



Crowdfunding and ESF opportunities: future perspectives for managing authorities

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The *fi-compass* study on crowdfunding



“Crowdfunding and ESF - Opportunities and future perspectives for Managing Authorities”

Objective and scope of the study:

- to raise awareness around the opportunities for ESIF (ESF) FIs combined with crowdfunding
- to harness the potential of crowdfunding platforms and further support projects that run crowdfunding campaigns
- achieved by analysing the current situation of the crowdfunding market, current experiences, including ESIF grants – crowdfunding combinations and
- by bringing new ideas for future support of crowdfunding platforms via ESF resources.



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What is crowdfunding



Crowdfunding is the practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet.

- Open call to **raise funds** for a specific project
- From **anyone with access to the internet** (potentially)
- Through an **Internet-based** mechanism (specialised website)
- Foreseeing **tangible or intangible benefits** in exchange for each economic contribution



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Flexibility: Crowdfunding models



We can differentiate four major types of applications:



- **Donation:** a donor contract without existential reward



- **Reward:** purchase contract for some type of product or service (pre-sales), or tangible perk



- **Lending:** credit contract, credit is being repaid plus interest



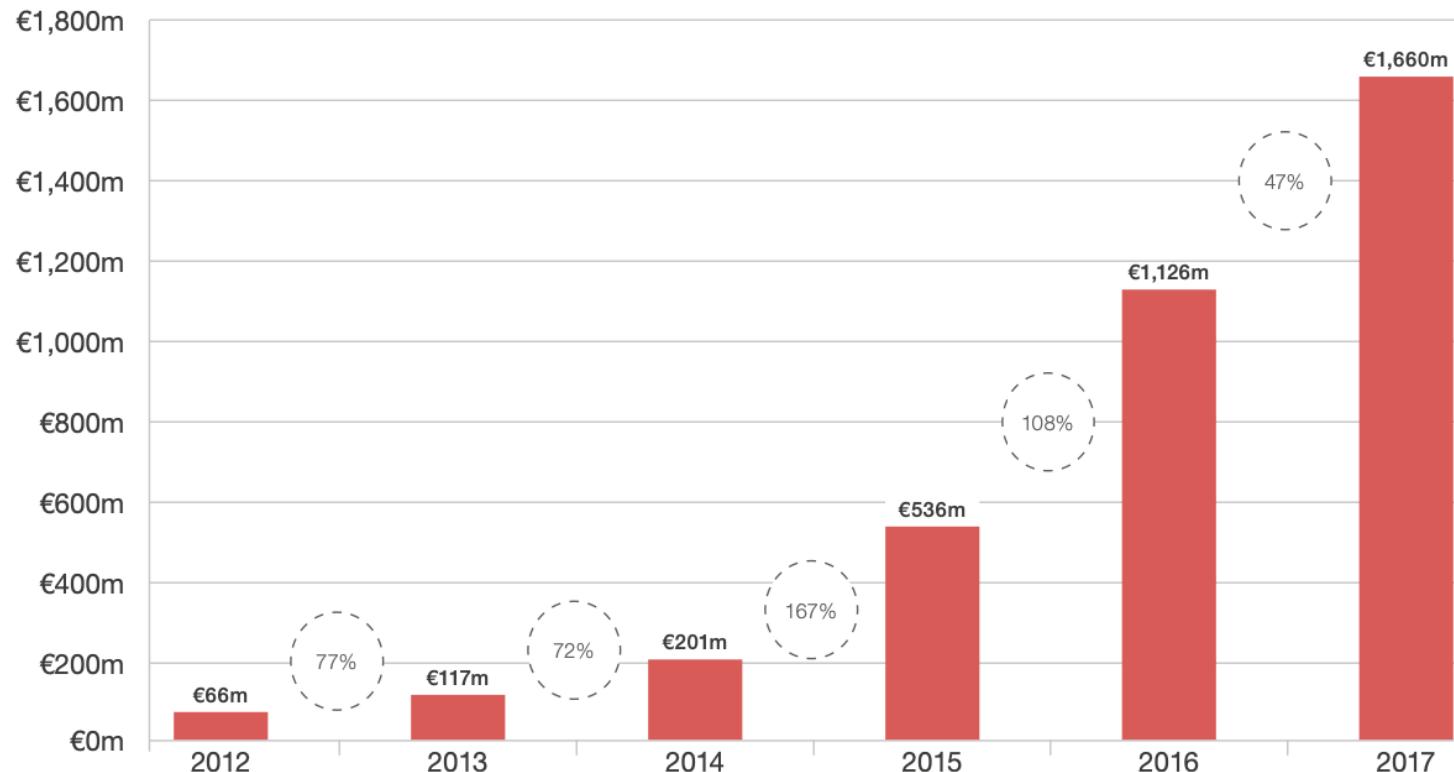
- **Equity:** shareholding contract, shares, equity-like instruments or revenue sharing in the project/business, potential up-side at exit



