



Unlocking the crowdfunding potential for the European Structural and Investment Funds

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Unlocking the crowdfunding potential for the European Structural and Investment Funds

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Abstract

The Cohesion Policy is one of the key instruments of the European Union to promote harmonious development and to reduce disparities among regions, thus strengthening economic and social cohesion.

Acting towards this ambitious goal requires innovative policy mechanisms that crowd in private investments to address the diverse market needs and mitigate market failures, while at the same time improving the efficiency and usefulness of public spending.

In this context, crowdfunding has emerged as a new source of finance. Innovators, social entrepreneurs, non-profit organisations, SMEs or any citizen can use crowdfunding to attract resources from investors to finance their business ideas through digital platforms, thus contributing to the

democratisation of access to finance.

The development of crowdfunding presents an opportunity for ESIF Managing Authorities (MAs) to leverage on these platforms to channel resources towards segments of the market that are currently not covered by traditional financing players, but that are pivotal for the economic and social development of the European Union.

This report explores synergies between the Cohesion Policy and crowdfunding by assessing the strategic, operational and legal considerations of combining ESIF with crowdfunding, and presenting several case-studies and blueprints that could be used by MAs as a first step when investing in crowdfunding.



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The authors of this report are Ana Odorovic, Apolline Mertz, Brian Kessler, Karim Karaki, Karsten Wenzlaff, Lucas Novelle Araújo and Ronald Kleverlaan.

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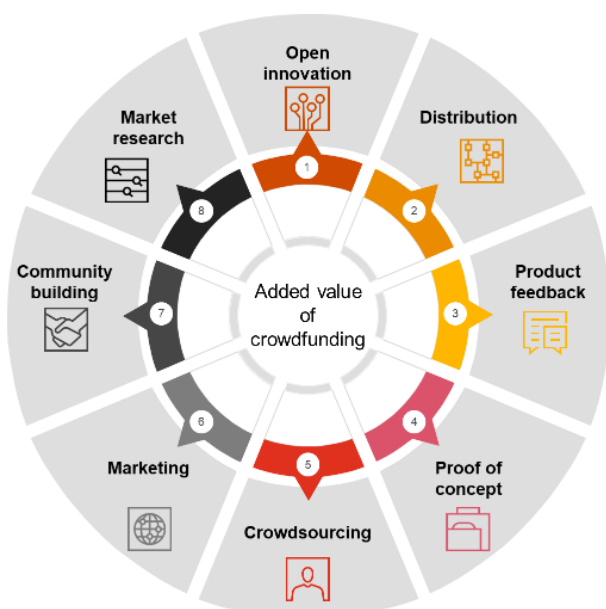
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Executive Summary

Crowdfunding, a financing means based on pooling a large crowd of investors' or supporters' funding for a specific project listed on a digital platform, has emerged as an innovative mechanism to support start-ups and entrepreneurs. In 2018, about 632 crowdfunding platforms were operating in Europe, contributing with a total financing volume of EUR 6.5 billion.

In financial-return crowdfunding, crowd investors receive some financial return for their contribution to a project, whether it be a repayment of the credited amount and interest in a lending-based crowdfunding campaign, or an equity stake of the business endeavour in equity-based crowdfunding. **Non-financial-return crowdfunding** is led by crowd supporters that financially support project owners and receive rewards in reward-based crowdfunding or nothing in donation-based crowdfunding.



As crowdfunding entails benefits beyond financing, it has caught the interest of policy-makers and the finance industry, who see it as a way of **supporting SME access to finance, foster socio-economic development, job creation and the inclusion of entrepreneurs often overlooked by traditional financing actors.**

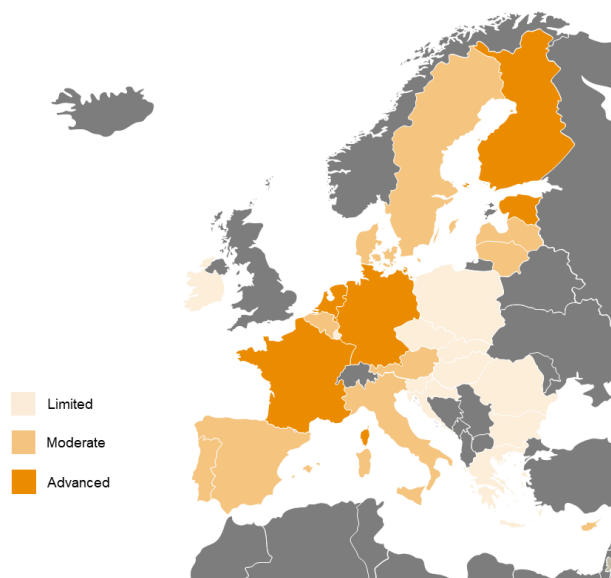
Hence, public policies supporting crowdfunding and partnerships between public actors and banks are central to the success of crowdfunding campaigns. In fact, Managing Authorities (MAs) in charge of European Structural and Investment Funds (ESIF) can

play an important role in stabilising, growing, and taking advantage of the crowdfunding ecosystem.


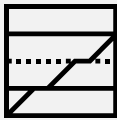


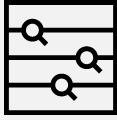



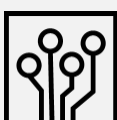






This report provides an assessment of the European crowdfunding ecosystem, and how it could effectively be leveraged by ESIF to support the implementation of Cohesion Policy.

The market readiness assessment shows an overall favourable environment for European Union Member States to combine ESIF with crowdfunding for the 2021-2027 programming period.

Market readiness level per Member State



In order to better understand how crowdfunding can be used to advance EU policy objectives, it is essential to assess the risks and benefits of using crowdfunding in the Cohesion Policy.

	Benefits		Risks
	<i>Crowdfunding can help increase private co-investment in ESIF policy priorities.</i>		<i>The quality of the monitoring and reporting process of crowdfunding is not yet standardised, however the new European crowdfunding regulation (ECSP) establishes a framework for monitoring platforms and SMEs seeking funds.</i>
	<i>Crowdfunding can improve the flexibility and the efficient disbursement of ESIF.</i>		
	<i>Crowdfunding can help drive a deeper regional impact by involving local stakeholders.</i>		<i>Investment- and debt-based crowdfunding, as other financial instruments, can lead to a capital loss on investment.</i>
	<i>Crowdfunding can boost the impact of ESIF on R&DI and new technologies.</i>		<i>The absence of a secondary market for investment-based crowdfunding impedes the ability to liquidate / realise investments.</i>
	<i>Crowdfunding can be an additional tool to invest in projects close to citizen concerns, including sustainability and low-carbon transition.</i>		<i>Crowdfunding involves sharing the decision-making process over the selection of projects with citizens, providing less control to MAs on how to use public funds.</i>
	<i>Crowdfunding allows extending the reach of ESIF to entrepreneurs which are not well-served by traditional finance.</i>		<i>As with many other financing schemes, crowdfunding is subject to market dynamics, which means that it is easier for crowdfunding projects to mobilise their networks in areas where there is digital literacy and economic capital is available.</i>
	<i>Crowdfunding can improve the visibility of the EU Cohesion Policy.</i>		
	<i>Crowdfunding can help increase the transparency, accountability and public control of public investment.</i>		
	<i>Crowdfunding empowers citizens.</i>		<i>As with many other financing schemes, crowdfunding can in principal suffer from fraud-related and money laundering issues, but platforms tend to act as "gatekeepers" against fraudulent activity.</i>



The entry into force of the ECSP Regulation is a turning point for MAs to unlock the potential of crowdfunding.

The ECSP regulation is **paramount to the development of crowdfunding across the EU**, by attempting to strike an optimal balance between providing a solid regulatory framework and limiting oversight to allow innovation, i.e. providing a predictability without overburdening. The ECSP allows platforms to operate and be recognised across the EU based on a single set of rules, and platforms are required to undertake financial-return intermediation activities under supervision of the financial regulator in each Member State. The **ECSP regulation complements the Common Provision Regulation (CPR) as the two main regulatory frameworks** to be considered when combining crowdfunding and ESIF. Other relevant regulations include the Prospectus Regulation, the Payment Service Directive, the Anti-Money Laundering (AML) Directive, the Alternative Investment Fund Managers (AIFM) Directive, Markets in Financial Instruments Directive II (MiFID II), as well as the Implemented and Delegated Acts and State aid rules (notably *de minimis* and GBER).

The existing regulatory frameworks and legal concepts do not prevent MAs to support, invest or lead crowdfunding initiatives in the context of the Cohesion Policy. As such, there is no need to reconcile legal concepts between the ECSP and the CPR framework.

MAs can play different roles in the crowdfunding process, based on the type and nature of support provided (e.g. non-financial or financial; within or outside the crowdfunding process) and the recipient (e.g. investors or project owners). The roles involve varying integration levels of responsibilities between platform operators and MAs and thus varying degrees of legal complexity and applicability of CPR rules. In light of the CPR, all types of crowdfunding platforms could be considered as **intermediate bodies or financial intermediaries** for the implementation of ESIF. However, the ECSP license does not grant crowdfunding service providers the right to provide individual or collective asset management services. Under ECSP regulation, lending-based crowdfunding platforms could act as financial intermediaries for the implementation of ESIF, whereas investment-based platforms can do so only if they hold a MiFID investment firm or AIFM license under the national regime, as this would allow them to manage assets on behalf of the MA.

To assess the practical implications for MAs in collaborating with crowdfunding platforms, this report looked at six case studies to showcase the collaboration between public authorities and crowdfunding platforms, and were used as inputs in the preparation of the blueprint models.



Public authority providing grants to project owners outside a crowdfunding campaign

Lessons learnt

Simple to implement from both regulatory and operational points of view.

The degree of sophistication of the collaboration can evolve over time.

Providing grants can be leveraged to generate private investments, though its scalability is challenged.



Public authority operating its own crowdfunding platform

Lessons learnt

The model requires the regional government to continue investing in running of the platform.

The model is highly relevant where MAs want to establish contacts with crowdfunding actors, crowdfunding market readiness is moderate, and platforms cannot operate profitably.



Public authority providing financial instruments project owners outside a crowdfunding campaign

Lessons learnt

EU funds can play a key role in further promoting crowdfunding

While public authorities may seem reluctant to engage in crowdfunding, once they do, they tend to further collaborate in more sophisticated ways to reach different policy objectives.



Public authority providing guarantees to investors

Lessons learnt

For the crowdfunding platform, a standardised template agreement for collaboration is useful.

Using an intermediate investment fund can facilitates collaboration between public authorities, while the model with an investment fund allows the MA to define pre-selection eligibility criteria.



Public authority acting as an investor through a lending-based crowdfunding platform

Lessons learnt

Public authorities and banks can help build the crowdfunding market, before or in parallel to investing in it.

Collaborating with a crowdfunding platform can take different shapes at different times – and that is one of their prime advantage.



Public authority acting as a project owner

Lessons learnt

Acting as a project owner is a straightforward model, as there are no legal issues.

Public authorities need to put in place a proper business plan and think strategically to maximise their chances of success.

Public authorities can engage citizens in the development of their policy priorities.

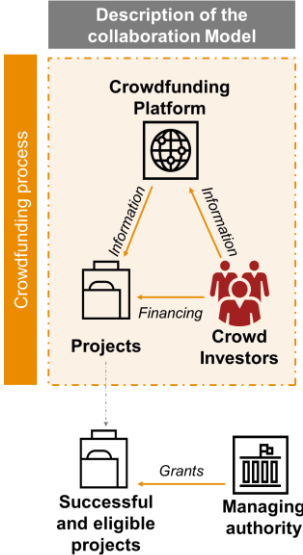
Building on the findings from the market and legal analysis as well as on the insights from the case studies, the report concludes by developing four blueprint schemes, which can be taken as a reference by MAs for deploying ESIF through crowdfunding.

Blueprint 1. Providing grants outside a crowdfunding campaign

Under this scheme, MAs provide grants to projects that have previously secured a predetermined level of financing through a crowdfunding campaign.

Key benefits

- High impact and reach without prior expertise in crowdfunding;
- Straightforward legal set-up;
- It is up to the MA to decide on how much to engage within the process;
- It can be used as a steppingstone to develop more sophisticated schemes;
- When using financial instruments rather than grants, using a financial intermediary can further simplify the disbursement of ESIF.

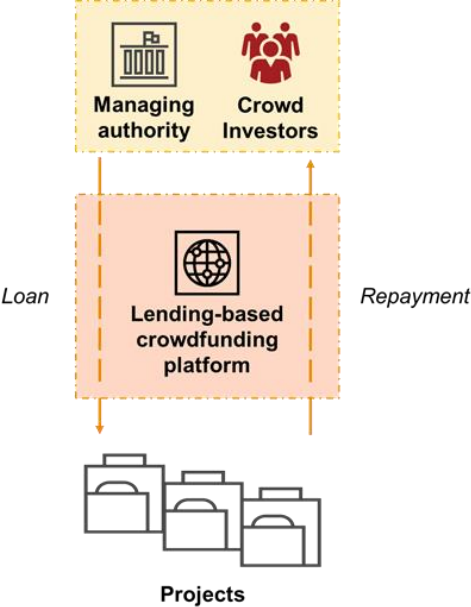


Blueprint 2. Investing through a lending-based crowdfunding platform

In this scheme, MAs act as a co-investor in a crowdfunding campaign. In practice, MAs have three main options: (i) leverage a platform as a financial intermediary, (ii) leveraging on a third party, (iii) manage the investment on its own.

Key benefits

- Leverage on the reputation and market footprint of an existing platform to deploy ESIF and crowd in private investments;
- Effective in reaching SMEs with limited access to traditional finance;
- Increase the number of successful campaigns through the provision of additional liquidity;
- Limited costs because responsibilities are delegated to the lending-based platform.

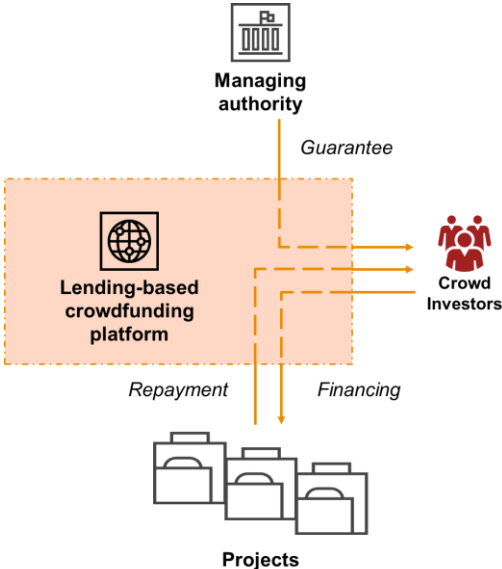


Blueprint 3. Providing guarantees to investors

Under this scheme, MAs provide a guarantee to investors in a crowdfunding campaign. This blueprint scheme can be structured in two different ways: (i) the MAs manage the guarantee instruments itself, or (ii) guarantees are entrusted to an experienced financial intermediary.

Key benefits

- Attract private investments contributing to EU policy objectives by reducing investors’ risk exposure;
- Extend the reach of ESIF to companies often overlooked by traditional finance;
- Improve conditions of underlying investments;
- In case of a portfolio guarantee scheme, manage better the exposure level for the platform;
- Maximise the efficiency of MA resources by achieving a higher leverage effect and transferring capital only in case of default.



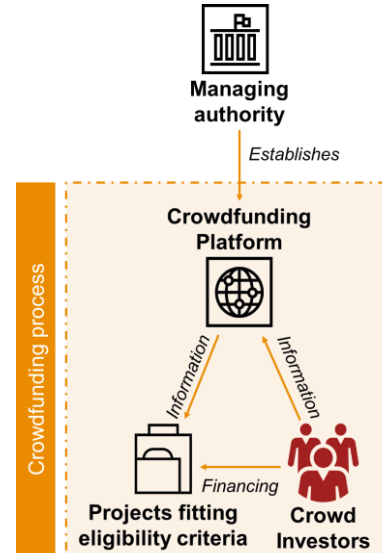
Blueprint 4. Operating a crowdfunding platform

In this scheme, MAs set up and operate their own crowdfunding platform. The implementation of such scheme requires MAs to design and implement (or outsource) the IT infrastructure, and the work and management processes (KYC, AML, data security...). MAs play a key role in raising awareness and building partnerships to promote the platform.

Key benefits

- Freedom and flexibility in designing the structure, functioning and processes of the crowdfunding platform as fit for the needs and interests of the MA
- Limited risk and reputational issues arising from external parties;
- Increased learning and capacity building;
- Address complex issues not tackled by other actors from either traditional or alternative finance (e.g. rural economy) thus ensuring additionality.

Overall, the four blueprints provide a practical steppingstone into crowdfunding for MAs and prove that crowdfunding is a viable and effective way to channel funding and financing towards projects that promote Cohesion Policy objectives across the European Union.



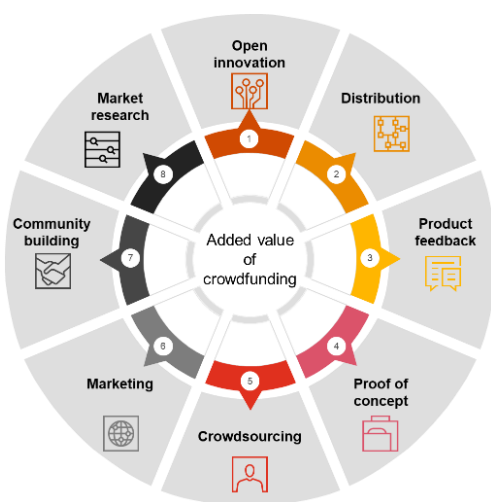
Résumé analytique

Le crowdfunding, un moyen de financement basé sur la mise en commun des fonds d'une grande foule d'investisseurs ou de sympathisants pour un projet spécifique répertorié sur une plateforme numérique, est apparu comme un mécanisme innovant pour soutenir les start-ups et les entrepreneurs. En 2018, environ 632 plateformes de crowdfunding étaient en activité en Europe, contribuant avec un volume de financement total de 6,5 milliards d'euros.

Dans le crowdfunding à retour financier, les investisseurs reçoivent un retour financier pour leur contribution à un projet, qu'il s'agisse du remboursement du montant crédité et des intérêts dans une campagne de crowdfunding basée sur la dette, ou d'une participation au capital de l'entreprise dans le crowdfunding basé sur l'investissement. **Le crowdfunding sans retour**

financier est mené par des supporters qui soutiennent financièrement les porteurs de projets et reçoivent des récompenses dans le cas du crowdfunding basé sur les récompenses ou rien dans le cas du crowdfunding basé sur les dons.

Comme le crowdfunding présente des avantages qui vont au-delà du financement, il a suscité l'intérêt des décideurs politiques et du secteur financier, qui y voient un moyen **de favoriser l'accès des PME au financement, de stimuler le développement socio-économique, la création d'emplois et l'inclusion d'entrepreneurs souvent négligés par les acteurs traditionnels du**

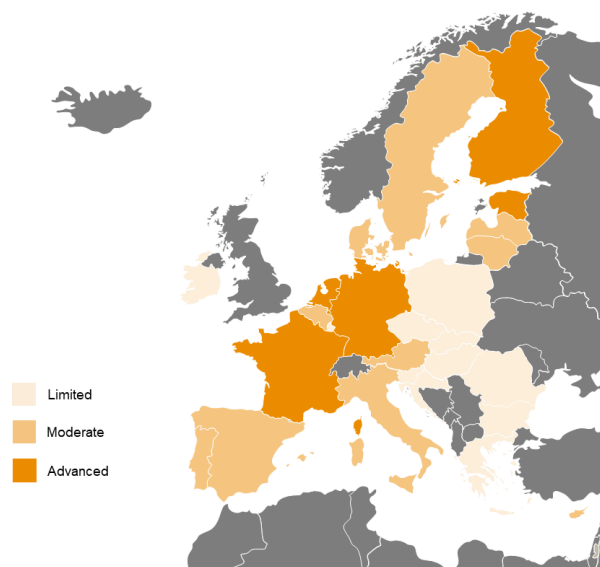






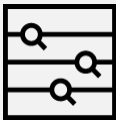










financement.

