform that facilitates the process. This platform represents the link between the fund seekers and the crowd of funders, investors, and backers and is the fundamental pillar of the crowdfunding process. The crowdfunding platform will be explained in the following section.

2022, p. 6, available at: https://hub.hslu.ch/retailbanking/wp-content/uploads/sites/7/2022/05/Crowdfunding-Monitor-Switzerland-2022-1.pdf
last visit : 8-8-2025/ 7:30 pm.

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Section Three

The Electronic Platform for Crowdfunding

As previously mentioned, the most fundamental and crucial element in crowdfunding operations is the crowdfunding platform. These platforms serve as the link between fund seekers—those with ideas and projects seeking financial support—and funders, who comprise the crowd of supporters or investors willing to provide such backing.

Thus, crowdfunding platforms act as intermediaries between the two aforementioned parties. They are typically electronic websites hosted on the internet and managed by institutions specializing in crowdfunding activities. These platforms facilitate the connection and interaction between project owners or idea holders and individuals with the capital and willingness to offer support.[1]

Crowdfunding platforms are defined in various ways in both legal doctrine and different legal frameworks. Below are some of these definitions:

First: Doctrinal Definitions

Many scholars have proposed different definitions of crowdfunding platforms, which, while varied in wording, are largely consistent in substance. One such definition describes a crowdfunding platform as "an open platform through the internet to provide financial resources, either in the form of donations or in exchange for some form of rewards or equity rights to support initiatives for specific purposes". [2]

Another definition suggests that crowdfunding platforms are "online platforms that connect funders/donors with beneficiaries or investors in exchange for commissions on participation and/or profits/returns. The platforms can offer a wide range of services, including financial due diligence and contracting, among others". [3]

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[1] Boumediene Youssef, Shatwan Soniya, The Need for Crowdfunding to Reduce Poverty, Compilation of the proceedings of the International Conference on the Evaluation of Poverty Reduction Policies, 2014, p. 281, available at: https://laboratoires.univ-alger3.dz/lm/telechargement/meeting/08-12-2014/22.pdf

[2] Ethan Mollick. The dynamics of crowdfunding: An exploratory study available at: https://www.researchgate.net/publication/259133171_The_Dynamics_of_Crowdfunding_An_Exploratory_Study last visit : 8-8-2025/ 8:00 pm.

[3] Heba Abdel Moneim and Rami Youssef Obeid, Crowdfunding Platforms: Prospects and Regulatory Frameworks, Op. cit., p. 12.

It has also been defined as "*an electronic means through which projects and ideas are presented to a crowd of funders with the purpose of obtaining crowdfunding for them*". [1]

Crowdfunding platforms are described as "*online intermediaries facilitating the transfer of funds from those willing to donate or invest, referred to as supporters, to the seekers and those in need of capital, referred to as founders*".[2]

In another definition, they are described as "*an intermediary facilitating the crowdfunding process" or as "an intermediary for capital markets via the internet, allowing project owners to tap into online crowds to raise money efficiently and effectively*". [3]

Finally, it has been stated that crowdfunding platforms are "*technologies used for crowdfunding via websites or online platforms to fund projects or products for individuals who cannot find a market for their products and innovations. Individuals can support ideas that attract their attention through these sites*".

From all the above doctrinal definitions of crowdfunding platforms, it is evident that these electronic platforms are regarded as "financial intermediaries" linking project and idea owners with funders, investors, and those with capital.[4] Thus, they represent the central axis of the crowdfunding process, serving as the primary means for presenting projects and ideas to the public of funders, and forming the basis of the relationship between the two parties.

