



Advancing with ESIF financial instruments



Crowdfunding and ESF opportunities: future perspectives for managing authorities

Manual
July 2020





DISCLAIMER

This document has been produced with the financial assistance of the European Union. The views expressed herein can in no way be taken to reflect the official opinion of the European Union or the European Investment Bank. Sole responsibility for the views, interpretations or conclusions contained in this document lies with the authors. This document is provided for information only. Neither the European Investment Bank nor the European Commission gives any undertaking to provide any additional information on this document or correct any inaccuracies contained therein. The authors of the study are the European Crowdfunding Network and the European Investment Bank, Financial Instruments Advisory Division.



FOREWORD



Nicolas Schmit
European Commissioner for
Jobs and Social Rights

The European Commission encourages citizen participation and promotes the creation of positive social impact through crowdfunding. A resilient European social economy sector has an important role to play to ensure that we leave no one behind.

Under the current challenging circumstances, adopting new forms of social support is more crucial than ever. I welcome this manual which is a valuable source of inspiration for managing authorities eager to consider alternative ways to support community-oriented social projects. I am convinced that the European Social Fund is well positioned to create synergies between shared management financial instruments and crowdfunding platforms in Europe.



Lilyana Pavlova
Vice President,
European Investment Bank

Alternative finance is gaining momentum across the European Union thanks to crowdfunding platforms, which are providing financial support to an increasing number of businesses. The European Investment Bank, through its Advisory Services, is enhancing the capacity of both the public sector and the crowdfunding industry, with a view to increasing social impact investment volumes. By working hand in hand, financial instruments and crowdfunding platforms need to unlock the potential of socially-oriented projects supporting the social economy in all Member States.



CONTENTS

Foreword	3
List of Acronyms	6
Executive summary	7
1. Setting the scene	10
2. Crowdfunding: definition and main features.....	12
2.1 Market trends and volumes.....	13
2.2 Crowdfunding models.....	15
2.2.1 Donation.....	16
2.2.2 Reward	17
2.2.3 Lending crowdfunding	17
2.2.4 Equity crowdfunding	18
2.3 Review of existing crowdfunding regulation.....	19
2.3.1 European Crowdfunding Service Providers (ECSP) Regulation: a set of standardised rules.....	19
2.3.2 Overview of EU applicable law for crowdfunding.....	21
2.3.3 Overview of national regulatory framework in Europe.....	21
2.4 Successful and unsuccessful factors for crowdfunding experiences	23
3. Public support to crowdfunding platforms – current experiences	26
3.1 Crowdfund platforms and role of the managing authorities	26
3.1.1 Managing authority as Sponsor.....	28
3.1.2 Managing authority as Manager	29
3.1.3 Managing authority as Curator	30
3.1.4 Managing authority as Facilitator	32
3.2 Experiences of ESI Funds financial instruments with crowdfunding.....	34
3.2.1 INNOVA Venture, Lazio (IT).....	34
3.2.2 MikroCrowd, Berlin (DE).....	36
3.2.3 Avietė, Lithuania	37
3.3 Other experiences of financial support to crowdfunding.....	39
3.3.1 Support to crowdfunding from the EIB Group.....	39
3.3.2 Support to crowdfunding from EC centrally managed instruments.....	40



4.	Supporting crowdfunding through financial instruments	41
4.1	Financial gap and other barriers faced by the crowdfunding sector	41
4.2	How financial instruments can support crowdfunding	43
4.2.1	Financial instruments delivering support through crowdfunding platforms.....	44
4.2.2	Financial instruments delivering support alongside crowdfunding platforms.....	46
4.2.3	Financial instruments - grant combination	47
4.3	Going further – proposals and food for thoughts.....	47
4.3.1	How to invest in crowdfunding.....	48
4.3.2	Risk sharing loan model.....	48
4.3.3	Guarantee schemes.....	49
4.3.4	When to contribute ESI Funds to a crowdfunding platform.....	51
4.4	Conclusion	51
	Appendix: Responding to COVID-19 crisis through crowdfunding	53



LIST OF ACRONYMS

AIFMD	Alternative Investment Fund Managers Directive
BDS	Business Development Services
CDR	Commission Delegated Regulation (Reg. 480/2014)
CF	Crowdfunding
CLLD	Community-Led Local Development
CPR	Common Provisions Regulation (Reg. 1303/2013)
DG EMPL	Directorate General for Employment, Social Affairs and Inclusion
ECN	European Crowdfunding Network
ECSP	European Crowdfunding Service Provider Regulation for Business (proposal)
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
EIF	European Investment Fund
ERDF	European Regional Development Fund
ESIF or ESI Funds	European Structural and Investment Funds
ESF	European Social Fund
ESMA	European Securities and Markets Authority
EU	European Union
FI	Financial Instrument
FoF	Fund of Funds
IFI	International Financial Institution
MA	Managing Authority
NPB	National Promotional Bank
NPI	National Promotional Institution
TA	Technical Assistance
TO	Thematic Objective(s)



EXECUTIVE SUMMARY

“Crowdfunding will become the future of how most small businesses are going to be financed”

Duncan Niederauer – former CEO of the New York Stock Exchange

Compared to the traditional credit system, crowdfunding is regarded as an alternative and innovative form of finance. Defined as the practice of raising funds from a large number of individuals using online platforms, crowdfunding in Europe has increased in importance over recent years.

The scope of this manual is to shed light on the possibilities offered by combining crowdfunding and European Structural and Investment Funds (ESIF or ESI Funds), with emphasis on the European Social Fund (ESF), and highlight the potential benefits of enhanced cooperation between managing authorities and the crowdfunding industry, particularly via the adoption of financial instruments (loans, guarantees and equity).

This manual targets managing authorities first, as the practical hints on how to establish partnerships with crowdfunding platforms address the perspective – and the underlying challenges – of public authorities responsible for the management of ESI Funds, but is also meant to raise awareness on the importance of crowdfunding for ESI Funds stakeholders at large.

As crowdfunding platforms are gaining momentum in Europe, they increasingly represent an alternative and reliable source of finance for SMEs and micro enterprises as well as a first sounding-board for innovative business ideas and for social impact projects, thereby generating positive impact on social and labour inclusion of vulnerable groups. In fact, crowdfunding often caters for the needs of typical ESF final recipients.

In the rapid evolving circumstances following the COVID-19 outbreak, crowdfunding has surged in popularity due to its capacity to quickly raise funds from a large range of individuals and social investors in response to specific aspects of the crisis. Some recent examples of crowdfunding linked to COVID-19 include the enhancement of the capacity of medical structures and of healthcare facilities and accelerating the conversion of the supply chains towards the production of protective equipment.

In a post COVID-19 scenario, when the need for finance is expected to peak as business activities resume, crowdfunding could play a key role in underpinning the economic recovery and leaving no one behind, the more so, if supported by the public sector. In this respect, the recent agreement of the European legislators (European Crowdfunding Service Providers Regulation¹) related to a level playing field for crowdfunding providers across the EU aims to create favourable conditions for a broader outreach of the crowdfunding platforms, as well as for increased cooperation opportunities for managing authorities.

1 Proposal for a regulation of the European Parliament and of the Council on European Crowdfunding Service Providers (ECSP) for Business. COM/2018/0113 final - 2018/048 (COD).



There are several forms of cooperation between crowdfunding platforms and managing authorities, depending on the degree of involvement of the latter. The examples included in this manual, show how managing authorities play a crucial role in helping to overcome some of the long-standing hurdles typical of this segment of the market. For example:

- investors and project promoters usually lack sufficient knowledge about the functioning of crowdfunding platforms. The support from the public sector can be instrumental in boosting trust and confidence in this sector;
- crowdfunding platforms constantly struggle to match the increasing number of campaigns they host with adequate liquidity, thus leaving behind projects that might deserve funding. ESI Funds can complement crowdfunding resources, ensuring further outreach and improved terms and conditions for final recipients.

Existing cooperation schemes between the public sector and crowdfunding platforms have already demonstrated some encouraging results, allowing managing authorities to harness the potential of such platforms and to support projects that were relevant for their policy objectives. Although most cooperation schemes predominantly involve the use of grants, a few pioneering experiences of financial instruments combined with crowdfunding platforms have paved the way for managing authorities including:

- ESIF soft loans are offered as a follow-up of successful crowdfunding campaigns by InvestitionsBank Berlin, the business development bank of the Federal Land of Berlin. Here, the cooperation with a reward-based platform shows how financial instruments could bring forward business projects already endorsed by the crowd, thus amplifying their economic and social impact;
- similarly, the Lithuanian National Promotional Institution INVEGA uses reflows from an existing ESI Funds financial instrument to invest in crowdfunding platforms, alongside private investors on a *pari passu* basis, thus enhancing its lending capacity in favour of microenterprises;
- in the Lazio Region in Italy, the promotional agency Lazio Innova offers an ESIF co-investing facility alongside private and retail risk capital investors in start-ups, particularly those fostering the smart specialisation strategy of the Region.

In addition, EU centralised financial instruments are witnessing a growing number of applications submitted by crowdfunding platforms and the EIB Group has stepped up its support to this sector.

All cases presented in this manual show the potential for crowdfunding when combined with ESIF financial instruments, including the opportunity to leverage significant private resources for projects that are consistent with the investment priorities of the Operational Programmes (OP). Moreover, this report sheds light on some potential issues such as whether the crowdfunding platform could be regarded as a financial intermediary and therefore appointed for the implementation of the financial instrument. In the examples that follow, loans or equity financial products are delivered by a third party, different in nature from the managing authority and from the crowdfunding platform. A financial instrument implemented by a crowdfunding platform could potentially be an efficient solution to streamline procedures and explore further opportunities for combination of financial instruments with other kinds of support.



According to the needs expressed by the crowdfunding industry:

- risk-sharing loan schemes could help where crowdfunding platforms suffer from insufficient liquidity; ESI Funds could then be used to magnify the lending capacity of platforms, targeting final recipients in line with the Operational Programme's priorities;
- guarantee schemes could help when the managing authority is willing to support the risk appetite of crowdfunding platforms, particularly when addressing vulnerable final recipients and projects with high social added value;
- combining financial instrument with other forms of support, such as grants, might bring several advantages:
 - it could make crowdfunding more affordable by introducing an investment grant scheme, covering a portion of the interest rates, or part funding the costs of a crowdfunding campaign;
 - it could increase the capacity of project promoters to develop sound and viable business ideas by offering business development services, such as mentoring, tutoring and coaching.

All this considered, the potential for ESI Funds financial instruments combined with crowdfunding represents a relatively new area that, while holding considerable potential and mutual advantages for all stakeholders involved, could benefit from guidance at EU level and tailored assistance, for example to support the launch of pilot projects.

This document is composed of the following sections:

- Section 1 provides background information and a general introduction to the document;
- Section 2 introduces the main concepts, facts and figures of the European crowdfunding market, including an overview of the models under which crowdfunding platforms operate as well as a review of the regulatory framework and of the success factors of crowdfunding experiences;
- Section 3 provides a conceptual framework of the role that the public sector could play when supporting crowdfunding, as well as an analysis of selected pioneering experiences of ESI Funds financial instruments that cooperate with crowdfunding platforms;
- Section 4 illustrates different ways and structures under which financial instruments can cooperate with crowdfunding platforms (also combining financial instruments with grants), effectively pursuing the priorities of the relevant ESIF Operational Programmes. It finally includes a broad outline of some concrete proposals for the setting-up of financial instruments supporting crowdfunding platforms;
- the Appendix briefly delivers on the first observed effects of the COVID-19 pandemic on the crowdfunding industry.



1. SETTING THE SCENE

fi-compass is an advisory and guidance platform set-up by the European Commission (EC) and the European Investment Bank (EIB) to support Member States in understanding and making better use of financial instruments (FIs) using ESI Funds.

In the framework of *fi-compass*², the EC (DG EMPL), with the support of the EIB, has carried out a number of factsheets, manuals and other publications aimed at seeking new, suitable areas for a further application of financial instruments under the European Social Fund (ESF). The European Crowdfunding Network AISBL (ECN)³ has cooperated with *fi-compass* in the realisation of the present manual. Established in 2013, ECN is a professional network that pursues initiatives aimed at innovating, representing, promoting and protecting the European crowdfunding industry as a key aspect of innovation within alternative finance and financial technology.

Within the Fintech⁴ ecosystem, crowdfunding platforms are of particular interest to SMEs, microenterprises and socially oriented businesses. Crowdfunding, commonly defined as the practice of raising funds from a large number of individuals generally through the use of online platforms, has grown increasingly popular in recent years and is converging to a more mature state (see Section 2.1) although it still can be regarded as an alternative and innovative finance, as compared to the traditional credit system.

Crowdfunding represents a new opportunity to test the market readiness for virtually all types of venture, from micro companies and self-employed, up to start-ups and SMEs. A business that goes under a market readiness test through crowdfunding can, in turn build the trust that more traditional financial institutions need, as they normally delay their investments until they have a tangible proof of the venture's viability.

ESI Funds, and particularly ESF, can be a fertile ground in which to establish partnerships with crowdfunding platforms. It is not by chance that microfinance, another typical sector that is traditionally supported by ESF, shares with crowdfunding, some distinctive features, inter alia:

- crowdfunding is relevant for businesses that face difficulties in accessing traditional credit, because of limited turnover, limited or no credit history of the entrepreneurs, lack of collateral, high-risk profile of the business concept and/or of the markets of reference;
- crowdfunding addresses the needs of individuals underserved by the traditional credit supply, such as new entrepreneurs, people belonging to vulnerable groups and people at risk of social exclusion. These individuals usually resort to alternative and innovative finance – including crowdfunding – when they set up a new business.

Moreover, crowdfunding embeds concepts like the *wisdom of the crowd* (see Section 2) as well as the prominent role of the micro investors in crowdfunding platforms and the importance of local networks to finance projects: they all relate to the inclusive mission of the ESF. Access to crowdfunding is not limited to specialised professional investors or to financial institutions, thus providing an opportunity for any individual to contribute and/or to invest into a specific project. In addition, crowdfunding is associated with intense citizen engagement, contributing to projects and following their implementation.

² For further information, see fi-compass.eu.

³ For further information, see eurocrowd.org.

⁴ The Basel Committee on Banking Supervision defines Fintech as “Technologically enabled financial innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services”.



In this perspective, potential synergies between ESI Funds initiatives and crowdfunding could be drawn even more clearly in reference to community-led local development strategies (CLLD)⁵, when strategies focus on the importance of the co-creation processes and on citizens' engagement in order to foster joint local development, taking into account local peculiarities.

The *fi-compass* Survey on financial instruments under the ESF⁶ has recently highlighted the limited leverage effect of ESF financial instruments. In this respect, exploring the synergies with crowdfunding platforms – that by nature leverage resources from a large pool of investors – could help ESF managing authorities (MAs) in taking a decisive leap forward. Crowdfunding would enable ESF resources to attract additional private resources, both through private contributions (non-financial models) and through private resources from retail investors (financial models).

This manual encourages managing authorities to familiarise themselves with crowdfunding and its peculiarities and by showing how to design relevant financial instruments in this domain, to harness the potential contribution of crowdfunding to ESI Funds and ESF priorities. For managing authorities, this document can be the stepping-stone to fruitful experiences of crowdfunding financial instruments in the future. In general, crowdfunding platforms generate high visibility in broad and diversified communities of followers, and could therefore attract a new set of potential beneficiaries to ESF resources.

⁵ Common Provisions Regulation, art. 32-35.

⁶ The *fi-compass* 'Survey on FIs under the ESF - Reflections at present and ideas for future' was conducted in May and June 2019. The survey collected feedback on current experiences and future views in connection with the implementation of FIs under the ESF. The report is available at this link: <https://www.fi-compass.eu/publication/factsheets/survey-esf-fis-report>.