Par conséquent, les politiques publiques soutenant le crowdfunding et les partenariats entre les acteurs publics et les banques sont essentiels au succès des campagnes de crowdfunding. En fait, les autorités de gestion (AG) en charge des Fonds européens structurels et d'investissement (FESI) peuvent jouer un rôle important pour stabiliser, développer et tirer profit de l'écosystème du crowdfunding.

Ce rapport fournit une évaluation de l'écosystème européen du crowdfunding, et de la manière dont il pourrait être efficacement exploité par les FESI pour soutenir la mise en œuvre de la politique de cohésion. L'évaluation de l'état de préparation du marché montre un environnement globalement favorable aux États membres de l'Union européenne pour combiner le FESI avec le crowdfunding pour la période de programmation 2021-2027.

Niveau de préparation au marché par État



	Avantages		Limites
	Le crowdfunding peut contribuer à accroître les co-investissements privés dans les priorités politiques du FESI.		La qualité du processus de suivi et de reporting du crowdfunding n'est pas encore standardisée. Cependant, le nouveau règlement européen sur le financement participatif (ECSP) établit un cadre de surveillance pour les plateformes et les entrepreneurs.
	Le crowdfunding peut améliorer la flexibilité et l'efficacité du déboursement du FESI.		
	Le crowdfunding peut contribuer à renforcer l'impact régional en impliquant les acteurs locaux.		Le crowdfunding basé sur l'investissement et la dette, comme d'autres instruments financiers, peut entraîner une perte en capital.
	Le crowdfunding peut renforcer l'impact du FESI sur la R&D&I et les nouvelles technologies.		L'absence d'un marché secondaire pour le crowdfunding basé sur l'investissement entrave la capacité à liquider / réaliser les investissements.
	Le crowdfunding peut être un outil supplémentaire pour investir dans des projets proches des préoccupations des citoyens, (p. ex. transition vers une économie verte).		Le crowdfunding implique le partage du processus de décision sur la sélection des projets avec les citoyens, ce qui peut parfois limiter le contrôle des AG sur la façon d'utiliser les fonds publics.
	Le crowdfunding permet d'étendre la portée du FESI aux entrepreneurs qui ne sont pas bien servis par les financements traditionnels.		Comme des autres systèmes de financement, le crowdfunding est soumis aux dynamiques de marché, ce qui permet les projets de crowdfunding de mobiliser des ressources là où le capital économique et les compétences technologiques sont disponibles.
	Le crowdfunding peut améliorer la visibilité de la politique de cohésion de l'UE.		
	Le crowdfunding peut contribuer à accroître la transparence, la responsabilité et le contrôle public des investissements publics.		Comme de nombreux autres systèmes de financement, le crowdfunding peut en principe souffrir de problèmes liés à la fraude et au blanchiment d'argent.
	Le crowdfunding donne du pouvoir aux citoyens		



L'entrée en vigueur du règlement relatif aux prestataires européens de services de financement participatif pour les entreprises (ESCP) est un tournant pour les AG afin de libérer le potentiel du crowdfunding.

Le règlement ESCP est **primordial pour le développement du crowdfunding**, permettant aux plateformes d'opérer et d'être reconnues dans toute l'UE sur la base d'un ensemble unique de règles. Le **règlement ESCP complète le règlement sur les dispositions communes (CPR) en tant que deux principaux cadres réglementaires** à prendre en compte lors de la combinaison du crowdfunding et du FESI. Les autres réglementations pertinentes comprennent le règlement sur les prospectus, la directive sur les services de paiement, la directive sur la lutte contre le blanchiment d'argent (AML), la directive sur les gestionnaires de fonds d'investissement alternatifs (AIFM), la directive II sur les marchés d'instruments financiers (MiFID II), ainsi que les actes d'exécution et délégués et les règles relatives aux aides d'État (notamment *de minimis* et GBER).

Les cadres réglementaires et les concepts juridiques existants n'empêchent pas les AG de soutenir, d'investir ou de mener des initiatives de crowdfunding dans le contexte de la politique de cohésion. Il n'est donc pas nécessaire de réconcilier les concepts juridiques entre le PECS et le cadre du RPC. **Les AG peuvent jouer différents rôles dans le processus de crowdfunding**, en fonction du type et de la nature du soutien apporté et du bénéficiaire. Ces rôles impliquent différents niveaux d'intégration des responsabilités entre les opérateurs de plateforme et les AG et donc différents degrés de complexité juridique.

À la lumière du CPR, tous les types de plateformes de crowdfunding pourraient être considérés comme **des organismes intermédiaires ou des intermédiaires financiers pour la mise en œuvre du FESI**. Toutefois, la licence ECSP n'accorde pas aux prestataires de services de crowdfunding le droit de fournir des services de gestion d'actifs individuels ou collectifs. En vertu du ECSP, les plateformes de crowdfunding basées sur la dette pourraient agir en tant qu'intermédiaires financiers pour la mise en œuvre du FESI, tandis que les plateformes basées sur l'investissement ne peuvent le faire que si elles détiennent une licence d'entreprise d'investissement MiFID ou de gestionnaire de fonds alternatifs en vertu du régime national.

Afin d'évaluer les implications pratiques pour les AG, ce rapport a examiné six études de cas pour illustrer la collaboration entre les autorités publiques et les plateformes de crowdfunding, et ont été utilisés comme intrants dans la préparation des modèles de plan directeur.



Autorité publique accordant des subventions aux porteurs de projets en dehors d'une campagne de crowdfunding

Enseignements tirés

Simple à mettre en œuvre, tant du point de vue réglementaire qu'opérationnel.

Le degré de sophistication de la collaboration peut évoluer dans le temps.

L'octroi de subventions peut servir de levier pour générer des investissements privés, bien que son évolutivité soit remise en question.



Autorité publique opérant sa propre plateforme de crowdfunding

Enseignements tirés

Le modèle exige du gouvernement régional qu'il continue à investir dans le fonctionnement de la plateforme.

Le modèle est très pertinent lorsque 1) les autorités régionales veulent établir des contacts avec les acteurs du crowdfunding, 2) que le marché du crowdfunding est peu préparé et 3) que les plateformes ne peuvent pas fonctionner de manière rentable.



Autorité publique fournissant des instruments financiers aux porteurs de projets en dehors d'une campagne de crowdfunding

Enseignements tirés

Les fonds européens peuvent jouer un rôle clé dans la promotion du crowdfunding.

Si les autorités publiques peuvent sembler réticentes à s'engager dans le crowdfunding, une fois qu'elles le font, elles ont tendance à collaborer de manière plus sophistiquée pour atteindre différents objectifs politiques.



Autorité publique fournissant des garanties aux investisseurs

Enseignements tirés

Pour la plateforme de crowdfunding, un modèle standardisé d'accord de collaboration est utile.

L'utilisation d'un fonds d'investissement intermédiaire peut faciliter la collaboration entre les autorités publiques, tandis que le modèle avec un fonds d'investissement permet à l'AG de définir des critères d'éligibilité de présélection.



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Autorité publique agissant en tant que promoteur de projet

Enseignements tirés

Agir en tant que promoteur de projet est un modèle simple, car il n'y a pas de problèmes juridiques. Les autorités publiques doivent mettre en place un plan d'affaires adéquat et réfléchir de manière stratégique pour maximiser leurs chances de réussite. Les autorités publiques peuvent faire participer les citoyens à l'élaboration de leurs priorités politiques.

S'appuyant sur les résultats de l'analyse du marché et de l'analyse juridique ainsi que sur les enseignements tirés des études de cas, le rapport conclut en développant quatre schémas directeurs, qui peuvent être pris comme référence par les AG pour déployer le FESI par le biais du crowdfunding.

Schéma directeur 1. Fournir des subventions en dehors d'une campagne de crowdfunding

Dans ce schéma, les AG fournissent des subventions aux projets qui ont préalablement obtenu un niveau prédéterminé de financement par le biais d'une campagne de crowdfunding.

Principaux avantages

- Impact et portée élevés sans expertise préalable en matière de crowdfunding ;
- Mise en place juridique simple ;
- Il appartient à l'AG de décider du degré d'engagement dans le processus ;
- Il peut être utilisé comme un tremplin pour développer des collaborations plus sophistiquées ;
- En cas d'utilisation d'instruments financiers plutôt que de subventions, le recours à un intermédiaire financier peut simplifier davantage le décaissement du FESI.

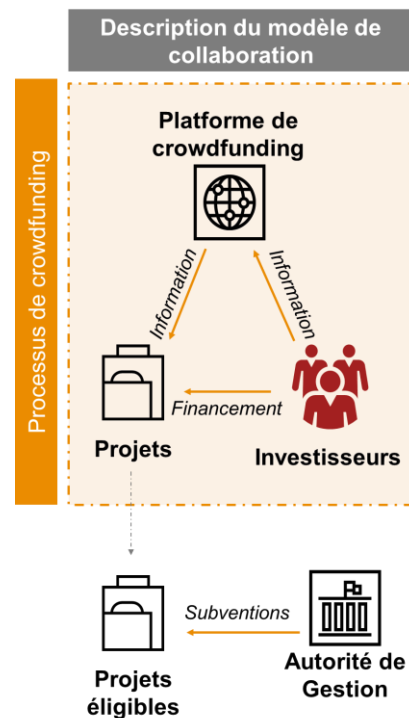


Schéma directeur 2. Investir par le biais d'une plateforme de crowdfunding basée sur la dette

Dans ce schéma, les AG agissent en tant que co-investisseurs dans une campagne de crowdfunding. En pratique, les AG ont trois options principales : (i) s'appuyer sur une plateforme en tant qu'intermédiaire financier, (ii) s'appuyer sur un tiers, (iii) gérer l'investissement par ses propres moyens.

Principaux avantages

- Tirer parti de la réputation et de la présence sur le marché d'une plateforme existante pour déployer le FESI et attirer des investissements privés ;
- Efficace pour atteindre les PME ayant un accès limité aux financements traditionnels ;
- Augmente le nombre de campagnes réussies grâce à l'apport de liquidités supplémentaires ;
- Coûts limités car les responsabilités sont déléguées à la plateforme basée sur la dette.

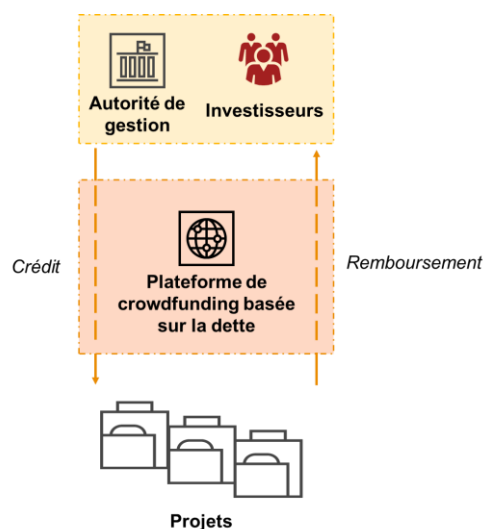


Schéma directeur 3. Fournir des garanties aux investisseurs

Dans ce schéma, les AG fournissent une garantie aux investisseurs dans une campagne de crowdfunding. Ce schéma directeur peut être structuré de deux manières différentes : (i) l'AG gère elle-même les instruments de garantie, ou (ii) les garanties sont confiées à un intermédiaire financier expérimenté.

Principaux avantages

- Attirer des investissements privés contribuant aux objectifs politiques de l'UE en réduisant l'exposition au risque des investisseurs ;
- Étendre la portée du FESI aux entreprises souvent négligées par les financements traditionnels ;
- Améliorer les conditions des investissements sous-jacents ;
- Dans le cas d'un système de garantie de portefeuille, mieux gérer le niveau d'exposition de la plateforme ;
- Maximiser l'efficacité des ressources de l'AG en obtenant un effet de levier plus important et en transférant le capital uniquement en cas de défaut.

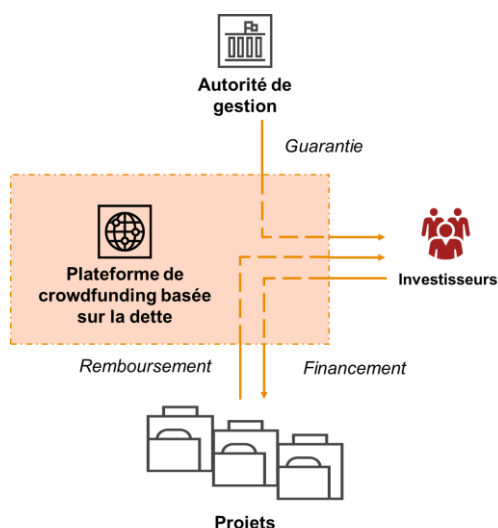
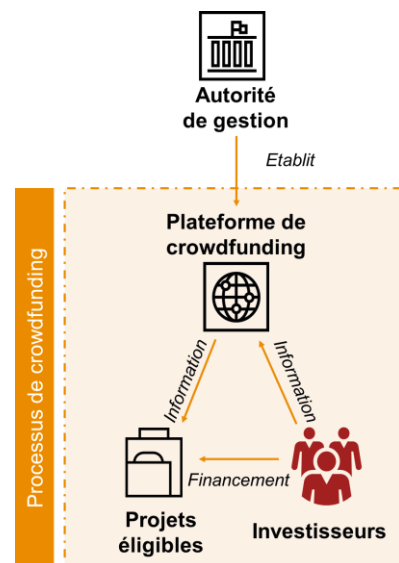


Schéma directeur 4. Opération d'une plateforme de crowdfunding

Dans ce schéma, les AG mettent en place et exploitent leur propre plateforme de crowdfunding. La mise en œuvre de ce schéma nécessite que les AG conçoivent et mettent en œuvre (ou externalisent) l'infrastructure informatique, ainsi que les processus de travail et de gestion (KYC, AML, sécurité des données...).

Principaux avantages

- Liberté et flexibilité dans la conception de la structure, du fonctionnement et des processus de la plateforme de crowdfunding en fonction des besoins de l'AG
- Risque limité et problèmes de réputation découlant de parties externes ;
- Apprentissage et renforcement des capacités accrues ;
- Aborder des questions complexes qui ne sont pas abordées par d'autres acteurs de la finance traditionnelle ou alternative, assurant ainsi l'additionnalité des investissements.



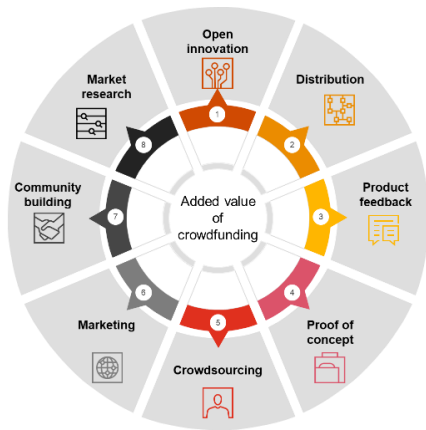
Dans l'ensemble, les quatre modèles constituent un tremplin pratique vers le crowdfunding pour les AG et prouvent que le crowdfunding est un moyen viable et efficace de canaliser des fonds structurels vers des projets qui promeuvent les objectifs de la politique de cohésion.

Zusammenfassung

Crowdfunding, eine Finanzierungsmethode, die auf der Bündelung von finanziellen Mittel einer großen Gruppe von Investoren oder Unterstützern für ein bestimmtes, auf einer digitalen Plattform gelisteten Projekt basiert, hat sich als innovativer Mechanismus zur Unterstützung von Start-ups und Unternehmern entwickelt. Im Jahr 2018 waren in Europa etwa 632 Crowdfunding-Plattformen in Betrieb, die ein Finanzierungsvolumen von insgesamt 6,5 Mrd. EUR beisteuerten.

Beim Financial-Return-Crowdfunding erhalten Crowdinvestoren eine finanzielle Gegenleistung für ihren Beitrag zu einem Projekt, sei es eine Rückzahlung des gutgeschriebenen Betrags und Zinsen bei einer kreditbasierten Crowdfunding-Kampagne oder eine Beteiligung am Unternehmen beim equity-based Crowdfunding. Crowdfunding ohne finanzielle Gegenleistung wird von Crowd-Unterstützern angeführt, die die Projekteigentümer finanziell unterstützen und beim Reward-based Crowdfunding Belohnungen oder beim Donation-based Crowdfunding nichts im Gegenzug erhalten.

Da Crowdfunding Vorteile mit sich bringt, die über die Finanzierung hinausgehen, gibt es ein

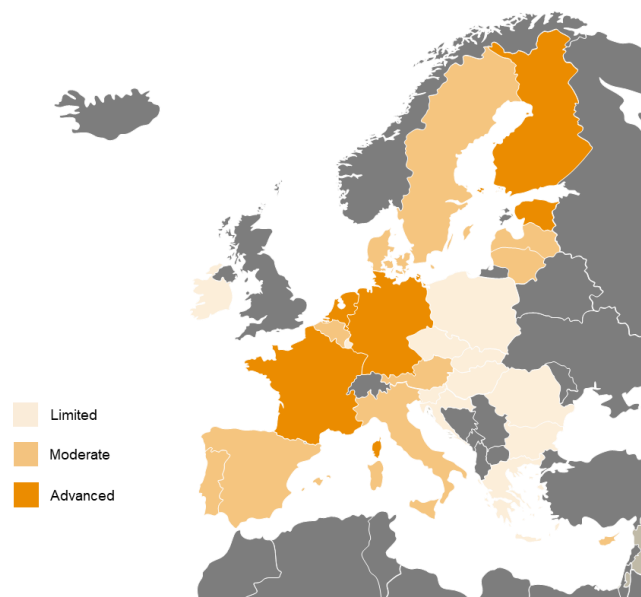



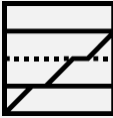







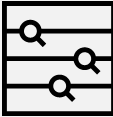





großes Interesse von politischen Entscheidungsträgern und der Finanzindustrie, die darin eine Möglichkeit sehen, den Zugang von KMU zu Finanzmitteln zu unterstützen, sowie die sozioökonomische Entwicklung, die Schaffung von Arbeitsplätzen und die Einbeziehung von Unternehmern zu fördern, die von traditionellen Finanzierungsakteuren oft übersehen werden.

Daher sind Maßnahmen, die Crowdfunding unterstützen, und Partnerschaften zwischen öffentlichen Akteuren und Banken von zentraler Bedeutung für den Erfolg von Crowdfunding-

Kampagnen. Die Verwaltungsbehörden (Managing Authorities), die für die Europäischen Struktur- und Investitionsfonds (ESIF) zuständig sind, können eine wichtige Rolle bei der Stabilisierung, dem Wachstum und der Nutzung des Crowdfunding-Ökosystems spielen.