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Relevance: Crowdfunding market (EU)



Source: 4th European alternative finance benchmarking industry report *Shifting Paradigms*, Cambridge Centre for Alternative Finance, November 2019

- Crowdfunding market in EU is **steadily growing**
- **Lending and Equity** are the leading models
- Reward-based crowdfunding also increasing
- Average success rate per CF model:
 - Donation-Based: 69%
 - Reward-based: 66%
 - Lending: 83%
 - Equity: 81%



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Legal Framework ECSP



Current situation

- **Each MS** regulates crowdfunding differently
- Some MS have **specific legal framework**, others extend **existing legal frameworks**, others **don't regulate CF**
- Legal frameworks affect mainly **equity and lending crowdfunding** operations

Difficulties in cross-border transactions > market size is still limited > investor protection rules differ

With ECSP

- **A single set of rules will apply** to crowdfunding services in the EU, up to EUR 5 000 000
- Strict rules to **protect investors** from financial losses
- **Member states responsible for authorising and supervising** crowdfunding providers

Cross-border transactions made easier > increase in market size > increased trust from investors



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Organisations and Sectors getting funded



- SMEs and start-ups
- Microenterprises
- NGOs
- Associations
- Self-employed
- ...
- Social innovation
- Renewable energies
- Circular economy
- Culture and creativity
- Agriculture
- Business (growth, internationalisation, etc.)



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Advantages



Economic

Access to finance made easier

Short time for raising and receiving funds

Risk dilution

Non-Economic

Market test/validation of idea

Endorsement from local communities

Marketing and visibility

Creation of customer base

Increased sense of “ownership” of contributors/investors

Feedback cycle (almost in real time)

Democratisation of finance

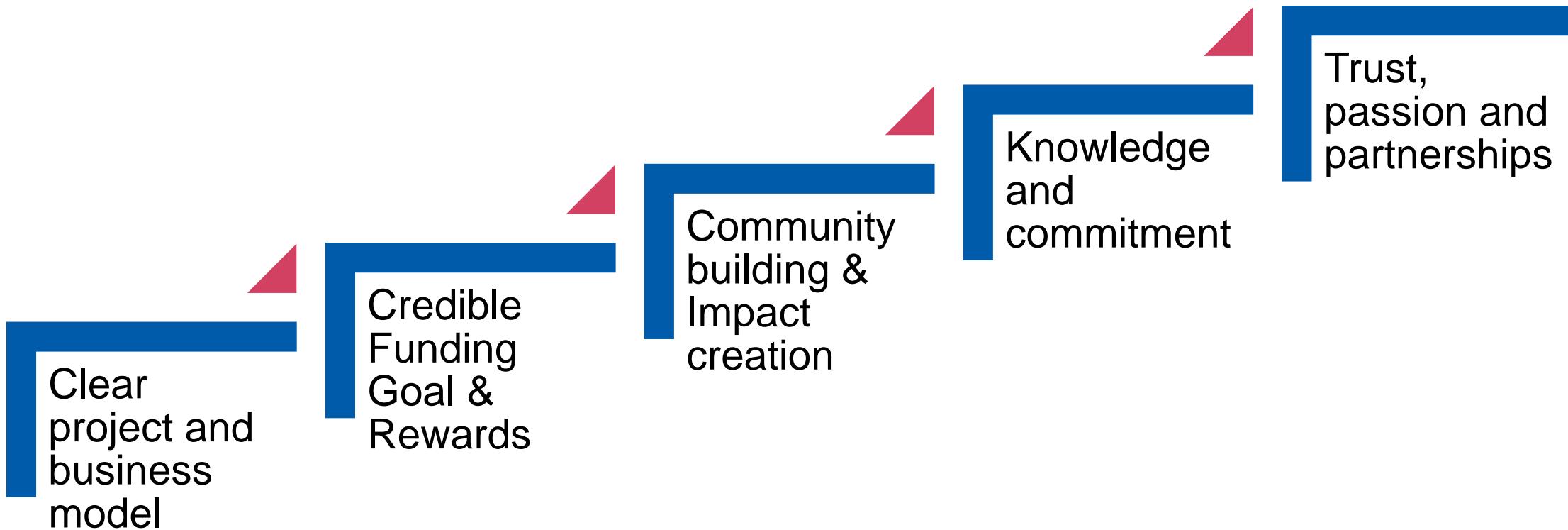
Wisdom of the crowd



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Success factors of a crowdfunding campaign



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Why the interest in crowdfunding?



ESI Funds, particularly ESF can harness CF potential.