Second: Legislative Definitions

In the Saudi Crowdfunding Regulation, crowdfunding platforms are defined as: "*A platform based on the internet or any other digital means operated by a crowdfunding institution to conduct the activity, such as a website or electronic applications*". [5]

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[1] Reda Mohamed Abdel Gawad, Towards a Legal Regulation for Crowdfunding Platforms, Op. cit., p. 12.
[2] Boulahbal Zoubir, Challenges of Crowdfunding, Op. cit., p. 39.
[3] Melissa Chohen – crowdfunding as a financing resource for small businesses, Op. cit., p.1.
[4] Kappel, Tim, "Ex Ante Crowdfunding and the Recording Industry: A Model for the U.S.?" in Loyola of Los Angeles Entertainment Law Review, Vol.29, Issue 3, p.376.
[5] Updated rules for practicing debt crowdfunding activity No. (M/51) of 2021 - Article One of Chapter One - Paragraph Nine.

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Similarly, the UAE Crowdfunding Regulation defines them as: "*A platform based on the internet, or any social media site, or any other similar means, for the purposes of crowdfunding*".[1]

In the same law, platforms operating on the lending model are also defined as: "*A platform that acts as an intermediary between lenders and borrowers participating in a crowdfunding activity based on loans, operating under a platform business model of matching/bidding, where borrowers capture investment opportunities*".[2]

The UAE Ministry Decision No. (36) of 2022 regulating crowdfunding operators defines the platform as: "*An electronic system programmed to display crowdfunding requests*".

The Tunisian Crowdfunding Law also defines crowdfunding platforms as: "*A website or mobile application available to users with the aim of connecting the public with a company or project to benefit from crowdfunding services*".[3]

Similarly, the Moroccan legislator defines crowdfunding platforms in Article 2 of the first chapter of its law as: "*An electronic platform that connects project holders with contributors for the purpose of conducting cooperative funding operations*".[4]

The Central Bank of Bahrain defines crowdfunding platforms in its draft law as: "*A platform based on the internet, or any social media site, or any other similar means, for the purposes of crowdfunding*".[5]

The European Union Regulation defines crowdfunding platforms as: "*An online information system accessible to the public, operated or managed by a crowdfunding service provider*".[6]

Lastly, the US legislator defines crowdfunding platforms under the JOBS Act as: "*Any entity acting as an intermediary in the sale and purchase of securities on behalf of others in crowdfunding transactions*".

[1] UAE Loan-Based Crowdfunding System No. (2) of 2020 - Article One of Chapter One - Paragraph Nine
[2] Ibid, Article One - Paragraph Thirteen.
[3] Tunisian Participatory Financing Law No. 26 of 2020 - Chapter One - Section Two - Paragraph Three.
[4] Moroccan Crowdfunding Law No. 18-15 of 2020 - Chapter One - Article Two.
[5] Central Bank of Bahrain – Draft Loan-Based Crowdfunding Activities Regulations – p. 4.
[6] Consolidated European Union Regulation of the European Parliament 2020 - Chapter II - Paragraph (d).

From the doctrinal and legislative definitions of crowdfunding platforms discussed above, it is evident that most characterize the legal nature of these platforms as that of "*financial intermediaries*". [1]However, these definitions do not specify the precise nature of this intermediation or how it differs from traditional financial intermediation. Accordingly, the second section of this chapter will explore whether a crowdfunding platform can be classified as a traditional financial intermediary and will distinguish it from other comparable forms of intermediation. This analysis will be preceded by a discussion of the legal relationships that arise among the parties involved in the crowdfunding process, as previously outlined.

[1] Abdul Salam Abdullah Muhammad Al-Difar, Crowdfunding Platforms, Op. cit., p. 84.

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Chapter Two

Legal Relationships Between the Parties in the Crowdfunding System

Introduction

As previously mentioned, the stakeholders in the crowdfunding system consist of three essential parties, without whom the crowdfunding process cannot take place: the project seekers (those requesting funding), the funders (those providing the funding), and the crowdfunding platform (which acts as an intermediary between the two, facilitating the connection between funders and project seekers in an effort to bridge the gap between them).

