

Ithaca 2018 Abstract Submission

Title

Land Market and Crowdfunding: Impact and Challenges of Alternative Financing in French Wine Estates

I want to submit an abstract for:

Conference Presentation

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Keywords

Crowdfunding, Viticulture, Land Market, Marketing, Internet Platform, Finance

Research Question

What impact does crowdfunding have on the prices of land destined to vineyards?

Methods

We based our research on an exploratory survey conducted upon winemakers, crowdfunding players (advisors and platforms) and in depth case studies. Extensive reviewing of the literature and newspapers completes.

Results

Regulations leave little room for the crowdfunding to create a differentiated impact lowering land prices. Crowdfunding allows to escape to the traditional financial channels and makes easier the direct relationship.

Abstract

Land Market and Crowdfunding: Impact and Challenges of Alternative Financing in French Wine Estates

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 February 2018

Nowadays there exists a truly increasing interest towards crowdfunding that enables some winemakers to establish themselves even as they face ever-rising land prices. Land accessibility is one of the major points of the French agriculture's economic policy.

However, recent legislative changes have significantly modified the land market. The 2014 law introduced an excessive size for vineyards and also established an authorization for farming that renders public all land

transactions related to grape growing. Nevertheless, the law does not diminish land prices, hence the usefulness of crowdfunding when creating or increasing the size of a vineyard.

To analyze the impact of crowdfunding, we first resituate its basic framework. We therefore recall all terms used for financing land acquisitions without forgetting the particular case of GFVs. The next step necessitates the understanding of the functions and strategies of each implicated player and analyzing the costs of such a type of funding. This should enable us to answer our main question: what impact does crowdfunding have on the prices of land destined to vineyards?

We based our research on an exploratory survey conducted upon winemakers, crowdfunding players (advisors and platforms) and in depth case studies. Extensive reviewing of the literature and of the economic press complete our methodology.

1 Crowdfunding's basic framework

Crowdfunding appeared as an alternative way to financing that eluded the traditional banking circuits. It was supposed to favor disintermediation by eliminating anonymity between the lender and the borrower and bring meaning or ethics to the financial investment by clearly stating its goal. This phenomenon is very dynamic. In France, this alternative type of finance has increased by 50% between 2016 and 2017, and has reached almost 1 billion euros.

In 2014 the publication of an ordinance describing the conditions of applications for these types of financing, has led to an acceleration of the phenomenon. The ordinance details three essential points: the exemption to the banking monopoly, the definition and conditions to act as an intermediary in participatory finance (the platforms) and the rules regarding the counselors for crowdfunding. The October 28, 2016, decree completes it and fixes the limits of the amounts for both the borrowers and the lenders. De facto three categories of crowdfunding appear: donations, remunerated loans or obligations (bonds), and picking up equity stakes.

These legal texts define very clearly these functions, impose an obligation for professional proficiency, and therefore make more complex the implementation of crowdfunding. They also point to the will of the public authorities to develop this type of funding.

2 Crowdfunding in viticulture

The funding for a viticulture project will mainly depend on the nature of and the amount needed for the project. First, one must not forget the classical means of funding: bank loans and subsidies that represent de facto today most of the funding.

With regard to crowdfunding, we can list: (1) A crowdfunding donation that funds an original project and has the indirect commercial objective of making the wine estate better known. (2) Crowdfunding in the form of remunerated loan presents itself under three different types: participatory loans, bonds and "mini bonds" created by the April 28, 2016, ordinance and the October 28, 2016, decree. Their common point is that it gives a company or an individual the possibility to borrow funds on a predetermined time frame, that will be reimbursed with interest (between 4 and 9%). (3) Crowdfunding with capital is the type of financing that resembles most to classical funding. The only difference is that the former uses a platform via the Internet and directly solicits the savings' holders. The contributors become shareholders of the business and their contributions reinforce the top of the balance sheet. The increase in capital complies with legal rules for registrations, publications and declarations imposed by the tax administration, and respects the set of specific rules regulating crowdfunding.

3 The GFV: the "Canada Dry" of crowdfunding?

Is the creation of a GFV crowdfunding? Indeed the constitution of a GFV requires a certain number of investors, but encounters limitations that, according to opinions, exclude them of crowdfunding.