2. CROWDFUNDING: DEFINITION AND MAIN FEATURES

Since its first emergence on the European market, crowdfunding has gradually established itself as a new and increasingly reliable option for start-ups and SMEs looking to raise capital. In 2015, the Joint Research Centre (JRC) of the EC described crowdfunding as “*an open call for the collecting of resources (funds, money, tangible goods, time) from the population at large through an Internet platform. In return for their contributions, the crowd can receive a number of tangible or intangible benefits, which depend on the type of crowdfunding*”⁷.

To better understand the building blocks of the crowdfunding mechanism, the above-mentioned definition can be broken down into four main elements:

- a. crowdfunding as an open call to collect resources for a specific business idea** – investors and supporters are able to directly select the projects in which they want to invest, according to their expectations and their preferences in terms of sector, risk level and financial or non-financial incentives;
- b. from the population at large** – it enables any individual to financially contribute to projects that are hosted on a crowdfunding platform. Crowdfunding therefore leverages both on the concept of *wisdom of the crowd*⁸ and the *democratisation of finance*⁹;
- c. through an internet platform** – crowdfunding is enabled by ‘crowdfunding platforms’, which are in fact websites where fundraisers and the crowd interact and make financial transactions. The platforms provide secure and user-friendly space and services to crowdfunding actors;
- d. in return for their contributions, the crowd can receive tangible or intangible advantages** – investors and supporters can receive benefits, ranging from non-financial tangible benefits (e.g. a ticket to access a cultural event) to financial returns on their initial investment (e.g. interest rate in lending-based crowdfunding or a share of the profits of a company in equity-based crowdfunding).

The inherent flexibility and adaptability of crowdfunding models can raise the interest of managing authorities willing to integrate crowdfunding into their range of financial instruments. In this perspective, a number of partnerships between the public sector and crowdfunding platforms have been established in different Member States in the past years (see Section 3) and specific crowdfunding types have emerged in relation to such partnerships:

- **civic crowdfunding** is a “*subcategory of crowdfunding through which citizens, often in collaboration with government, propose, fund and deliver projects that aim to provide a community service or deliver public value through local area improvement projects*”¹⁰. Although most experiences of civic crowdfunding have adopted a non-financial model¹¹ (donation or reward, see Section 2.2), the concept of civic crowdfunding is not necessarily linked to a specific model (i.e. it can be applied to some extent also to debt/equity-based platforms) but rather to the outcome that funded projects will produce (common good or service) and the geographical coverage of the funded projects (local or regional);

7 *Understanding Crowdfunding and its Regulations. How can Crowdfunding help ICT Innovation?*, Garry A Gabison, Joint Research Centre, Luxembourg: Publications Office of the European Union, 2015.

8 Wisdom of crowds is the idea that large groups of people are collectively smarter than individual experts when it comes to problem-solving, decision making, innovating and predicting.

9 The term “democratisation of finance” refers to the gradual process of removing control of the finance industry away from the select few big financial institutions and redistributing the control among the public.

10 *Matching the Crowd*, Nesta, 2017.

11 *Triggering Participation: A Collection of Civic Crowdfunding and Match-funding Experiences in the EU*, European Crowdfunding Network (2018).

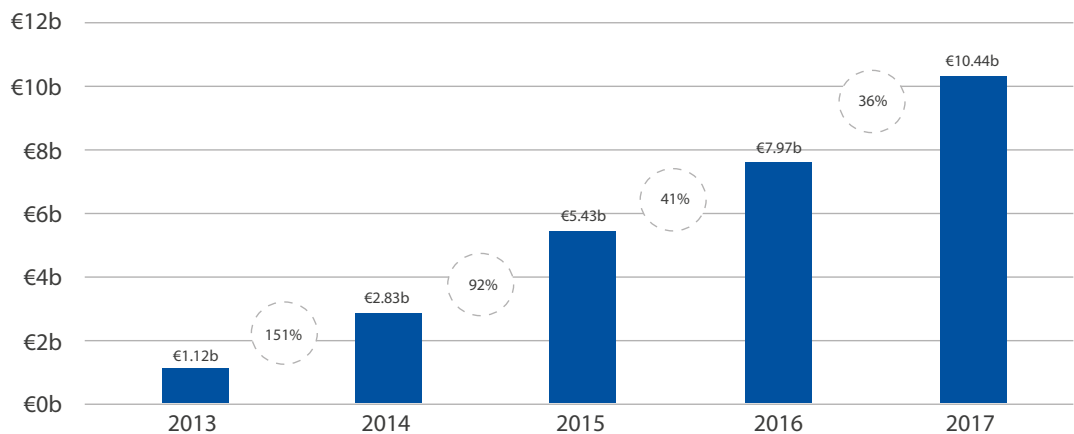


- **match-funding** focuses instead on the combination of different funding sources, rather than on specific sectors. Match-funding can be defined as a “funding scheme where resources collected by crowdfunding campaigns in specific areas are topped-up with an additional share of resources coming from public sector or private entity”¹².

This scheme could foresee a partnership between the managing authority and any crowdfunding model and can be applied to support initiatives in any thematic area or business sector.

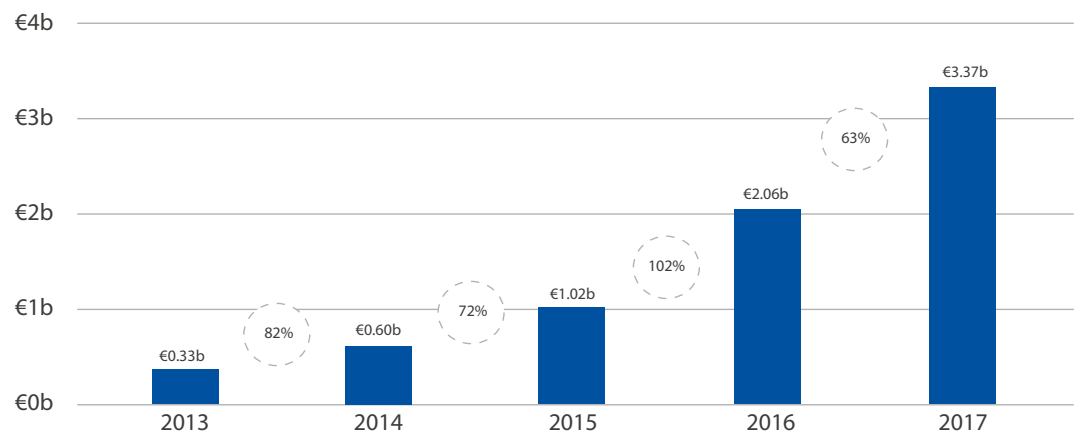
2.1 Market trends and volumes

Figure 1: EU market growth rate, 2013-2017 (with UK)



Source: Cambridge Centre for Alternative Finance

Figure 2: EU market growth rate, 2013-2017 (without UK)



Source: Cambridge Centre for Alternative Finance

The importance of crowdfunding for European businesses and investors is shown by the steady increase in transaction volumes in the past years, as shown in Figure 1 and Figure 2. Although such volumes remain relatively small if compared to more established finance sources, such as venture capital/private equity and business angels¹³, it is worth looking at some elements that can highlight the relevance of crowdfunding:

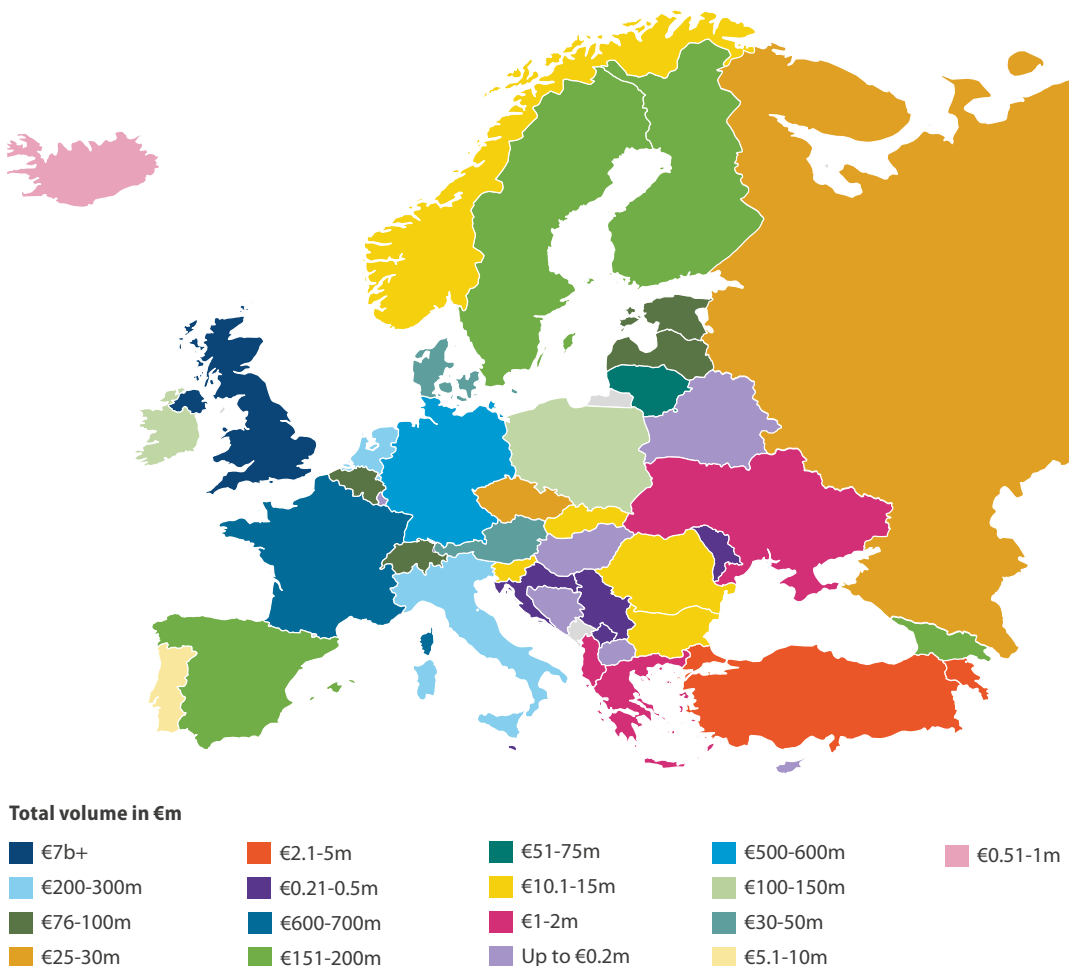
¹² Ibid.

¹³ *Capital Markets Union, Measuring progress and planning for success*, pp 25-28, AFME, September 2018.



- **the size of the European market** in 2013 amounted to approximately EUR 1 billion, but latest data referred to 2017 show that volumes grew to over EUR 10 billion. This increase in volumes is also a signal of increased demand for crowdfunding, both from businesses looking to access finance in alternative ways, and from institutional, professional and retail investors looking for new opportunities;

Figure 3: European Crowdfunding markets by country



Source: Cambridge Centre for Alternative Finance

- from 2013 to 2017, the crowdfunding market in Europe grew at an **average annual rate** of approximately 80%;
- when analysing **market trends in relation to crowdfunding models**, data¹⁴ clearly show a preponderance of financial crowdfunding types (lending and equity), both in terms of volumes raised and in terms of number of platforms. Non-financial crowdfunding models (donation and reward) have also witnessed an increase in volumes, yet remaining much more limited in comparison with financial crowdfunding models;
- regarding the **number of crowdfunding platforms**¹⁵ in the EU, more than 500 platforms were recorded in 2017, with at least one operating platform in each Member State. A conducive regulatory framework is surely the main aspect that affects the spread of crowdfunding platforms in each country; it is therefore not surprising that the UK hosts the highest number of platforms (77);

14 Shifting Paradigms the 4th European Alternative Finance Benchmarking Report, Cambridge Center for Alternative Finance, 2019.

15 Ibid., p 25.



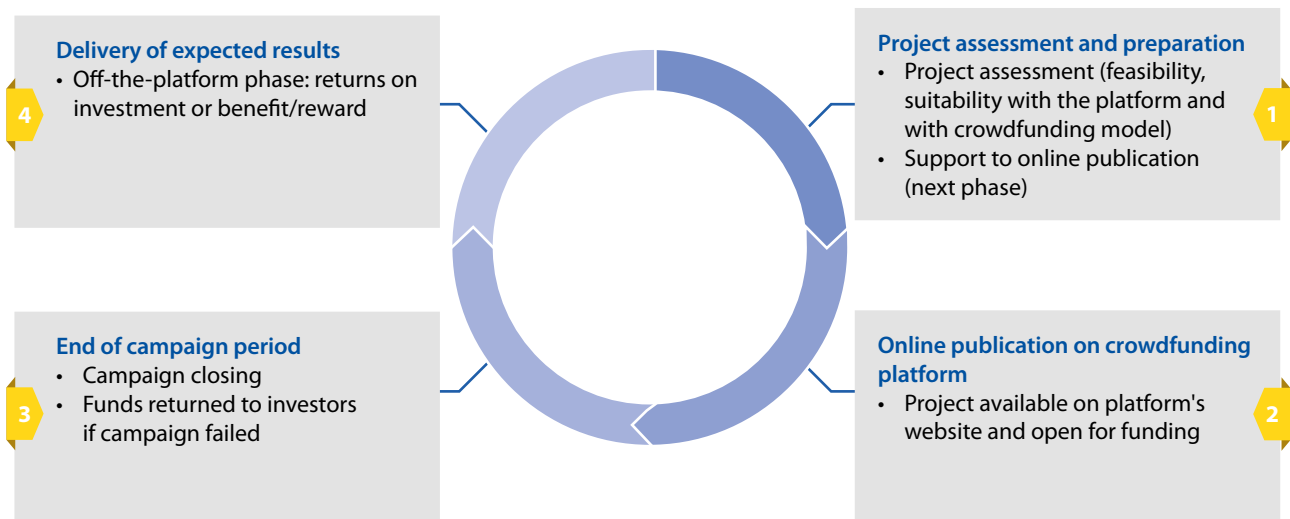
- in terms of **successfully funded crowdfunding campaigns**, the average success rate per crowdfunding model was 69% for donation-based crowdfunding, 66% for rewards-based crowdfunding, 83% for lending crowdfunding and 81% for equity crowdfunding¹⁶. In other words, funding was successfully raised for two out of three projects that launched a donation or reward campaign, and for four out of five projects that launched a lending or equity campaign.

However, crowdfunding is developing at an uneven rate in Europe (Figure 3). Steep differences across Member States remain, both in terms of number of crowdfunding platforms and of market volumes, which range from over EUR 7 billion in the UK to EUR 5-10 million in Eastern Europe. As mentioned before, the differences in transaction volumes and number of active crowdfunding platforms can partially be traced back to national regulatory frameworks.

2.2 Crowdfunding models

Even though the crowdfunding industry is extremely diversified, the basic functioning mechanism of preparing, launching, and following up after a crowdfunding campaign remains common to all models. In general, crowdfunding platforms provide the technical infrastructure that enables the projects to be visible online, as well as the assurance that the funds are raised via an authorised and independent payment provider.

Figure 4: Lifecycle of a crowdfunding campaign



Source: ECN

The project-cycle of a crowdfunding campaign (business oriented or non-profit) can be described via the following steps:

- 1. Project assessment and preparation:** the project is proposed by a promoter and appraised by the crowdfunding platform, which assesses its potential and suitability for crowdfunding. In case of lending and equity crowdfunding models, a due diligence is generally conducted. In case of donation and reward models, the appraisal aims at ensuring that both the project and the promoter are in line with the platform's expertise and areas of activity. Thereafter, the platform will provide support to project owners with a view to ensuring that the project is fine-tuned and ready to be published online;

¹⁶ Ibid., p 39.