An examination of the various legal frameworks governing crowdfunding across comparative legal systems reveals that these regulations primarily aim to structure the role of the crowdfunding platform within the process. They do so through mandatory provisions designed to ensure a fair balance between the interests of all parties involved—particularly the funders and project seekers—while also safeguarding the rights of the platform and recognizing its vital role as a financial intermediary.[1]

Therefore, the crowdfunding process gives rise to three distinct legal relationships, corresponding to its three principal parties. These relationships vary depending on the specific parties involved, the nature of their interactions, and the rights and obligations that emerge from each relationship. Accordingly, the legal relationships within the crowdfunding framework can be categorized into the following three types:

Section One: The Relationship Between the Crowdfunding Platform and Crowdfunding Applicants

Section two: The Relationship Between the Crowdfunding Platform and Funders

Section three: The Relationship Between Crowdfunding Applicants and Funders

[1] Ibid, Op. cit., p. 84.

Section One

The Relationship Between the Crowdfunding Platform and Project Seekers

Naturally, the first legal relationship that arises in the crowdfunding process is between the crowdfunding platform and the project seeker. As previously noted, the process begins when the project seeker approaches the platform to request support by submitting an application to the platform's administration, through which their project or idea is proposed for publication. This initiates a legal relationship between the two parties upon the platform's acceptance of the request, following the completion of the necessary review procedures.

Given the high volume of project seekers submitting applications, numerous crowdfunding operations may be conducted through a single platform. This necessitates a specific regulatory framework for each individual relationship, typically established through a contract governing the interaction between the crowdfunding platform and the project seeker. This contract outlines all relevant terms and conditions pertaining to the funding process between the two parties.

The execution of this contract constitutes mutual acknowledgment by both parties of their commitment to the rules governing the crowdfunding process. It obliges the project seeker to adhere to the platform's policies, submit the required documentation, and maintain honesty and transparency in providing information about their project. In turn, the platform, upon initial acceptance of the funding request, is obligated to review the application, publish the project on its platform for a specified period, identify suitable funders, verify their financial credibility, and, where necessary, undertake promotional activities. Additionally, the platform must establish a designated bank account to receive contributions from the crowd of funders, in accordance with applicable regulations.[1]

U.S. law explicitly states that crowdfunding operations can only be conducted through an online platform managed by an "intermediary," which may be a "broker-dealer" or a "funding portal." A broker-dealer is defined as any person involved in buying or selling

[1] Cited in, Reda Mohamed Abdel Gawad, Towards a Legal Regulation for Crowdfunding Platforms, Op. cit., pp. 90-91.

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securities on behalf of others, while a funding portal refers to any person acting as an intermediary in transactions involving offering or selling securities on behalf of others.

The European Union's unified crowdfunding rules provide a definition of the crowdfunding platform's role in lending-based crowdfunding, stating that "the definition of crowdfunding services should accommodate various business models that enable entering into loan agreements between one or more investors and one or more project owners through a crowdfunding platform". [1]

This clearly highlights the platform's intermediary role in linking project seekers and funders. Similarly, Tunisia's Crowdfunding Law (No. 26 of 2020, Article 6) states that each crowdfunding operation must be conducted through a contract between the project owner and the participant, based on a standard contract drafted by the crowdfunding service provider, which must be approved by regulatory authorities.[2]

Likewise, Article 27(2) of the Saudi Arabian Central Bank's crowdfunding regulations mandates that crowdfunding institutions must formalize a written financing contract between the crowdfunding institution and the beneficiary (project seeker), with copies provided to each party.[3]

The UAE's crowdfunding regulations also define crowdfunding platforms as intermediaries between lenders and borrowers participating in lending-based crowdfunding processes.[4]

Based on these precedents, it can be concluded that the contract governing the relationship between the crowdfunding platform and project seekers is a brokerage contract, which can be referred to as a "crowdfunding agreement." This contract must generally include the basic legal elements of any contract, such as mutual consent, object, and cause, in addition to specific elements relevant to crowdfunding.

[1] REGULATION (EU) 2020/1503 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937- https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32020R1503
last visit : 8-8-2025/ 9:00 pm.

