



ESF and crowdfunding New opportunities for managing authorities

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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



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



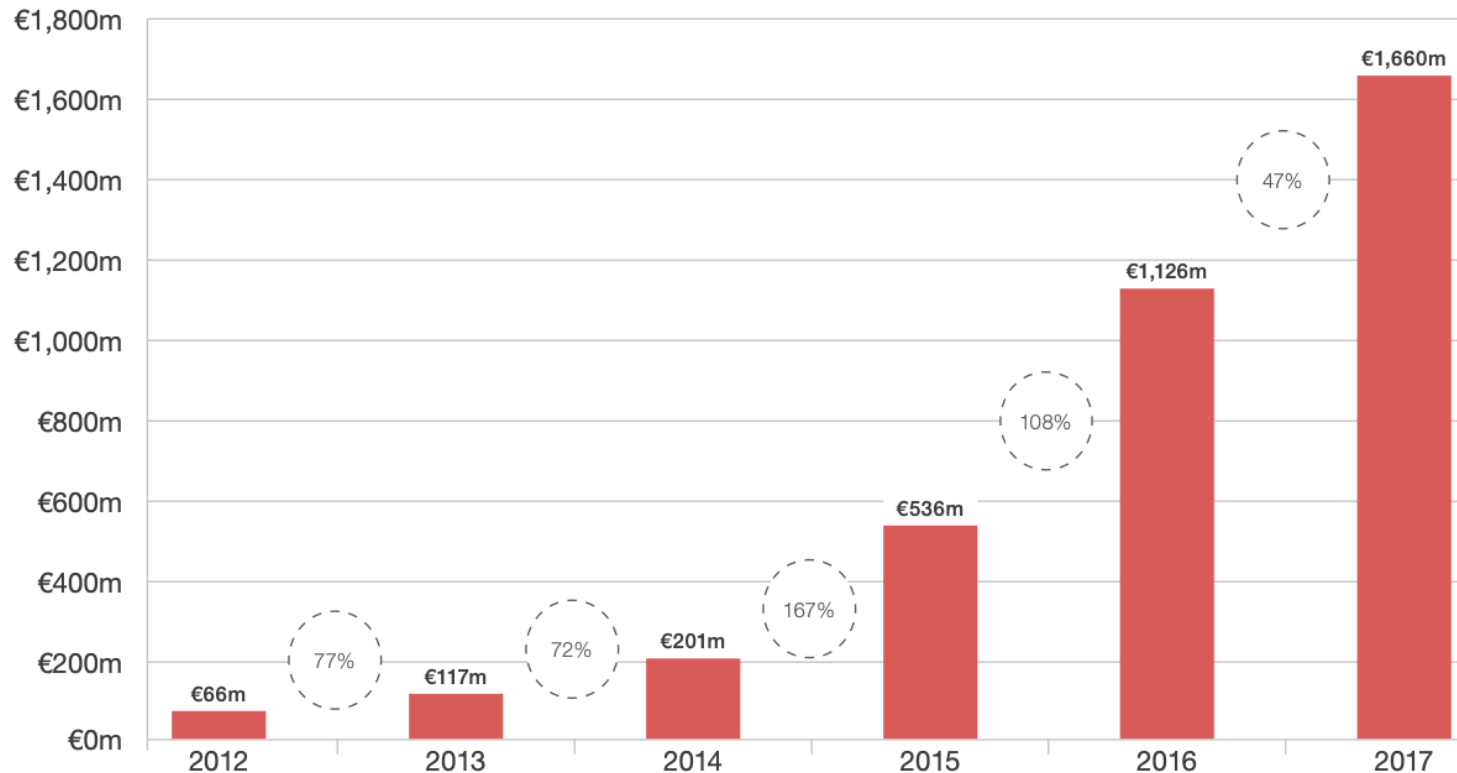
- **Equity:** shareholding contract, shares, equity-like instruments or revenue sharing in the project/business, potential up-side at exit



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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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Organisations and Sectors getting funded



- SMEs and start-ups
- Microenterprises
- NGOs
- Associations
- Self-employed
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- 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

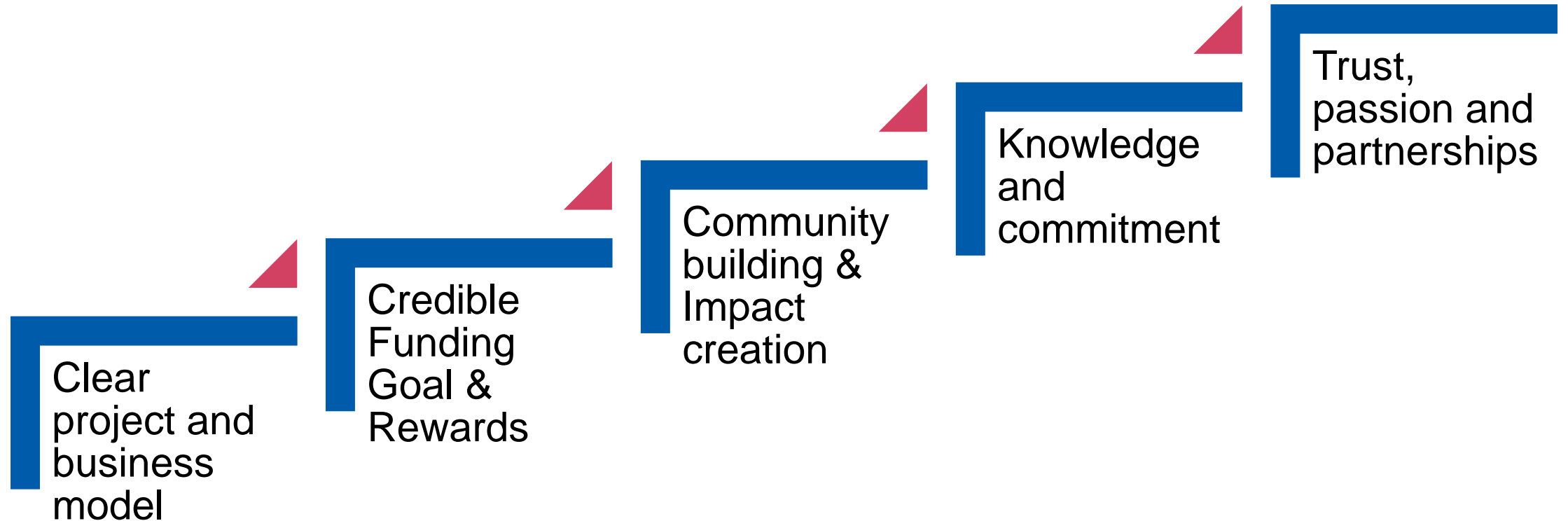
Feedback cycle (almost in real time)