2. **Online publication:** subject to a finalisation of the first phase, the project is published on the crowdfunding platform. As from this moment and for a predefined period, investors and backers will be able to finance the project;
3. **Closure of the crowdfunding campaign period:** at the end of the predefined period, the crowdfunding campaign is closed and the project can no longer receive financial support through the platform. If the project raises 100% of the initial budget request, the crowdfunding campaign is considered successful and the promoter is awarded the full amount. If the amount raised is below its initial target – i.e. not reaching 100% of the funding – money is normally returned to the investors/backers and the project does not receive any funding. Some platforms (mainly donation and reward based) however, adopt a ‘take it all’ approach, which allows the project owner to receive the funding collected even if the amounts raised are below the initial target;
4. **Delivery of expected results:** the final phase relates to the rollout of the project and to the delivery of its expected results, benefits or financial returns. Within reward-based crowdfunding, this step takes place outside the crowdfunding platform’s infrastructure and is the sole responsibility of the project owner. Especially with pre-sales, this step is where the project or business is ramping up its activities, thereby delivering products or services. In some cases, the platform and affiliated payment service providers may facilitate the process, for example in the distribution of financial returns. For projects receiving loans, the impact of the finance is usually smoother as such transactions relate more often to working capital requirements and the expected results for the investor relate to regular repayments. In equity-based crowdfunding, the impact on the fundraising business is related to the pay out of the investment and the subsequent use of the capital increase – here the delivery of expected results is normally linked to the increase of the business value in the long-term and can only be materialised with an exit (sale) of the investment position.

Notwithstanding the commonalities in the management of projects and campaigns, crowdfunding platforms can provide different benefits, incentives and services according to the specific model they implement. In order to simplify the description of such a complex landscape, four main crowdfunding models have been identified and are described in further detail below.¹⁷

2.2.1 Donation

Donation crowdfunding is a philanthropic act for charitable causes, in which individuals donate small amounts while receiving no financial or other advantages in return. As this model is most suited for socially driven or not-for-profit projects, the backers are not expecting any tangible compensation. The average amount raised by individual projects on donation-based crowdfunding platforms ranges between EUR 5 000 and EUR 10 000.

In the project assessment and preparation phase, the donation-based crowdfunding platform also performs a check on the proposing organisation to ensure that bank account details provided for the collection of funds corresponds to the ones of the organisation itself. In addition to this, the platform verifies that the proposed project falls within its areas of activities and sectors of interest, in order to increase the project’s chances of success.

¹⁷ This classification is the most widely accepted by the crowdfunding industry and academic experts. This version is an updated version of the *Crowdfunding Guide: Booklet for Entrepreneurs*, European Crowdfunding Network, 2016.



The relationship between the project owner and the backers is closely linked to the period of the campaign: since backers do not expect any tangible return for their support, their connection to the project formally ends together with the successful (or unsuccessful) closing of the campaign. However, the strictly philanthropic motivations that led them to support the project are likely to extend their interest in the project even beyond the campaign period, up until the achievement of the expected results.

2.2.2 Reward

This is the most widely used model. Backers receive a non-financial reward (gadgets, products or services) according to the amount of their economic contribution to the project. The project owner determines the nature of the rewards, as well as their correspondence to different levels of economic contribution in the preparation phase. In the specific case of tangible products, the reward-based model has proved to be an excellent pre-sales tool since the product can be offered at a lower price compared to the real retail price, it allows for a prior market test and for the establishment of a client base while raising funds. The average amount raised by individual projects on reward-based crowdfunding campaigns ranges between EUR 5 000 and EUR 25 000, up to EUR 100 000 for pre-sales projects.

In the assessment and preparation phase, in addition to the steps described for the donation-based model, most reward-based crowdfunding platforms also support project owners in the design and implementation of a communication strategy that will help them maximise their chances of success. Finally, the relationship between the project owner and the backers is formally extended for a few months beyond the end of the campaign, up until the tangible benefits/rewards are delivered to each of the contributors. As in the donation model, backers might retain a certain interest in follow-up of the project's activities or of new products and services even after the end of the campaign period.

2.2.3 Lending crowdfunding

This model is similar to every typical lending scenario: individuals lend money to a company (peer-to-business lending) or to an individual (peer-to-peer lending) with the expectation that the money will be repaid with interest. The peer-to-business model is a relevant one for positive cash-flow companies (e.g. SMEs) that can realistically assure lenders of being able to pay back the loan. Lending crowdfunding is the leading model in terms of volumes in Europe, and the average amount raised by single projects ranges between EUR 50 000 and EUR 2.5 million.

The assessment and preparation phase in the lending model is more extensive than in the non-financial models described above, and can be assimilated to a due diligence. Once the project is appraised, the interest rate of the loan is determined by the risk of the investment. In lending-based crowdfunding campaigns, the relation between investors and project owner (business) spreads beyond the duration of the campaign. Once the funding is successfully received, the investor will remain tied to the project for a longer – yet clearly defined – period, at the end of which the initial investment will be repaid, together with the interest.



2.2.4 Equity crowdfunding

This model is best suited for companies (start-ups or scale-ups) with strong business plans. It works by the purchase of shares in a business or revenue share by a number of individuals (investors) in return for their investment. In addition to institutional and professional investors, this equity crowdfunding allows individuals to become retail investors and therefore co-owners of the business by lowering the entry tickets to the investment (as low as EUR 250, depending on the project/platform). Among the four crowdfunding models analysed so far, this one is the one with the highest level of risk, as co-ownership normally entails participation in potential losses, as well as profits. The average amounts raised by individual projects through equity crowdfunding range between EUR 100 000 and EUR 600 000.

The assessment and preparation phase in the equity model foresees a shareholders' decision to increase the capital of the company proposing the project. As the pre-money valuation of a company determines the price of the shares sold through the crowdfunding campaign, platforms might require further evidence¹⁸ from the company in support of the pre-money valuation, where it might appear, *prima facie*, unreasonable. As in lending-based crowdfunding, the relationship between investors and project owner (business) might spread over the duration of the campaign, but does not foresee a clear defined end for such engagement.

The following table provides a preliminary and non-exhaustive overview of the suitability of each ESIF Thematic Objective (TO)¹⁹ to the different crowdfunding models outlined in this section.

18 Such evidence can include, but is not limited to, proof of the market size, financial performance, business plan, track-record and background of the company's team.

19 ESI Funds shall support the thematic objectives listed under article 9 CPR.



Table 1 - Potential use of crowdfunding per ESIF thematic objective

Thematic Objectives ²⁰	Crowdfunding Model			
	Donation	Reward	Lending	Equity
TO 1 - strengthening research, technological development and innovation	Moderate	High	High	High
TO 2 - enhancing access to, and use and quality of ICT	Limited	Moderate	High	High
TO 3 - enhancing the competitiveness of SMEs	High	High	High	High
TO 4 - supporting the shift towards a low-carbon economy	Moderate	Moderate	High	Moderate
TO 5 - promoting climate change adaptation, risk prevention and management	Limited	Limited	Moderate	Moderate
TO 6 - preserving and protecting the environment and promoting resource efficiency	Limited	Limited	Moderate	Moderate
TO 7 - promoting sustainable transport and removing bottlenecks in key network infrastructures	Limited	Limited	Limited	Limited
TO 8 - promoting sustainable and quality employment and supporting labour mobility	High	High	High	High
TO 9 - promoting social inclusion, combating poverty and any discrimination	High	High	High	High
TO 10 - investing in education, training and vocational training for skills and lifelong learning	High	Moderate	High	Limited

2.3 Review of existing crowdfunding regulation

The increased importance of alternative funding has been resulting in an ongoing diversification of the financial services regulatory landscape, attracting the attention of legislators and supervisory authorities across EU Member States and at EU level. The follow section include an overview of the main regulations adopted so far.

2.3.1 European Crowdfunding Service Providers (ECSP) Regulation: a set of standardised rules

The European Crowdfunding Service Providers (ECSP) for Business Regulation, initially proposed by the EC in March 2018, as part of its Fintech action plan, will, once approved, allow platforms to be recognised at EU level based on a single set of rules²¹.

²⁰ TO 11 'enhancing institutional capacity of public authorities and stakeholders and efficient public administration' is not taken into consideration in the table as it involves the financing of technical assistance actions.

²¹ By the time this report has been prepared (June 2020), the formal adoption of the regulation was not yet finalised.



The ECSP draft legislation is set out to harmonise crowdfunding offerings across Europe by establishing an independent framework, yet integrated into existing relevant financial services regulations. This will allow crowdfunding actors to operate under the supervision of national regulators across the EU for the provision of securities-based²² crowdfunding and business loans. The regulation will not affect donation or reward crowdfunding, or other types of 'hybrid' crowdfunding models, such as some forms of subordinated debt within national legal frameworks. The specific rules are not published yet, however, some of the key points that ECSP will address are:

- a uniform set of criteria will apply to all ECSP up to offers of EUR 5 million across all EU Member States, calculated over a period of 12 months per project owner. The shares of some private limited liability companies, which are freely transferable on capital markets, are included in the scope of the legislation in order to enable small and medium sized enterprises to benefit;
- investors will be provided with a key investment information sheet (KIIS) drawn up by the project owner either for each crowdfunding offer, or at platform level. Crowdfunding service providers will need to give clients clear information about the financial risks and charges they may incur, including insolvency risks and project selection criteria. In addition, investors identified as non-sophisticated will be offered more in-depth advice and guidance, in relation to their ability to bear losses and a warning in case their investment exceeds either EUR 1 000 or 5% of their net worth, followed by a reflection period of four calendar days;
- any prospective ECSP regulated platform will need to request authorisation from the national competent authority (NCA) of the Member State in which they are established. Through a notification procedure in a Member State, ECSP will then also be able to provide their services cross-border. Supervision will be carried out by NCAs with the ESMA facilitating and coordinating cooperation between Member States.

It is expected that, the implementation of the ECSP will take place as of 2021 across the EU. It is understood that, in addition to the provisions listed in ECSP, crowdfunding will continue to be subject to national regulations for a limited period of time in those Member States that have bespoke regulations applicable to crowdfunding relating to investments and loans and which do not fall under the ECSP provisions. ECSP will be reviewed after a two-year period and modified, if needed.

22 The terminology 'equity and lending based crowdfunding' is used in this section for consistency with the whole document. However, regulators refer to equity crowdfunding by using the term 'security-based crowdfunding', that is crowdfunding models as regulated under European securities laws, including equity investments, quasi equity investments and debt investments. In the same context, lending crowdfunding refers to models more generally covered by banking regulation, i.e. credit institutes, including business loans and credit lines.



2.3.2 Overview of EU applicable law for crowdfunding

For the purpose of this report, the focus is also on the key EU regulations that have or could have an impact on crowdfunding. The most relevant, currently applicable EU regulations for crowdfunding (lending and equity) are:

- **Prospectus Regulation:** Regulation (EU) 2017/1129 of the EP and of the Council of 14 June 2017²³ related to the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market. This regulation was already adjusted to harmonise crowdfunding within Securities law, specifically the possibility to raise up to EUR 8 million per fundraising per year without a prospectus. However, the minimum threshold of EUR 1 million allows Member States to cap fundraising anywhere between the two amounts, adding to continued fragmentation in the crowdfunding sector. This regulation, and the previous directive, have been largely applied within Member States to limit equity and lending based crowdfunding;
- **AIFMD Regulation:** Directive 2011/61/EU of the EP and of the Council of 8 June 2011 on Alternative Investment Fund Managers²⁴. Designed for fund managers, especially hedge funds and private equity funds, it affects crowdfunding to the extent that platforms manage funds on behalf of clients. Indeed, some lending-based crowdfunding platforms manage separate funds on behalf of institutional investors and are fully AIFMD regulated;
- **MiFID II:** Directive 2014/65/EU of the EP and of the Council of 15 May 2014 on markets in financial instruments²⁵. Some regulators have applied MiFID II, at least partially, to equity and lending based crowdfunding. Some crowdfunding platforms have voluntarily adopted MiFID II rules in order to overcome regulatory fragmentation with a view to operating across borders.
- **Payment service Directive:** Directive 2015/2366/EU of the EP and of the Council of 25 November 2015 on payment services in the internal market²⁶. The directive is applied in all Member States in relation to payment services and includes Know Your Customer requirements and Anti-Money Laundering requirements.

The following sections will expand on applicable provisions for crowdfunding at Member State level.

2.3.3 Overview of national regulatory framework in Europe

Notwithstanding the entry into force of a common European regulatory framework as of 2021, some aspects of crowdfunding will still be regulated at Member State level. As a result, there is not yet one simple approach to outline how crowdfunding operates throughout Europe. The last pan-European review of crowdfunding regulation was made available in 2017²⁷, while in the meantime some changes have been enacted in some Member States.

23 Date of entry into force was 20 July 2017, while the date that the rules fully applied across the EU was 21 July 2019.

24 Date of entry into force was 21 July 2011, while the date that the rules fully applied across the EU was 22 July 2013.

25 Date of entry into force was 2 July 2014, while the date that the rules applied fully across the EU was 3 January 2018 (extended from 3 January 2017).

26 Date of entry into force was 12 January 2016, while the date that the rules applied across the EU was 13 January 2018.

27 The present document does not take stock of applicable law for each of the 27 EU MS. A review of crowdfunding regulations applied in each EU MS as of 2017 is available at <https://eurocrowd.org/2017/10/26/ecn-review-crowdfunding-regulation-2017>.



It is evident that crowdfunding-specific regulation has boosted the sector in countries such as the UK, France, the Netherlands, Germany and, to some extent more recently, Italy. In other countries, where such regulation has only been recently introduced the markets are not growing yet, e.g. Bulgaria, Denmark, Lithuania, Czech Republic, Estonia, Finland, Ireland and Poland, with only a few places, where apparently little or no crowdfunding activities (specifically equity-based and lending-based models) are in place (i.e. Croatia, Cyprus and Hungary).

Five Member States have structured their regulations by including an exemption for crowdfunding into their existing legal frameworks, which (partly) exempts crowdfunding from applying the general financial regulation (Belgium, France, Germany, Italy and Spain).

Other Member States opted for either an explicit Crowdfunding Act, providing a legal basis for equity/lending-based crowdfunding, including provisions for crowdfunding stakeholders (Austria, Finland and Lithuania) or for specific crowdfunding provisions complementing to existing regulation, mainly by adding administrative provisions published by the respective financial supervisory authorities (the Netherlands, Portugal and the UK). In the remaining 17 Member States, existing financial services regulation apply to crowdfunding.

In general, existing national regulatory regimes have met with difficulties when incorporating specific crowdfunding provisions often generating market barriers. In addition to regulatory frameworks, some countries have introduced tax incentives in favour of crowdfunding (Belgium and France) or have extended tax incentives to crowdfunding (the UK).²⁸

In conclusion, while relevant EU regulation as well as national regulation applicable to equity and lending activities was already in place, crowdfunding has only recently (through ECSP) started to be covered by its own, standardised set of rules. Therefore, in past years crowdfunding has been in some Member States largely untouched whilst in others it has been restricted in scope. While equity-based crowdfunding has overall been covered by the Prospectus Regulation as well as by aspects of MiFID, lending-based crowdfunding has had less of an overarching regulatory coverage, with some Member States applying and others leaving aside relevant rules regarding banking and credit institutions.

It is expected that regulation of crowdfunding (lending and equity) will be partially harmonised at EU level, but the interpretation of national authorities will still play a prominent role. The introduction of a harmonised set of rules through ECSP should significantly reduce the regulatory fragmentation of the crowdfunding sector, and facilitate cross-border crowdfunding operations and participation of institutional investors²⁹.

28 Matthias Klaes (Ed.): *Identifying market and regulatory obstacles to cross-border development of crowdfunding in the EU*. Brussels. December 2017 - https://ec.europa.eu/info/publications/171216-crowdfunding-regulatory-obstacles-crossborder-development_en.

29 A review of crowdfunding regulations applied in each EU MS as of 2017 is available at eurocrowd.org/2017/10/26/ecn-review-crowdfunding-regulation-2017/.



2.4 Successful and unsuccessful factors for crowdfunding experiences

The following section focuses on the two main hurdles in connection with crowdfunding campaigns³⁰:

- *on boarding* – before publishing a project, the crowdfunding platform generally seeks that a certain number of criteria are met. Such criteria vary according to the platform model (for instance, a lending-based platform is likely to run more comprehensive and thorough financial checks at the project and promoter level than a donation-based platform) and according to sector and specific focus of the hosting platform;
- *raise the money* – once published, the campaign is only considered achieved, once the project attracts sufficient funding to meet the targets the promoter has set.