Dieser Bericht dient als eine Bewertung des europäischen Crowdfunding-Ökosystems und zeigt auf, wie Crowdfunding effektiv durch die ESIF genutzt werden könnte, um die Umsetzung der Kohäsionspolitik zu unterstützen. Die Bewertung der Marktreife zeigt ein insgesamt günstiges Umfeld für die Mitgliedstaaten der Europäischen Union, um die ESIF mit Crowdfunding für den Programmplanungszeitraum 2021-2027 zu kombinieren.



	Vorteile		Risiken
	Crowdfunding kann helfen, private Co-Investitionen in politische Prioritäten der ESIF zu erhöhen		Die Qualität des Monitoring- und Reporting-Prozesses von Crowdfunding unterliegt noch keinen standardisierten Grundlagen.
	Crowdfunding kann die Sichtbarkeit der EU-Kohäsionspolitik verbessern		Beim Crowdfunding wird der Entscheidungsprozess über die Auswahl der Projekte mit den Bürgern geteilt, wodurch die MV weniger Kontrolle über die Verwendung der öffentlichen Mittel haben
	Crowdfunding kann die Wirkung der ESIF auf F&E und neue Technologien verstärken		
	Crowdfunding ermöglicht es zudem, die Reichweite der ESIF auf Unternehmer auszuweiten, die von traditionellen Finanzierungsmöglichkeiten nicht optimal unterstützt werden		
	Crowdfunding kann die Flexibilität und effiziente Auszahlung der ESIF.		Genau wie viele andere Finanzierungsmodelle auch unterliegt Crowdfunding der Marktdynamik, was bedeutet, dass es für Crowdfunding-Projekte einfacher ist, Netzwerke in Bereichen zu mobilisieren, in denen soziales und wirtschaftliches Kapital vorhanden ist.
	Durch Crowdfunding kann ein stärkerer regionaler Impact erzielt werden, da lokale Interessensgruppen miteinbezogen werden		Das Fehlen eines Sekundärmarktes für investmentbasiertes Crowdfunding erschwert die Möglichkeit, Investitionen zu liquidieren/zu realisieren
	Crowdfunding kann ein zusätzliches Instrument sein, um in Projekte zu investieren, die Bürgern am Herzen liegen.		Anlage- und fremdkapitalbasiertes Crowdfunding kann, wie andere Finanzierungsinstrumente auch, zu einem Kapitalverlust bei der Investition führen
	Crowdfunding stärkt und ermächtigt Bürger		
	Crowdfunding kann dazu beitragen, die Transparenz, Rechenschaftspflicht und öffentliche Kontrolle von öffentlichen Investitionen zu erhöhen		Auch beim Crowdfunding können Probleme mit Betrug und/oder Geldwäsche auftreten



Das Inkrafttreten der ECSP-Verordnung ist ein Wendepunkt für MVs, um das Potenzial von Crowdfunding für sich zu erschließen

Die ECSP-Verordnung ist für die Entwicklung des Crowdfunding in der EU von entscheidender Bedeutung. Die ECSP ermöglicht es den Plattformen, in der gesamten EU auf der Grundlage eines einzigen Regelwerks zu operieren und lizenziert zu werden. Die Plattformen sind verpflichtet, unter der Aufsicht der Finanzaufsichtsbehörde in jedem Mitgliedstaat Finanzvermittlungstätigkeiten durchzuführen. Die ECSP-Verordnung ergänzt die CPR als die beiden wichtigsten regulatorischen Rahmen für Managing Authorities, die bei der Kombination von Crowdfunding und ESIF zu berücksichtigen sind. Weitere relevante Vorschriften sind die Prospektverordnung, die Zahlungsdiensterichtlinie, die Richtlinie zur Bekämpfung der Geldwäsche (AML), die Richtlinie über die Verwalter alternativer Investmentfonds (AIFM), die Richtlinie über Märkte für Finanzinstrumente II (MiFID II) sowie die umgesetzten und delegierten Rechtsakte und die Vorschriften über staatliche Beihilfen (insbesondere De-minimis und AGVO).

Die bestehenden regulatorischen Rahmenbedingungen und Rechtskonzepte hindern die Managing Authorities nicht daran, Crowdfunding-Initiativen im Rahmen der Kohäsionspolitik zu unterstützen, zu investieren oder zu leiten. Daher besteht keine Notwendigkeit, rechtliche Konzepte zwischen der ECSP und dem Rahmen der CPR abzustimmen. Zulassungsstellen können unterschiedliche Rollen im Crowdfunding-Prozess spielen, je nach Art und Beschaffenheit der geleisteten Unterstützung und des Empfängers. Die Rollen beinhalten unterschiedliche Integrationsebenen der Verantwortlichkeiten zwischen Plattformbetreibern und MAs und damit unterschiedliche Grade an rechtlicher Komplexität und Anwendbarkeit der CPR-Regeln.

In Anbetracht der CPR könnten alle Arten von Crowdfunding-Plattformen als zwischengeschaltete Stellen oder Finanzintermediäre. Allerdings gewährt die ECSP-Lizenz Crowdfunding-Dienstleistern nicht das Recht, individuelle oder kollektive Vermögensverwaltungsdienstleistungen zu erbringen. Unter der ECSP, könnten Plattformen auf Kreditbasis als Finanzintermediäre für die Umsetzung der ESIF agieren, wohingegen Plattformen auf Investmentbasis dies nur dann tun können, wenn sie eine MiFID-Wertpapierfirma oder AIFM-Lizenz unter dem nationalen Regime besitzen, da ihnen das die Verwaltung von Vermögenswerten.

Um die konkreten Auswirkungen für Behörden bei der Zusammenarbeit mit Crowdfunding-Plattformen zu bewerten, wurden in diesem Bericht sechs Fallstudien untersucht, um die Zusammenarbeit zwischen Behörden und Crowdfunding-Plattformen zu veranschaulichen.



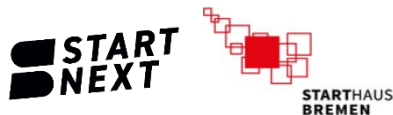
Öffentliche Behörde gewährt Förderungen an Projekteigentümer außerhalb einer Crowdfunding-Kampagne

Lessons learnt

Einfach zu implementieren, sowohl aus regulatorischer als auch aus operativer Sicht.

Der Grad der Ausgereiftheit der Zusammenarbeit kann sich im Laufe der Zeit weiterentwickeln.

Die Bereitstellung von Zuschüssen kann dafür genutzt werden, um private Investitionen zu tätigen, wenngleich die Skalierbarkeit angezweifelt werden kann.



Öffentliche Behörde stellt Finanzierungsinstrumente für Projekteigentümer außerhalb einer Crowdfunding-Kampagne bereit

Lessons learnt

EU-Fonds können eine Schlüsselrolle bei der weiteren Förderung von Crowdfunding spielen

Auch wenn Behörden zunächst zögerlich scheinen, sich am Crowdfunding zu beteiligen, neigen sie, sobald sie es dann tun, dazu, auf intensivere Weise weiter mit Akteuren und Plattformen zusammenzuarbeiten, um verschiedene politische Ziele zu erreichen.



Öffentliche Behörde, die als Projekteigentümer agiert

Lessons learnt

Als Projekteigner zu agieren ist ein unkompliziertes Modell, da es keine juristischen Probleme gibt.

Öffentliche Behörden müssen einen genauen Geschäftsplan aufstellen und strategisch denken, um ihre Erfolgchancen zu maximieren.

Behörden können die Bürger in die Entwicklung ihrer politischen Prioritäten miteinbeziehen.

Unlocking the crowdfunding potential for the European Structural and Investment Funds (ESIF) 18



Öffentliche Behörde agiert auf ihrer eigenen Crowdfunding-Plattform

Lessons learnt

Modell erfordert eine kontinuierliche Investition der regionalen Regierung um den Betrieb der Plattform aufrechtzuerhalten.

Das Modell ist dort von hoher Relevanz, wo MAs Kontakte zu Crowdfunding-Akteuren knüpfen wollen, die Crowdfunding-Marktreife mäßig ist und Plattformen nicht profitabel arbeiten können.



Öffentliche Behörde sichert Investoren zusätzliche Garantien zu

Lessons learnt

Für eine Crowdfunding-Plattform ist eine standardisierte Mustervereinbarung für die Zusammenarbeit sinnvoll.

Die Verwendung eines intermediären Investmentfonds kann die Zusammenarbeit zwischen öffentlichen Behörden erleichtern, während das Modell mit einem Investmentfonds es der MA ermöglicht, Kriterien für die Vorauswahl der Förderfähigkeit zu definieren



Öffentliche Behörde, die als Investor über eine kreditbasierte Crowdfunding-Plattform agiert

Lessons learnt

Behörden und Banken können beim Aufbau des Crowdfunding-Marktes helfen, entweder bevor oder während sie in diesen Markt investieren.

Die Zusammenarbeit mit einer Crowdfunding-Plattform kann zu verschiedenen Zeitpunkten unterschiedliche Formen annehmen – und genau das ist einer ihrer größten

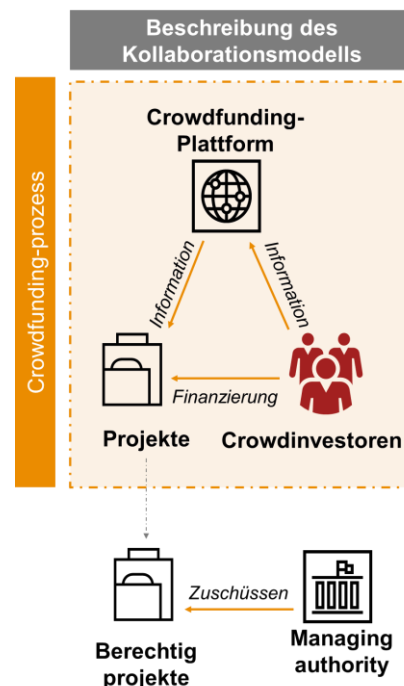
Aufbauend auf den Erkenntnissen aus der Markt- und Rechtsanalyse sowie den Einsichten aus den Fallstudien schließt der Bericht mit der Entwicklung von vier Entwürfen, die den Verwaltungsbehörden (Managing Authorities) als Referenz für den Einsatz der ESIF durch Crowdfunding dienen können.

Entwurf 1. Bereitstellung von Zuschüssen (Grants) außerhalb einer Crowdfunding-Kampagne

Im Rahmen dieses Programms gewähren die MAs Zuschüsse für Projekte, die sich bereits eine im Vorfeld festgelegte Summe von finanziellen Mittel durch eine Crowdfunding-Kampagne gesichert haben.

Wesentliche Vorteile

- Hohe Wirkung und Reichweite ohne vorherige Expertise im Crowdfunding
- Unkomplizierter rechtlicher Aufbau
- Es liegt im Ermessen der Mas/öffentlichen Behörden, wie stark sie sich in den Prozess einbringen
- Es kann als Sprungbrett für die Entwicklung anspruchsvollerer Unternehmungen verwendet werden
- Durch Einsatz von Finanzierungsstrimenten anstelle von Zuschüssen kann der Einsatz eines Finanzintermediärs die Auszahlung der ESIF weiter vereinfachen

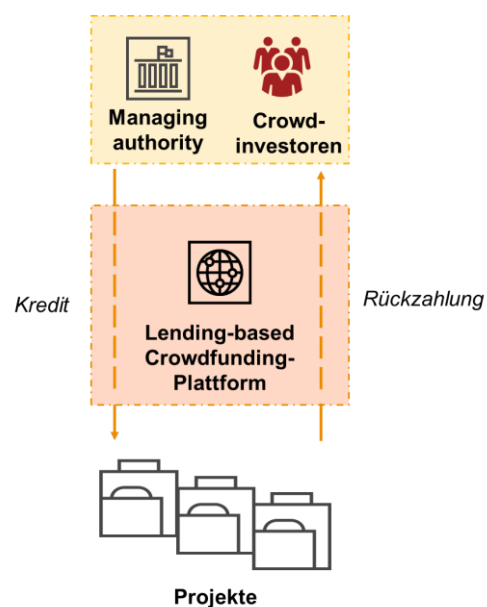


Entwurf 2. Investieren über eine kreditbasierte Crowdfunding-Plattform

In diesem Schema agieren MAs als Co-Investor in einer Crowdfunding-Kampagne. In der Praxis haben MAs drei Hauptoptionen: (i) Nutzung einer Plattform als Finanzvermittler, (ii) Einschaltung einer dritten Partei, (iii) Verwaltung der Investition in Eigenregie.

Wesentliche Vorteile

- Nutzung von Ruf und Marktpräsenz einer bestehenden Plattform, um ESIF einzusetzen und private Investitionen anzuwerben
- Effektiv beim Erreichen von KMUs mit begrenztem Zugang zu traditionellen Finanzierungen;
- Erhöhung der Anzahl erfolgreicher Kampagnen durch die Bereitstellung zusätzlicher Liquidität;



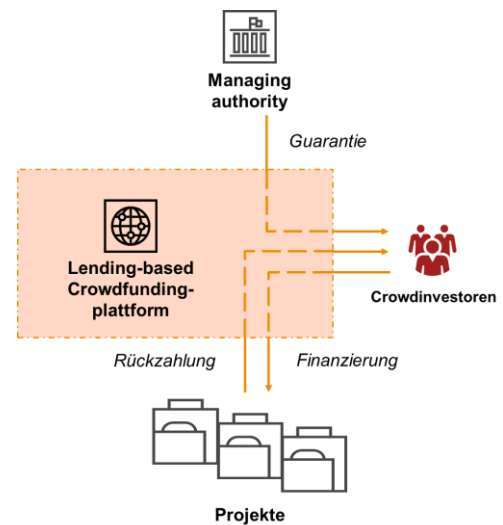
- Begrenzte Kosten, da die Verantwortung an die Lending-Plattformen delegiert wird.

Entwurf 3. Investoren Garantien geben

Im Rahmen dieses Schemas bieten die MAs den Investoren einer Crowdfunding-Kampagne eine Garantie. Dieses Schema kann auf zwei verschiedene Arten strukturiert werden: (i) die MA verwaltet die Garantieinstrumente selbst, oder (ii) die Garantien werden einem Finanzvermittler anvertraut.

Wesentliche Vorteile

- Anwerbung privater Investitionen, die zu den politischen Zielen der EU beitragen, indem sie das Risiko der übrigen Investoren reduzieren;
- Ausweitung der Reichweite der ESIF auf Unternehmen, die von traditionellen Finanzierungsmöglichkeiten oft übersehen werden;
- Verbesserung der Bedingungen von zugrunde liegenden Investitionen;
- Im Falle einer Portfolio-Garantie wird das Risikoniveau für die Plattform verbessert;
- Verbessern der Effizienz der MA-Ressourcen, indem ein höherer Leverage-Effekt erzielt und Kapital nur im Falle eines Ausfalls transferiert wird.

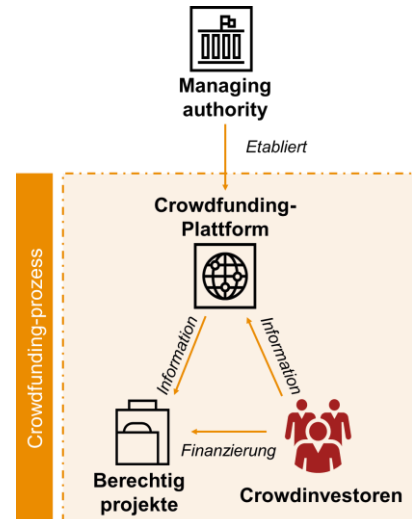


Entwurf 4. Betrieb einer Crowdfunding-Plattform

Bei diesem Schema richten die MAs ihre eigene Crowdfunding-Plattform ein und betreiben diese. Die Umsetzung eines solchen Systems erfordert, dass die MV die IT-Infrastruktur sowie die Arbeits- und Verwaltungsprozesse (KYC, AML, Datensicherheit...) entwerfen und implementieren.

Wesentliche Vorteile

- Freiheit und Flexibilität bei der Gestaltung von Struktur, Funktionsweise und Prozessen der Crowdfunding-Plattform, die den Bedürfnissen der MA entsprechen
- Begrenzte Risiken und Reputationsprobleme, die von externen Parteien ausgehen
- Hoher Lerneffekt und Aufbau von Kapazitäten
- Komplexe Themen ansprechen, die von anderen Akteuren aus dem traditionellen oder alternativen Finanzbereich (z.B. ländliche Wirtschaft) nicht angegangen werden, um so Zusätzlichkeit zu gewährleisten.



Insgesamt bieten die vier Entwürfe eine praktische Anleitung zum Crowdfunding für MAs und beweisen, dass Crowdfunding ein gangbarer und effektiver Weg ist, um Mittel und Finanzierungen in Projekte zu lenken, die kohäsionspolitische Ziele.

List of abbreviations

Abbreviation	Definition
AIFM	Alternative Investment Fund Managers
AML	Anti-Money Laundering
CCAF	Cambridge Centre for Alternative Finance
CF	Cohesion Fund
CPR	Common Provisions Regulation
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
ECN	European Crowdfunding Network
EIB	European Investment Bank
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ECSP	European Crowdfunding Service Providers
ESF	European Social Fund
ESIF	European Structural Investment Funds
ESMA	European Securities and Markets Authority
EU	European Union
GBER	Global Block Exception Regulation
KYC	Know Your Client
MAs	Managing Authorities
MiFID	Markets in Financial Instruments Directive
MS	Member States
P2P	Peer to Peer
SMEs	Small and Medium sized Enterprises
UK	United Kingdom
YEI	Youth Employment Initiative



1

Overview of European crowdfunding activities



“

Crowdfunding is a form of online financing for innovative companies, projects and people. Crowdfunding comes in many different formats and purposes - but the general similarity is the process of collaborative funding often on crowdfunding platforms that bring the supporters together with the recipients of funds.

Wenzlaff and Gumpelmaier 2018¹

¹ Wenzlaff and Gumpelmaier-Mach (2018). 'The (Almost) Complete Guidebook to Crowdfunding for SMEs'. Ikosom UG / Crowdfund-Port. Accessible from: <https://www.crowdcreator.eu/crowdfunding-guide-book/>.

The purpose of this introductory chapter is to provide a snapshot of the current state of crowdfunding activities in the European Union, in order to highlight the potential gaps and opportunities of coupling European Structural and Investment Funds² (ESIF) resources with crowdfunding, and design and implement innovative funding schemes within the context of the EU Cohesion Policy.

² In this report, ESIF (or sometimes referred as funds under shared management) relate to the 2021-2027 programming period. While the EAFRD is not part of the Cohesion Policy and will not be included under the scope of CPR (except for Article 52-56), the findings of this study are equally relevant for EAFRD MAs.

1.1 High-level analysis of crowdfunding

In Europe, most of the crowdfunding activity takes place online via specifically designed **digital platforms**³. These platforms play the role of intermediaries between the crowd (composed of “supporters” in the case of non-financial-return crowdfunding, or “investors” in the case of financial-return crowdfunding – see Figure 2) and the project owners which present their project idea on the platform. The crowd of supporters or investors is usually quite large, and each provides financing to the projects of their choosing, usually through small amounts. The relationship between the three is referred to as the “Crowdfunding Triangle”. The process whereby a project owner seeks to raise investment from the crowd via a platform is referenced as a “crowdfunding campaign”.

The campaign itself consists of three phases: the **pre-campaign phase** where the campaign is being prepared, the **campaign phase**, where investments are gathered, and the **post-campaign phase**, where the follow-up to the campaign is organised.