The GFV was not created by the ordinances or the decrees defining the crowdfunding. This is a particular legal form created by the law of December 31, 1970, in order to maintain the structure of farms by perpetuating the agricultural land assets, especially during the inheritance. A GFV offers authentic tax benefits: inheritance or gift taxes are reduced through a tax exemption covering 3/4 of the value up to €101,897. Beyond, it diminished to 50%. However, some conditions must be respected to remain in compliance with the law's goals: shares must be held for more than 2 years, a long-term 18-year lease must be in place, direct tenure is banned, and shares must be conserved for the next 5 years. Moreover, shares from a GFA can be totally exempted from the French luxury tax on property if they can be qualified as professional property.

The origin of this confusion mostly comes from two main aspects: the mobilization of several contributors and the use of crowdfunding platforms that is at the limit of legality.

If the funding needs are important, the project must then be "commercialized" an intermediary obliged to respect all regulations. Offering shares for sale under the form of public offerings is particularly forbidden. The intermediary faces two limits: (1) the offer must only be presented to a limited number of potential investors,

limited by decree to 150, and they must have mandated the intermediary to search for shares, and (2) he must have the status of financial investment advisor and of prudential controller (Debure M., 2016, T. 1 & 2). Offers for investments posted on the Internet, even if the financial investment advisors placed them there, flirt with the limit of legality, as it is difficult to consider the Internet as a restricted circle of friends.

4 The actors

4.1 The investor or project leader

Resorting to crowdfunding does not let one's project escape from the necessities of a fine conception, financial analysis and organization. These different facets of the project will need to convince the investors just as a banker. Depending on the amount needed, the project leader will choose a mode of funding being attentive to the limit amounts. The legal aspect and even the accounting may need the help of specialized counseling entities. One of the objectives consists in considering the contributors also as privileged customers that relay opinions and are ambassadors of the wine estate.

4.2 The contributor

The contributor has three objectives, the first being to better valorize his savings. The second is to give a sense to his investment by supporting a business that presents an "ethical" project. The third objective is to develop a privileged contact with a wine estate and its project leader. This can be achieved by participating in festive activities, by taking advantage of privileged prices, or yet joining the "fan club." We find here a strong tendency of society from where crowdfunding originates: giving sense to finance.

4.3 The platform

The platform constitutes the base of crowdfunding, and this corresponds to the government's definition. The platforms are subject to the rules of participatory funding and therefore to the banking and financial regulations corresponding to the businesses being carried out: fundraising, custody and management of funds, public offering, and distribution of financial products. The regulation created three statutes to secure crowdfunding: the platforms rely on the model of donating, on the model of lending and on the model of investing capital.

Each type of platform is subjected to specific rules covering: hosting liability, approval as a payment institution, prudential regime, "crowdfunding intermediary" status, investment service provider accreditation, consultancy status in financial investments. The evolution of the legal and regulatory framework can explain the growing mingling of the platform with traditional finance organizations (Robyn C.-A., 2017). This diversity and complexity also justify the development of counsel structures to help winemakers to organize their projects.

4.4 The counselors

Counselors are destined to both the project leaders and the contributors. So that their choices can be as rational and coherent as possible, both previously cited actors must be enlightened on management plans for the company and the project, on taxes, on all legal aspect and finally on long and short-term consequences. The contributor must receive information on the commitments made and the risks, particularly, the loss of capital, on the financial conditions and on his legal status within the structure where he is participating.

These counselors have several statuses. They can be independent, counseling their members on all steps. They receive a lump sum through a contract. The platforms also offer counseling. Their pay, however, depends on the margins gained by the platform.

5 The costs

The idea of avoiding traditional funding channels may seem charming and could let one believe that resorting to crowdfunding is advantageous to both principal parties who would then split and share the "banks' margin."

De facto, this vision is much too idyllic. In a period during which interest rates are particularly low, going through traditional banking channels often remains the most interesting. Indeed one must add to the interest rates, the fees associated with the chosen channel: elaborating the project and its supports, paying the counselors and the platform. The rates are generally higher to attract the investors and the platform margins can reach 10%. For the contributors, a much higher interest rates compared to standard investments, can be an important aspect of attractiveness while making the choice.

Finally, the reasons why the project leader accepts these extra costs are not entirely financial. (1) Funds are raised faster in comparison to the classic banking channels, (2) funding for a project previously declined by banks is still possible, (3) the creation or development of a core group of privileged clients as corporate ambassadors, thus contributing to the commercial development and responding to a societal demand for "ethical" finance.