Those obstacles are present in all crowdfunding models, although with different intensity. *On boarding* is generally more linked to lending and equity crowdfunding, not only because of the usual due diligence requirements, but also because it is critical to select projects with a high growth potential (equity) or repayment capacity (lending), so as to offer investors attractive deals, thus increasing the overall success rate of the platform and its reliability. Once the project is on boarded and published on the platform, the *raise the money* issue is softened, as investors know that the selection process is quite stringent. A clear example of this is represented by the lending platform *October*, where as at May 2020, out of more than 130 000 projects assessed, only around 850 have been selected, put online and successfully financed.³¹

On the other hand, for reward-based crowdfunding, the relation between *on boarding* and *raise the money* is not as challenging as for lending and equity crowdfunding. In general, *on boarding* requirements are less stringent and it is easier for project owners to access the platform and have their idea published online. For reward based crowdfunding, the true challenge lies in raising the money from the crowd.

The two main obstacles described above prove how running a successful crowdfunding campaign is far from being trivial. Success rates vary across platforms and also depend on the crowdfunding model: for example, only 37%³² of the campaigns are successful on *Kickstarter*, one of the largest reward-based crowdfunding platforms in the United States, mainly because the very large number of published projects makes it difficult for campaigners to be noticed by potential investors³³. Default rates on large peer-to-peer lending platforms such as *October* or *Funding Circle* are on average around 5%³⁴. *Seedrs*, a large UK-based equity platform, has a market-dominating success rate of 74%, compared to the nearest competitor at only 51%. Compared to reward-based platforms, equity and lending platforms are regulated and typically perform a due diligence before on boarding a project.

30 EIF Working Paper 2019 57, June 2019, p. 114.

31 Source: <https://it.october.eu/statistiche/>. Data is referred to the period 2015-2020.

32 <https://www.statista.com/statistics/235405/kickstarter-project-funding-success-rate/>.

33 Zhao, Y, Harris, P, Lam, W. *Crowdfunding industry—History, development, policies, and potential issues*. J Public Affairs. 2019; 19:e1921. <https://doi.org/10.1002/pa.1921>.

34 E.g. <https://www.fundingcircle.com/uk/statistics/> or <https://october.eu/statistics/>.



Notwithstanding the number of specific elements and variables that contribute to the positive outcome of a crowdfunding campaign, some general success factors can still be identified. Table 2³⁵ lists such success factors along four main dimensions:

Table 2 - Crowdfunding success factors

Project	Crowd	Communication	Person
Clear project description; project team; story & innovation; updates & progress	Family & friends; proximity; selection of platform; funding goal & rewards; transparency	Communication plan; emotion & passion; social media; graphics and video design; online & offline PR	Track record; time & engagement; personal involvement; open mind-set; cooperation partner; professionalism

The information summarised above also provides a guide to understand why many crowdfunding campaigns fail and analyse the conditions leading to unsuccessful experiences. To this end, the following analysis of two anonymised examples may be useful.

Example 1

The campaign

A company, founded in late 2016, aimed at gaining a position among Germany's leading online supermarkets. In line with the principle 'The customer decides', the company decided to involve its customers, to have a better grasp on which products should be included in the product range and which services should the online supermarket offer. The idea was to involve the company's customers, at an early stage, by selling shares of the supermarket. In this respect, a crowdfunding campaign was launched on an equity platform at the beginning of 2018 which, unfortunately, turned out to be unsuccessful. When it became obvious that the envisaged goal of EUR 600 000 would not be reached, the owners stopped the campaign and repaid back EUR 77 700 raised during the campaign. Eventually, the supermarket was able to turn around the situation by securing a loan of EUR 9.5 million from a credit institution and by convincing a media company to invest EUR 6 million in advertisements.

What could have been done differently?

Lack of clear project and business model description: Although the idea was innovative, the promoter did not describe its business model clearly enough for the crowdfunding campaign, and failed to present it as a compelling proposition to potential investors.

Crowd: The start-up did not have a strong community backing the project and willing to support a further growth. In addition, the fund-raising target had been set too high.

Market: The start-up was planning to introduce a new concept in a new market, without having it tested. In principle, crowdfunding is a great tool for exactly these cases and can be a very powerful tool to test the market, gather feedback, thus reducing the market risk. Before launching an equity or lending based campaign on a completely new market, it makes sense to test the market with a smaller reward-based campaign, where e.g. customers receive shopping vouchers in exchange of their investment. Once the idea has been proven successful and customer feedback has been taken into account, the project can collect further investments with larger investment-based campaigns.

35 Crowdfunding Success Factors (Source: Weber et al. (2016)).



Example 2

A civic crowdfunding campaign aimed at raising funds to create three giant treehouses in a city park of a European city. The project was developed by famous and recognised personalities (artists and architects), who envisioned the creation of public platforms for culture, performance and debate. The promoters wanted the citizens to support the project by helping to raise further EUR 500 000 needed for the new infrastructure.

Strong communication: Celebrated actors and movie directors agreed to be patrons and be associated in the communication campaign. The project collaborated beforehand with the council, won backing from public authorities, and consulted wildlife experts, to ensure meeting all requirements for realisation. News articles in newspapers and journals reported about the launch. However, the crowd supported the campaign only with EUR 30 000.

What went wrong?

Lack of community involvement: this example shows how it is difficult to plan the perfect campaign without having in mind the crowd: it turned out that there was very little consensus among the citizens on the usefulness of the treehouses, which was somehow perceived as a playground for the cultural elite. The project was exposed to criticisms in connection to the issue of whether the community should support such city improvements rather than the municipal government.

Community building: Civic crowdfunding projects need a real and already existing community around the project. This community could be actively built beforehand. Another option consists in inviting the crowd to a so-called 'crowdsourcing', i.e. allow the crowd to suggest project ideas on the online platform, and selected the best ones based on crowd' preferences. The highest ranked projects have good chances to raise funds from the private sector.

Demonstration of Impact: in many successful cases, the crowd is asked to fund the second stage of a project, after the first pilot has already made tangible impact and has proven that crowd's money would make the difference.

Table 3 summarises the conditions leading to unsuccessful experiences.

Table 3 - Factors leading to unsuccessful crowdfunding campaigns

Project	Crowd	Communication	Person
Lack of a clear project description and of an understandable business model	Unrealistic funding goal and rewards; lack of attention to community building and impact creation		
	Campaign and project owners not well prepared and organised in advance		
		Not establishing trustful partnerships with investors and public sector	



3. PUBLIC SUPPORT TO CROWDFUNDING PLATFORMS – CURRENT EXPERIENCES

This section focuses on the public sector's support to the crowdfunding sector. It describes four possible partnership schemes between managing authorities and crowdfunding platforms, based on the role of the managing authority. Each partnership scheme described includes on-the-ground examples that do not necessarily refer to managing authorities of ESF Funds, but could be inspirational for them.

Section 3.1 covers grants schemes and provide some hints on how financial instruments can be combined into such schemes.

Section 3.2 describes pioneering experiences of ESIF financial instruments that support crowdfunding platforms.

Section 3.3 provides insights about operations of the EIB Group, as well as centrally managed financial instruments that involve the crowdfunding sector.

3.1. Crowdfund platforms and role of the managing authorities

This section focuses on the potential role managing authorities could play in engaging with crowdfunding platforms and on the potential issues at stake.

Besides the obvious benefits appreciated by project promoters and by the supporters of successful campaigns, positive impacts of crowdfunding can spread in a range of related areas such as citizen empowerment and engagement, democratisation of finance, diffusion of financial literacy and development of an entrepreneurial culture. At the same time, the creation of new financing schemes and their combination with traditional funding sources could facilitate the achievement of ESIF policy goals related to the following ESF TOs:

- TO 8 - Promoting employment and supporting labour mobility
- TO 9 - Promoting social inclusion and combating poverty
- TO 10 - Investing in education, skills and lifelong learning

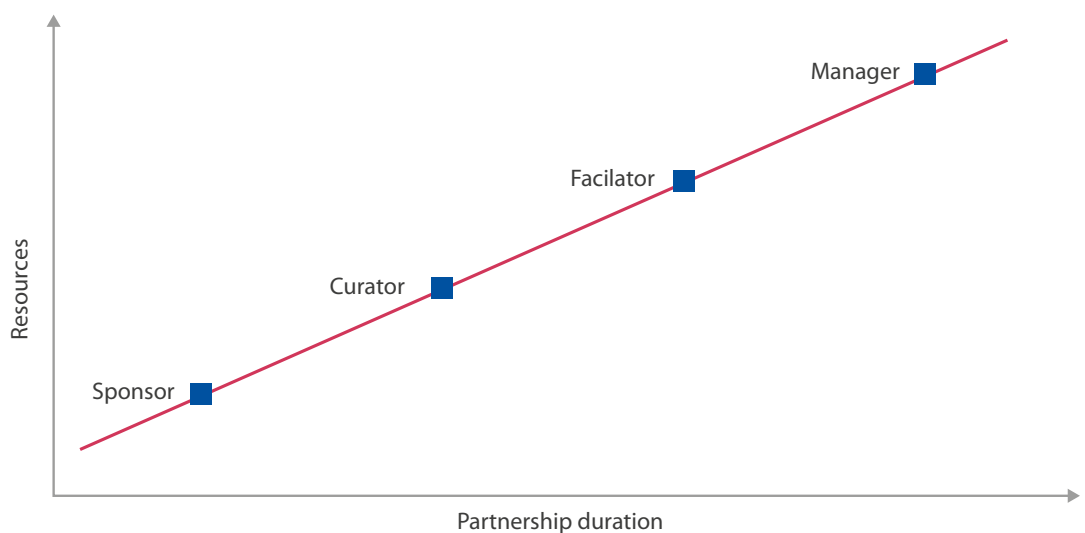
Crowdfunding could represent an opportunity for all ESF TOs, especially when ESF resources fund local, regional and national employment-related projects. As such, crowdfunding could be relevant for small projects – typically run by neighbourhood charities – aimed at facilitating access to jobs adapted to disabled people as well as for nationwide projects that promote vocational training among the population.



The flexibility and variety offered by crowdfunding, coupled with the sectors in which it has proven to be most successful i.e. cultural and creative industries, renewable energy, start-ups and SMEs financing, technology, and territorial and community development³⁶, have made the financing tool increasingly interesting for local and regional authorities across the EU. Any combination between public resources and crowdfunding aimed at funding territorial development can fall under the definition of **civic match-funding** (see Section 2) Literature³⁷ suggests four models through which the public sector, and in particular managing authorities, could potentially engage with crowdfunding platforms:

- **Sponsor** – the managing authority launches its own campaign for a specific project on an existing civic crowdfunding platform;
- **Manager** – a managing authority creates its own crowdfunding platform to foster the development of its territory. The public administration usually create generic platforms which promote both entrepreneurial for-profit projects and non-profit civic initiatives;
- **Curator** – the managing authority selects from an existing crowdfunding platform a list of projects that meet its agenda. In this scenario, the selection of projects that will receive further support from public resources is made after the crowdfunding phase is successfully closed;
- **Facilitator** – the managing authority commits to co-finance successfully crowdfunded projects on partner platforms before the crowdfunding phase is launched. This model is usually regulated by an agreement between the managing authority and the crowdfunding platform(s), defining areas and criteria for the selection of projects, co-funding rates, timing and reporting requirements.

Figure 5: Commitment levels according to the role of managing authorities in a partnership scheme with crowdfunding platforms



Source: ECN

The following paragraphs will analyse each of the above-listed models; to be noted that, the examples featured in each model entails the use of grants.

³⁶ *Triggering Participation: A Collection of Civic Crowdfunding and Match-funding Experiences in the EU*, European Crowdfunding Network, 2018.

³⁷ Davies (2014), included in *Triggering Participation: A Collection of Civic Crowdfunding and Match-funding Experiences in the EU*, European Crowdfunding Network, 2018.



Each partnership model foresees different levels of commitment for the managing authority, both in terms of financial and human resources, as well as a different timing for the implementation of the actions envisaged by the partnership. Consequently, each of the four models can present different outcomes, obstacles and benefits for all parties involved. Figure 4 below shows the different commitment levels that managing authorities should consider when exploring possible partnership schemes with crowdfunding platforms.

3.1.1 Managing authority as Sponsor

A number of managing authorities in Europe have started implementing crowdfunding solutions to target initiatives which are public and of social interest but lack of funds due to public budget constraints³⁸. In this scheme, the managing authority acts as the project owner of the crowdfunding campaign, seeking financial contribution from citizens. In running its crowdfunding campaign, the managing authority uses an existing crowdfunding platform and becomes the promoter (therefore Sponsor) of its own initiative.

The involvement of a managing authority in such an activity is quite limited, both in terms of committed resources and in terms of duration of crowdfunding-related activities (preparation, communication, days during which the initiative is online and accessible by the public):

- **Human resources** – the managing authority commits its own personnel mostly when drafting the project description and in establishing contacts with the crowdfunding platform;
- **Financial commitment** – relatively low, as the only cost incurred by the managing authority is a flat fee or a success fee paid to the crowdfunding platform. However, this would entail public procurement considerations to select of the best platform. Additional costs might be foreseen in case extensive communication services linked to the campaign (video-production, social media management, etc.) are needed, as well as if the delivery of tangible rewards if foreseen;
- **Duration** – the timeframe of crowdfunding-related activities that the managing authority must implement is quite short, and is limited to the preparation and to the online campaign phases.

Advantages	Disadvantages
Low commitment in terms of financial investment and human resources	Only valid for a single initiative. If adopted regularly, potential increase in external costs and staff
Assessment of willingness of citizens to contribute to the roll-out of the initiative	Citizens might be reluctant to co-finance an initiative that the managing authority already deems worth financing
Short timeframe from preparation to closing of campaign	If unsuccessful, reputational risk for the managing authority

38 *Crowdfunding for Culture Study Report*, EC - DG for Education, Youth, Sports and Culture (European Commission), IDEA and European Crowdfunding Network, p. 130, Brussels, 2017.

39 For further details on participants, achievements and amounts collected see www.unpassopersanluca.it.



Example

In 2013, the Metropolitan City of Bologna (Italy) launched a crowdfunding campaign for the refurbishment of the historical monument *Portico di San Luca*. The campaign, called 'Un passo per San Luca'³⁹, aimed at collecting EUR 300 000. While the municipality committed one-third of the budget, the remaining EUR 200 000 were provided by citizens and local businesses through a dedicated crowdfunding website, set up to host the fundraising campaign.

3.1.2 Managing authority as Manager

Managing authorities might also establish and manage their own crowdfunding platforms. The main drivers for this include the willingness to provide stakeholders with an additional option to access funding at relatively low cost as well as to stimulate citizens' participation and engagement⁴⁰. In this scheme, the managing authority allocates funds to a publicly owned crowdfunding platform. The managing authority defines the vertical specialisation of the platform (the specific sectors in which projects can be presented and hosted on the platform) as well as the geographical scope of the eligible projects, which might have an impact at local and/or regional level. Finally, the managing authority has to allocate some human resources to the management of the platform, ranging from project selection, to support in the development of underlying crowdfunding campaigns including marketing and communication.

This scheme requires one of the highest levels of involvement by the managing authority, both in terms of committed resources and duration of the initiative:

- **Human resources** – the managing authority should commit sufficient staff throughout the entire lifecycle, with expertise ranging from the selection of suitable projects to the support of project owners in the preparation and online phase of the crowdfunding campaigns. Furthermore, there might be a need for legal advice and business coaching, in case the crowdfunding model selected is in the financial domain (lending or equity);
- **Financial commitment** – including a crowdfunding platform in the public policy toolkit is a costly initiative, due to its long-term nature. In addition to staff costs, the managing authority bears the initial costs related to the web-design and technical implementation of the online platform and the fixed costs related to its maintenance;
- **Duration** – this type of partnership scheme should be part of a long-term strategy adopted by the managing authority. Like any new service, this requires time and adequate dissemination activities (promotional events, trainings, etc.) to raise awareness of the opportunity among stakeholders.