Figure 1: crowdfunding campaign stages



Source: Adapted from: Wenzlaff & Gumpelmaier-Mach (2017)⁵

Most crowdfunding platforms follow an “all or nothing” approach, meaning that the funding objective is binding. The platform transfers the money to the project owner when the crowdfunding campaign reaches its funding goal. Some platforms offer a non-binding funding goal and pursue a “keep it all” approach.

The platform does not use its own resources to invest in the project owner's campaign. In fact, the European Crowdfunding Service Providers (ECSP) regime⁵ expressly prohibits such behaviour, therefore guaranteeing the status of the platform as an independent gatekeeper and intermediary. Regulation in most Member States has exempted platforms from requirements that apply to other financial stakeholders, such as banks, as platforms do not take deposits or provide loans, and are therefore not active in risk intermediation.

Crowdfunding has developed through the emergence of **crowdfunding types with significant**

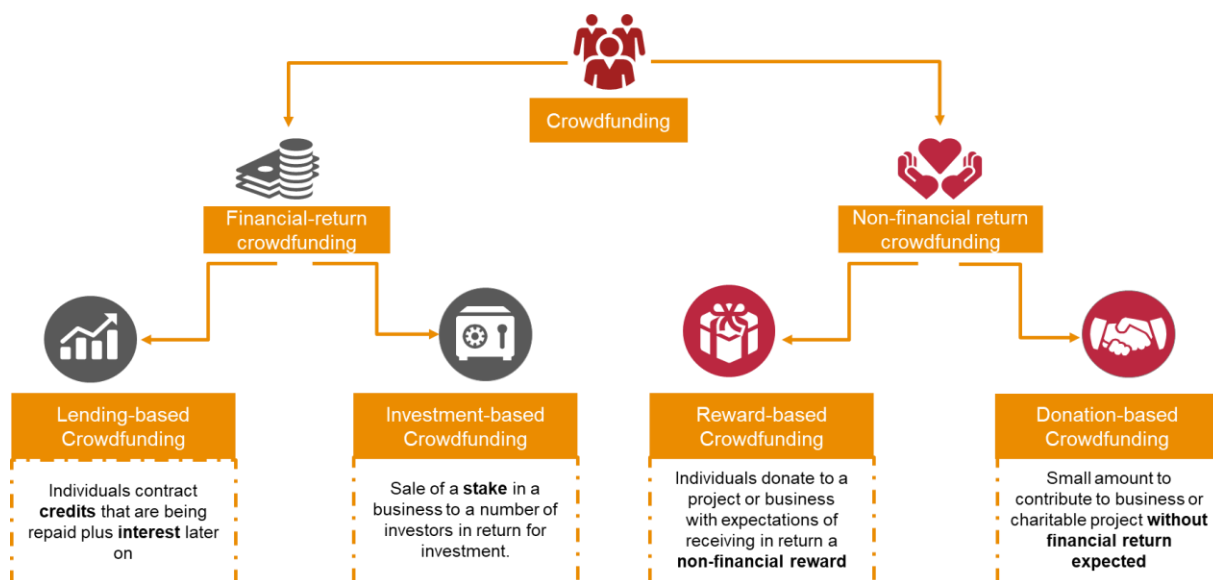
³ Crowdfunding can also have offline elements, but for the purpose of this chapter, we will focus on the online elements.

⁴ Wenzlaff & Gumpelmaier-Mach (2017). ‘Crowdfunding Training Material for Small and Medium Sized Enterprises’. <https://www.crowdcreator.eu/crowdfunding-infographics/> CC-BY-NC 4.0.

⁵ Regulation of the European Parliament and the Council on ESCP for Business, adopted in October 2020, text available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018PC0113>

differences in their operational models. For the purpose of this report, the taxonomy used to distinguish between different types of crowdfunding is “financial-return crowdfunding” and “non-financial-return crowdfunding”. These are presented as below:

Figure 2: The different types of crowdfunding



Financial-return vs. non-financial-return crowdfunding

Financial-return crowdfunding is based on the assumption that the investors receive some sort of financial return, based on the underlying contract between the project investor and the project owner, whether it be a repayment of the credited amount and interest in a “lending-based crowdfunding” campaign, or an equity stake of the business endeavour in “equity-based crowdfunding”. In non-financial-return crowdfunding, supporters receive material or immaterial rewards (“reward-based crowdfunding”) or nothing (“donation-based crowdfunding”). Therefore, in financial-return crowdfunding, the motives of investors are profit-oriented, whereas in non-financial-return crowdfunding the motives of the supporters are more altruistic towards the goal of the project.

The **instruments** used in financial-return crowdfunding can be distinguished according to the **risk structure**. Riskier instruments include securities, mini-bonds or profit-sharing rights, while debt is considered a less risky instrument. From the point of view of the supporter, immaterial and material rewards or tax-relevant receipts for donations carry very little risk. Based on the risks associated with financial-return and non-financial-return crowdfunding, the **selection of projects** by supporters or investors follows different motives. In donation- and reward-based crowdfunding, projects have to be appealing to supporters in terms of their innovation or social impact. In investment-based and lending-based crowdfunding, investors select projects based on the profitability of the underlying asset.

In most Member States, non-financial-return crowdfunding is not a **licensed activity**, but platforms have to comply with anti-money-laundering and payment regulations. In contrast, financial-return crowdfunding is a regulated activity requiring permission from national regulators.

Platforms in financial-return crowdfunding are usually obligated to assess their customers, both on the project owner side and the retail investor side. They also have more extensive **reporting obligations** than for non-financial-return crowdfunding. Some crowdfunding associations have added additional reporting requirements for financial-return crowdfunding, pointing to the need for more market transparency.

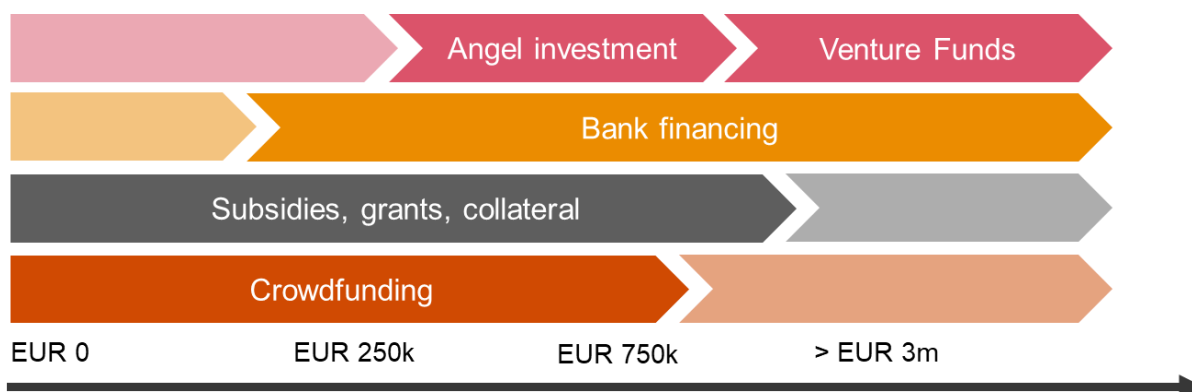
Platforms are usually **privately-owned**. Some public authorities have created their own platform, but this mostly concerns non-financial-return crowdfunding, as it is quite challenging to obtain a crowdfunding license as a public authority. Financial-return crowdfunding increasingly witnesses **institutional investors** co-investing alongside retail investors. Non-financial-return crowdfunding is usually supplemented with match-funding schemes, where the project owner receives a grant, loan or equity based on the success of the underlying crowdfunding campaign.

Non-financial-return crowdfunding is more suitable to social entrepreneurs and solo-entrepreneurs; in other words, entrepreneurs who are not organised as a traditional capital company with limited liabilities. Investment-based crowdfunding is the appropriate option for start-ups and innovative companies in the seed stage, but they need to incorporate as a limited company or stock company. Lending-based crowdfunding is more accessible to medium-sized companies and growth companies. **An in-depth analysis of the different types of crowdfunding is provided in Annex 1**, which highlights their differences in terms of legal nature, processes and requirements

Crowdfunding in the context of SME access to finance

Crowdfunding is considered a form of alternative financing, which is the type of financing offered by non-bank financial institutions. Crowdfunding has emerged in the past few years as a parallel instrument to complement other forms of financing. The figure below shows that crowdfunding is often used as a form of early-stage or seed financing, but investment-based and lending-based crowdfunding are increasingly used as a form of growth-staged financing in later stages of the enterprise development.

Figure 3: Relevance of crowdfunding according to enterprise development⁶



Source: Adapted from: Cambridge Centre for Alternative Finance (2016)

It also should be noted that different sectors use crowdfunding differently, as shown in the table below:

Table 1: Predominant industries by type of crowdfunding

Alternative finance model	Most predominant industries across crowdfunding types		
	1 st	2 nd	3 rd
Lending-based crowdfunding	Retail and wholesale Education and research	Agriculture Manufacturing and engineering Community and social enterprise	Food and drink Construction Health and social work
Investment-based crowdfunding	Technology Retail and wholesale Real estate and housing Environment and cleantech	Manufacturing and engineering Business and professional services Energy and mining	Health and social work Manufacturing and engineering Agriculture
Reward-based crowdfunding	Arts, music and design	Film and entertainment	Media and publishing
Donation-based crowdfunding	Charity and philanthropy	Health and social work	Community and social enterprise

Source: Adapted from Cambridge Centre for Alternative Finance (2016)

Philanthropic projects mostly use donation-based crowdfunding, but also social entrepreneurs. Reward-based crowdfunding is often used in creative industries. Technology companies mostly use investment-based crowdfunding, whereas companies

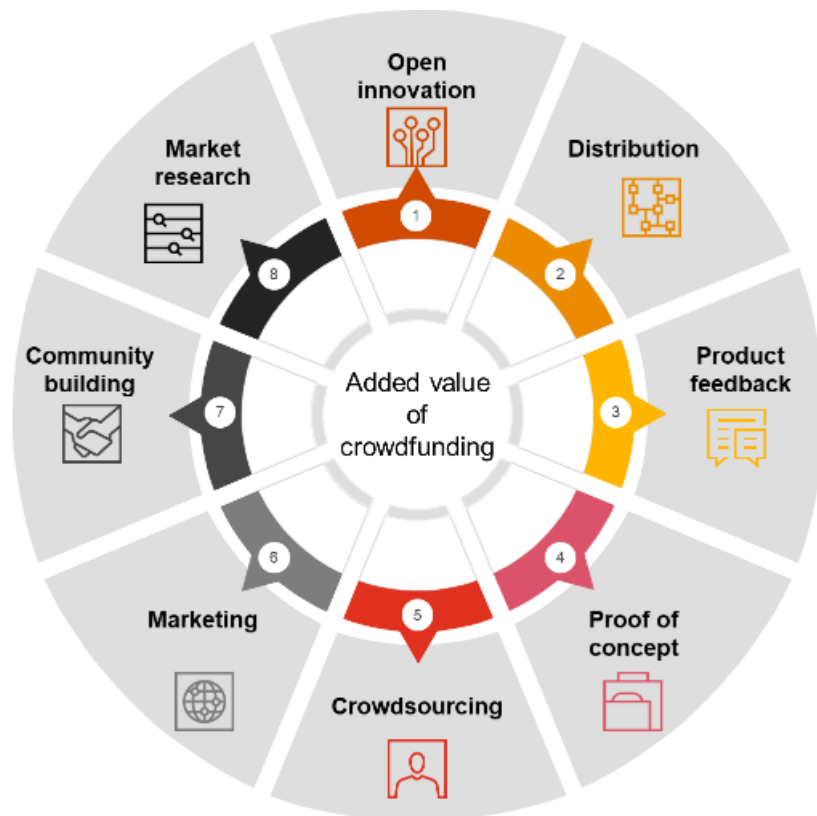
⁶ Cambridge Centre for Alternative Finance (2016). 'Sustaining Momentum: The 2nd European Alternative Finance Industry Report'. Annual European Alternative Finance Industry Survey. Cambridge, UK: Cambridge Centre for Alternative Finance. <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/sustaining-momentum/>

in more traditional industries (retail, agriculture, etc.) often use lending-based crowdfunding.

Finally, crowdfunding has an **added value beyond the financing**. Typical uses of crowdfunding by entrepreneurs are marketing, community building, market research, open innovation, distribution, product feedback, proof of concept and crowdsourcing.

The table below describes in detail each of the added values of crowdfunding – and as can be seen in Chapter 2, MAs can also benefit from these added values of crowdfunding.

Figure 4: Added value of crowdfunding⁷



Source: Wenzlaff & Gumpelmaier-Mach (2017)

⁷ Wenzlaff & Gumpelmaier-Mach (2017). 'Crowdfunding Training Material for Small and Medium Sized Enterprises'. <https://www.crowdcreator.eu/crowdfunding-infographics/> CC-BY-NC 4.0

Table 2: Description of the added value of crowdfunding⁸

Added value of crowdfunding	Description
Open Innovation	<ul style="list-style-type: none"> • Develop new products and services with your clients • Identify those employees who are innovators and multipliers
Distribution	<ul style="list-style-type: none"> • Find new suppliers • Find new distributors • Find large-scale retailers • Experiment with new packaging methods
Product Feedback	<ul style="list-style-type: none"> • Obtain testimonials from customers and retail partners • Test different designs and/or functions of your product with your crowd • Understand media coverage about your product
Proof of concept	<ul style="list-style-type: none"> • Show that your product has a market value or that a new market can be created for this product or service
Crowdsourcing	<ul style="list-style-type: none"> • Let the crowd help you in solving problems • Obtain feedback from potential customers
Marketing	<ul style="list-style-type: none"> • Reach out to potential customers and partners • Generate media awareness • Generate social media reach
Community building	<ul style="list-style-type: none"> • Build a community of early adopters • Mobilise existing supporter networks
Market research	<ul style="list-style-type: none"> • Evaluate the market • Understand the reaction of customers to price differences • Understand where your customers live and their internet usage

Source: Wenzlaff & Gumpelmaier-Mach (2017)

⁸ Ibid

The role of public authorities in the crowdfunding ecosystem

Thanks to its unique model and benefits, crowdfunding has attracted the interest of policymakers and the finance industry, who see it as a way of supporting access to finance and foster **socio-economic development and job creation**. A growing stream of research focuses on crowdfunding platforms and on their collaboration with public authorities, with some of the main insights presented below:

1 **There is an increasing number of investments from institutional investors, which account for a growing share of the total crowdfunding volume.** These investments (often in large amounts), are increasingly combined to small-scale contributions from private individuals and SMEs, thus showing an emerging interest from a wide range of actors (including, inter alia, institutional investors, private investors and entrepreneurs) in crowdfunding activities.

2 **The composition, rather than size, of the crowd helps predict crowdfunding success⁹.**

Homogenous groups may contribute to the success of campaigns, but diverse groups of supporters/investors contribute to the long-term sustainability of a project. Academic research has shown that social capital and network ties within groups of supporters/investors are important predictors of crowdfunding success. Public authorities can contribute to crowdfunding by increasing the diversity, social capital and network ties

in crowd.

3 **Platforms are pivotal players in building the crowdfunding ecosystem.** Therefore, it is not

surprising that the academic literature focuses on the role of platforms¹⁰, and the reputation benefits and costs of platform behaviour. Academic literature stresses the role of due diligence and the selection of projects. It is hence not surprising if the ECSP regulation focuses on the role of platforms. Investor protection requirements in ECSP require platforms to ensure that investors can make well-informed choices.

4 **Academic research into legal and cultural institutions related to crowdfunding shows the importance of public policies supporting crowdfunding, and the importance of partnership, especially with commercial and public banks.** In this context, European Structural and Investment Funds (ESIF) MAs can play an important role in stabilising and growing crowdfunding ecosystem.

⁹ Dorfleitner, Hornuf, and Weber (2018). 'Paralyzed by Shock and Confused by Glut: The Portfolio Formation Behavior of Peer-to-Business Lending Investors'. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.3186093>
Feola, Vesci, Marinato, and Parente (2019). 'Segmenting "Digital Investors": Evidence from the Italian Equity Crowdfunding Market'. *Small Business Economics*, August.

<https://link.springer.com/article/10.1007/s11187-019-00265-3>
¹⁰ Moysidou and Hausberg (2019). 'In Crowdfunding We Trust: A Trust-Building Model in Lending Crowdfunding'. *Journal of Small Business Management* 0 (0): 1–33. <https://www.tandfonline.com/doi/full/10.1080/00472778.2019.1661682>

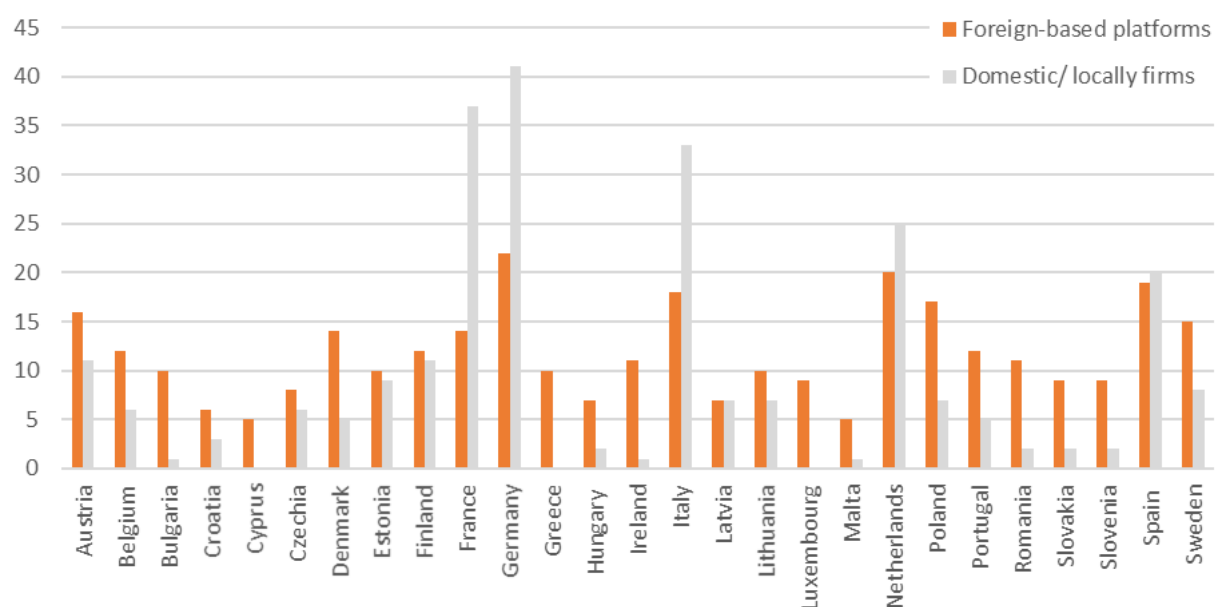
1.2 The European crowdfunding market

Gathering comprehensive data on the crowdfunding market is challenging. Some Member States provide statistical data on the development of the crowdfunding industry¹¹. In others, industry bodies or industry initiatives publish market data¹². With the **European Crowdfunding Service Providers (ECSP) Regime**, all Member States will have to report market activity on crowdfunding to the European Securities and Markets Authority (ESMA) through their supervisory bodies, and crowdfunding operators will be required to provide data on market activity to the national supervisors. Since 2015, the **Cambridge Centre for Alternative Finance (CCAF)** has published the 'European Alternative Finance Benchmarking Report', assessing and comparing crowdfunding activity across the globe, and covering hundreds of individual platforms. This report was used as a basis for the analysis of the European crowdfunding market presented below.