6 The impact of crowdfunding on the price of vineyards

The apparent ease of access to participatory finance would lead one to believe that the abundant supply of funding means should have an impact on land price by lowering them. During our investigation, we noted that the vineyards' prices remained regulated by the 1960/62, 1970 laws (and by the following ones) and the agricultural

institutions resulting from these laws. Three means of actions exist in such a case: the SAFER with its right to preemption can preempt the land after revising the price if it believes that the sale's price is too low or too high. The DGFIP (public finances) can also intervene and mostly does to ensure that land prices are not being underestimated in order to pay fewer taxes. Finally, the 2014 law introduces a threshold over which size of vineyards for wine estates are considered excessive. These regulations leave little room for the crowdfunding to create a differentiated impact lowering land prices.

7 Conclusions

Our initial question was to know if crowdfunding could favor the purchase of land destined to vineyards and eventually lower its price. We saw that hidden beneath an apparent simplicity, linked to the ease of access through the Internet, crowdfunding is not as obvious as it seems when investment modalities, amounts engaged and risks are taken into account. Furthermore, this type of funding does not reduce the costs of investments.

The major characteristic of crowdfunding is to escape to the traditional financial channels. Nevertheless, one must be aware of the financial stakes and tax incentives on the lender's side and of the required professionalism on the winemaker's side when conceiving and implementing the project. In any case, the direct relationship with the project leader helps the communication and the business development and gives meaning when mobilizing savings.

8 Bibliography

File Upload (PDF only)

- [2018-02-20-WCrowdfunding-04-ENG-SZ_EM.pdf](#)

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February 2018

1 Introduction

Nowadays there exists a truly increasing interest towards *crowdfunding* that enables some winemakers to establish themselves even as they face ever-rising land prices. If we look beyond the financial and marketing aspects of *crowdfunding*, we conclude that it can be added to the mechanisms that help winegrowers access land. Land accessibility is one of the major points of the French agriculture's economic policy, which is structured along three pillars: (1) The "statut du fermage et du métayage" (tenant farming or sharecropping regulation) protects farmers and sharecroppers from landlords (1946); (2) The "contrôle des structures" (structure control policy) oversees the size (area) of the farms (LOA 1960 & 1962) and (3) the creation of the SAFER (Société d'aménagement foncier et d'établissement rural) along with its preemption right (LOA 1960 & 1962), targeted to fight speculation on land prices. These laws were also supposed to favor the installation of young farmers.

As years went by, numerous farming laws (loi d'orientation agricole LOA) were passed marginally modifying the previous ones (Boinon, 2011). However recent legislative changes have significantly modified the land market. The 2014 LAAAF law (Loi d'Avenir pour l'Agriculture et l'Alimentation et la Forêt) introduced an excessive size for vineyards and also established an authorization for farming that renders public all land transactions related to grape growing. In certain cases the LAAAF helps the establishment of smaller or mid-sized vineyards in highly sought after appellation areas. But the LAAAF does not diminish land prices, hence the usefulness of crowdfunding when creating or increasing the size of a vineyard. There are multiple ways to achieve this: equity loans, equity holdings or the creation of a GFV (Groupement Foncier Viticole – Viticultural Land Groups), which is highly popular with winegrowers and gives them a great degree of freedom. The main reason is that until now, the distribution of GFV shares does not enter the scope of the SAFER's preemption rights,

even though the latter has attempted multiple times to modify the legislation to entitle it to do so.

In France, crowdfunding has created new possibilities to finance land acquisitions for vineyards. To analyze them we need to first resituate the basic framework of crowdfunding. We therefore recall all terms—traditional and participatory ones—used for financing land acquisitions destined to vineyards without forgetting the particular case of GFV. The next step necessitates the understanding of the functions and strategies of each implicated player and analyzing the costs of such a type of funding. This should enable us to answer our main question: what impact does crowdfunding have on the prices of land destined to vineyards? To help us do so, we will present a case study from Languedoc as an example to illustrate all of our precedent analysis.

Our working method is based on an exploratory survey conducted upon winemakers, crowdfunding players (advisors and platforms) and an in depth case study. Extensive reviewing of the literature—mainstream and specialized—and of the economic press—mainstream and specialized in wine—complete our methodology.