⁴⁰ *Triggering Participation: A Collection of Civic Crowdfunding and Match-funding Experiences in the EU*, European Crowdfunding Network, 2018. Motivations stated in case studies from Crowdfunding Südtirol and Koalect (pp 18-19, 20-21).



Advantages	Disadvantages
A publicly-owned platform is a strong reassurance for stakeholders and investors/contributors	High commitment in human and financial resources throughout the duration of the scheme
Crowdfunding services to territorial stakeholders available at any time (no predetermined periods as in the Facilitator model, see below)	Requires a strong set of skills in the public authority's team and a clear strategy
Sharp reduction in external fees to existing platforms	High initial investment

Example

KICK-ER, implemented by the Emilia-Romagna Regional Agency, ART-ER (Italy) is a guidance and first support service for the realisation of crowdfunding campaigns, whose mission consists in the support for business creation and finance for innovation. It is addressed to companies, start-ups, research laboratories and public institutions based in Emilia-Romagna – or with an impact project in the territory – that wish to carry out a crowdfunding campaign hosted by partnering platforms such as *WeAreStarting* (equity) or *Ginger* (Reward), to launch their own innovative products and/or services.

Public resources have been allocated to the establishment of an on-demand, permanent service dedicated to crowdfunding promotion and advisory activities, within the framework of the regional agency's activities. This is aimed at supporting business creation and access to finance for regional stakeholders, in coherence with Axis 1-Research and Innovation of the ERDF ROP 2014-2020 of Emilia-Romagna.

In all cases, identifying and defining the operational features of the crowdfunding platform are key elements that need to relate to the objectives and indicators of the relevant OP. If, for example, the partnership scheme is set up to support micro and SMEs in their expansion phase, the financial crowdfunding model will be most suitable for the platform. If, alternatively, the aim is to support civic, non-profit projects, a non-financial crowdfunding model could be more appropriate for the new platform.

3.1.4 Managing authority as Curator

Managing authorities might be willing to invest or to support a project in a specific sector, but would require a proof of validation of the project's viability, or its acceptance by the territory or by the market. This model foresees that a managing authority engages with a crowdfunding éplatform to identify viable projects to receive its support.

The platform's promoter first runs a crowdfunding campaign, gathering consensus on a project's viability and acceptance during the fundraising phase (before its actual implementation), encouraging a response from the market/community and attracting investors, clients or beneficiaries. With this model, the potential risk for the managing authority to finance an unsuccessful project is mitigated by the so-called *wisdom of the crowd* principle, whereby a balanced mix of individuals, professional and institutional investors act as a sounding-board for the project.



In this model, the managing authority selects projects that are in line with its strategic priorities and have already launched a successful crowdfunding campaign. Selected projects then receive additional support (in the form of technical assistance, grant or a combination of financial instrument and grant). To enlarge the pool of candidate projects, the managing authority might engage with a number of crowdfunding platforms.

This partnership scheme is slightly more demanding than the Sponsor model in terms of resources:

- **Human resources** – taking into account public procurement rules, the managing authority should dedicate time to identify the most suitable crowdfunding platform(s) in line with its policy objectives. In addition to this, the managing authority should agree with the crowdfunding platform(s) clear selection criteria for the projects to be eligible for co-financing;
- **Financial commitment** – the managing authority needs to commit budget to co-fund projects, setting an overall amount as well as a maximum amount per project. The managing authority might choose to provide further support to projects by supporting the costs related to training and capacity building (see also example box in this paragraph);
- **Duration** – the duration of tasks related to this partnership scheme appear to be quite limited, as the managing authority only becomes involved after the successful conclusion of crowdfunding campaigns. However, the time devoted to the design and implementation of this type of initiative should take into account, inter alia, the screening and selection of suitable platforms, the negotiation of the agreements with platforms, the time necessary to define the eligibility and selection criteria for the projects, and the design of a mechanism for the allocation of resources from the managing authority to selected projects.

Advantages	Disadvantages
Duration of the initiative can be long, but individual tasks are quite short	Requires time to define eligibility and selection criteria, and allocation mechanism
Easier to engage with more than one crowdfunding platform	Complexity in the definition of specific agreements with each platform
The public authority only co-funds projects which have already secured funding	Less room for manoeuvre in defining area of application for projects: selection among already existing campaigns



Example

The Flemish Community Commission (VGC) in Belgium acts as Curator in providing additional financial support to projects that have been already screened, validated and successfully funded via a crowdfunding campaign on the reward-based platform Growfunding⁴¹.

This partnership scheme could be replicated by engaging with non-financial crowdfunding platforms (reward) as in the Belgian case, or by developing a partnership with a financial crowdfunding platform (lending or equity), therefore implementing a new financial instrument that could be financially sustainable and revenue generating. Regarding the specific sectors, as to mirror priorities included in regional S3, TO1, TO2, TO3, TO4, TO6, and TO8 could all provide a supporting framework through which such scheme could be replicated. Furthermore, grants to support project promoters in developing their own crowdfunding campaign might also be aimed at the acquisition of new digital, communication and entrepreneurial skills, and therefore be provided under ESF.

3.1.4 Managing authority as Facilitator

Managing authorities and crowdfunding platforms can jointly support not only specific projects, but also establish a wider framework agreement in pre-identified sectors or areas. More specifically, managing authorities that act as a Facilitator commit resources to develop project ideas that will lead to a crowdfunding campaign in one or more core sectors (social inclusion, environment, culture, etc.). Once the projects have achieved a certain percentage of their crowdfunding target, the managing authority can match the crowdfunded amount with ESIF resources⁴².

In this scenario the managing authority selects the partnering platform and sets the financial conditions under which it will match resources raised by projects through the crowdfunding campaign (considerations about public procurement procedures apply also in this case). It also defines the specific sector(s) in which projects will have to be submitted in order to benefit from ESIF co-financing. In contrast to the Curator model, the managing authority defines *ex ante* the eligible areas for projects, commits the overall budget of the initiative, and then provides support to any eligible project that meets the selection criteria and secures the support of the broader citizenship - i.e. reaches a percentage of its crowdfunding goal. In this way, managing authorities maintain their decision-making power in defining the strategic sector, but share it with the citizens in the allocation phase, by enabling citizens to fund and rank projects according to their perceived priorities and preferences in that specific sector. This mechanism therefore enables the allocation of public budget in a more transparent way, makes managing authorities more accountable and responsible towards their citizens' priorities, empowers citizens and increases their sense of ownership, and established a new, inclusive paradigm for territorial development.

In terms of commitment and duration, the Facilitator model presents the following characteristics:

- **Human resources** – once the partnering crowdfunding platform has been selected, it will be in charge of delivering most of the training and supporting activities towards project owners. The managing authority's personnel will be dedicated solely to the design of a viable partnership scheme, to facilitate the allocation of public funds once the crowdfunding percentage has been reached, and to ensure compliance with reporting requirements;

41 *Triggering Participation: A Collection of Civic Crowdfunding and Match-funding Experiences in the EU*, p. 34, European Crowdfunding Network, 2018.

42 *Ibid.*



- **Financial commitment** – the budget for this type of partnerships can be quite high, as it usually includes costs for training and supporting activities delivered by the platform, as well as the total amount allocated to the matching fund. However, overall budgets committed by different regional and local authorities can vary widely;
- **Duration** – the actual timing of a match-funding initiative is usually in the region of six months, from the selection of projects until the closing of all campaigns. The most time-consuming phases are the one prior to the implementation of the partnership (selection of the platform, definition of eligibility criteria, administrative clearance) and the one following the closing of campaigns (allocation of public funds, reporting procedures).

Advantages	Disadvantages
Increased transparency, accountability, citizen engagement, ownership	Requires time to define eligibility and selection criteria, and allocation mechanism
Easier to select strategic sectors ex ante, in line with regional OP	Complexity in the design of allocation and reporting requirements
More efficient allocation of funds to citizens' perceived priorities	Less control on final beneficiaries, as decision-making is shared with citizens

When a managing authority plays the Facilitator role, the amount of public resources provided to projects is not the only distinctive feature. Once all projects are published on the crowdfunding platform, the timing of the provision of public resources can also be defined, and therefore produce different outcomes and incentives.

Example

#cofinancia was an initiative launched in 2013 in the Extremadura Region (Spain) under the 2007-2013 ERDF and ESF Regional OP. Through this initiative, Extremadura Avante (acting on behalf of Junta de Extremadura) supported a number microentrepreneurs who run a crowdfunding campaign thanks to the Lánzanos crowdfunding platform, match-funding each private contribution with ESF resources (provided that the project had raised at least 10% of its initial target and up to a maximum of EUR 1 000 per project).

Among other features, #cofinancia scheme envisaged that the promoter fee payable to the platform (typically 5% of the amounts raised) would be forgiven.

#cofinancia was one of the very first examples of how ESIF resources could be combined with crowdfunding mechanisms, not only aiming at territorial economic development, but also at facilitating access to additional resources for the benefit of new potential beneficiaries. The Extremadura Region envisaged the possibility to establish partnerships with crowdfunding platforms also in the 2014-2020 programming period, under TO 8 – investment priority iii): *support to Self-employment, entrepreneurship and business creation including innovative micro, small and medium sized enterprises*⁴³.

43 Reference to the OP: www.mitramiss.gob.es/uafse0714/es/fse_2014-2020/programas_operativos/regionales/P.O._FSE_14-20_EXTREMADURA.pdf.



3.2 Experiences of ESI Funds financial instruments with crowdfunding

Examples from section 3.1 show how grants represent one of the most common mechanisms used by the public sector (managing authorities) to support crowdfunding, particularly in the framework of non-financial crowdfunding platforms. However, financial instruments can play an important role in supporting crowdfunding too, especially lending and equity crowdfunding platforms. The cases included in this section are examples of design and deployment of innovative financial instruments that join forces with crowdfunding platforms aiming at enhancing territorial and social development. For each case study, interviews have been conducted with relevant managing authorities and crowdfunding platforms representatives; the information presented in this document is based on such interviews and on desk research.

3.2.1 INNOVA Venture, Lazio (IT) – Curator model partnership with equity crowdfunding platforms

Lazio Innova is an in-house entity of Lazio Region (Italy), whose mission is to support the regional entrepreneurial ecosystem by implementing credit and guarantee schemes, co-investing in start-ups, facilitating internationalisation and supporting social inclusion in the region. In 2018, following the mandate from the Lazio Region to support private investments in regional, innovative start-ups⁴⁴, Lazio Innova has designed and deployed INNOVA Venture, an investment fund aimed at co-investing, alongside private and retail investors, in innovative start-ups in the territory.

INNOVA Venture builds on the experience launched in the 2007-2013 programming period (*Fondo POR.I 3*⁴⁵) broadening its scope to include private co-investment through equity crowdfunding. In the current programming period, INNOVA Venture is funded under the ERDF Regional OP, with resources from TO 3 – Competitiveness and from TO 1 – Research and Innovation⁴⁶.

Under INNOVA Venture scheme, an entrepreneur submits an application, including a 5-year business plan with a credible exit strategy. Typically, the project value ranges between EUR 250 000 and EUR 2 million, with co-investment from private investors accounting for 30% to 60% of the overall amount. Upon approval of the application, INNOVA Venture provides the entrepreneur with a first tranche, in the form of equity, which enables him/her to start fundraising among private investors. If the entrepreneur is eager to launch an equity crowdfunding campaign with a partner crowdfunding platform, he/she must notify INNOVA Venture, who then negotiates further specific conditions with the platform, to ensure fair and equal terms for all investors involved. In this specific partnership scheme, equity crowdfunding is therefore an option that is offered to entrepreneurs, who also benefit from a number of partnership agreements that Lazio Innova has implemented with several Italian equity crowdfunding platforms. The overall budget dedicated to the initiative amounts to EUR 20 million, of which EUR 10 million is dedicated to businesses operating in those sectors that have been identified in the regional smart specialisation strategy.

44 <http://www.lazioinnova.it/wp-content/uploads/2018/07/Invito-e-appendici.pdf> (IT).

45 <http://www.lazioinnova.it/impres/interventi-nel-capitale-di-rischio/> (IT).

46 Action 3.6.4 –Contribution to the development of venture capital funds to provide risk-capital for businesses in pre-seed, seed, and early stage phases; Action 1.4.1 – Support to the creation and consolidation of innovative start-ups with high-intensity knowledge application, and to research spin-off initiatives in sectors falling within the scope of the regional smart specialisation strategy.



INNOVA Venture foresees two different phases:

1. Phase One will run until November 2023, and will represent the *Investment period*, i.e. the period when businesses can apply to INNOVA Venture and seek capital;
2. Phase Two will run until December 2030, and will represent the *Divestment period*, i.e. the period where INNOVA Venture will guide businesses towards their proposed exit strategy. Funds will be no longer accessible as initial investment but only as follow-up investment, where deemed necessary.

As highlighted in Section 2, equity crowdfunding mechanisms are quite suitable to support initiatives that fall within TO1 and TO3.

Name of the initiative, Region (Country) and year of its set up	INNOVA Venture, Lazio (IT), 2018
Public amounts committed	EUR 20 million
Links with regional OP, ESIF TOs and Investment Priorities	The INNOVA Venture Fund is primarily composed of ERDF resources coming from TO 3, Competitiveness, and TO 1, Research and Innovation, of the regional OP.
Actors involved	Regione Lazio (MA), Lazio Innova (IB) and 5 Italian equity crowdfunding platforms: MamaCrowd, 200Crowd, WeAreStarting, Backtowork24, Starsup and Doorway.
Mechanism	Lazio Innova implements partnership agreements with equity crowdfunding platforms, who can then host campaigns launched by previously selected projects. The minimum private co-investment ranges from 30% to 60%
Number of projects and financial volume per project (data at the end of 2019)	2 projects have been selected since the beginning of the initiative

As the initiative is quite recent, there is only preliminary information available on the number of projects selected and hosted on one of the partner crowdfunding platforms. As of end of 2019, two projects have successfully submitted their application to INNOVA Venture. Both projects have now the option to reach out to a crowdfunding platform and to negotiate the conditions for their potential campaign.

Two main elements can hold particular relevance for the future performance of INNOVA Venture:

- **Long-term planning:** with an Investment phase of four years and Divestment phase of seven years, it is expected that the long-term perspective will allow more and more entrepreneurs to become increasingly familiar with this type of financial instrument. During the years, first results and potential exits are expected to build trust among private and retail investors;
- **Pool of partner crowdfunding platforms:** a large number of partners enables each entrepreneur to select the platform that is best suited for its needs: crowdfunding platforms can differ in vertical focus, track-record and cost structure, and a wider choice can encourage a higher number of entrepreneurs to apply for funding.