[2] Tunisian Participatory Finance Law No. 26 of 2020, Chapter One, Section Six.

[3] Rules for practicing debt crowdfunding activity issued by the Saudi Central Bank, Article 27/2.

[4] Loan-based crowdfunding system in the UAE, Article 1, paragraph 13.

The financial brokerage contract plays a fundamental role in the crowdfunding process, as it represents the first step in initiating the process. The project seeker is required to engage in this contract with the crowdfunding platform, which constitutes a special type of agreement that will be further analyzed when discussing the unique nature of crowdfunding platforms.[1]

[1] See the formation and characteristics of the mediation contract in the crowdfunding process, pp. 160 ff.

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Section Two

The Relationship between the Crowdfunding Platform and Funders

The funder is one of the essential parties in the crowdfunding process; without their participation, the process cannot be completed. The funder plays a central role by providing the financial support necessary for project seekers to realize their initiatives. The legal relationship between the funder and the crowdfunding platform arises when the funder accesses the platform to select a project or initiative to support or invest in, based on their individual preferences and investment objectives, from among the various projects presented on the platform.

The crowdfunding platform retains the discretion to accept or reject the funder's request to invest in a particular project. This decision is guided by the extent to which the funder's request aligns with the platform's internal rules and policies and is subject to an evaluation process to ensure compliance with the platform's general terms and conditions. [1]

Saudi Arabian crowdfunding law, specifically Article 27/1, requires crowdfunding institutions to formalize a written financing contract between the institution and the funders. This contract must be provided in both paper and electronic formats, with copies given to each party.

The EU's unified crowdfunding regulations also define the process by which the platform communicates with the funders (investors), which is described as a "crowdfunding offer." This process includes providing sufficient information on the terms of the offer and the crowdfunding project to enable the investor to make an informed decision about their investment. [2]

While the contract between the funder and the crowdfunding platform governs their specific legal relationship, the nature of this contract may vary depending on the type of

[1] This process is stipulated in the UAE Crowdfunding Regulations under the heading "Joining Arrangements" and is defined in these regulations as "the process of evaluating new customers, ensuring their understanding and agreement to the legal terms, and opening a new account."

[2] The European Union's Single Regulation on Crowdfunding, in Chapter II (Definitions), paragraph (f), defines a crowdfunding offer as:'(F) "crowdfunding offer" means any communication by a crowdfunding service provider, in any form and by any means, presenting sufficient information on the terms of the offer and the crowdfunding project being offered, so as to enable an investor to invest in the crowdfunding project.

crowdfunding platform and the nature of the transaction—whether it is remunerated or non-remunerated. However, this contract should not be regarded as the sole legal reference for regulating the process. Rather, the broader regulatory framework governing the crowdfunding system remains the primary source for defining the applicable rules and clarifying the rights and obligations of each party involved.

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Section Three

The Relationship Between the Fundraiser and the Funders

As previously discussed, the crowdfunding process involves three main parties: “the fundraiser, the crowdfunding platform, and the funders.” The relationship begins when the fundraiser approaches the crowdfunding platform with the intention of presenting their project to secure the necessary funding. This establishes a relationship between the fundraiser and the platform, as previously explained. The platform then presents the project or initiative to the pool of funders who are interested in providing financial support for the project they choose. This, in turn, creates another relationship between the crowdfunding platform and the funders, and a third relationship is formed between the fundraiser and the funders.

This legal relationship is presumed to arise only if the crowdfunding platform successfully raises the targeted amount of funding and the funding process is completed. In such a case, a binding relationship is established between the fundraiser and the group of funders who have contributed financial support to the project. Conversely, if the platform fails to reach the funding target and the process remains incomplete, no legal relationship is formed between the fundraiser and the funders. In this scenario, the funders are refunded the amounts they contributed, in accordance with the platform’s terms and the applicable legal framework.