2 Crowdfunding's basic framework

Crowdfunding appeared as an alternative means to financing that eluded the traditional banking circuits. It was supposed to favor disintermediation by eliminating anonymity between the lender and the borrower and bring meaning or ethics to the financial investment by clearly stating its goal, such as helping a young farmer establish or grow his farm. According to Robyn C.-A. (2017; 2018) this innovative circuit has steadily lost its intent of solidarity. Features of this trend are the increase of pay or financial compensation for the intermediaries or platforms and the growing institutional nearness between these crowdfunding platforms and the traditional organisms that funding businesses, such as banks and insurance companies.

Crowdfunding has now become a vast subject with an abundant literature dedicated to it, which include many books of analysis and counsel (Stéphany E., Bessière V. (2017); Charles A., 2016) as well as guides for experienced or beginning investors. As in any innovative field, experiences and applications feed and improve the public debates. The concerned areas stretch from the most eclectic ones such as Ohvalie, a journal for rugby, to sub-Saharan African religious NGOs (non-governmental organization), or real estate.

This phenomenon is very dynamic and attracts more and more investors. In France, this alternative type of finance has increased by 50% between 2016 and 2017 and has reached almost 1 billion euros (940 millions €) and has financed 13% more projects. This growth is

mostly due to the development of new platforms and new financial tools¹. Consulting groups such as KPMG, have realized studies on these.

In 2014 the publication of an ordinance² describing the conditions of applications for these types of financing, has led to an acceleration of the phenomenon. The ordinance details three essential points: the exemption to the banking monopoly, the definition and conditions to act as an intermediary in participatory finance (the platforms) and the rules regarding the counselors for participatory finance. It is completed by the October 28, 2016³ decree that fixes the limits of the amounts for both the borrowers and the lenders. De facto three categories of participatory finance are observed: donations, with or without compensation, remunerated loans or obligations (bonds), and picking up equity stakes.

These legal texts define very clearly these functions and impose an obligation professional proficiency and therefore complexify to a certain degree the implementation of crowdfunding. They also point to the will of the public authorities to develop this type funding.

3 Funding types in viticulture

The funding for a viticulture project will essentially depend on the nature and the amount needed for the project. Several types of funding can be combined. First of all one must not forget the classical means of funding: bank loans and subsidies that represent de facto today most of the funding.

A first modality would be to ask a relative, a family member or a close friend, to purchase a plot of vines in order to then to rent it from him. Tenant farming and sharecropping remain important ways of operation in viticulture, even though their proportions are lower when compared to the entire agriculture (20% owner farming in all of agriculture in 2013 versus 43% in viticulture — Sources INSEE & FAM⁴).

¹ <http://www.leguiteducrowdfunding.com/barometre-crowdfunding-336-millions-deuros-leves-2017/>

² Ordinance n° 2014-559 concerning participatory finance, made on May 30, 2014, published in the JORF (Official Journal of the French Republic) on May 31 2014, and effective October 1, 2014.

³ Decree n° 2016-1453 made October 28, 2016 concerning securities and loans offered in the context of participatory finance.

"Notice: The decree includes various measures to adjust the legal framework applicable to crowdfunding. In the first place, it raises the ceiling of loans with interest, granted by the lenders on the platforms of intermediaries in crowdfunding, to 2,000 euros per project. With regard to interest-free loans, it raises this ceiling to 5,000 euros. In addition, it sets the maximum allowable bids on the platforms of the participative investment advisers at 2.5 million euros and allows these professionals to offer preference shares and convertible bonds, and, under certain conditions, participative securities. Finally, the text implements Order No. 2016-520 of April 28, 2016 relating to cash certificates: it specifies in particular the ceiling of issue of *minibonds* and the characteristics of the loans underlying these instruments. "

⁴ INSEE: Institut de la statistique et des études économiques
FAM: FranceAgriMer

With regard to crowdfunding, we can list: (1) a crowdfunding donation that funds an original project and also indirectly has the commercial objective of making the wine estate better known. For example, a chateau in the Bordeaux region is seeking €20,000 to go forward with a biodynamic reconversion, offers in counterparts remuneration made of boxes of wine of different vintages or night spent at the estate. The amounts vary between €90 and €1200. In such a case the main motivations of the contributor are to participate in the project, meet and get to know the winemaker and his story, become an ambassador for the estate and at the same time acquire good wine at preferred price. The targeted amounts are low when compared to the price of land and this mode is rarely used to acquire land, even though some cases of crowdfunding to acquire vine lots using this mode have been observed.