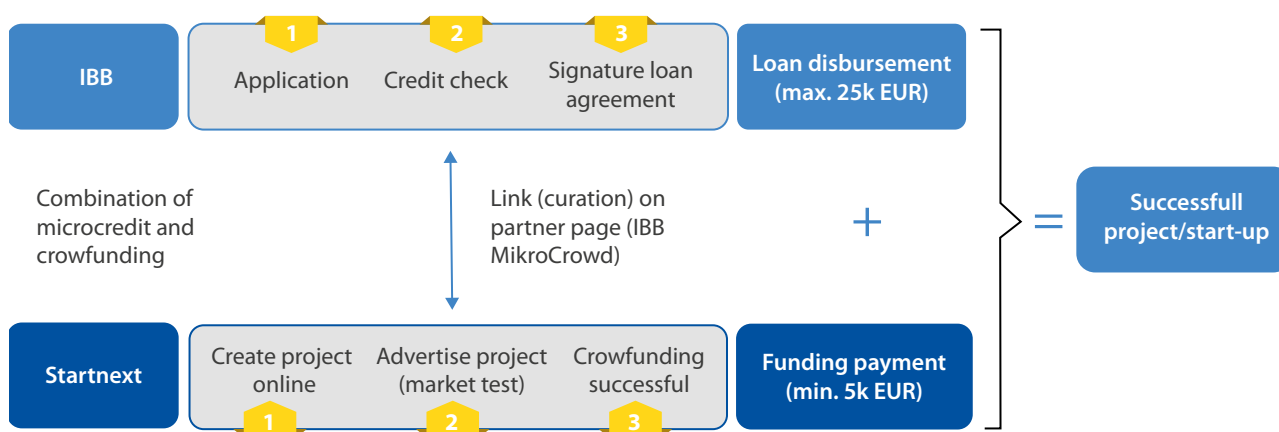


3.2.2 MikroCrowd, Berlin (DE) – Curator model partnership with a reward-based crowdfunding platform

Investitionsbank Berlin (IBB) is the business development bank of the Federal Länder of Berlin (Germany) focusing on business support (mostly SMEs and start-ups) as well as on support for housing and development. In 2018, IBB launched a partnership scheme with Startnext, a reward-based crowdfunding platform operating in Germany and based in Berlin. Although the reward-based nature of Startnext has been suitable for many grants-based partnerships with public administrations across Germany, this specific experience features a financial product for crowdfunded micro enterprises.

Launched thanks to a joint initiative between Startnext and IBB, **MikroCrowd** is implemented by IBB through resources allocated to the KfW-Fonds-III⁴⁷ under **TO 3, Competitiveness of SMEs**, of the regional OP of the Federal Länder of Berlin. Individuals, micro-entrepreneurs, start-ups and SMEs can apply to run a crowdfunding campaign on Startnext. First, Startnext introduces the 'MikroCrowd' initiative and its opportunities to a number of selected micro companies, including self-employed individuals, who are running a crowdfunding campaign, and who might be eligible for a follow-on micro credit if the crowdfunding campaign ends successfully. While the crowdfunding campaign is still running, a credit rating analysis is performed in parallel by IBB, and if the result is positive, microloans ranging between EUR 10 000 to EUR 25 000 and soft loans up to EUR 50 000 can be disbursed by IBB as a follow-on investment. Following the successful outcome of a crowdfunding campaign, support is then provided to founders, to SMEs, microenterprises and individual businesses wishing to set up or already established in Berlin. Final recipients are able to access such microloans at very attractive conditions, i.e. with a very low interest rate (around 1%) and without any equity, as IBB considers projects to have already performed a market test through the rewards based campaign. The amount raised via crowdfunding is then accepted as equity. The timing and steps of the procedure are detailed in the picture below.

Figure 6: Implementation mechanism of MikroCrowd



Source: IBB

47 <https://fi-compass.eu/financial-instruments/germany/kmu-fonds-iii>.



Name of the initiative, Country and year of its set up	MikroCrowd, Germany (Berlin Region), 2018
Public amounts committed	microloans ranging between EUR 10 000, 25 000 or 50 000
Links with regional OP, ESIF TOs and Investment Priorities	ERDF Regional OP, TO3, SME competitiveness
Actors involved	IBB Berlin in its capacity as intermediate Body and financial intermediary for the Berlin Region, and Startnext, a reward-based crowdfunding platform
Mechanism	See Figure 6
Number of projects and financial volume per project (data at the end of 2019)	6 projects have been selected and successfully funded through the crowdfunding campaign, and proceeded to receive a follow-up loan from IBB

This example shows how a non-financial crowdfunding type (reward-based) can represent a valuable ground to deploy ESIF financial instruments that provide follow-up support to selected businesses. Key elements of the MikroCrowd partnership include:

- the selected six projects (data at the end of 2019) have managed to raise an aggregate amount of over EUR 116 000 from 1 205 private supporters, with an average of EUR 20 000 per project;
- the MikroCrowd partnership enables IBB to still perform an independent credit rating analysis, but since IBB considers crowdfunding to be a ‘perfect market test’ for business ideas, once the crowdfunding campaign is successfully closed, businesses can access the microloan in a much easier and faster way;
- The same scheme has been replicated already by the State Bank of Baden-Württemberg (L- Bank) and the development Bank of the State of Hessen (WIBank) with own resources⁴⁸.

3.2.3 Avietė, Lithuania – Facilitator model partnership with a lending-based crowdfunding platform

Sutelktinės paskolos ‘Avietė’ (Crowdfunding Loans ‘Raspberry’) is a pilot project launched by INVEGA, the Lithuanian National Promotional Institution (NPI), in cooperation with FinBee, a lending-based crowdfunding platform operating in Lithuania.

In Lithuania, crowdfunding platforms are mostly financing consumer loans and real estate loans; Currently, FinBee is the only lending platform targeting business loans and this feature matches INVEGA’s mission to support the national business environment.

Thanks to Avietė, INVEGA is aiming at facilitating access to finance for Lithuanian SMEs, with a view to expanding their business development projects through crowdfunding platforms, attracting private funds for Lithuanian businesses, whilst contributing in parallel to the strengthening of the Fintech sector in the country. To this purpose, INVEGA has set aside a EUR 4.6 million budget, using reflows from the previous programming period’s financial instruments.

⁴⁸ Database: https://www.gruendung-bw.de/foerderung-finanzhilfen/datenbank-foerderprogramme-und-finanzhilfen/?tx_rtfoerderprogramme_foerderprogramm%5Bconstraints%5D%5Bsearch%5D=mikro&tx_rtfoerderprogramme_foerderprogramm%5Baction%5D=list&tx_rtfoerderprogramme_foerderprogramm%5Bcontroller%5D=Foerderprogramm&cHash=ac93c6b5c87f6dba92736796ee23a8bd.



INVEGA's strategy has been to set up a lean instrument, able to plug into already existing crowdfunding schemes and procedures. Under this scheme, INVEGA is entitled to engage only with crowdfunding platforms operating under the supervision of Bank of Lithuania, as they constitute a reliable counterpart. At this stage, as an authorised lending-based platform, only FinBee is meeting this criterion.

Under the Avietė scheme, investors (funders) choose independently the projects they want to fund among those available in the platform. A number of advanced payments are disbursed by INVEGA to FinBee, which in turn lends to businesses that are raising money on the platform. Avietė funding to each business cannot exceed an amount of EUR 10 000 and a share of 40% of the total amount of each loan.

Final recipients of Avietė can only be businesses operating in Lithuania and in need of short-term loans⁴⁹ (including working capital, with a maximum term of 36 months). Financial activities, real estate development (housing), refinancing of loans are not eligible under Avietė. Collateral can be requested according to project features, but it is not mandatory.

INVEGA acts as a market investor, providing to each Avietė loan the same interest rate applied by private investors, which implies no State aid at the level of final recipient. In addition, FinBee can provide some non-financial services to businesses raising funds on the platform.

Name of the initiative, Country and year of its set up	Avietė, Lithuania, 2018.
Public amounts committed	EUR 4.6 million.
Links with regional OP, ESIF TOs and Investment Priorities	This pilot project is implemented through reflows of ESIF FIs implemented in the 2007-2013 period.
Actors involved	INVEGA, FinBee. Potentially open to other crowdfunding platforms supervised by the Bank of Lithuania.
Mechanism	INVEGA lends at market conditions alongside private investors. Avietė loans amount to max. EUR 10 000, corresponding to maximum 40% of the amount of each loan. Maximum maturity of the Avietė loan is 36 months. Loans are for investments or for working capital for SMEs operating in Lithuania (except financial activity, refinancing of existing loans and residential real estate development).
Number of projects and financial volume per project (data at the end of 2019)	143 loans disbursed, amounting to around EUR 1.55 million, of which ca. EUR 0.6 million are disbursed by Avietė. Average amount of loans (including Avietė part) of around EUR 10 000. At this stage, the number of non-performing loans is regarded as marginal.

Launched as a pilot initiative in 2018, Avietė is an example of cooperation between the managing authority and the crowdfunding industry in Lithuania.

⁴⁹ Avietė recipients have expressed that they would turn to traditional finance for longer term, investment oriented loans.



In essence, Avietė is built on two key elements:

- simplicity: with a view to keep it as simple as possible, Avietė plugs into the existing lending processes of a crowdfunding platform, and
- the use of reflows (i.e. resources repaid from previous programming periods' financial instruments).

This has favoured a more streamlined integration of Avietė funds into FinBee procedures, with limited requirements in terms of reporting. The only requirement for investees that receive Avietė funds is to provide a declaration confirming that they meet the criteria of an SME.

In the future, it is expected that additional crowdfunding platforms could join the Avietė scheme, as more crowdfunding platforms are supposed to cater for business loans in Lithuania, potentially generating some competition with a view to decrease interest rates of the loans granted under the scheme.

3.3 Other experiences of financial support to crowdfunding

3.3.1 Support to crowdfunding from the EIB Group

In 2016, EIF jointly with KfW (the government-backed German Promotional Bank) has launched the Small Business Origination Loan Trust (SBOLT) operation to support UK SMEs to raise funds through loans originated across the Funding Circle marketplace, one of the largest crowdfunding players in Europe.

The operation consisted in a securitisation of unsecured loans, some of which benefit from personal guarantees, extended to SMEs and individual entrepreneurs in the UK and originated by Funding Circle. EIF provided a guarantee to part of the senior notes while the remaining part of the capital structure was placed with market investors. The overall transaction had a volume of around GBP 130 million and it has been the first European example of securitisation of crowdfunding loans.

Following the above-mentioned operation, in 2018 the EIB performed a specific EFSI-backed deal whereby it extended a loan to a Special Purpose Vehicle (SPV), which, in turn, is lending alongside other retail and institutional investors to a selected portfolio of eligible SMEs (i.e. matching EIB risk and policy requirements) through the Funding Circle marketplace. The EIB resources aim to mobilise a total EUR 700 million of investments into SMEs operating in the Netherlands and in Germany.

On a parallel note, in 2017 the EIF and the EIB supported the Lendix platform to increase its crowd-lending capacity for French, Spanish and Italian SMEs businesses via an investment fund backed with EUR 18.5 million. Such joint investment fund associated with the Lendix lending platform, which supplements loans advanced by retail investors, has reached a size of EUR 90 million, with the dual advantage of facilitating effective and successful crowd-lending for retail investors as well as business leaders and project promoters looking for finance.

The transactions above show how IFIs and NPBs are increasingly looking at the crowdfunding sector to rollout their strategies in support of SMEs. However, they also show the paramount importance for the crowdfunding sector to aggregate investors and borrowers in order to benefit from IFIs and NPBs, as the size of the mentioned transactions suggests.



3.3.2 Support to crowdfunding from EC centrally managed instruments

Over the recent years, EIF has often been solicited by SMEs lending platforms with operations to be funded under existing EC central instruments programmes, namely InnovFin SME Guarantee Facility, COSME Loan Guarantee Facility, and the European Programme for Employment and Social Innovation (EaSI) and the volume of such requests is expected to increase over time. While existing EC central guarantee programmes were designed with balance sheet lenders in mind (mainly commercial banks or microfinance institutions, in the case of EaSI), platform lenders do not precisely fit within programme scopes of EC central instruments as currently defined.

The business model under which the EIF can work typically involves the platform having an associated debt fund in place (i.e. debt funds, normally under the form of an SPV, investing exclusively in loans originated on that particular platform). The debt fund can be managed by a fund manager or by a platform (on an independent basis) and the fund provides loans based on defined underwriting criteria. The EIF would sign a guarantee agreement with the debt fund/SPV as beneficiary of the guarantee but, under certain circumstances, other entities providing services to the fund, such as the fund manager and the platform (assuming the platform has legal personality) might also be required to enter into the agreement.

Managed by the EIF, the EaSI programme features a specific ‘capacity building’ window, which aims at building up the institutional capacity of selected financial intermediaries that have not yet reached sustainability or are in need of capital to sustain their growth and development. Under such window, Lita.co (France) and One Planet Crowd (the Netherlands) benefitted from debt products aimed at supporting their organisational development and expansion, including branch expansion, the scaling up their IT infrastructures and other investments, whose ultimate objective was to increase the indebtedness capacity while retaining a balanced socio-commercial orientation. The business model of both the above crowdfunding platforms embed a socially oriented approach, making them eligible for EaSI support.

The examples above show that aggregating micro-lenders and institutional investors could be instrumental for the set-up of a guarantee scheme. The use of a SPV, which groups the crowdfunding investors according to their risk appetite and formally applies for the guarantee, could help in this respect (see also Section 4.3).



4. SUPPORTING CROWDFUNDING THROUGH FINANCIAL INSTRUMENTS

This section draws from the experiences and cases analysed in this document and elaborates on how financial instruments could deliver support to the crowdfunding sector, including crowdfunding platforms and projects that seek support through crowdfunding.

4.1 Financial gap and other barriers faced by the crowdfunding sector

The European crowdfunding sector today is highly heterogeneous in nature, reflecting the range of different, nascent national crowdfunding markets across the EU. In addition to regulatory barriers (previously addressed in Section 2.3) some structural constraints could further hamper the ongoing process of digitalisation of financial transactions⁵⁰. Infrastructure and information market barriers are not only related to crowdfunding but are potentially affecting every aspect of digitalisation. These barriers include lack of trust, privacy concerns, identity of users and digital skill sets. For crowdfunding, this translates into increased transaction costs linked to the provision of information and to the measurement of digital imprints. In addition, crowdfunding platforms are exposed to increasing operational costs especially when scaling across border.

While the core business of a platform is to match potential investors with projects, the complexity of the market might negatively affect its viability. Platforms that aim to scale up their operations seek a variety of support mechanisms including, inter alia, external capital, co-investments from institutional investors and partnerships to increase access to deal flow. In recent years, most successful crowdfunding platforms have managed to raise several millions of euros from venture capital funds. As an example of these operations, EUR 40 million were recently injected into a national operating real estate crowdfunding platform in Germany to support its local and international expansion⁵¹.

Despite a number of partnerships between public authorities (managing authorities or intermediate bodies) and crowdfunding platforms currently being in place, a survey conducted with parties involved in the case studies has highlighted that there are still a number of issues to be addressed:

- **Lack of knowledge and information within the public authorities** – a large portion of public authorities have very limited knowledge of the opportunities offered by crowdfunding and perceive it mainly as a mechanism aimed at funding local non-profit initiatives, with no financial implications. In the MikroCrowd case, the idea of designing and implementing a partnership scheme leveraging on crowdfunding as a way to validate the market potential for business ideas, with further support in the form of micro loans, originated only in 2018, although crowdfunding as such has been available in Europe since 2008, and Startnext has been successfully operating in Germany since 2011;

⁵⁰ Matthias Klaes (Ed.): *Identifying market and regulatory obstacles to cross-border development of crowdfunding in the EU*. Brussels. December 2017 - https://ec.europa.eu/info/publications/171216-crowdfunding-regulatory-obstacles-crossborder-development_en.

⁵¹ <https://www.handelsblatt.com/finanzen/immobilien/uebernahme-fuehrendes-crowdinvesting-immobilienportal-exporo-uebernimmt-konkurrenten-zinsland/25078092.html?ticket=ST-52967392-TT5kiitPGfW1BnT0aHJf-ap2>.