To clarify the nature of the relationship between the fundraiser and the funders, and the legal system governing this relationship, it is essential to distinguish whether the crowdfunding is non-compensated (based on donations and not aimed at profit) or investment-based (based on lending) or investment (based on equity), as follows:

First: Donation-Based Crowdfunding:

Donation-based crowdfunding is considered one of the most common types of crowdfunding. It involves raising funds for a project through voluntary donations, allowing people to contribute to support projects, initiatives, or ideas without expecting any investment return. [1] In this case, funders do not receive their contributions back, nor

[1] Hind Tadjousti et Zahi Jamal, Financement de l’innovation au Maroc: Quel Avenir pour le Crowdfunding ?, International Journal of Innovation and Applied Studies, Vol 23, N 04, 2018, p 679, available at:

do they earn any profit from their donations. The primary motivation for providing this support is usually social, religious, or humanitarian considerations. This remains the case even if there is a nominal return in some instances.

As the number of funders in the crowdfunding process increases (since crowdfunding typically requires a large number of funders to complete the funding and ensure the project's success) [1], it is expected, and even preferred, that contracts between the platform and each individual funder be concluded electronically.

Although the funder provides a donation to support the project or initiative, some legal opinions suggest that this relationship could fall under the provisions of a gift contract under Egyptian civil law. This type of contract is distinct from other donation contracts in that the donor is obligated to provide something specific. However, the researcher argues that this relationship should not be subject to the rules governing gift contracts, as the fundraiser receives funds from a large group of funders, making it a collective donation rather than an individual one. Therefore, it cannot be governed by the provisions of gift contracts under Egyptian civil law, which are primarily designed to regulate individual donations, not collective contributions.

Given that the donation-based crowdfunding process involves collective donations from the public, the researcher believes that it should be regulated by the Law on the Regulation of Civil Society Work (Law No. 149 of 2019) and its executive regulations. This law governs the process of collecting funds in Egypt, including both monetary and in-kind donations, through civil society organizations. [2] It establishes procedures for

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http://www.issr-journals.org/links/papers.php?journal=ijias&application=pdf&article=IJIAS-18-203-35
last visit : 8-8-2025/ 10:00 pm.

[1] Cabrita Maciel, Critical analysis of crowdfunding as an entrepreneurial tool in the particular case of Portugal, Dissertação de mestrado, Iscte - Instituto Universitário de Lisboa, 2014, p.8.

[2] It is worth noting that the Egyptian legislator has not provided a specific definition for non-profit companies. The traditional distinction still prevails between **commercial companies**, which are established according to one of the forms stipulated by law, and **civil companies**, whose purpose is non-commercial and which do not adopt the legal forms of commercial companies. Although civil companies are regulated under Articles 505 and beyond of the Egyptian Civil Code, there also exist **associations and organizations** that are not classified as companies. These entities are established by individuals on a voluntary, non-profit basis and take the legal form of associations rather than companies, see: Khalil Victor Tadros, "Legal Aspects of Non-Profit Companies: A Comparative Study in Light of the Kuwaiti Companies Law and its Executive Regulations," Kuwait International Law School Journal, Issue 8, December 2014, pp. 30-31.

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receiving donations, sets a cap on the maximum amount of funds that can be collected, and requires prior administrative authorization, as outlined in the same law and its executive framework.

Second: Lending-Based Crowdfunding:

In this type of crowdfunding, the funder's contribution involves providing a loan to the fundraiser (the project owner) with interest. The funder gives money to the project with the expectation of receiving fixed interest, along with the repayment of the principal amount of the loan at the agreed-upon time. This can be referred to as "debt financing," where the funder (lender) provides money to the borrower (the fundraiser) in exchange for repayment, along with interest. [1] Small and medium-sized enterprises (SMEs) often resort to this form of financing when their internal resources are insufficient to support new investments, or when borrowing proves to be more cost-effective than utilizing internal capital.