(2) Crowdfunding in the form of a “solidarity” loan, meaning that there is no remuneration and yet the loan will be paid back, is essentially used for the funding of projects in developing countries. It is poorly adapted to viticulture because of the amounts being so small.

(3) Crowdfunding in the form of remunerated loan presents itself under three different types: participatory loans, bonds and “mini bonds” created by the April 28, 2016, ordinance and October 28, 2016, decree (Cf. supra). Their common point is that it gives a business or an individual the possibility to borrow funds on a predetermined time frame that will be reimbursed with interest (between 4 and 9%). The contributors substitute themselves for the banks and are seeking a higher remuneration for their savings.

(31)—The participatory loan is directed to the individual by the means of a platform via the Internet. Contributions are limited to €2000 and the projects are limited to 1 million euros.

(32)—The creation of bonds triggers the issuance of financial titles, securities that are, de facto, a recognition of debt from the issuing company. This debt will be paid back on a time period that can go up to 10 years. The difference with the previous type of loan resides in the possibility of dissociating the reimbursement of the interest from the nominal amount and, furthermore, they are negotiable. The individual contributions to projects are not limited, whereas the projects themselves are limited to 2.5 million euros.

(33)—The mini bonds created in 2016 play the role of saving certificates. The reimbursements include a fraction of the borrowed capital and interests are added to remaining owed capital. The limitations are almost identical to the one for the bonds to which is added a periodicity of reimbursements limited to 3 months.

(4) Funding with capital is the type of financing that resembles the most to classical funding. The only difference distinguishing them is that the latter has recourse to a platform via the Internet and directly solicits the savings’ holders. The contributors become shareholders of the business and their contributions reinforce the top of the balance sheet. The increase in capital complies with the legal rules of registration, publication and declaration to the tax administration, and also respects the set of specific rules regulating crowdfunding. Specific

clauses will define the management of these actions: a preferred purchase by the winemaker or the possibility of a sale to third parties.

4 The GFV: the “Canada Dry”⁵ of crowdfunding?

The creation of a GFV is often presented as a type of crowdfunding. Indeed the constitution of a GFV requires a certain number of investors, but encounters limitations that, according to the opinions, exclude them crowdfunding.

The GFV—the application in viticulture of the “groupement foncier agricole” (GFA)—was not created by the ordinances or the decrees defining the crowdfunding. This is a particular legal form created by the law of December 31, 1970, in order to maintain the structure of farms by perpetuating the agricultural land assets, especially during the inheritance. This structure allows landowners to benefit from tax benefits and separates the land from the farm.⁶

When a GFA for investment is formed, its target is to create a unique and rational business entity while relieving the farmer from the weight of investments. At first reserved only for physical individuals, juridical persons can now be included (banks, insurances, SAFER, etc.). A GFV offers authentic tax benefits: it enables the inheritance or gift tax to be reduced through a tax exemption covering 3/4 of the value up to €101,897. Beyond that amount it diminished to 50%⁷. But some conditions must be respected to remain in compliance with the goals of the law: shares must be held for more than 2 years, a long-term 18-year lease must be in place, direct tenure is banned, and shares must be conserved for the next 5 years. Moreover, shares from a GFA can be totally exempted from the French luxury tax on property (IFI) if they can be qualified as professional property, since the conditions are the same.

So why is there this confusion? The origin of this confusion mostly comes from two principal aspects: the mobilization of several contributors and the use of crowdfunding platforms that is at the limit of legality.

The creation of a GFV can be done through the mobilization of a limited circle of family members and friends, without doing any extra soliciting. In such a case the analogy is born from the act of the mobilizing several persons, and therefore, this is nothing new.

If the funding needs are important, it is then necessary to “commercialize” the project through an intermediary that is obliged to respect the regulations. It is particularly forbidden to offer shares for sale under the form public offerings. The intermediary face two limits: (1) the offer

⁵ By analogy with the famous advertisement: "Canada Dry has always been gilded like alcohol, its name sounds like a name of alcohol ... but it is not alcohol".

