Bring equity crowdfunding to Illinois

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Up in Wisconsin, they're doing something creative with craft beer besides brewing it. They're turning microbreweries — and other small businesses — into investment opportunities for individuals.

It's an idea worth importing to Illinois, if the legislature would pursue it.

Wisconsin is among a dozen or so states allowing local companies to raise money by selling stock via specialized websites. In the beer example, MobCraft Beer of Madison wants to raise $250,000 to $500,000 by selling small ownership stakes to residents through a portal called Craftfund.com.

The concept, known as equity crowdfunding, is new, and therefore has a limited track record, but once that was true of Amazon, Groupon and all the other companies that have used the Internet's power to create new marketplaces. So why not try matching start-up companies and other small businesses with individual investors through a digital exchange?

That basic question is getting a lot of attention in the U.S. these days because entrepreneurs who need financial backing are often stymied by risk-averse bankers. Angel investors and venture capital firms pick up some of the slack, but that still leaves many potential deals hanging. Not everybody has a rich uncle.

Congress passed legislation in 2012 to permit equity crowdfunding, but it won't get going until the Securities and Exchange Commission finalizes rules. There's no word on when that might be completed; the process has been dragging on. Obviously, the sooner the SEC acts, the better.

In the meantime, a number of states have shown some entrepreneurial spark by passing legislation to create their own marketplaces for in-state businesses and investors. Wisconsin, Indiana and Michigan are on board. Where's Illinois? Good question. Equity crowdfunding is not on anybody's radar in Springfield, according to Chicago attorney Anthony Zeoli, an expert in the field who's trying to drum up support for the idea.

It's disappointing, yet somehow not surprising, to find which state *is not* leading the charge. We've written before about the stifling, regulation-heavy business environment in Illinois. Here's a perfect example of a small-scale experiment that would say a lot about the state's commitment to supporting businesses and economic growth. ... If only Illinois would try it.

The value of having individual states participate is that each can set its own rules, which are likely to be more flexible than the SEC's rigid approach. For example, the SEC's paperwork requirements, Zeoli told us, will be too expensive for many startups to consider trying.

Regulations are necessary, of course, to keep order and prevent fraud. And there's a balance to be struck between having responsible oversight and stifling innovation. What's intriguing about the crowdfunding model is that the investment process takes place in the open marketplace of the Internet, where the wisdom of the crowd can play a role in keeping things honest.

This concept — leveraging the impact of the crowd — is one way the Internet is changing the world. The most widely recognized example of crowdfunding is the Kickstarter model, in which entrepreneurs and artists raise money from individuals to fund the creation of a specific project. These are the kinds of people who have a great idea for, say, a new kind of ice cream scoop, but would have struggled to connect with backers before the Internet came along. Now Kickstarter and its competitors are practically mainstream in the business world.

This is the hope for investment crowdfunding. There is a version for real estate deals, for loans between individuals, loans to companies and then there is the equity version: Small businesses with a good story to tell ("MobCraft Beer: try our raspberry chocolate porter") can reach investors in a new way.

Maybe the splashiest example so far is musician Neil Young's equity crowdfunding campaign for Pono, his digital music system. He has raised more than $7 million from accredited, or high net-worth, investors, across the country, according to CrowdfundInsider.com. Young was able to do it because the SEC rules are already in place to allow accredited individuals to participate. What's still to come from the SEC are rules to let anyone, regardless of wealth, buy shares.

While Young's deal is impressive, not everyone is a rock star. Most of these kinds of investments will raise a lot less money, and then fail. That's how it is with startups. So this is a niche idea that won't transform the economy. It's also an example of creative thinking, and that's what we need more of in Illinois.