Number of crowdfunding platforms

The CCAF annual survey of online alternative finance estimated the number of crowdfunding platforms to be about 632 in Europe in 2018. These platforms contributed with a total volume of EUR 6.5 billion in financing. As shown in the figure below, the majority of platforms are based in Western Europe.

Figure 5: Number of domestic and foreign-based platforms operating in EU Member States in 2018



Source: Adapted from CCAF (2019)

Interestingly, while Western Europe crowdfunding platforms are often domestically based, i.e. primarily headquartered within their country/jurisdiction, most of the platforms in the Southern and Eastern European countries are foreign-based. The number of platforms is not equally spread across the different types of crowdfunding: **financial-return crowdfunding accounts for 65%**

¹¹ For instance, the Finnish Ministry of Finance provides an overview of the Finnish crowdfunding industry development since 2013. More information available at: <https://www.suomenpankki.fi/en/Statistics/peer-to-peer-and-crowdfunding/>

¹² e.g. Germany, France, The Netherlands, Denmark, Sweden or Estonia.

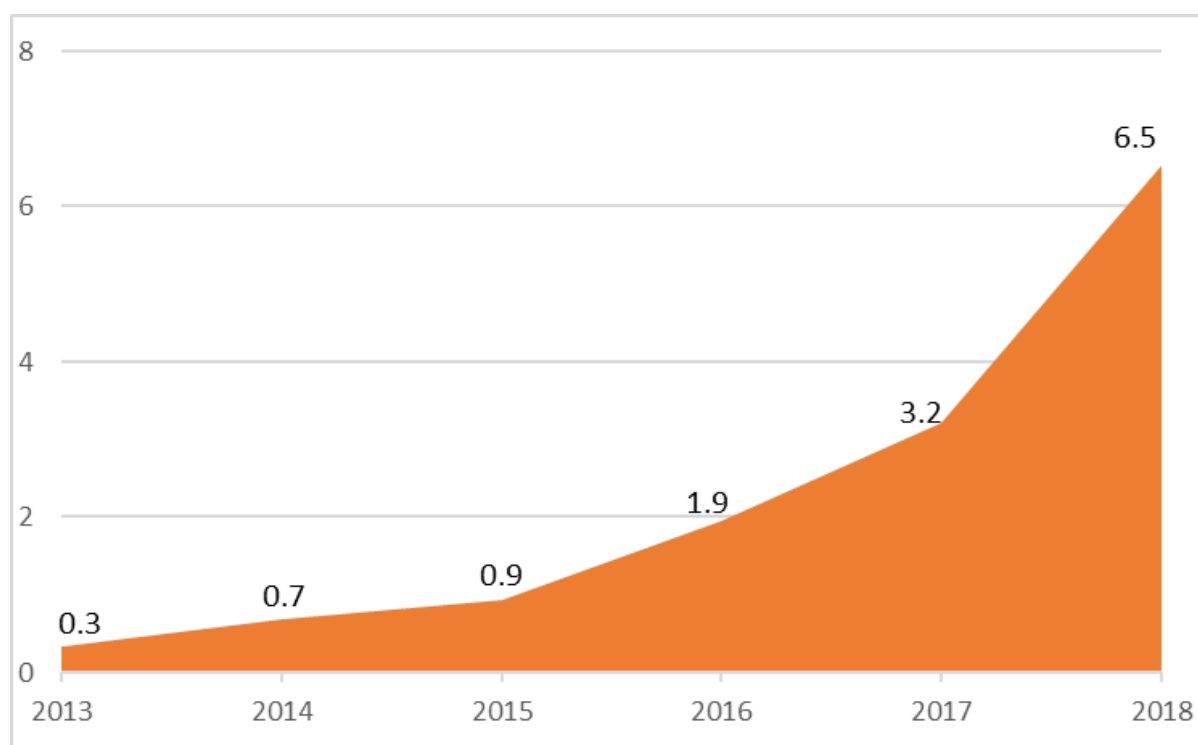
of the total number of crowdfunding platforms in Europe.

Cross-border flows in crowdfunding are quite limited due to the relative novelty of the concept and the lack of uniform regulatory framework. While smaller markets like the Baltic states and some Eastern European countries do see significant cross-border investing from their neighbours or from larger Member States via international platforms, crowdfunding remains overall a local affair. That being said, **84 crowdfunding platforms are operating cross-border in 2020**, showing that the absence of harmonised regulations does not necessarily prevent the internationalisation process of the crowdfunding ecosystem.

Volume of crowdfunding platforms

The total volume of the **crowdfunding market in Europe has significantly increased** in recent years, showing the increased awareness, relevance and use of crowdfunding in Europe as an alternative source of finance.

Figure 6: Volume of the European online alternative finance market (EUR billion)



Source: Adapted from CCAF (2019)

These growth rates are partly driven by (i) revisions of the existing crowdfunding regulatory frameworks in European countries, and (ii) the upcoming enforcement of the ECSP, which will create an EU harmonized legal framework.

As for the number of platforms, the total volume of crowdfunding is unequally spread across its different types. Lending- and investment-based crowdfunding account for the vast majority of investment volume. The table below details the volume of alternative finance by type of crowdfunding across the EU between 2013 and 2018.

Table 3: Alternative Finance Volume by Model in Europe 2013-2018 (EUR million)

	2013	2014	2015	2016	2017	2018
Reward-based crowdfunding	71	136	131	178.9	152	149
Donation-based crowdfunding	0	0	2.2	55.4	91	53
Lending-based crowdfunding	221	414	542	1,087	1864	4,737
Investment-based crowdfunding	69	123	282	604	1,085	1,606
Other	0	0	0	9.5	27.8	5.3

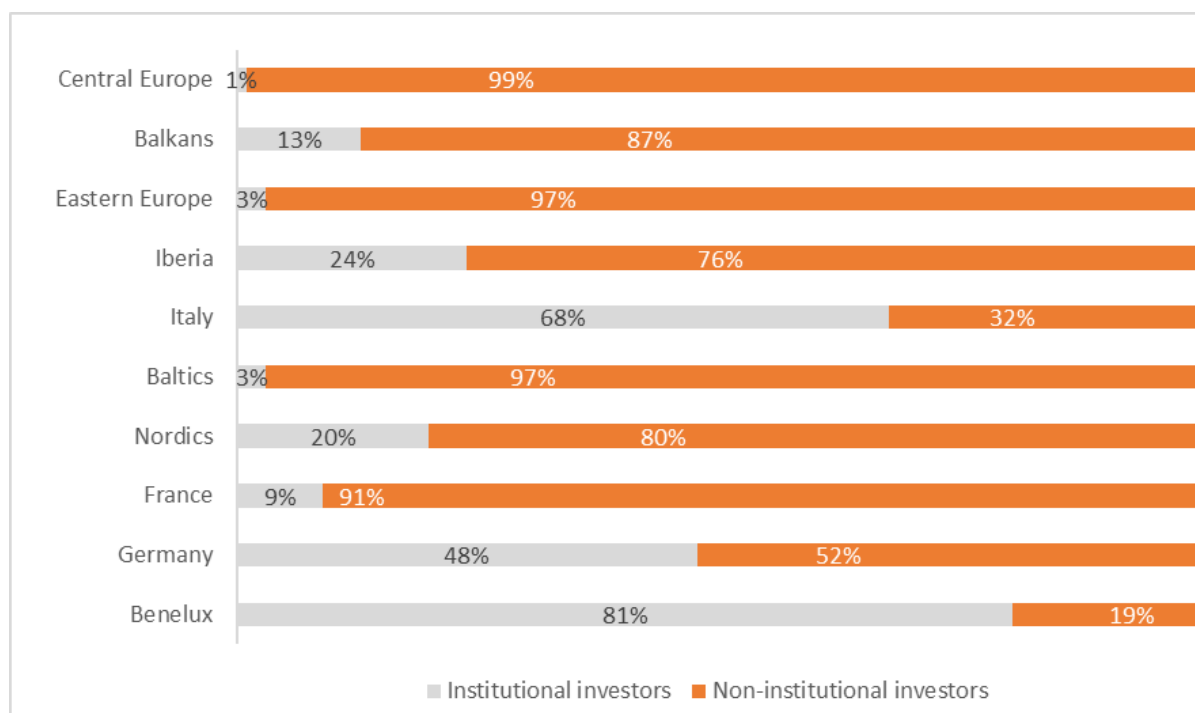
Source: Adapted from CCAF (2019)

Individual vs. institutional investors

Crowdfunding is designed to empower large numbers of individual supporters or investors – the crowd – to support worthwhile projects, and indeed, individuals make up the bulk of the crowd, and institutional investors the minority. Crowdfunding platforms with business activities in Europe received 29% of their volume from institutional investors in 2018, mostly through lending-based models. This is partly explained by the fact that loans can be distributed through automatic tendering procedures for private and institutional investors.

Platforms in Italy (68%), Benelux (81%) and Germany (48%) reported that close to or more than half of the alternative financing volume came from institutional investors, a significant increase compared to previous years. Countries and regions with low levels of institutional funding include the CEE countries (1%), Eastern Europe (3%) and the Baltic states (3%). The proportion of institutional investors is steadily increasing in certain regions, such as France (9%), the Balkans (13%) or the Iberian countries (24%).

Figure 7: Share of investment from institutional and non-institutional investors by region 2018



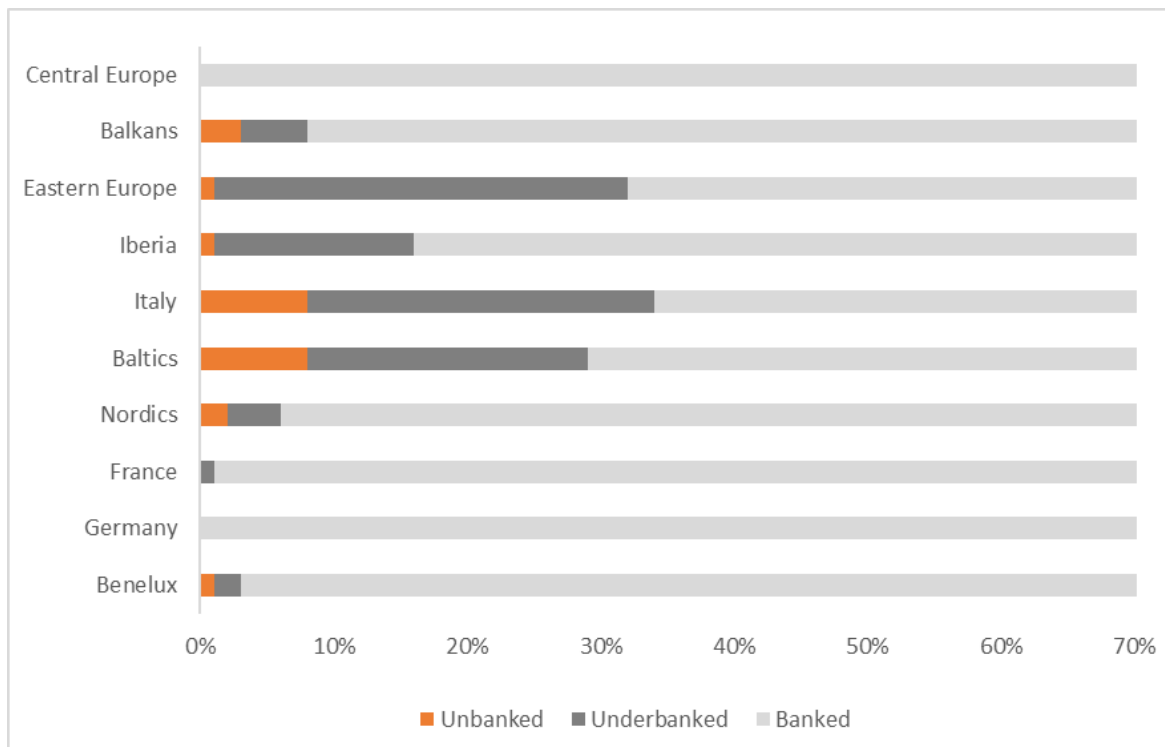
Source: Adapted from CCAF (2019)

Access to finance for the unbanked and underbanked

As an alternative form of financing, crowdfunding is designed to provide access to capital to those who may not have access to more traditional channels such as bank loans. Indeed, when looking at the profiles of crowdfunding project owners, evidence shows that a significant proportion report being either unbanked, defined as people not served by or without access to any traditional financial service, or underbanked, defined as with access to some basic financial services, but not a complete suite.

In the Cambridge Alternative Finance Report, 250 operating platforms released information on the status of the project owners, in particular borrowers on lending-based crowdfunding. Unbanked customers are relatively rare, with the exception of the Baltic states and Italy, where they make up 8% of all project owners. In four regions of Europe the proportion of customers with below-average credit ratings is higher than 15%: Spain and Portugal (15%), the Baltic states (21%), Italy (26%) and Eastern Europe (31%). In contrast, platforms in Germany, Austria and Switzerland only serve customers with bank details.

Figure 8: Banking status by model and region in 2018



Source: Adapted from CCAF (2019)

Women founders by region

Another way in which crowdfunding can act as alternative to traditional financing channels is by providing greater opportunities to women. Indeed, women make up the majority of project owners for both reward- and donation-based models. In financial-return crowdfunding, female project owners remain a minority, and especially for investment-based models, where women account for just 18% of projects.

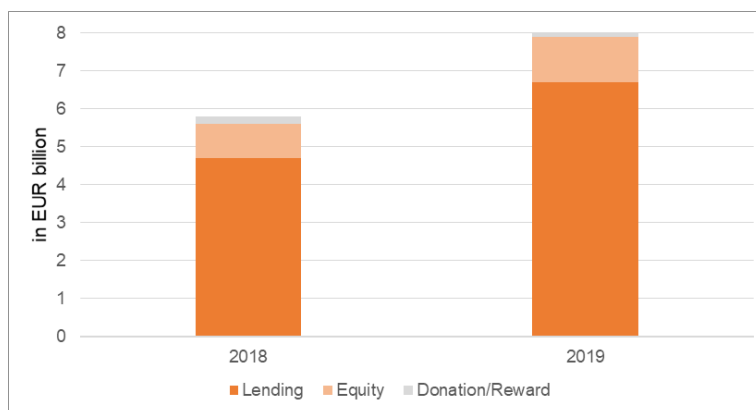
When comparing the participation of women as supporters/investors in different regions of Europe, the differences are very pronounced. In the Balkans and Eastern Europe, the participation rate is 50%, followed by the Benelux countries (43%), France (42%) and the Nordic countries (42%). In all other European regions, the proportion of women was around a third or less of all supporters/investors. The proportion of female project owners is below a third in all regions. The UK and Germany took the lead with respectively 31% and 26% of women-led campaigns; the Italian data record the lowest proportion of female fundraisers at just 11%.

The proportion of female stakeholders using the services of platforms helps to understand the role which crowdfunding can play in the financial inclusion of women.

Future perspectives – The impact of COVID-19

While the latest CCAF data is from 2018, this report provides some estimates for 2019 and 2020, based on extrapolation from data publicly available on the following markets: Germany¹³, France¹⁴, Netherlands¹⁵, Italy¹⁶ and Finland¹⁷.

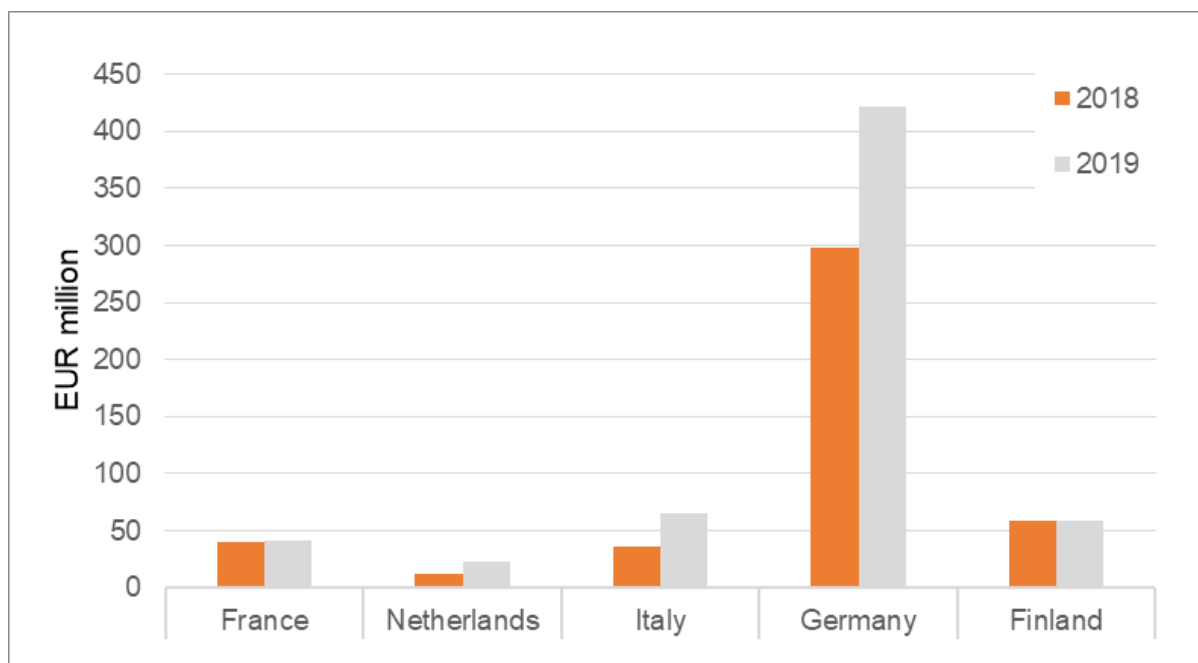
Figure 9: Volume of Alternative finance in 2018 and 2019



The lending volume for Europe was EUR 4.7 billion in 2018. Across the five key markets named above, lending grew by 137%. Therefore, lending-based crowdfunding was expected to hit the mark of EUR 6 billion in 2019, considering that these countries have very mature lending markets.

Investment-based crowdfunding contributed EUR 927 million. The average growth rate of investment-based crowdfunding in these markets was 140%, therefore we expect that investment-based instruments on crowdfunding platforms to have grown to EUR 1.3 billion in 2019.

Figure 10: Evolution of investment-based crowdfunding volume (2018-2019)



¹³ Additional information available at: <https://www.crowdfunding.de/literatur/crowdinvest-marktbericht-2019/>

¹⁴ Additional information available at: <https://financeparticipative.org/publication-barometre-du-crowdfunding-2019-fpf-mazars/>

¹⁵ Additional information available at: <https://www.crowdfundingcijfers.nl/crowdfunding-in-nederland-2019/>

¹⁶ Additional information available at: <https://www.osservatoriefi.it/efi/report-e-pubblicazioni/>

¹⁷ Additional information available at: <https://www.suomenpankki.fi/en/Statistics/peer-to-peer-and-crowdfunding/>

Non-financial-return crowdfunding summed up to EUR 201 million across the EU (excluding the UK). The average growth rate was smaller, standing at 105%, therefore a market volume of EUR 215 million was expected for Europe in 2019. It is noteworthy that France, Italy and the Netherlands all published declining volume of reward-based crowdfunding financing.

Summary box 1: Impact of COVID-19 on crowdfunding: what can we expect?