⁶ For more details see AGTER website:

http://www.agter.org/bdf/fr/corpus_chemin/fiche-chemin-139.html

⁷ <https://epargne.ooreka.fr/astuce/voir/417435/groupement-foncier-agricole>

must only be presented to a limited number of potential investors, their number is limited by decree to 150, and they must have mandated the intermediary to search for shares, and (2) he must have the status of financial investment advisor (CIF – Conseiller en investissement financier) (this is governed by the authorities of the financial markets) (AMF – Autorité des marchés financiers) and prudential controller (a registration with ORIAS is required) (Debure⁸ M., 2016, T. 1 & 2). Offers for investments posted on the Internet⁹, even if financial investment advisors have placed them there, flirt with the limit of legality, as it is difficult to consider the Internet as a restricted circle of friends.

This distinction appears even more clearly when a website specializes in the creation of GFV. Specific proposals for any particular purchase project do not appear, thus complying with the terms of the regulation.¹⁰ The website still qualifies as participating in crowdfunding.

5 The actors

5.1 The investor or project leader

Resorting to crowdfunding does not let one's project escape from the necessities of a fine conception, financial analysis and organization. These different facets of the project will need to convince the investors just as they need to convince a banker. An estimation of direct and indirect impacts must be done.

Depending on the amount needed for the project, the project leader will choose a mode of funding among those that we have enumerated and developed previously while being attentive to the limit amounts. The legal aspect and even the accounting may need the help of the specialized counsel entities. They may or may not be proposed by the founder or the manager of the platform.

One of the objectives consists in considering the contributors also as privileged customers that relay opinions and are ambassadors of the wine estate. The winemaker will have to manage this customer base specifically and will do so mostly by payment in kind (bottles of wine), privileged prices for wine bottle lots. He may also need to create particular events to keep them involved. This may be during the general meeting of the GFV, or through the creation of a club, or by organizing specialized dinners or invitation only banquets.

5.2 The contributor

⁸ Maxime Debure is the founder of the website Winefunding - <https://www.winefunding.com/fr/projects> - a platform specialized in wine equity loans

⁹ See example

- CMC International Cabinet Marchand Consultant, even if it is asked to tick the box "I give search warrant to Cabinet CMC"

- or yet the GFV Saint Vincent

¹⁰This is the case of Terrahominis - <https://terrahominis.com/> - only showing the complete financed projects

The contributor (épargnant) has three objectives, the first being to discover a better way to valorize his savings other than the one offered through the traditional banking channels. The second is to give a sense to his investment by supporting a business that presents an “ethical” project. This can also be achieved by investing in a business field that he believes is useful to be supported such as viticulture, or it can also take the shape of helping a young winemaker establish himself. The third objective is to develop a privileged contact with a wine estate and its project leader. This can be achieved by participating in festive activities, by taking advantage of privileged prices, or yet joining the “fan club.” All three can, of course, be combined. We trace here a strong tendency that is opinioned by a part of society and that is at the point of origin of crowdfunding: give sense to the finance.

5.3 The platform

The platforms represent a bit the iceberg of crowdfunding. The website would then be its tip. The platform constitutes the base of crowdfunding, and this corresponds to the definition given by the government: “Community funding or ‘crowdfunding’ (‘funding by crowds’) covers all the processes to exchange funds, directly between individuals without the intermediation of traditional players. It is an alternative type of funding or investment that privileges social bonding and proximity by using the Internet and the social networks to collect funds. Generally a large number of people with savings bring each a small amount of funds. This enables to attain large sums that are able to finance one or several proposed projects. Different funding means are possible (donation, loans or capital investment).”¹¹

The platforms are subject to the rules of participatory funding and therefore to the banking and financial regulations corresponding to the businesses being carried out: fundraising, custody and fund management, public offering, and distribution of financial products. Three statutes have been created to secure crowdfunding: the platforms rely on the model of donating, on the model of lending and on the model of investing capital.¹²

Each type of platform is subjected to specific rules covering host liability, approval as a payment institution, prudential regime, “crowdfunding intermediary” status, investment service provider (ISP) accreditation, consultancy status in financial investments (CIF).

The evolution of the legal and regulatory framework can explain for a good part the great diversity of crowdfunding platforms, their specificity—generalist or specialized—and their ever growing mingling with traditional finance organizations such as banks and insurances (Robyn C.-A., 2017; 2018).

This diversity and complexity also justify the development of counsel structures to help winemakers to organize their projects, as they are not specialized to do so.