Based on the above, the relationship can generally be characterized as a loan agreement. We concur with the view that lending-based crowdfunding closely resembles the concept of bond issuance by joint-stock companies, wherein the total amount of funding constitutes a long-term collective loan. In this context, the company assumes the role of the debtor, and similarly, the fundraiser (project owner) takes on the position of the debtor, with the collective funds raised from the funders treated as a single consolidated loan.

<u>The legal consequences of this structure are as follows:</u>

1. The fundraiser (project owner) does not borrow from each funder individually. Rather, lending-based crowdfunding constitutes a collective loan, where the fundraiser is the debtor and the funders are creditors to the project. The total amount raised is treated as a single loan, with its value determined by the aggregate contributions.
2. The funder is entitled to receive a fixed interest rate, as agreed upon in advance, regardless of whether the project generates profits.

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[1] The executive regulations of Law No. 149 of 2019 regulating the practice of civil society work are published on the website: https://manshurat.org/node/70551

3. The funder has the right to receive full repayment of the loan principal at the agreed-upon time.
4. Funders do not have the right to participate in the management of the project and are not considered shareholders in the funded venture.
5. The funder holds a general claim on the assets of the company, similar to other unsecured creditors.

Third: Equity-Based Crowdfunding:

As previously mentioned, equity-based crowdfunding involves raising funds for a project by offering shares in the project's capital to the public. Companies can present their projects and initiatives on an online platform to attract investors to subscribe to shares, with the expectation of profit. Investors anticipate an increase in the value of the shares after the project is established and launched, and they expect to share in the profits distributed periodically or to resell their shares for a profit. [1]

There is no specific legal definition for shares in both legal and judicial terms, given that the nature of shares is fast-evolving and linked to unstable economic activities. However, shares can be defined as "the partner's contribution to the capital of a joint-stock company, and the total of these shares constitutes the company's capital". [2]

Equity-based crowdfunding, therefore, resembles the concept of public subscription in joint-stock companies. Funders contribute to the project by purchasing shares, with the expectation of earning profits from the project's success—whether through dividends, an increase in share value, or the ability to sell their shares at a higher price.

[1] Raksha Thakuri, Need for Separate Equity Crowdfunding Regulations in India, International Journal of Legal Science and Innovation [Vol. 3 Iss 5; 192], 2021, p. 196, available at:
https://www.ijlsi.com/wp-content/uploads/Need-for-Separate-Equity-Crowdfunding-Regulations-in-India.pdf
last visit : 8-8-2025/ 9:15pm.

[2][2] For more details, see Mustafa Kamal Taha, Commercial Companies, National Center for Legal Publications, Cairo, 2018, pp. 432 ff., and Khaled Hassan Ahmed Lotfy, Legal and Technical Procedures for Stock Trading on the Stock Exchange, Dar Al Fikr Al Jama'i, Alexandria, 2020, pp. 56-60.

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Under Egyptian law, the Capital Market Law (Law No. 95 of 1992) defines a public offering as “the process of offering securities or financial instruments to unspecified individuals or entities at the time of issuance”.

Thus, the subscription phase in the capital of joint-stock companies constitutes a crucial stage in the company’s formation, as it serves as the mechanism through which the remaining capital—after the founders’ initial subscription—is raised by appealing to a broader group of investors interested in the project.

Given the resemblance between the relationship between the funder and the fundraiser in equity-based crowdfunding and the public offering in joint-stock companies, it can be concluded that the funder’s position is as follows:

1. The funder (shareholder) has the right to participate in the management of the company and to oversee the activities of the board of directors through the general assembly of shareholders. As a shareholder, the funder enjoys all the rights typically granted to partners, which may not be compromised.
2. The funder (shareholder) is entitled to receive profits based on the company’s annual financial performance. Conversely, no profits are distributed if the company fails to generate earnings.
3. The funder (shareholder) is entitled to receive the value of their shares upon liquidation of the company’s assets, after the settlement of outstanding debts and interest obligations.