No estimates have yet been released on the impact of COVID-19 on the crowdfunding market, hence preliminary data was used to assess the impact of COVID-19 on FinTech¹⁸. Investment-based and non-financial-return crowdfunding indicated that on average the transaction value increased by 13%. In contrast, lending-based crowdfunding platforms indicated that the total transaction volume decreased by 3%.

Therefore, we expect that donation-based/reward-based crowdfunding will be around EUR 240 million in 2020 in the European Union, investment-based crowdfunding at EUR 1.4 billion in 2020, and lending-based crowdfunding will most likely remain around EUR 6.5 billion given that Q3 and Q4 of 2020 saw a turnaround in the lending-based crowdfunding market. COVID-19 impacted crowdfunding by widening the customer base. Both Digital Lending and Digital Capital Raising firms indicated that an average increase of 25% of new customer rates in comparison to Q2 of 2019.

Anecdotal evidence from platforms and market participants showed that COVID-19 first resulted in an investor loss of confidence, especially in investment-based crowdfunding. Then within few weeks, donation- and reward-based crowdfunding gained traction, since platforms implemented voucher schemes to keep businesses afloat. For instance, the Swedish-based investment-based crowdfunding platform FundedByMe re-activated its donation-based platform to allow shops and small companies to receive donations to stay in business. In Germany, the platform Startnext created a COVID-19 relief fund, partially with support of the German government, to co-finance reward-based crowdfunding campaigns.

The lending-based crowdfunding market recovered from investor anxiety as it witnessed an increased need of liquidity. Investment-based crowdfunding has also seen renewed attention by investors, because of the low stock market returns. Some countries have supported this development by introducing government measures. For instance, the UK introduced the Future Fund, which provided a convertible loan to companies which had successfully implemented an investment-based crowdfunding campaign¹⁹. Similarly, in the Netherlands, the government provided financial support to growth companies, delivered through the alternative finance provider²⁰.

¹⁸ Additional information available at: <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/research/live-research-surveys/>

¹⁹ Additional information available at: <https://www.seedrs.com/academy/future-fund/>.

²⁰ Additional information available at: <https://www.techleap.nl/content/government-and-invest-nl-together-want-to-invest-half-a-billion-in-growth-compani/>

In the context of a survey led by the European Crowdfunding Network (ECN) about the COVID-19 impact on crowdfunding, it is also important to note that 22% of crowdfunding platforms respondents were approached by governments, which offered guarantee measures (lending only), increased investment tax deductions or asked to submit proposal to anti-crisis programmes²¹. At the same time, as stated in the CCAF COVID-19 Rapid Assessment Report, FinTech companies overwhelmingly indicated that they would like to be part of the COVID-19 recovery efforts.

For instance, in France, the government created the “State Recovery Loan” in March to support French enterprises. Those loans are delivered at low cost (near 0%) by banks, with a postponed amortisation of one year and a clause which gives the borrower the ability to unilaterally decide on the loan amortization period at the end of the first year²². The French Crowdfunding Association asked the government to enable crowdfunding platforms to deliver the State Recovery Loan, as the banks. It was authorised in April for the lending-based crowdfunding intermediaries²³. As in the case of banks, the crowdfunding sector is committed to deliver those loans (backed by a 90% state guarantee) for a cost of EUR 1,000 max per file, and a maximum 2% interest rate for the lenders in the first year. If a platform wants to be able to deliver those loans, it has to be registered to the French investment bank, Bpifrance, which manages the plan for the government.

Characteristics of crowdfunding involving public funds

The interest of public authorities in crowdfunding has been evident for a number of years now. The first instance of a public authority co-funding a crowdfunding campaign happened in 2012, when the Swedish reward-based platform Crowdculture.se introduced a co-funding mechanism for theatres. Most collaborations with public authorities have taken place in the area of donation- and reward-based crowdfunding, as most countries did not have licensing requirements and the legal implications of collaboration were less complicated than in financial-return crowdfunding. The lighter regulatory burden allowed public authorities to “test the water” before entering the financial-return crowdfunding market.

In some cases, this “testing” involved the public authority creating its own platform, often by

For public authorities, donation- and reward-based crowdfunding platforms offered the possibility to become familiar with the mechanisms of the digital behavior, the requirements of supporters and project owners, and the contributions needed from the public authorities themselves.

²¹ ECN (2020). Early Impact of CoVid19 on the European Crowdfunding Sector. https://eurocrowd.org/wp-content/blogs.dir/sites/85/2020/04/ECN_CoVid19_Survey_20200414.pdf

²² Additional information available at: <https://www.economie.gouv.fr/files/files/PDF/2020/dp-covid-pret-garanti.pdf>

²³ Additional information available at: <https://financeparticipative.org/plateformes-agreees-pour-distribuer-le-pge/>

procuring **white label versions of established crowdfunding platforms**. This set-up entails that an established crowdfunding platform provides the digital tools and processes to the public authority, which manages the platform under its own branding, thereby lending its credibility and branding image to the venture. The practical management of the crowdfunding platform remains in the hands of the public authorities, which sometimes delegates it to publicly owned banks or foundations.

More recently, the introduction of bespoke crowdfunding regimes and the growth of the industry through the scaling of the investment-based and lending-based crowdfunding platforms sparked

Lending-based crowdfunding models have seen the most interactions with public authorities.

increased interest among public authorities. For instance, the European Investment Bank teamed up with the UK-based platform Funding Circle in 2016 to fund GBP 100 million in loans to SMEs originated on the platform²⁴. Another example involves the Swedish Development Agency SIDA, which partnered with the Sweden-based platform Trine to increase the amount of investment into renewable energy projects in Africa.

Overall, evidence shows that public authorities in certain European countries are aware of crowdfunding, and sometimes use this alternative financing mechanism as a way to achieve public policy objectives. As they build their capacities and their knowledge regarding this instrument, public authorities adopt a more sophisticated approach to crowdfunding – notably by moving from non-financial return to financial return type of crowdfunding, as to better leverage public funds and increase policy impact.

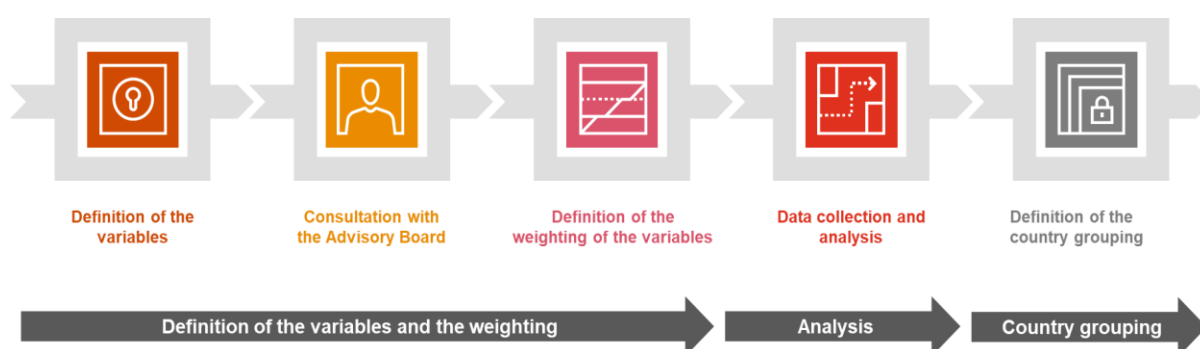
²⁴ Additional information available at: <https://tech.eu/brief/european-investment-bank-funding-circle/>

1.3 Market readiness assessment

The purpose of the market readiness assessment is to identify the potential to combine ESIF with crowdfunding across the EU. In doing so, this chapter identifies the countries which are best positioned to accelerate their use of crowdfunding in the 2021-2027 programming period.

Our overall approach to assessing the market readiness follows five main steps divided into three phases (as shown in Figure 11 below). In Step 1, the indicators and their sources contributing to the scoring of the assessment were identified based on available data²⁵. These indicators fell in one of the four following dimensions: i) economic statistics; ii) crowdfunding statistics; iii) regulation and self-regulation regimes and iv) existing collaborations between public authorities and crowdfunding platforms. In Step 2, the indicators were presented to the crowdfunding experts for their validation and weighting. In Step 4, the data was collected and ranked. Based on the results of Step 4, the countries were grouped in Step 5 (See Annex 2 for more detailed information about the methodology).

Figure 11: Overall approach to the market readiness assessment



As the result of this analysis, the EU Member States are divided into three groups: **advanced countries** that are well-positioned to accelerate their use of crowdfunding in the 2021-2027 programming period; those **moderately ready**; and those where opportunities to undertake this combination are more **limited** in the short-term.

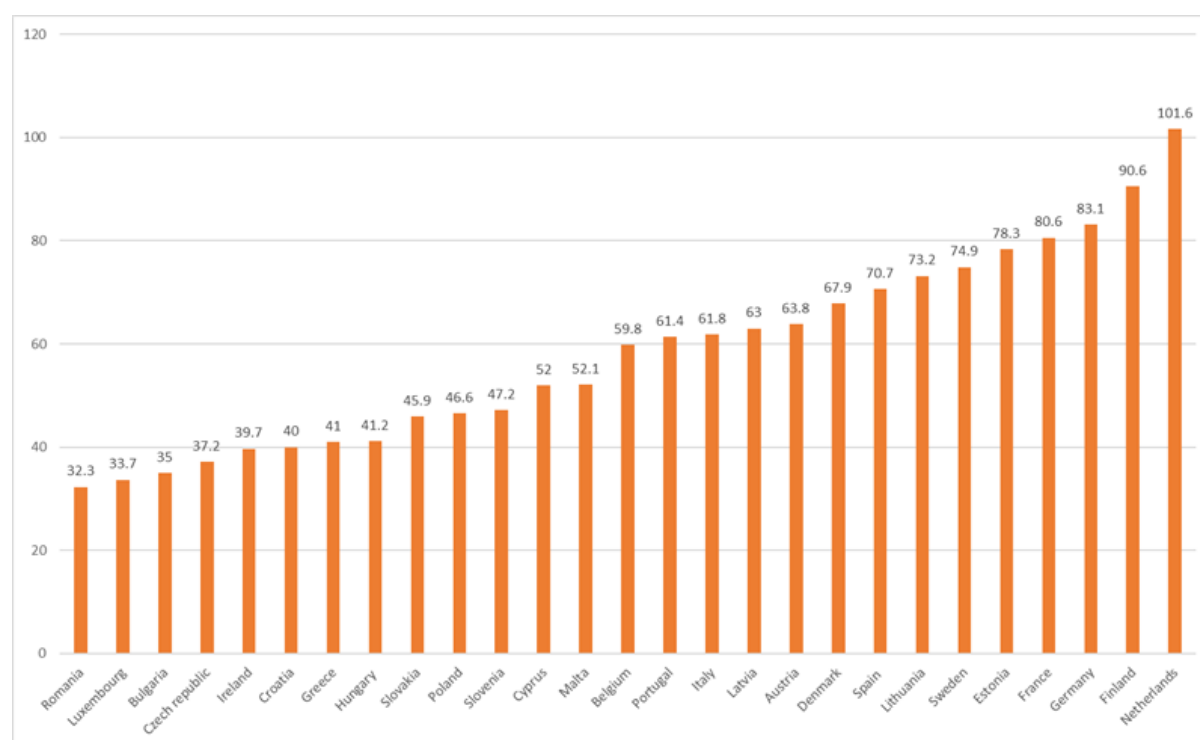
Table 4: Criteria for the definition of the readiness level

Readiness level	Definition and criteria
Advanced	Weighted score >75
Moderate	Weighted score >50
Limited	Weighted score <50

The scores per Member States can be found in the following table. The average score is 58.3, while the median score is 59.8.

²⁵ The market readiness assessment relies on the data available in Q3 of 2020. This data is largely based on the 2018 data available from the Centre for Alternative Finance of Cambridge University.

Figure 12: Readiness level by EU Member State



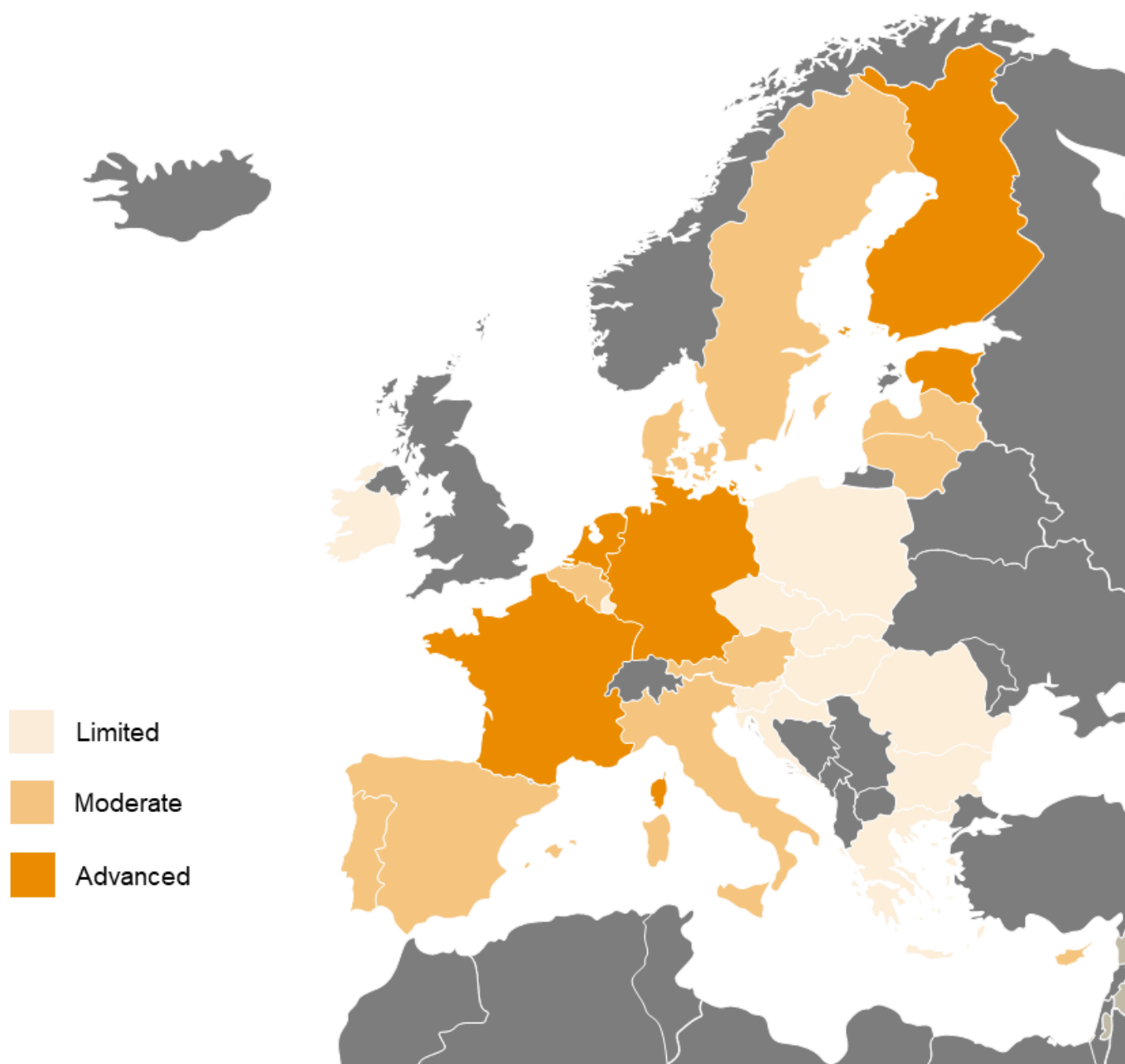
When applying the grouping thresholds, the countries which are well-positioned to accelerate their use of crowdfunding in the 2021-2027 programming period and those moderately ready account for 59% of EU countries. The remaining 41% represent countries where such combination may be more challenging on the short-term. The table below shows the average score of each country group for the quantitative indicators relating to economic and crowdfunding statistics.

Table 5: Average economic and crowdfunding indicators per country group

	Limited	Intermediate	Advanced
Average weighted readiness level score	40,0	63,7	86,8
GDP per Capita	EUR 24,646	EUR 28,298	EUR 32,806
% SMEs whose bank loan applications were rejected	8.53%	10.13%	10.39%
Financial literacy rate	45.45%	48.00%	60.20%
Annual crowdfunding volume	EUR 14.4 M	EUR 94.5 M	EUR 267.6 M
Annual crowdfunding volume per capita	EUR 3.24	EUR 12.37	EUR 22.33
Annual volume of Investment- & Lending-based crowdfunding per capita	EUR 3.18	EUR 12.25	EUR 22.16
Annual volume of Donation- & Reward-based crowdfunding per capita	EUR 0.06	EUR 0.11	EUR 0.17

Overall, as we move towards countries with advanced readiness level, all economic and crowdfunding indicators tend to grow. However, the biggest gaps relate to crowdfunding relating statistics: volume, volume per capita, and financial-return crowdfunding. In particular, this exercise revealed that GDP per capita and crowdfunding volume are not necessarily correlated. For instance, Luxembourg, Ireland and Denmark, which are among the Member States with the highest GDP per capita, have a lower crowdfunding volume per capita than Cyprus or Estonia. The sections below go into more depth in the intricacies of each group.

Figure 13: Market readiness assessment by country



Limited Market Readiness

The following countries were identified as having a limited market readiness for the combination of crowdfunding and ESIF funds (in ascending order): **Romania, Luxembourg, Bulgaria, Croatia, Czech Republic, Ireland, Greece, Hungary, Slovakia, Poland, Slovenia.**

This group contains a number of Member States in Central and Eastern Europe. Their limited readiness is partly explained by low crowdfunding volumes per capita and a pre-dominance of non-financial-return crowdfunding. While Luxemburg and Ireland both have high GDP per Capita, they score low on crowdfunding volumes.

In addition, most of these countries have no (or not a well-developed) regulatory framework dedicated to crowdfunding. In practice, these countries have either extended existing regulations to crowdfunding, or have no regulation at all. This is valid for both the Central and Eastern European countries in this group, as well as Western European countries such as Luxembourg and Ireland.

Summary box 2: Outcome of the assessment for countries with limited market readiness

The **absence or limited scope of regulations** is an important factor affecting market readiness. Whether it be explained by a lack of involvement in the crowdfunding market, or simply a limited perceived importance and/or relevance of alternative finance including crowdfunding, the lack of regulations limits collaboration between MAs and crowdfunding platforms. Indeed, regulations related to processes such as due diligence, anti-money laundering or monitoring and reporting, help reduce the underlying risks for MAs to collaborate closely with crowdfunding platforms.

However, this does not mean that crowdfunding is not a relevant tool to achieve policy goals. In fact, in several of these countries (e.g. Czech Republic, Slovakia or Poland), public authorities collaborate with crowdfunding platforms. The scope of collaborations is nevertheless more limited, and often translates in practice by non-financial and/or grant type of support to non-financial return type of crowdfunding. This approach is considered less risky than lending- and investment-based crowdfunding. It is important to note that public authorities can also support the broader crowdfunding eco-system as a whole, with a view to engage later in more sophisticated type of collaborations with crowdfunding platforms.

Moderate Market Readiness

The following countries were identified as having a moderate market readiness (in ascending order): **Cyprus, Malta, Belgium, Portugal, Italy, Latvia, Austria, Denmark, Spain, Lithuania and Sweden.** This group is geographically diverse, including countries in Western Europe (Belgium, Portugal, Italy, Austria), Northern Europe (Sweden, Denmark), the Baltic region (Latvia, Lithuania) and Southern Europe (Cyprus and Malta).