¹¹ economie.gouv.fr - Le portail de l'Économie, des Finances, de l'Action et des Comptes publics
<https://www.economie.gouv.fr/facileco/finance-participative-ou-crowdfunding>

¹² <https://www.economie.gouv.fr/facileco/ladaptation-cadre-juridique-finance-participative>

5.4 The counselor

Counselors are destined to both the project leaders and the contributors. So that their choices can be as rational and coherent as possible, both previously cited actors must be enlightened on the management plan for the company and the project, on taxes, on all legal aspect and finally on long and short term consequences. The contributor must receive information on the made commitments and the risks, particularly, the loss of capital, on the financial conditions and on his legal status within the structure where he is participating.

These counselors have several statuses. They can be independent, counseling their members on all steps needed to be taken. This is the case for the Centre for Rural Economy (specialized accounting network). In this case, the counselor is clearly at the service of his customers and acts as a service provider. He becomes in a certain way the “general manager” of the project, and analyses the business plan, advises on which platform is the most adapted to for the projects, points out hidden costs, and contacts complementary legal, property and tax specialists. He becomes a type of broker between the project leader, the platform and the contributors. He is paid in a lump sum through a contract.

The platforms also offer counseling, that is however more limited and standard. Being accredited as an investment services provider (ISP) and because of their status as a financial investment advisor (CIF) they are committed to a certain quality of advice. Their pay however depends on the margins gained by the platform that can attain about 10%.

6 The costs

The idea of not going through traditional funding channels may seem charming and could let one believe that resorting to crowdfunding is advantageous to both principal parties: the project leader and the contributors would then split the “banks margin.”

De facto, this vision is much too idyllic. In a period during which interest rates are particularly low, going through traditional banking channels remains often, from a simple angle of financial calculations, the most interesting. Indeed one must add to the interest rates, the fees associated with the chosen channel: elaborating the project and its supports, paying the counselors and the platform. The rates are generally higher to attract the investor and the platform margins can reach 10%. An argument sometimes put forward is that given the speed of implementation and the quickness when repaying, the absolute value of these additional cost are not very high. Finally equity stake investments will be able to benefit from tax advantages (25%) when capital is going to a small business¹³. However this is not possible when remuneration is being made in wine bottles.

¹³ BOFIP Bulletin officiel des finances publiques

For the contributors, a much higher interest rates compared to standard investments, such as saving accounts or life insurance, can be an important aspect for attractiveness and when making the choice. This is linked to the fact that there is a risk of losing capital in times of financial crisis, bad management, disasters or bankruptcy. Depending on the type of investment, one must add the eventual tax breaks but also the lump-sum levies.

Finally, the reasons why the project leader accepts these extra costs are not entirely financial but linked to indirect advantages that are harder to estimate. These points are resumed in the following three points (1) funds are raised faster in comparison to the classic banking channels, (2) funding for the project is still possible even when banks have previously declined due to their prudential rules, meaning that the possibility of losing the farm is now avoided, (3) the creation or development of a core group of privileged clients as corporate ambassadors, thus contributing to the commercial development and responding to a societal demand for “ethical” finance or at least with relational and “meaningful” content.

7 The impact of *crowdfunding* on the price of vineyards

The apparent ease of access to participatory finance would lead one to believe that the abundant supply of funding means should have an impact on land price by lowering them. During our investigation, we noted that the vineyards’ prices remained regulated by the 1960/62, 1970 laws (and by the following ones) and the agricultural institutions resulting from these laws. As we recalled in the introduction, three means of actions exist in such a case: the SAFER with its right to preemption can preempt the land if it believes that the sale’s price is too low. Oppositely it can engage a legal process demanding the price to be revised if it deems that the announced sale’s price is too high. The DGFIP (direction générale des finances publiques) can also intervene and mostly does to ensure that land prices are not being underestimated in order to pay fewer taxes. Finally, the 2014 LAAAF (Loi d’Avenir pour l’Agriculture, l’Alimentation et la Forêt) introduces a threshold over which area of vineyards for wine estates are considered excessive. It also established an authorization to farm that makes public all land transactions that will lead to grape-growing. These regulations leave little room for the crowdfunding to create differentiated impact lowering land prices.