- **Lack of training and support for potential beneficiaries** – based on the information collected for the MikroCrowd and the INNOVA Venture initiatives, the existence of a dedicated training programme, including coaching and support service that beneficiaries can access when approaching crowdfunding can be of paramount importance in the success or failure of such partnership schemes. In the MikroCrowd case, for example, beneficiaries that have obtained the coaching bonus, receive a better score in their credit rating analysis, as they are more likely to have acquired the necessary skills for a sound management of their venture. In addition to this, beneficiaries are more likely to approach an innovative funding tool if they feel comfortable with all its implications, potential obstacles and benefits that such tool entails. Furthermore, all representatives of platforms surveyed responded favourably to the inclusion of training and/or support services in the overall partnership scheme, as better preparation shortens the ‘time-to-platform’ for the project, and means the project is more likely to succeed, increasing therefore the overall success rate of the platform. For managing authorities, the costs of such support and training activities could be covered through technical assistance resources;
- **Regulatory uncertainty** – the absence of a common reference framework for crowdfunding in Europe⁵² has proven to be a significant obstacle in the development of the instrument both in terms of volumes raised, and in the number of project applications received. The recent proposal of a standard regulatory framework for crowdfunding in Europe through the ECSP regulation (estimated to enter into force in 2021) should significantly contribute to reduce the fragmentation and facilitate the expansion and consolidation of securities and lending based crowdfunding for business. As at May 2020, the proposed rules indicate that the new framework is expected to harmonise the sector to a significant degree across the EU. The design and deployment of financial instruments combining ESIF resources with crowdfunding mechanisms can prove to be difficult due to the different rules that are applicable, i.e. national laws and eligibility criteria, State aid rules, ESIF regulation and crowdfunding regulations (or the absence of the latter). However, it is worth highlighting that in all case-studies presented in Section 3.2, public authorities have managed to overcome this additional challenge and to successfully deploy crowdfunding-based financial instruments in their territories;
- **Bureaucratic facets and administrative difficulties** – one additional challenge is represented by the administrative and bureaucratic procedures. Case studies in this document have shown that although the managing authorities could have entrusted the ESIF committed amounts directly to the crowdfunding platform (which in turn would fund its underlying projects), such mechanism was not eventually adopted as it was perceived too cumbersome. A different solution (see section 3.2 and second option in section 4.2) has been to create a direct link between successful crowdfunding projects and access to the financial instrument through a financial intermediary, with the credit rating analysis conducted in parallel to the crowdfunding campaign. The process of establishing a partnership between managing authority and crowdfunding platforms could be improved and streamlined by supporting the administrative capacity of the managing authority with technical assistance.

52 See Section 2.3 and Annex I.



4.2 How financial instruments can support crowdfunding

Regardless of the crowdfunding model (see section 2.2), any cooperation between managing authorities and crowdfunding platforms pooling public and ‘crowd’ resources, has the objective of increasing the availability of finance (and other forms of soft support) for projects which have turned to crowdfunding. When crowdfunded projects are aligned with OP priorities, this results in the opportunity for the managing authority to increase its impact.

The type of model adopted by the crowdfunding platform is the first driver when selecting the financial instrument best suited to support the platform.

Donation-based platforms usually have a non-profit nature and, therefore would have limited interest in managing financial instruments since their users usually seek support in the form of grants.

Loan mechanisms (on-lending of ESI Funds) and **guarantee** schemes (ESI Funds covering losses incurred by crowd-lenders) could provide lending-based crowdfunding platforms (and potentially also reward-based crowdfunding platforms) with increased liquidity and partially cover the risk taken by investors. Crowdfunding platforms might in turn initiate a larger number of operations and take on-board riskier projects, eventually leading to expansion into new markets and geographies, or to fund projects promoted by ESF vulnerable groups, for instance.

Equity investments require a large amount of preparation work and resources in order to happen and throughout their lifetime, as they imply ESIF resources to co-invest in the ownership of business initiatives. In this perspective, accompanying the equity product with business development services (financial instruments – grant combination) might increase the success rate of the funded initiatives. For this reason, managing authorities that engage with equity-based platforms need to rely on the services of specialised intermediaries (either the platform itself or other trusted operators, like Lazio Innova in the example under section 3.2). Equity investments might be suitable for innovative start-ups that are not able to raise sufficient risk capital, and this increasingly also applies to businesses with a prominent social-impact drive (see also the example of *La Borsa Social* in the Appendix).

In summary, in order to enhance the benefits of crowdfunding, a managing authority could design financial instruments that support crowdfunding through loans, guarantee and equity, also in combination with grants. It is however important to distinguish that the support that a managing authority can provide via financial instruments can be delivered in accordance with the following:

- financial instruments delivering support **through** crowdfunding platforms (see Figure 7 - FIs scheme delivered through CF platforms. Source: authors’ own elaboration), which act as financial intermediary, thereby channelling the support to underlying projects (final recipients);
- financial instruments delivering support **alongside** crowdfunding platforms (see Figure 8), directly addressing projects (final recipients) that have successfully raised money in a crowdfunding campaign (or that are carrying out a crowdfunding campaign).

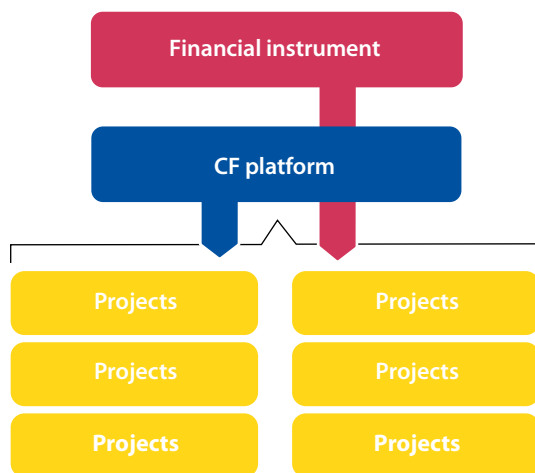
Each of the above types of support foresees different dynamics and benefits for the managing authority, the crowdfunding platform and the final recipients. The ex-ante assessment should look into the context where the financial instrument is going to operate and suggest the best implementing option accordingly.



4.2.1 Financial instruments delivering support through crowdfunding platforms

As a preliminary consideration, and with crowdfunding being a relatively new sector of the financial services industry, there is a need to consider whether crowdfunding platforms are able to channel ESIF financial instruments.

Figure 7: FIs scheme delivered through CF platforms



Source: authors' own elaboration

The Common Provisions Regulation⁵³ (CPR) does not prevent crowdfunding platforms from being identified as the implementing body of an ESIF financial instrument, but leaves room for the final assessment and decision to the relevant managing authority. As a general rule, legal entities that can implement financial instruments shall ensure compliance with applicable law, including rules covering the ESI Funds, State aid, public procurement and relevant standards and applicable legislation on the prevention of money laundering, the fight against terrorism and tax fraud, which are mostly detailed in national regulations.

In addition, Art. 7(1)(a) of the Commission Delegated Regulation⁵⁴(CDR) requires that bodies implementing financial instruments have the “entitlement to carry out relevant implementation tasks under Union and national law”.

The entry into force of ECSP aims at facilitating crowdfunding platforms’ operations across the EU. Although not replacing national rules, ECSP is likely to lead to the reduction of the current regulatory fragmentation, especially for those Member States where legislation is not in place and the ECSP will constitute a *de facto* regulation. The requirements of Art. 7(1)(a) of CDR could therefore be reflected in the following way:

- in Member States where specific regulation for crowdfunding is in place, crowdfunding platforms could operate within the EU, provided they are authorised by their national authority according to provisions detailed in national crowdfunding law, and then transmit their authorisation to the ESMA, for joint supervision activities. In this case, it is fair to say that crowdfunding platforms might fall into the definition of financial intermediaries (and so potential bodies implementing financial instruments) and thus will be in a position to channel ESI Funds to final recipients;

53 Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013, laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund.

54 Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014, supplementing Regulation (EU) No 1303/2013.



- in Member States where there is no specific or clear regulation on crowdfunding in place, ECSP will become *de facto* the reference regulation, potentially providing a framework for identifying crowdfunding, which should, in any event, be subject to further assessment by the relevant managing authority, to ensure full compliance with the applicable regulatory framework.

For the scope of this manual, an analysis on whether a crowdfunding platform could qualify as a financial intermediary can only be conducted at a very generic level. Although crowdfunding platforms can operate in all EU Member States, there is a very fragmented set of rules at national level. To date, only eleven Member States have specific crowdfunding regulations.

It is also possible for the managing authority to set up a Fund of Fund (FoF) structure, particularly where there is an opportunity to work with more than one crowdfunding platform simultaneously. In such case, once the managing authority has selected a FoF manager, the crowdfunding platforms will deal with the FoF directly.

As a procedural step, the managing authority (or the FoF):

- selects the crowdfunding platform(s) in accordance with the Directive 2014/24/EU on public procurement;
- enters into a relationship with the crowdfunding platform(s) by signing the Funding Agreement (FA), thereby setting the terms of the financial instrument. This will result in affordable finance being made available by the platform to project promoters. The crowdfunding platform(s) will be in charge of the selection of the projects to be funded (consistent with the relevant OP priorities and selection criteria), monitoring, reporting and control of the projects that benefit from the financial instrument.

As financial instruments are revolving by nature, the managing authority could include the possibility for the crowdfunding platform(s) to use reflows for financing new project promoters.

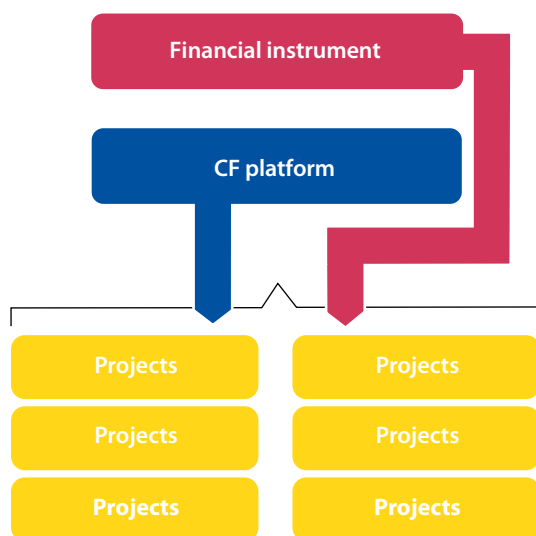
As the bodies implementing financial instruments are entitled to management costs and fees⁵⁵, such amounts can be instrumental to cutting the operational costs for crowdfunding platforms, and in turn reducing costs incurred by project promoters to run a crowdfunding campaign. In addition, the selection process of the crowdfunding platforms can create a virtuous competition in this respect, as the selection criteria could include, inter alia, interest rates and other terms applied to final recipients.

55 Art. 12-13 of Commission Delegated Regulation (EU) N. 480/2014.



4.2.2 Financial instruments delivering support alongside crowdfunding platforms

Figure 8 : FIs scheme delivered alongside CF platforms



Source: authors' own elaboration

Managing authorities can explore the possibility of targeting projects that seek finance through crowdfunding on an individual basis, without necessarily channelling the ESIF through a crowdfunding platform. Therefore, the managing authority will appoint a body implementing the financial instrument (public or private financial intermediary different from the crowdfunding platform) that will coordinate with the crowdfunding platform and individually follow-up each project that meets the selection criteria set by the managing authority (and in coherence with the OP contributing to the financial instrument). The body implementing the financial instrument will deliver the financial products (loans, guarantees, equity participations, at terms and conditions more favourable than market ones) to final recipients, being also responsible for the monitoring, reporting and control process.

The setting-up of the financial instrument will follow the usual process, with the additional requirement for the managing authority to carefully set out with the body implementing the financial instrument how to engage with the crowdfunding platform and how to select the crowdfunded projects.

This option could be regarded as a quick-win when the process of entering into a formal partnership with the crowdfunding platform is perceived as excessively cumbersome. This is often the case when a managing authority operates in a jurisdiction where crowdfunding is not regulated and the crowdfunding platforms cannot be easily appointed as a financial intermediary or the managing authority wishes to engage with a large number of diverse crowdfunding platforms.

To date, all experiences of ESIF financial instruments supporting crowdfunding are structured in accordance with this model.



4.2.3 Financial instruments – grant combination

Most of the ESIF-crowdfunding combinations rolled out so far have foreseen the use of ESIF grants as a means to support crowdfunding projects (see Section 3.1), particularly match-funding grants with non-financial crowdfunding models (donation and reward). This solution has proven its efficacy to support projects with high social value, but typically weak from a viability and financial standpoint. However, a more complete support package for the whole spectrum of the crowdfunding industry could be achieved through the combination of grants with financial instruments, particularly when a managing authority envisages engaging with financial crowdfunding (lending and equity) and its underlying projects, whose business cases are at an early stage or relatively immature.

Grants can work alongside financial instruments in the following situations:

- initial support to projects which meet specific criteria set by the managing authority, which are at a very early stage and may, in future, access a financial product;
- as a contribution to crowdfunding platforms or other entities providing **non-financial services** (e.g. coaching, mentoring, financial education, assistance to business planning, marketing and communication, etc.) in favour of project promoters that are seeking finance through crowdfunding. As highlighted in Section 4.1, non-financial services are instrumental to increase the viability and success of the project. Like microfinance, crowdfunding is sought as an alternative source of funds by those who face difficulty with accessing traditional finance due to lack of credit history, affinity to vulnerable groups, lack of collateral, etc. Such grant contribution could be relevant when promoters are planning the launch of their crowdfunding campaign;
- supporting a project by **combining a grant component to the financial product disbursed to recipients (investment grant)**. This solution can help in overcoming the *onboarding* and *raise the money* obstacles for promoters (see Section 2.4), giving the extra thrust that is needed to some project struggling to generate a surplus;
- according to the novelties introduced by the proposed 2021-2027 CPR⁵⁶, grants can also be used as a **capital rebate**, whereby the managing authority could for instance forego the repayment of a portion of the loan and transform it into a grant, in accordance with pre-agreed conditions.

4.3 Going further – proposals and food for thoughts

The practical implementation of partnerships between crowdfunding platforms and public bodies should not be considered as a one-fits-all option. This section aims at providing managing authorities with some ideas to be used as a source of inspiration when designing financial instruments in support of the crowdfunding sector.

⁵⁶ COM(2018) 375 final – Proposal for a Regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, and the European Maritime and Fisheries Fund and financial rules for those and for the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument.



4.3.1 How to invest in crowdfunding

The role played by crowdfunding platforms varies largely across the EU Member States, as a function of the differences between respective legislation. Managing authorities might engage with a very developed crowdfunding sector, composed of many financial and non-financial platforms operating in a regulated environment, which cater for a large array of final recipients ; other managing authorities might instead engage with an immature crowdfunding environment with only a handful platforms, maybe operating with no supervision or within an uncertain legal framework.

All this considered, managing authorities should look into their local crowdfunding sector and assess whether it is more appropriate to cooperate with crowdfunding platforms by channelling ESI Funds through them or alongside them, as analysed in Section 4.2. The following points might be useful for their decision:

- only crowdfunding platforms which operate under a certain legal framework and supervision can realistically be regarded as potential bodies implementing financial instruments;
- it is unlikely that crowdfunding platforms operating with a non-financial model could be regarded as potential bodies implementing financial instruments, as they normally do not carry out financial activities. This does not exclude the opportunity to engage with them and set up financial instruments catering for their users, as the MikroCrowd example shows.

As many crowdfunding platforms operate at local level and raise relatively limited amounts, ESI Funds financial instruments, could be regarded as a relevant source of funds for crowdfunding platforms. However, in view of the 2021-2027 programming period, crowdfunding platforms can also consider the opportunities offered by InvestEU⁵⁷. In this respect, InvestEU financial products - particularly those referring to the *SME* window and to the *Social investment and skills* window - might be suitable to the needs of more structured platforms, particularly those raising larger volumes and/or operating at transnational level.