- **People** - clusters underserved by traditional credit supply (new entrepreneurs, vulnerable groups) usually resort to alternative finance (including CF) when they set out to start up a new business
- **Businesses** - CF usually serves types of businesses that face difficulties in accessing traditional finance, because of limited turnover, little or no credit history of the entrepreneurs, high risk profile of the business concept and/or of the markets of reference
- **Leverage** – additional cofinancing (project promoters, retail investors, professional investors) to ESIF resources (and viceversa)



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Key challenges



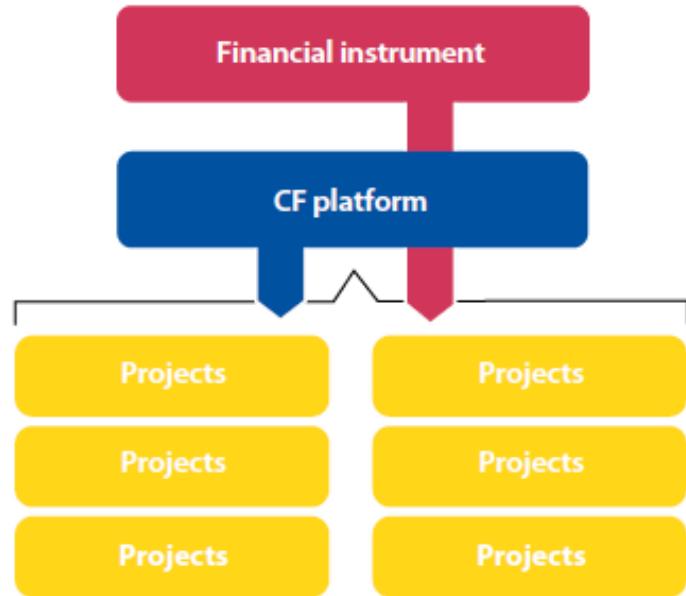
- **Regulatory constraints** – CF is moving towards a harmonised regulatory framework in the EU
- **Trust** – CF platforms struggle to establish a sound reputation due to lack of knowledge and of financial literacy, lack of unbiased information, and little dissemination of best practices and success stories
- **Liquidity** – it is still difficult for most CF platforms to ensure that sufficient investment capital is matched with sufficient high quality deal flow



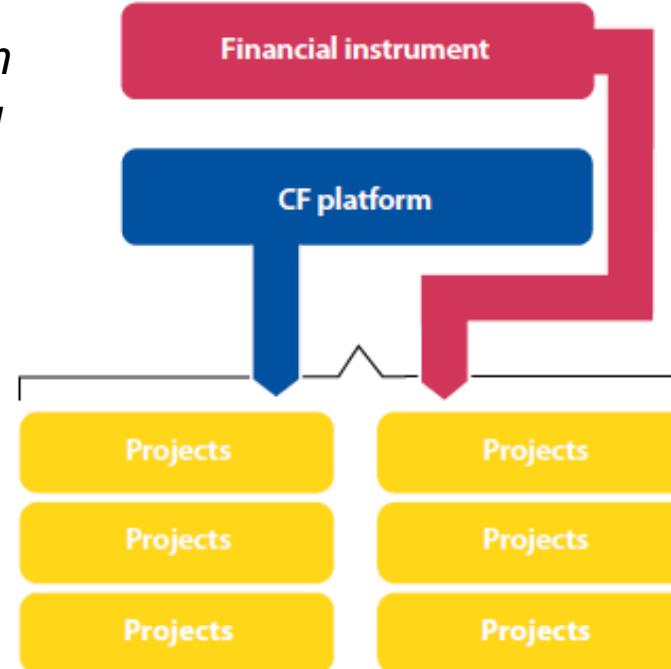
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Setting up a FI in support to crowdfunding



*Crowdfunding platform as body implementing financial instrument?
(CDR, art. 7)*



Both structures can envisage non-financial support to projects.
Big case for FI-grant combination.



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FI-grant combination



Support to projects which meet specific criteria set by the managing authority

- 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.)
- 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
- as a **capital rebate** (2021-2027 CPR novelty)