8 A case study

We followed in a detailed manner the crowdfunding case of a Languedoc wine estate (Neyrand M., 2017). This estate was created in 2000 by an oenologist, with an area covering 1 hectare in an AOC zone. For 17 years, the estate developed and grew to 15 ha. Half of the vineyard is in tenant farming and the other half in owner farming and all viticulture is organic. This oenologist winemaker also operates another neighboring wine estate located in a

bordering AOC that belonged to a foreigner and in exchange had access to all the material needed to grow grapes and make wine. The first estate's legal structure was divided into two entities: a GAEC Groupement agricole d'exploitation en commun (a type of company specially designed for the agricultural sector) covering all the production aspect and that rented half of the vineyard and a SARL (Société anonyme à responsabilité limitée - limited liability company) that would market wine from both estates. At the same time, in 2012 the first estate started the construction of a new cellar, which is supposed to be operational in 2018.

An unexpected event provoked the need for crowdfunding: the foreign owner of the second estate encountered financial hardships and was obliged to sell his estate. This led to the oenologist winemaker to also find himself in financial predicament: he needed to purchase part of winemaking equipment from the second estate while he had lost 50% in business activity and needed to reimburse debt contracted to build the new cellar. In reaction to this unexpected event, the oenologist and his wife put together a strategy to grow their first estate by 3 ha. Unfortunately their finances were in such a state that their demands for funds through traditional banking channels were rightly turned down. The choice to try crowdfunding then appeared as a natural opportunity, especially since they used a platform specialized in creating GFVs. They were able to establish a GFV where all 135 co-owners are remunerated in kind with bottles of wine.

The selected platform had been created in 2011 by a wine shop owner looking to purchase a vineyard. Banks had turned him down for traditional funding. After his initial success, other estates were created. The guiding contract of the platform remains the same: favor human contact and sharing in order to enable wine aficionados without any technical skills to own a wine estate. The price share varies from €1300 to €2500. The platform creates a GFV that put the vines in tenant farmer. The winegrower pays the owners in kind, typically wine bottles and offer preferential prices for additional purchases. The platform resort to notaries and to specialized legal and tax counselors. It also benefits from a partnership with the Centre for Rural Economy. Eleven wine estates have been entirely funded, representing 47 ha, and their shares are split within more than a 1000 co-owners. It is clearly stated that the goal is not based on financial return, but rather on the personalization of the relationship. This platform, as many others, has been featured on television programs and in the regional and specialized press.

This particular relationship does still contain some obligations to organize events at the estate: wine tastings, walks in the vines, the spring of winemakers, educational hikes, the shareholders' meeting for the GFV and the follow-ups due to the specific customer relationship.

The profile of the domain's "associated" contributor is the following: typically aged more than 40 years, he is part of medium to high socio-professional categories and rather a wine aficionado. In certain cases he has found a way through his investment, to own vines without having the technical skills associated with doing so. He wishes to become an ambassador of

the wine estate by purchasing bottles and by talking about the estate around him. Solidarity is an important theme for him, and he wishes to help the winemaker to develop himself. He is searching for authenticity, and desires to exchange and share. He is sensitive to organics and he defends short distribution circuits. He can make sense of his investment and at the same time participate in the economic development and the creation of jobs. His responsibility carries no limits but the risks and costs are low, since the farmer covers them.

9 Conclusions

Our initial question was to know if crowdfunding could favor the purchase of land destined to vineyards and eventually lower its price. We have detailed the different aspects of this new way of funding that has been growing significantly and has been favored by the French government through new laws and tax incentives.

We saw that hidden beneath an apparent simplicity, linked to the ease of access through the Internet, crowdfunding is not as obvious as it seems when investment modalities, amounts engaged and risks are taken into account. It is definitely not a type of funding that one can do with their eyes closed. And furthermore, this type of funding does not reduce the costs of investments.

Whether it be for an equity loan, an investment towards a stake in equity or the creation of a GFV, the major characteristic of crowdfunding is to escape to the traditional financial channels, and to offer funding that would not have been possible through those classical means. Nevertheless one must be aware of the financial stakes and tax incentives on the lender's side and of the required professionalism on the winemaker's side when conceiving and implementing the project.

In any case, the direct relationship with the project leader helps the communication and the business development and gives meaning when mobilizing savings. This is the reason why traditional channels are seeking to get closer to crowdfunding platforms. Finally, from a pure business side, the increasing competition between wine estates to touch consumers can by itself justify the necessity of crowdfunding in viticulture.

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