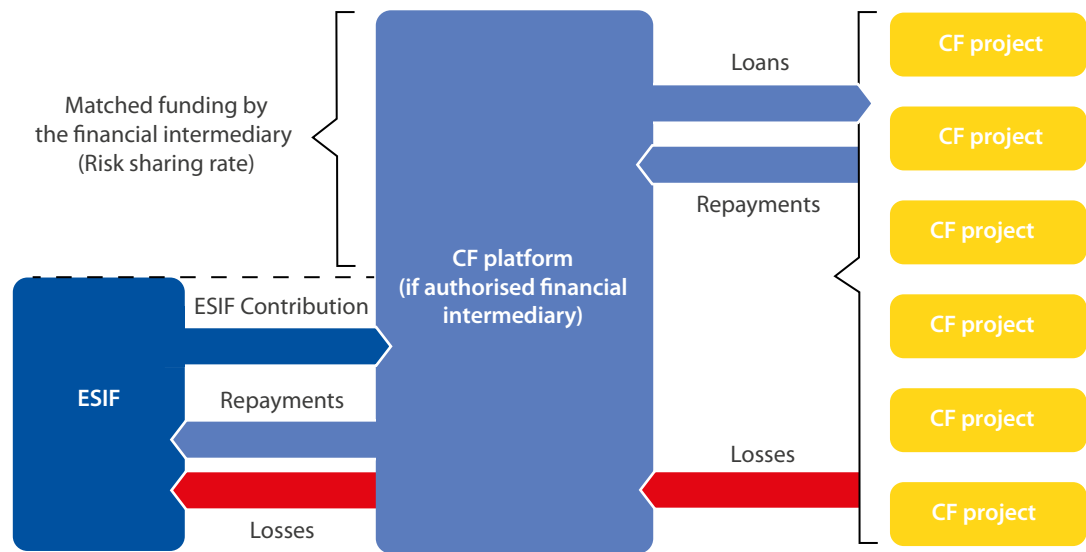
4.3.2 Risk sharing loan model

As evidenced in Section 4.1, borrowers and investors increasingly look at the opportunities offered by crowdfunding, but the sector still struggles to collect the liquidity needed to increase its lending capacity.

A Risk-sharing loan product would take the form of a loan facility to be set up by a financial intermediary (including crowdfunding platforms, if authorised to carry out implementation tasks by applicable law), with ESIF contribution from the OP which needs to be matched by a contribution from the financial intermediary (including investors of the crowdfunding platform). Based on these combined resources, the financial intermediary resources shall build a portfolio of crowdfunding projects in line with the eligibility criteria set by the managing authority, in accordance with the OP.

⁵⁷ Proposal for a Regulation of the European Parliament and of the Council establishing the InvestEU Programme. COM/2018/439 final.

Figure 9: Scheme of the Risk-sharing loan facility



In this scheme, further market testing might be needed in order to define the risk-sharing rate.

Having one (or more) crowdfunding platform(s) as financial intermediary would entail a streamlined management and disbursement of the financial instrument:

- the project promoters would engage with a single subject and receive an undivided financial product. This is even more relevant if the financial instrument provides also a grant component which is ancillary to the financial product;
- in accordance with the Funding Agreement between the managing authority and the financial intermediary, the crowdfunding platform would carry out the eligibility check of the recipients on behalf of the managing authority;
- the crowdfunding platform would be entitled to the reimbursement of some management costs and to some management fees according to the CDR⁵⁸, easing the financial burden of crowdfunding platform;

The Risk-sharing loan facility might be applied to more than one crowdfunding platform at the same time. Furthermore, the managing authority might generate some competition in launching the selection process to retain the financial intermediaries managing the financial instrument.

As loans are repaid, the corresponding OP resources allocated and not affected by defaults, according to Article 44 of CPR, could be used in the same financial instrument. The use of reflows should be subject to the terms agreed in the FA between the managing authority and the financial intermediary.

4.3.3 Guarantee schemes

Compared with a Risk-sharing loan facility, a guarantee scheme responds to a lesser extent to liquidity shortfalls, whilst is more effective in protecting the crowdfunding platform's investors. A guarantee scheme provides a risk coverage to investors, by offering a pre-agreed loss coverage to portfolios of new loans disbursed to targeted final recipients.

58 Articles 12, 13.



The guarantee scheme is expected to increase access to finance and to improve the conditions of the underlying loans (e.g. maturity, collateral requirements, grace periods, and interest rate). In order to manage the overall risk of the portfolio, the guarantor (i.e. the managing authority) could require the crowdfunding platform/financial intermediary to carry out an in-depth due diligence on the final recipients.

Figure 10: Scheme of a capped guarantee

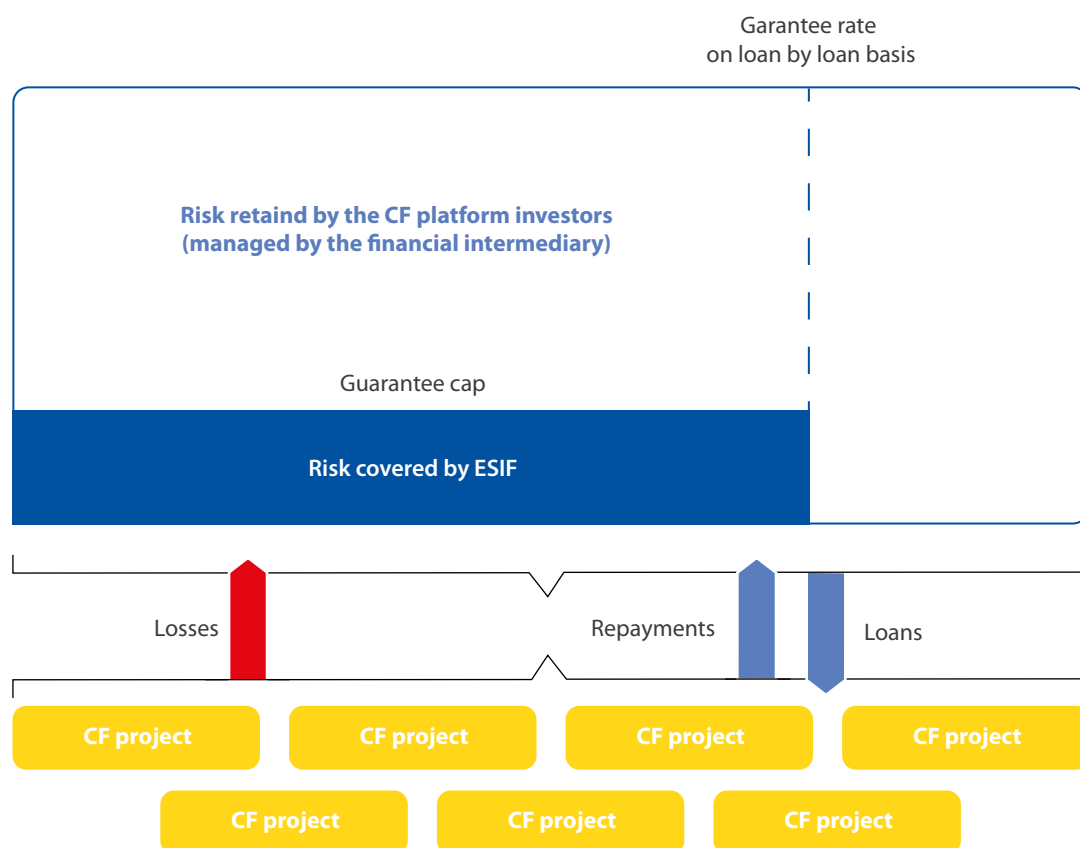


Figure 10 shows the example of a 'capped guarantee' where:

- ESIF covers a percentage of each loan in the portfolio until the guarantee cap is reached;
- the loan portfolio is generated by resources raised by the crowdfunding platforms/ financial intermediaries;
- after the first loss piece, the crowdfunding platform's investors and/or the financial intermediaries retain all the risk.

It is worth noting that even though ESIF resources could provide guarantees on an individual basis (i.e., to each micro lender), forms of aggregation of micro lenders (for instance, by grouping micro investors into a SPV) allows the guarantee to be issued in favour of a single entity, with considerable reduction of the administrative burden for the managing authority.

Where the managing authority decides to implement a guarantee instrument, further market testing should be carried out in order to define the parameters of the guarantee.



The capped guarantee may be provided to the SPV crowdfunding/financial intermediary for free⁵⁹, with the benefit passed on to the final recipients in the form of no guarantee costs, reduced collateral and/or interests. Under ESIF, the minimum multiplier of the instrument described above is 5x: in other words every EUR invested in the capped guarantee instrument generates minimum EUR 5 of loans disbursed to final recipients.

As with the Risk-sharing loan, the resources released from the guarantee could to be recommitted to the same financial instrument. The use of reflows should be subject to the arrangements agreed in the FA between the managing authority and the body implementing the financial instrument.

4.3.4 When to contribute ESI Funds to a crowdfunding platform

Regardless of the type of financial instrument chosen, managing authorities can provide support to crowdfunding platforms and underlying projects at different stages of their campaign. Each choice has its pros and cons as explained below:

- as a **first in**, the ESI Funds contribute first to the crowdfunding campaign, via a fixed amount or a percentage of the campaign target. Whilst this option constitutes a desirable option for the promoters, it could weaken the wisdom of the crowd principle;
- ESI Funds can also be triggered in a **bridging** phase, when the campaign reaches a predefined, intermediate stage. This is an intermediate solution that could help avoid potential interruptions during the campaign;
- as a **top-up**, ESI Funds constitute extra-funding once the project has fully reached the targeted amount. This solution could enable the promoter to lower the initial target and the managing authority to allocate resources only to already-validated projects;
- in case of **match-funding** the amounts raised through the platform, ESIF matches investors' contribution at a predefined rate (for instance, 1:1).

4.4 Conclusion

Crowdfunding offers many opportunities to managing authorities willing to engage with it and harness its potential: partnerships between crowdfunding platforms and managing authorities could secure leverage of additional resources and be better tailored to the needs of ESIF recipients.

When it comes to supporting crowdfunding via financial instruments, a managing authority should consider the areas of improvement of the crowdfunding sector, notably:

- financial instruments should work towards the increase of both the liquidity of crowdfunding platforms and their risk-taking capacity;
- combining ESIF financial instruments with grants can often be crucial for the success of such partnerships, as it could:
 - provide technical assistance to project promoters, in the form of business development services to better prepare projects;
 - contribute to cut the costs incurred by project promoters to launch a campaign and raise money through crowdfunding.

⁵⁹ The maximum 80% guarantee rate and 25% cap rate are defined in art. 21(13) of the General Block Exemption Regulation (GBER), Commission Regulation (EU) N°651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty. The Regulation also states that only guarantees covering expected losses of the underlying guaranteed portfolio could be provided for free.



The proposed CPR and the recently issued ECSP regulation are preparing the ground for an increased number of partnerships between crowdfunding platforms and ESIF financial instruments.

Although not explicitly covered in this manual, in setting-up of such partnerships, managing authorities should also take into account public procurement requirements, especially when selecting the bodies implementing financial instruments as well as the entities managing crowdfunding platforms, when different.

Finally, in implementing ESIF financial instruments in combination with grants, managing authorities have to take a view on the most efficient delivery options i.e. either in a single operation (when the same body is delivering the grant component and the financial instrument) or through separate operations.



APPENDIX: RESPONDING TO COVID-19 CRISIS THROUGH CROWDFUNDING

The crowdfunding industry is currently experiencing its first economic downturn: as a consequence of the COVID-19 outbreak, amounts raised through crowdfunding campaigns appear to have slightly declined for the first time since they have been tracked.

In early April 2020, the ECN conducted a survey⁶⁰ amongst crowdfunding platforms in order to assess the impact of COVID-19 on platforms' businesses and to identify potential measures adopted by the platforms. According to the survey's feedback and by observing the behaviour of some players in the market⁶¹, the following trends and dynamics have emerged:

- COVID-19 is having a negative impact on the deal flow (reduced number of new projects registered on crowdfunding platforms) and on the capital inflow from investors, which appear now to be less convinced to place their investments in crowdfunded projects. Platforms have started to take mitigation measures to counteract these trends, for instance some of them are offering business development services for free, in order to increase the robustness of projects and keep the investors' appetite up;
- COVID-19 is having a moderate impact on existing projects; however, crowdfunding platforms are implementing mitigation measures to support projects they have funded in the past. Among the mitigation measures, liaising with investors and agreeing to relax some conditions on the outstanding credits e.g. interest payment suspensions, payment holiday.

In addition, projects belonging to sectors severely hit by the crisis (e.g. hospitality industry, tourism, entertainment) are shifting to donation-based or reward-based crowdfunding. Although seeking grant support appears to be in line with the general tendencies recorded in the sectors hit by the crisis, non-financial models which are usually acting at local level are typically suitable to raise only limited amounts of money, with promoters reaching out to a local base of donators/supporters. However, post COVID-19 circumstances did not allow for sufficient offline activities necessary for donation-based and reward-based campaigns. Even though there are few, notable exceptions⁶², it is unlikely for a business to find resources to the extent needed through non-financial crowdfunding.

In summary, crowdfunding platforms are gearing up for harder times but no 'panic reaction' to the pandemic has been observed yet. Nevertheless, the loss of appetite from investors and the reduced volume of deals make even more important that operating platforms are seen as reliable intermediaries and, in this respect, establishing partnerships with the public sector could be crucial for building trust.

Match-funding schemes could be also be helpful to increase the amounts raised through crowdfunding campaigns and to boost the financing chances for projects with social impact related to the COVID-19 outbreak. A number of similar initiatives are springing across the EU and beyond.

60 More information on the survey carried out by the ECN are available at eurocrowd.org/2020/04/14/early-impact-of-covid19-on-the-european-crowdfunding-sector/.

61 See also the webinar hosted by the EC on the impact of COVID-19 on alternative finance: <https://webgate.ec.europa.eu/fpfs/wikis/pages/viewpage.action?pagelD=480282298>.

62 For instance, large campaigns in the EU have succeeded to fund hospitals, also thanks to the personal involvement and endorsement of popular personalities. One example is the campaign to reinforce the helping the intensive care unit at the San Raffaele Hospital in Milan: <https://www.gofundme.com/f/coronavirus-terapia-intensiva>.



Matchfunding scheme against COVID-19 outbreak: #WirVsVirus (Germany)

In Germany, the #WirVsVirus Hackathon took place in March 2020. Under the patronage of the Federal Government, the Hackathon has brought together private and public organisation to work out innovative ideas that would help society to tackle emerging societal problems related to the COVID-19 outbreak.

Among other tools, #WirVsVirus has launched a Matching Fund supporting projects that contribute, in a measurable way, to solve the identified social challenges in the wake of the COVID-19 outbreak.

The Matching Fund collects contributions from private companies, foundations, and other socially responsible actors, and it is triggered when a social project reaches its campaign target (no less than EUR 100 000) on the Startnext platform. The Matching Fund hence will contribute to the project with an additional 25% of the amount raised.

The model is a reward-based one, where the investors' rewards take the form of sponsoring packages. Nevertheless, the same principle of the #WirVsVirus Matching Fund could be applied to financial crowdfunding models⁶³.

Given the magnitude of the financial resources needed as a consequence of the COVID-19 crisis and the inherent limits of non-financial crowdfunding models, lending based crowdfunding might provide a more comprehensive solution to the liquidity needs of the project promoters. In this respect, partnerships along the lines of those proposed in Section 4.3 of this manual can be envisaged: in a situation where there is strong aversion to risk, using ESIF resources to cover first losses, or to set up concessional loans could be an alternative solution. During the month of April 2020, the EC has adopted the Coronavirus Response Investment Initiative (CRII) and CRII Plus packages,⁶⁴ introducing amendments to ESIF regulation with the aim to mobilise support against COVID-19 crisis, including through ESIF financial instruments. In addition, in May *fi-compass* has published the factsheet 'Responding to the COVID-19 crisis through financial instruments'⁶⁵, which provides further explanation and guidance in this respect.

Finally, the crowdfunding industry is conducting some interesting experiments – although niche ones – on equity social crowdfunding, such as that implemented by *La Bolsa Social* in Spain, where equity is provided as a follow-up of already validated ideas with a positive, measurable social impact. This model also foresees a thorough consulting process, where the social initiatives are accelerated and made ready to receive investors' funding. Such process increases in importance under the COVID-19 circumstances, as it builds the necessary trust on the investors' side.

63 More information available at <https://wirvsvirushackathon.org>.

64 The first amending Regulation (EU) 2020/460 came into force on 1 April 2020 as part of the Coronavirus Response Investment Initiative (CRII), followed by a second amendment, Regulation (EU) 2020/558, entering into force on 24 April 2020 as part of a follow on Coronavirus Response Investment Initiative Plus (CRII Plus) package.

65 Available at <https://www.fi-compass.eu/publication/factsheets/factsheet-responding-covid-19-crisis-through-financial-instruments>.