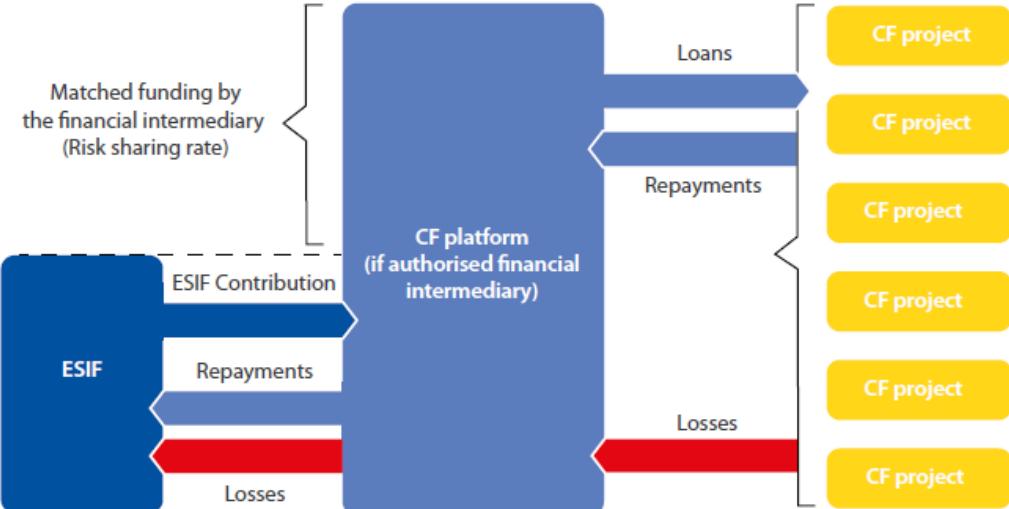
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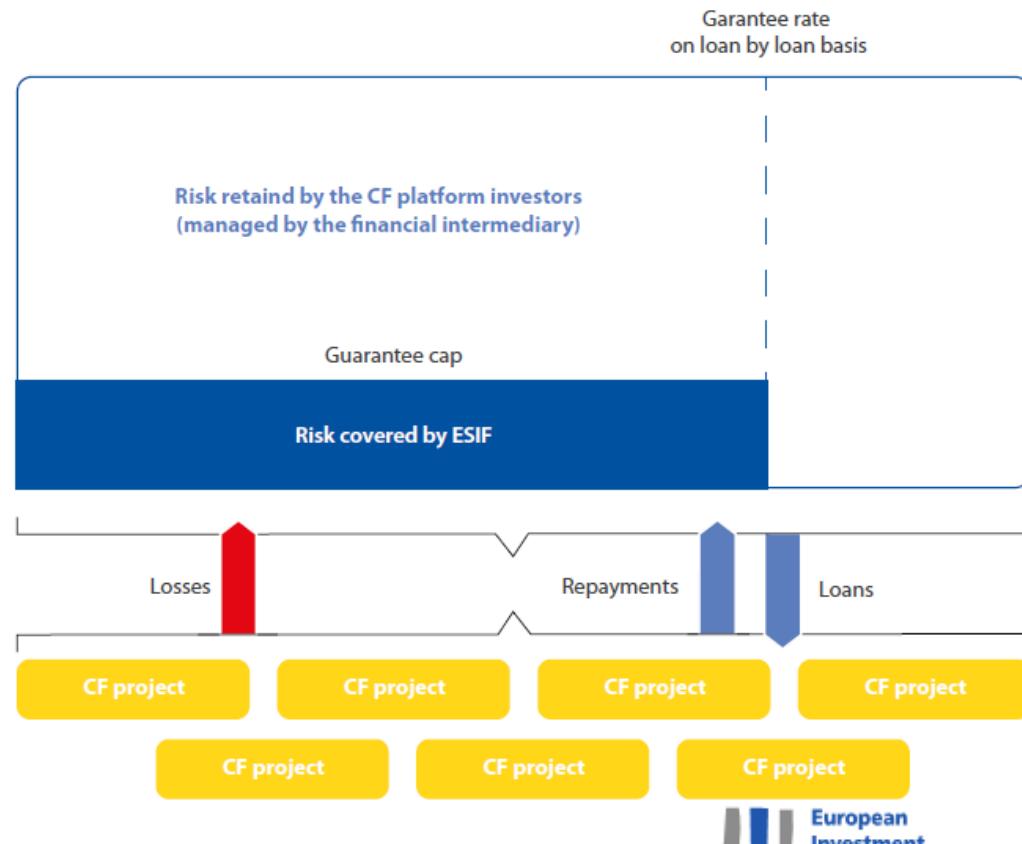
Proposals to managing authorities



Risk sharing model



Guarantee scheme



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The manual is online!



Advancing with ESF financial instruments

Crowdfunding and ESF opportunities: future perspectives for managing authorities

Manual
July 2020

European Commission
European Social Fund

You can access the publication at the *fi-compass* website.

fi-compass.eu > library > fi-compass publications > Manuals and Handbooks

or

fi-compass.eu > esi funds > esf > relevant resources



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.



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financial instruments
added value **ERDF** funding agreement
technical support seminars co-financing governance
investments **ESIF** leverage financial intermediaries
business plan **fi-compass** microfinance
advisory services guarantees case studies
EAFRD loans final recipients
fund of funds banks thematic objectives
managing authorities private investors conferences **CF** equity
EMFF life cycle factsheets
manuals investment strategy
European Commission

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