Applied Case Study: The European Union (EU) – A Model for Advanced Legal Regulation

The European Union serves as a leading example of a comprehensive and harmonized legal framework for crowdfunding. Recognizing the growing importance of digital financing tools in supporting innovation and SMEs, the EU adopted Regulation (EU) 2020/1503 on European crowdfunding service providers (ECSPs), which entered into force in November 2021.

Key Features of the EU Regulation:

1. Legal Clarity:

- The regulation defines key terms such as "crowdfunding platform," "project owner," and "investor," offering legal certainty across all member states.
- It applies to both lending-based and equity-based crowdfunding, excluding donation-based models.

2. Licensing & Supervision:

- Platforms must obtain authorization as crowdfunding service providers (CSPs) from their national competent authorities.
- Once licensed, platforms benefit from a passporting regime, allowing them to operate across the EU.

3. Investor Protection:

- The regulation distinguishes between sophisticated and non-sophisticated investors, imposing enhanced disclosure and risk warning requirements for the latter.
- Investors must complete an entry knowledge test and simulate their ability to bear loss.

4. Transparency & Due Diligence:

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- Platforms are required to provide investors with a Key Investment Information Sheet (KIIS) for each project.
- Anti-money laundering (AML) obligations are imposed through the integration of the AML Directive.

5. Dispute Resolution & Governance:

- CSPs must implement transparent procedures for handling investor complaints.
- Conflicts of interest must be managed through internal controls and disclosure.

Implications and Lessons:

- The EU framework represents a balanced approach between promoting innovation and ensuring investor protection.
- It enables cross-border crowdfunding, which is essential for scaling up funding for startups across multiple jurisdictions.
- The model can serve as a blueprint for other advanced and developing countries aiming to modernize their crowdfunding regulations.

Revised Recommendation (to reflect the case study):

Legislators in emerging markets should draw on the EU model when designing or reforming crowdfunding regulations. Adopting a clear, risk-sensitive, and innovation-friendly framework can support the growth of alternative finance while maintaining financial stability and investor confidence

Conclusion:

Summary:

Crowdfunding is a modern financing model built on the interaction of three essential parties: the fundraiser, the funders, and the crowdfunding platform. Each plays a distinct role—fundraisers seek capital to support their projects, funders provide financial contributions or investments, and platforms act as intermediaries facilitating the connection between the two. The legal nature of the relationships among these parties varies depending on the type of crowdfunding—whether donation-based, lending-based, or equity-based—each governed by different legal frameworks and obligations. Understanding these dynamics is crucial for ensuring a balanced, transparent, and legally sound crowdfunding environment.

This study provides a comprehensive legal analysis of crowdfunding platforms, conceptualizing them as digital financial intermediaries. It examines the tripartite legal relationships involved in crowdfunding transactions (platform–project owner, platform–funder, project owner–funder), and classifies them based on the type of crowdfunding: donation-based, lending-based, or equity-based.

Key Findings:

1. Crowdfunding platforms function as specialized financial intermediaries, but their legal nature differs from traditional institutions like banks or investment brokers.

2. The legal relationship between parties varies depending on the model of crowdfunding:

- Donation-based: governed by public donation and charitable laws.
- Lending-based: resembles debt contracts, with platforms acting as brokers.
- Equity-based: parallels public offerings and shareholding structures.

3. Comparative legal systems vary in their recognition and regulation of crowdfunding platforms, with some offering clear definitions and licensing mechanisms (e.g., EU, Saudi Arabia), while others remain underdeveloped.

Recommendations:

- Harmonize legal definitions of crowdfunding platforms across jurisdictions to ensure legal certainty and investor protection.
- Introduce specialized legal frameworks that distinguish between different crowdfunding models and the respective rights and duties of participants.

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- Strengthen regulatory oversight to promote transparency, prevent fraud, and encourage cross-border crowdfunding activity.

- Encourage collaboration between financial regulators, legal scholars, and platform operators to design flexible yet robust legal instruments

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