Democratisation of finance

Wisdom of the crowd



Success factors of a crowdfunding campaign



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Key challenges



- **Regulatory uncertainty** – CF lacks a harmonised regulatory framework across EU, which makes it difficult for platforms, small businesses and retail investors
- **Lack of trust** – CF platforms struggle to establish a sound reputation due to low knowledge of CF and financial literacy, lack of unbiased information, and little dissemination of best practices and success stories
- **Difficult match-making** – it is still difficult for most CF platforms to ensure that sufficient investment capital is matched with sufficient high quality deal flow



ESIF and CF – why?



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! attract additional cofinancing to project, both through private contributions (non-financial models) and through private investment from retail investors (financial models).



The *fi-compass* study on crowdfunding



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

Objective and scope of the study:

- to explore the feasibility and the opportunities for ESIF co-funded FIs
- to support crowdfunding platforms and 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.



FI-CF experiences in the EU



Typically, ESIF resources support crowdfunding through grants. But some experiences of ESIF FIs for crowdfunding already exist



Crowdfunding loans Avietė (LT)
partnership between INVEGA and FinBee

MikroCrowd (DE)
partnership between Investitionsbank Berlin and Startnext

INNOVA Venture, Lazio Region (IT)
partnership between Lazio Innova and equity CF platforms



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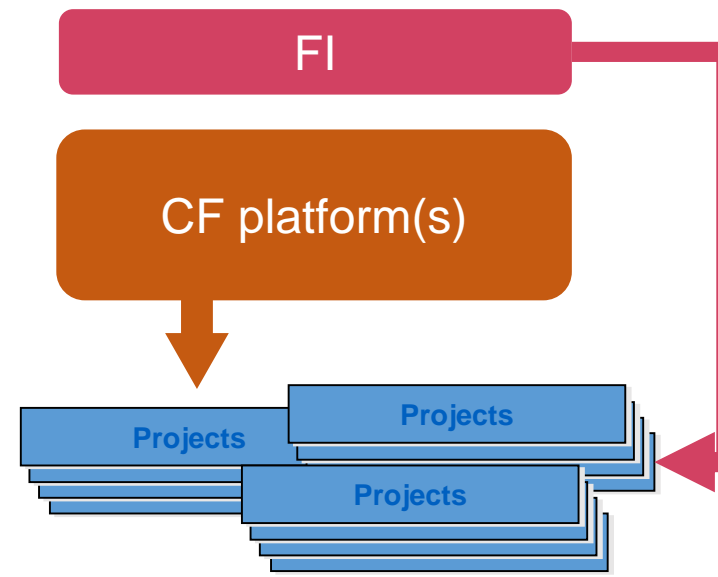
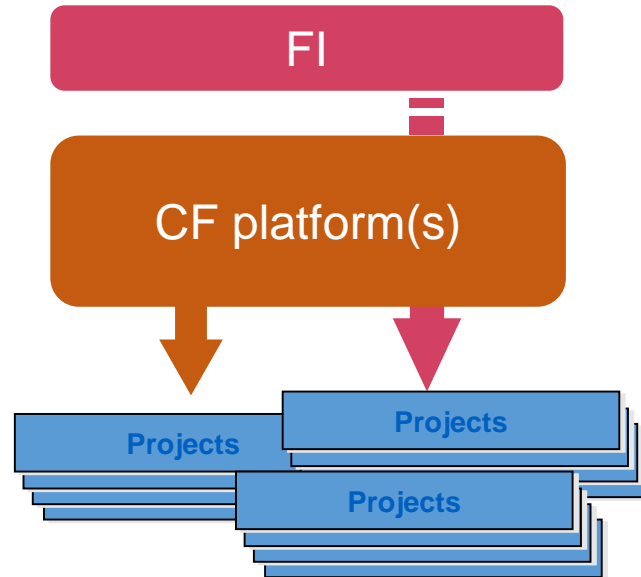
FIs supporting CF



Some teasers of the study:

- Focus on profitable models (lending and equity platforms), but not only (see Mikrocrowd)
- Two ideas of FIs for crowdfunding:

CF platform as Financial Intermediaries. Strict requirements in order to channel the FI to final recipients (but management fees can be attractive)



FIs acting in parallel to the CF platform. Quick win, most existing examples follow this scheme

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

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How to support CF?



When?

- Bridging?
- Boosting?
- Topping-up?
- 1:1 matching?

Which products?

- Loans?
- Guarantees?
- Equity?

*(to CF platform
and/or final
recipients)*

One size fits all does not exist
even in CF

Ex-ante assessment needed
to understand CF local
market and to align interests