This group is also diverse on economic and financial indicators. For instance, the volume of financial-return crowdfunding per capita in Malta is negligible, whereas it stands at EUR 73 for Cyprus. Sweden has a bank-loan rejection rate of 1% while Lithuania and Latvia have a rejection rate of 22% and 28% respectively. Importantly, with the exception of Latvia and Denmark, all

members of this group **have a bespoke crowdfunding regime**. This echoes our finding that regulation is an important factor behind the performance of countries in the market assessment.

Last, it is important to note that our estimate of public authorities' collaboration with crowdfunding platforms is more advanced for this group of countries. For instance, Portugal, Italy, Latvia, Austria, Denmark, Spain, Lithuania and Sweden record over 10 collaborations each.

Summary box 3: Outcome of the assessment for countries with moderate market readiness

This group of countries is very diverse, and thus public authorities may feature different needs and behaviours towards crowdfunding. However, as most of them have in place crowdfunding regulation through a bespoke regime, constraints around the collaboration between public authorities and crowdfunding platforms are less important than for the previous group of countries. The countries also display a more sophisticated approach and higher level of awareness of crowdfunding. In turn, this allows public authorities to explore potential collaboration with crowdfunding platforms.

Advanced Market Readiness

The countries of **Estonia, France, Germany, Finland** and **the Netherlands** are considered as having an advanced market readiness. The Netherlands leads the ranking with a weighted score of over 100.

The countries in this group share the characteristics that they have a **very developed financial-return crowdfunding market**, with platform operators being licensed in a **bespoke crowdfunding regime**.

While all members of this group except Estonia have a per capita GDP greater than EUR 33,000, this group is quite diverse as well. Estonia has a very high crowdfunding per capita volume of EUR 48, Finland has a high crowdfunding per Capital volume of EUR 29, and the Netherlands have a high crowdfunding per Capital volume of EUR 23. In contrast, France (EUR 7) and Germany (EUR 2) have a very low volume of crowdfunding per capita but score well in terms of collaboration estimation of public authorities with crowdfunding platforms (over 25).

Summary box 4: Outcome of the assessment for countries with advanced market readiness

This group of countries is well-positioned to accelerate their use of crowdfunding in the 2021-2027 programming period. All of them feature collaborations between public authorities and crowdfunding platforms and can also lead in this field, by exploring more sophisticated types of collaborations and sharing lessons-learned and recommendations with their peers in other European Member States.

Overall, the market readiness assessment shows that the crowdfunding ecosystem in most European countries - in terms of market, regulations and collaboration with public funds - is developing fast. Indeed, it has reached a level of maturity that allows MAs in more than 16 EU countries to engage with this alternative source of financing in the short-term. The next section will dive in the benefits and risks of crowdfunding to the Cohesion Policy, showing how and in which conditions crowdfunding can help maximise policy objectives related impacts, while acknowledging some of the risks (and how these can be mitigated).



2

Benefits and risks of combining ESIF and Crowdfunding

In order to better understand how crowdfunding can be used to advance EU policy objectives, it is essential to assess the benefits it can achieve, and their relevance to the Cohesion Policy context.

In this chapter, we identify the potential economic and non-economic benefits and risks of crowdfunding as a financial instrument, and analyse the track record in delivering those benefits, including the circumstances under which they have been achieved.

Finally, we will consider their performance in the context of Cohesion Policy to assess whether and how crowdfunding can be used to achieve results on Cohesion Policy goals.

2.1 Benefits of combining crowdfunding and public funds

Crowdfunding can help increase private co-investment in ESIF policy priorities. More and more EU citizens and companies are using crowdfunding as a means to invest in and support projects and initiatives in which they believe. In fact, 71% of the EUR 6.5 billion total volume of crowdfunding in 2018 came from private investors. By combining crowdfunding and ESIF, MAs will be able to reach a new segment of private investors - and leverage public funds to attract further private investments – with a view to contribute to the Cohesion Policy objectives. In this way, Crowdfunding can help MAs to “do more with less”, by using EU resources as a more efficient and sustainable alternative to complement traditional forms of support.

Crowdfunding can improve the flexibility and the efficient disbursement of ESIF. Indeed, **crowdfunding platforms are more efficient** in that they can reduce transaction costs and time needed to identify and distribute funding to projects compared to traditional financing channels²⁶. By using digital technologies, including the use and exploitation of FinTech tools, social networks and communication channels, crowdfunding platforms can efficiently reach out to, and identify potential project owners (and investors); and collect funding in a shorter time and with limited administrative burden. Second, **crowdfunding platforms are more flexible** than traditional financing mechanisms²⁷. This flexibility first stems from the possibility to combine various forms of support, e.g. grants and loans, under the umbrella of one financing scheme, for all relevant types of sectors and actors. Moreover, real-time information on the status of projects enables MAs to further tailor their support as they get initial feedback and results from partnership with crowdfunding platforms. The platforms themselves evolve alongside the projects, for instance with a shift in sector target or an expansion in the financial products available, which reinforces the efficient targeting of sectors and actors by MAs.

The identification of investment opportunities through virtual means (e.g. online platforms) is easier and less time consuming.

Crowdfunding can help drive a deeper regional impact by involving local stakeholders. By providing a space where regional or local partners can get involved, crowdfunding allows **local networks** to share their expertise, which is useful to highlight initiatives that have already gathered local support. Even so, **multiplying connections and strengthening community ties** can drive knowledge sharing and development in areas with weaker social and economic capital. This expertise and knowledge can be channelled in different ways: crowdfunding allows local stakeholders to discover the purpose and details of projects in a cheap, rapid and seamless way through digitalisation. In turn, stakeholders provide feedback, vote and invest in projects that reflect their knowledge (of the as-is situation but also of the potential economic and social impact of given projects), priorities and interest. Overall, this will increase the chances of acceptance and follow-up funding of initiatives. MAs can use the knowledge of local stakeholders to support these

²⁶ Jordana Viotto da Cruz (2017). 'The Economics of Crowdfunding: Entrepreneurs' and Platforms' Strategies'. Sociology, Université Sorbonne Paris Cité. <https://tel.archives-ouvertes.fr/tel-01899518/document>

²⁷ ECN (2018). 'Triggering Participation: A Collection of Civic Crowdfunding and Match-funding Experiences in the EU'. https://eurocrowd.org/wp-content/blogs.dir/sites/85/2018/07/ECN_CF4ESIF_Report_Triggering-Participation_2018.pdf

projects that i) have the highest changes of being accepted in the local communities; and ii) reflect the priorities and interest of their citizens. Evidence²⁸ shows that crowdfunding enables connections between local stakeholders and policymakers, and support a more bottom-up type of approach to economic, social and environmental development. Crowdfunding therefore presents a big opportunity for making meaningful connections in **sparsely populated, rural areas, remote localities and less developed regions** in general.

Crowdfunding can boost the impact of ESIF on R&DI and new technologies. A great part of the literature on crowdfunding focuses on the **contribution to research and innovation** (including digital technologies). First, crowdfunding serves as a source of finance for research and innovation projects – a segment considered particularly risky for traditional financial actors – thereby reducing the funding gap for innovative businesses (including start-ups) and projects²⁹. Crowdfunding is also often used to test the market, attract the interest of investors, and even to solicit input to the innovation process – so-called **“open innovation”** – giving the project owner an opportunity to further improve their innovation from a technical or business perspective, and thus maximising their chances of success and impact. Crowdfunding is also widely used as tool to identify innovative projects and initiatives by providing increased and early visibility to early-stage projects. Working together with crowdfunding platforms, public authorities can identify trends and emerging technologies and provide additional support.

More than a source of finance, crowdfunding offers a way for the crowd to provide feedback to the entrepreneur, thus participating in the open innovation process.

Crowdfunding can be an additional tool to invest in projects close to citizen concerns, including sustainability and low-carbon transition. Crowdfunding platforms essentially provide **a means for citizens to invest in projects in line with their policy preferences, today driven by support to the green economy**. In that sense, crowdfunding actors can be more inclined than traditional financing actors to get green energy projects off the ground and democratise the energy transition. There is a growing crowdfunding market for sustainable investments, as witnessed by an increasing number of platforms (and their volume)³⁰. Research shows that donation-based and reward-based crowdfunding are more suitable for small-scale renewable and sustainable energy and green innovation projects during their inception and prototype stages. Once the proof of concept stage has been passed, investment-based platforms become more relevant. Overall, crowdfunding can benefit the Cohesion Policy and more especially the Funds such as the ERDF and crowdfunding supporting projects relating to the green transition. The scope of (relevant) application of crowdfunding seems to be related to areas where tradition finance is too reluctant to invest, such as green related innovations and projects.

Crowdfunding allows extending the reach of ESIF to entrepreneurs which are not well-served by

²⁸ Zoellig (2017). *Die Relevanz von Civic Crowdfunding Als Kommunales Finanzierungs- Sowie Beteiligungsinstrument in Der Deutschen Stadtentwicklung*. Master Thesis. Münster: Westphalia Wilhelms University, Institute of Geography.

²⁹ Hervé & Schwiendbacher (2018). Crowdfunding and innovation. <https://onlinelibrary.wiley.com/doi/abs/10.1111/joes.12274>

³⁰ Additional information available at: http://www.crowdfundres.eu/news/green-crowdfunding-disruption-opportunity/?utm_source=newsletter&utm_medium=email&utm_campaign=crowdfundres5

traditional finance. Traditional finance (including banks) often focus on supporting companies presenting a relatively low level of risk, capable to provide sufficient levels of collateral, as well as other information and documents about e.g. credit history, revenues etc³¹. Hence, they are often less (or not) willing to lend money to innovative SMEs with non-tangible assets, start-ups or social enterprises as these are characterised by higher risks. By **focusing on supporting crowd's preferences and looking beyond financial eligibility criteria**, crowdfunding can help address the financing gap faced by economic actors overlooked by traditional finance (e.g. due to their lack of collateral, poor track-record, limited scale, etc.) Not only does crowdfunding thus contribute to mitigate / address existing market failures in terms of financing, but it also supports the growth in the business ecosystem by creating meaningful connections between interested parties. In addition, crowdfunding can shed light on (and therefore serve) more vulnerable segments of the population. In doing so, crowdfunding can be considered as a means to **tackle social exclusion**³², thus supporting the policy objective for a more Social Europe. In fact, research shows that crowdfunding is closing the gender-gap in financing, allowing women to get an additional source of financing for their SMEs/start-ups.

Crowdfunding represents an alternative and reliable source of finance for new micro-entrepreneurs and entrepreneurs, young and innovative start-ups, women-led enterprises and SMEs including from e.g. rural areas and social impact projects.

Crowdfunding can improve the visibility of the EU Cohesion Policy. Cohesion Policy can use crowdfunding and its digital features to become **more visible** from a wider range of stakeholders who were not necessarily aware of Cohesion Policy. This visibility can be achieved at two levels: i) crowdfunding platforms can be used to communicate around Cohesion Policy and the ESIF; ii) and campaigns within the platforms can individually promote Cohesion Policy by e.g. relating their projects to one of its five policy objectives³³. In doing so, crowdfunding allows citizens to build a more direct and tangible relationship with the EU. **Increased visibility of EU support** for projects has the added benefit of raising awareness among project owners that may be interested in applying for funding for projects in line with the policy objectives and goals of the ESIF. In addition, crowdfunding platforms could benefit from being recognised as an instrument playing a key role in enabling a wide range of benefits in the regions involved³⁴.

Crowdfunding can help increase the transparency, accountability and public control of public investment. The general public has often a limited awareness of how ESIF are spent and for which purpose. By using crowdfunding platforms, the selection process and use of the funds can be done

³¹ Davis (2015). 'Rooting for the underdog: the influence of social status on capital allocation decisions in crowdfunding'. <https://core.ac.uk/download/pdf/215232728.pdf>

³² Greenberg (2018). 'Inequality and crowdfunding'.

https://www.researchgate.net/publication/329245303_INEQUALITY_AND_CROWDFUNDING

³³ The five main objectives driving investments under the Cohesion Policy 2021-2027 Programme are: (i) a Smarter Europe, (ii) a Greener, carbon free Europe, (iii) a more Connected Europe, (iv) a more Social Europe, and (v) a Europe closer to citizens. Additional information available at: https://ec.europa.eu/regional_policy/en/2021_2027/.

³⁴ Crowd-Fund-Port (2018). Civic Crowdfunding – Matching with European Union Funds. <https://www.crowdfundport.eu/for-policy-makers/civic-crowdfunding-matching-with-european-union-funds/>

in a **transparent** way. First, crowdfunding targets specific projects – providing transparency on what donations and investments will be used for and how, giving donors a better idea of how their donation will benefit others³⁵. Second, the general public has a clear idea of the rules of the game, i.e. how ESIF are allocated (e.g., when projects contribute to Cohesion Policy objective and reach a threshold of 50%, ESIF are disbursed). Crowdfunding also enables citizens to provide feedback and inputs on potential new projects, thus giving them a possibility to **influence the types of projects that will obtain the ESIF**. This way, the control of public projects is shared and benefits from the "wisdom of the crowd".

Crowdfunding empowers citizens. In Europe, many bottom-up citizen initiatives focus on improving the quality of life, society or environment on local, regional and (inter-)national level. By providing additional support from ESIF, the project owners will receive endorsement of their activities and additional funding to scale-up and/or increase the impact of their project. By enabling this open and transparent procurement process, it will also be possible to ask people to "vote" or support specific projects. By shifting part of the responsibilities of public spending, crowdfunding empowers **citizens to become active actors in their local environment**, beyond feeling solely voters or taxpayers³⁶. This empowerment of citizens does not only translate in financial support to projects. In fact, research shows that sharing ownership with citizens increase their commitment to e.g. maintain public goods such as urban commons. Crowdfunding (in this case, civic crowdfunding) can also help reduce the "Not-In-My-Backyard-Attitude" (NIMBY) of citizens, by ensuring the "buy-in" of affected citizens³⁷.

In order to **ensure that the potential benefits of crowdfunding are realised** in practice, stakeholders need to consider a few principles. Using a secure and modern crowdfunding platform, supported by additional digital tools, will facilitate the timeliness and ease of connecting with projects. Paying attention to citizen preferences and their ties with EU strategic objectives will grant credibility and rationale to the scheme. Identifying sectors and territories currently underserved by traditional financing actors will ensure that public financing is fully utilised and impactful through the crowdfunding scheme.

³⁵ Bone and Baeck (2016). Crowdfunding good causes. https://media.nesta.org.uk/documents/crowdfunding_good_causes-2016.pdf

³⁶ As cited in Wenzlaff (2020). Civic crowdfunding: four definitions of civic crowdfunding. https://link.springer.com/chapter/10.1007/978-3-030-46309-0_19

³⁷ Ibid

2.2 Risks of combining crowdfunding and public funds

The quality of the monitoring and reporting process of

crowdfunding is not yet standardised. Crowdfunding platforms, especially those that are donation- and reward-based, do not have strict monitoring and reporting processes, standards or obligations in place. In addition, even in case when crowdfunding platforms (independently of their types) do report on their financial and non-financial impacts, the lack of harmonised or standardised crowdfunding monitoring and reporting system (with a common methodology and risk indicators) will challenge the coherence, consistency and credibility of the reported information and data.

Crowdfunding monitoring and reporting processes are yet to be fully developed and harmonised, undermining MAs' ability to prove the impact of their support.

However, a key responsibility of ESIF MAs is the need to be accountable to the public, and the ability to demonstrate the results and impacts of their support. Without a proper monitoring and reporting framework at the level of the crowdfunding platform, MAs risk not being able to fulfil their role. That said, there exists several ways in which such an issue can be mitigated. First, the content and process of monitoring and reporting can be set up upfront, in the collaboration agreement between the MAs and the crowdfunding platform. The monitoring and reporting should not be limited to financial information but also include data on social – and whenever relevant, environmental – impact. Whenever possible, this should be based on existing standardised blueprints or reporting guidelines set by industry associations or impact monitors on SDG goals.

Investment- and debt-based crowdfunding, as other financial instruments, can lead to a capital loss on investment. Whenever an investment is made, whether through traditional bank lending or a modern crowdfunding platform, there is a risk that the investment will not be repaid and that the invested capital will be lost. Some projects do not pan out, the beneficiary firm goes bankrupt, and is unable to repay. While this risk is not specific to crowdfunding, it should be taken into account to ensure that loss is reduced as much as possible. This risk is particularly relevant for lending- and investment-based crowdfunding.

There are several ways to mitigate this risk. Providing non-financial support, and working together with accelerators or innovation offices to provide additional training and support for start-ups that receive funding from ESIF funds, will increase their survival rate and reduce the risk of losses. Because of the financial nature of the model, lending and investment-based lending requires a due diligence and project assessment to determine the risk level and underlying interest rate of the loan. This also helps mitigating risks as it allows checking the quality of the business plans and capacities of the entrepreneurs. Therefore, when collaborating with a crowdfunding platform, it is important to review their due diligence process.

The absence of a secondary market for investment-based crowdfunding impedes the ability to liquidate / realise investments. Most investors join a project with the minimum expectation of breaking even, i.e. to get back the capital invested. In the case of investment-based crowdfunding, recovering one's investments means selling shares back to the entrepreneur or to other investors³⁸. However, investments in crowdfunding are not always easy to liquidate: i) investors may face challenges in pricing their investment when they exit (if no other market mechanism is available); ii) there is no secondary market for investment-based crowdfunding yet³⁹; and iii) if investors sell shares to other investors, the original investors may struggle to set the price. In other words, by collaborating with an investment-based crowdfunding platform and providing additional investment through equity, MAs will most likely struggle selling these shares. To mitigate this issue, MAs could favour collaborating with platforms able to list projects on a secondary market, or invest in projects already listed on a public stock exchange.

The lack of involvement of crowdfunding actors in the identification of the areas in which its intervention is most needed, may lead to funds being used in an ineffective manner. Crowdfunding is an instrument that can adapt to the financial products and the level of interaction desired by MAs. While this makes crowdfunding highly adaptable, it can also make it complex, leading to its ineffective use. This in turn would translate in the non-realisation of i) crowdfunding benefits and more broadly ii) the impact expected from the intervention. In this regard, the involvement of practitioners early in the decision-making process is crucial to ensure the alignment of the intervention of the public sector with market needs and gaps. Indeed, crowdfunding actors can support MAs in the identification of the areas in which its intervention is most needed, thus ensuring that the public intervention efficiently contributes to mitigate the gaps in priority areas. Similarly, the MA can reach to peer MAs that have experience collaborating with crowdfunding platforms. This knowledge among public and private actors, actively supported by DG REGIO⁴⁰, is a source of learning and best practice implementation. Otherwise, there is a risk that the funds may be used in an ineffective manner.

When a public authority decides to use a crowdfunding platform as a financial intermediary, they outsource activities such as due diligence and monitoring and reporting processes. MA staff hence need to have a thorough understanding of these processes to i) fully exploit the benefits of crowdfunding – thus avoiding wrong expectations, and ii) avoid any potential misuse of crowdfunding to achieve specific policy priorities. To address this risk, it is important that MAs build their knowledge and expertise on crowdfunding, including governance from the project selection phase onwards, due diligence on its financing, and monitoring processes. Several guidelines have been developed with a view to shed light on how government can collaborate with crowdfunding platforms⁴¹.

³⁸ JRC (2015). Understanding crowdfunding and its Regulations.

<https://publications.jrc.ec.europa.eu/repository/bitstream/JRC92482/lbna26992enn.pdf>

³⁹ ESMA (2015). Opinion Investment-based crowdfunding. https://www.esma.europa.eu/sites/default/files/library/2015/11/2014-1378_opinion_on_investment-based_crowdfunding.pdf

⁴⁰ See more information about TAIEX-REGIO PEER 2 PEER at: https://ec.europa.eu/regional_policy/en/policy/how/improving-investment/taix-regio-peer-2-peer/

⁴¹ See more information at: <https://www.interreg-central.eu/Content.Node/CROWD-FUND-PORT/cf-guide.html> ; <https://www.fi-compass.eu/news/2020/07/esf-crowdfunding-manual>

Crowdfunding involves sharing the decision-making process over the selection of projects with citizens, providing less control to MAs on how to use public funds. Crowdfunding can help ESIF reach a different set of companies than those having access to traditional finance. However, this does not mean all projects presented on a crowdfunding platform will necessarily contribute to the objectives of the Cohesion Policy. To ensure that ESIF are spent on projects delivering policy-related benefits, MAs can opt for different solutions, depending on their level of engagement with the crowdfunding platform. If they invest at the level of the platform, they can focus on those focusing on specific policy objectives, such as the Dutch renewable energy crowdfunding platform Oneplanetcrowd focusing on sustainable impact⁴². If they invest at the level of the project (through match funding), they can i) clarify the scope of projects being supported through the platform and ii) agree upfront with the platform on the selection criteria for match-funding.

As with many other financing schemes, crowdfunding is subject to market dynamics, which means that it is easier for crowdfunding projects to mobilise their networks in areas where technological savviness and telecommunication infrastructure is available and reliable. There is a risk of mainly funding projects from well-connected and tech-savvy people. This risk is explained by two mutually reinforcing factors. First, for crowdfunding mechanisms to work, it needs a crowd – and the larger the crowd is, the more likely crowdfunding campaigns will be able to attract potential funding, as investors/supporters tend to finance projects which gather support through an impactful presentation on the digital webpage or interface. Second, crowdfunding is more likely to attract funding where potential funders are aware of crowdfunding and have access to relevant information for their investment decision. This is mostly the case for lending and investment crowdfunding, as a well-developed business and financial plan is a requirement to attract investment capital. Yet again, these characteristics relate more to market dynamics, rather than to crowdfunding's intrinsic characteristics.

At the same time, this is precisely where combining crowdfunding with ESIF can help mitigate this issue. Crowdfunding is a tool that can gather a large crowd in rural and less developed areas, or areas where capital and infrastructure are insufficient, as it allows an easy and continuous flow of information on projects via the Internet across territories. Moreover, good design and accompanying measures (capacity building, marketing efforts, etc.) of a crowdfunding scheme can support the emergence of network of supporters/investors for local businesses and entrepreneurs in an easy and accessible fashion.

To address this risk, MAs can develop **clear guidelines and selection criteria** on what type of projects, in which regions, will be able to make use of the ESIF. On a platform level, they should prioritise collaboration with platforms with a very clear focus on the financed sectors, and when possible, geographical areas. For instance, the French renewable energy crowdfunding platform Lumo gathers 15,000 people, who co-financed 80 renewable energy projects for EUR 10 million, often located in smaller and isolated areas. Hence, by investing in renewable energy, the likelihood to reach out to as many projects as possible across territories is increased.

⁴² See more information at <https://www.Oneplanetcrowd.com/en>

As with many other financing schemes, crowdfunding can suffer from fraud-related issues. Another risk relates to fraud and the misuse of funds. This is explained by the fact that legal enforcement may fail because each individual investor does not have enough incentive to sue for fraud or breach of contract, as they often invest small amounts of money. However, the platforms themselves have a strong incentive to carefully check any potential fraudulent or ill-intended projects to preserve their reputation and credibility⁴³. Among the key procedures to address the risk of fraud, **solid due diligence** is perhaps the most efficient to ensure the quality of the platforms and the projects. Other means such as audit, financial statements could also be used to ensure the quality of the platforms and the projects.

Fraud in crowdfunding has been very limited, due to the open and transparent model of crowdfunding.

As with many other financing schemes, crowdfunding can suffer from money laundering-related issues. Another risk is that crowdfunding platforms will be used for money laundering. This is particularly true for lending-based platforms. The best way to mitigate these risks are to ensure the platforms are properly regulated. This will be the case under the European ECSP regulation. Therefore, while a money-laundering risk may exist, it is expected to be low. MAs should only work with platforms that have the proper regulatory overview, such as the ECSP. The ECSP seeks to ensure that adequate and coherent safeguards are in place to deal with potential money laundering and terrorist financing risks. Among those, there are requirements for the management of funds and payments in relation to all the financial transactions executed on these platforms. Crowdfunding service providers must either seek a license or partner with a payment service provider or a credit institution, which are obliged entities under the AML Directive, for the execution of such transactions. The ECSP also sets out safeguards in the authorisation procedure, in the assessment of good repute of management and through due diligence procedures for project owners. The Commission has committed to assessing by 10 November 2023 in its report on the Regulation whether further safeguards may be necessary.

⁴³ JRC (2015). Understanding Crowdfunding and its Regulations.
<https://publications.jrc.ec.europa.eu/repository/bitstream/JRC92482/lbna26992enn.pdf>

2.3 Conclusion

Crowdfunding is a flexible instrument that can be adapted to specific policy objectives and the constraints and interests of MAs. This adaptability derives from different types of crowdfunding models available. However, each of the models comes with its own types and levels of risks and benefits. Overall, crowdfunding is relevant (and is in some cases already used by MAs) to channel public funds to support a i) smart Europe, ii) a greener, carbon free Europe, iii) a Social Europe, and iv) a Europe closer to citizens.

Conversely, it has a more limited traction regarding a more connected Europe, which is explained by the fact that most projects falling in this objective are often large-size infrastructure projects – which can be financed efficiently through traditional finance. Likewise, this chapter also shows that a broader variety of actors from NGOs, to social and/or young entrepreneurs and women-led start-ups can benefit from crowdfunding – proving to be a real opportunity of the ESIF to reach segments often overlooked by traditional finance.

Non-investment models (reward- and donation-based crowdfunding) are relevant to support non-bankable projects bringing added value in terms of policy objectives. This can include the financing of technology, research and education projects (such as in the case of Dutch universities and COVID-19), art and cultural projects (such as the voorkunst.nl platform), or social projects. As such, reward- and donation-based crowdfunding are hence expected to play a key role in supporting a Europe closer to its citizens and a more social Europe (and to a lesser extent, a smart and greener Europe). This is best exemplified by civic crowdfunding. Conversely, investment models (lending and investment crowdfunding) become more relevant as the focus moves from non-bankable to quasi or bankable projects – proving to be a key tool to support SMEs, start-ups operating in sectors relevant to the Cohesion Policy objective such as sustainable and green investments. Therefore, this type of crowdfunding is a better fit to contribute to a smart and greener Europe, while also supporting a more social and closer to its citizens Europe.

Table 6: Relevance of the benefits for each type of crowdfunding

	Donation crowdfunding	Reward crowdfunding	Lending crowdfunding	Investment crowdfunding
Increasing the private resources of ESIF	2	2	3	3
Increasing flexibility and efficient disbursement of public funds	3	3	3	3
Research, innovation and digital technologies	2	2	3	3
Supporting the low carbon economy	1	2	3	3
Extending the reach of ESIF	2	2	3	3
Localising regionalising ESIF by involving local stakeholders	3	3	3	3
Increasing the visibility of the Cohesion Policy	3	3	3	3
Transparent, accountable control of public projects	3	3	3	3
Empowering citizens	3	3	3	3

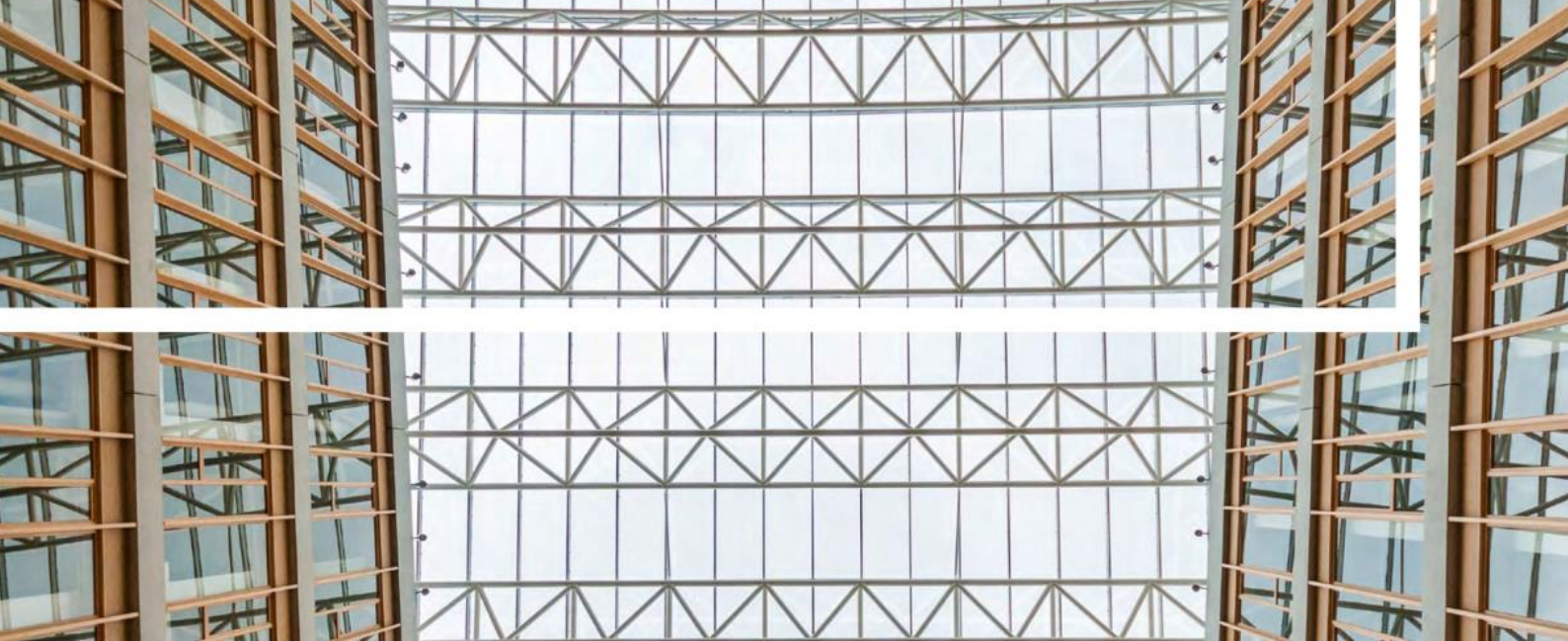
1 = limited relevance; 2 = moderately relevant; 3 highly relevant

However, investment models entail more risks – which can be mitigated by the MAs, even more so in the context of the enforcement of the ECSP. These may include issues relating to capital loss investment, state aid, or the inability to liquidate investments. In contrast, risks such as fraud and AML are less relevant – especially in a context where crowdfunding platforms will be regulated by the ECSP.

Table 7: Relevance of the identified risks for each type of crowdfunding

	Donation crowdfunding	Reward crowdfunding	Lending crowdfunding	Investment crowdfunding
Quality of monitoring and reporting	2	2	2	2
Capital loss on investment	1	1	2	3
Inability to liquidate investments	1	1	1	3
Internal staff knowledge and experience	1	1	2	2
Project selection	2	2	2	2
Bias towards urban audiences	1	1	3	3
Fraud	1	1	1	1
AML	2	2	1	1

1 = limited relevance; 2 = moderately relevant; 3 highly relevant



3

Legal
harmonisation

As for every financial activity, crowdfunding is bounded by a regulatory framework specific for every type of crowdfunding activities. The current regulation defines the scope and legal technicalities of using crowdfunding within the ESIF schemes, the potential role of MAs in supporting or participating in crowdfunding activities, and the appropriate options to integrate crowdfunding and ESIF.

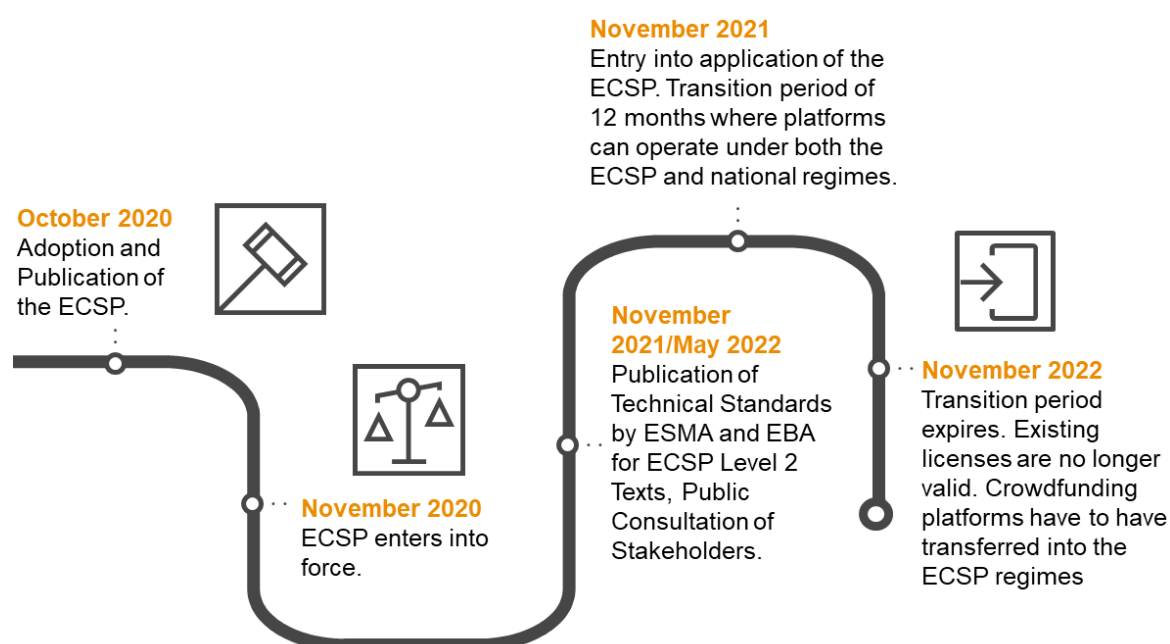
3.1 Analysis of the current regulation

Up until the recent adoption of the **Regulation on European Crowdfunding Service Providers (ECSP)**⁴⁴, crowdfunding regulatory framework remained national in scope, with large disparities hindering the cross-border flow of investments. Differences primarily concerned the regulation of lending-based and investment-based crowdfunding. Nevertheless, in the wake of the ECSP, bespoke regulation of financial-return crowdfunding models existed in less than half EU Member States.

The ECSP regulation is paramount to the development of crowdfunding across the EU, by attempting to find a common ground between national regulators and strike an optimal balance between providing a solid regulatory framework and limiting oversight to allow innovation, i.e. providing a predictability without overburdening. ECSP allows platforms to operate – and be recognised – across the EU based on a single set of rules, thus contributing to the harmonisation of the currently fragmented national regimes in which crowdfunding platforms operate. In doing so, the ECSP is hence expected to facilitate cross-border investments in crowdfunding projects. Importantly, platforms are required to undertake their financial-return intermediation activities under the supervision of the financial regulator in the Member State where they were authorised.

The ECSP regulation entered into force in November 2020, with another year envisaged for its effective application. The timeline for the ECSP is presented below:

Figure 14: ECSP implementation timeline



⁴⁴ Regulation of the European Parliament and of the Council on European Crowdfunding Service Providers (ECSP) for Business, COM/2018/0113 final - 2018/048 (COD) <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52018PC0113>

Summary box 5: Scope of the European Crowdfunding Service Providers regime (ECSP) at glance

The ECSP covers investment-based crowdfunding and P2P business lending, thus leaving P2P consumer lending (for consumption purposes), donation-based, and reward-based crowdfunding outside its scope. While P2P consumer lending entails the same instrument and a similar business model as P2P business lending, the involvement of a consumer places this activity under the scope of the Consumer Credit Directive. Similarly, the existing consumer protection regime is applicable to reward-based crowdfunding.

Financial instruments covered under investment-based models include transferrable securities within the meaning of MiFID and other admitted instruments, such as freely transferable shares in limited liability companies. However, some of the widely used instruments by investment-based crowdfunding platforms in countries like Germany and Austria (e.g. subordinated and quasi-equity type of products) remain outside the ECSP scope. Indeed, the ECSP regulation only applies to loans with unconditional obligations to repay an agreed amount of money to the investor. All crowdfunding models that fall outside the scope of the ECSP regulation continue to be operated in accordance with applicable national laws.

One of the most debated issues was the maximum size of the offer made by a project owner. The threshold set by ECSP is EUR 5 million, which is the threshold used by most Member States to exempt offers of securities to the public from the obligation to publish a prospectus in line with Prospectus Regulation⁴⁵.

The ECSP focuses primarily on the activity of platforms, rather than the features of the underlying instrument being used. This approach led to the creation of a regulatory regime applicable to both lending-based and investment-based crowdfunding, despite the substantial differences in their risk-return profiles.

The commonalities of the two types of crowdfunding is that the crowdfunding service provider, without taking on any risk, operates a public digital platform in order to match prospective investors with project owners seeking funding through equity or loan agreements. In MiFID terms, crowdfunding service providers are only allowed to offer services which consist in the reception and transmission of client orders, and the placement of transferable securities or admitted instruments for crowdfunding purposes without a firm commitment basis.

Crowdfunding service providers are prohibited from taking deposits or other repayable funds from the public, unless they are also authorised as a credit institution. Moreover, the ECSP license does not grant crowdfunding service providers the right to provide individual or collective asset management services.

Lending-based crowdfunding platforms merely facilitate the conclusion by investors and project owners of loan agreements without the crowdfunding service provider at any moment acting as a creditor of the project owner.

⁴⁵ Most specialists agree that EUR 5 million is the threshold where a prospectus is financially viable.

However, as per Art. 3 paragraph 5 of the ECSP Regulation, the operator of a **lending-based crowdfunding** platform can provide individual portfolio management of loans on behalf of the investor, provided that this is within the parameters and risk indicators predetermined by the investor. While this provision was introduced to enable platforms to offer auto-investing services to investors, its interpretation can be used to accommodate the need of entrusting the implementation of ESIF loans to operators of lending-based crowdfunding platforms. Under this scheme, the operator would still merely facilitate the conclusion of a loan agreement between the MA and the project owners, in line with Recital 11 of the ECSP.

Concerning the operators of **investment-based platforms**, no such exemption was envisaged in the ECSP Regulation. Given that entrusting the implementation of ESIF financial instruments involves asset management services on behalf of the MA, a crowdfunding service provider could not in principle be designated as the implementing body. However, it is not rare for the operators of investment-based crowdfunding models established before the adoption of the ECSP Regulation to **hold a MiFID investment firm license, or less frequently an AIFM license**, which would allow them to manage assets on behalf of the MA.

The application for **authorisation** of a crowdfunding service provider under the ECSP has to be submitted to the competent authority of the Member State, which is in charge of then informing the European Securities and Markets Authority (ESMA). Operators have to demonstrate procedures for ensuring: governance arrangements and internal control mechanisms, control and safeguarding of the data processing systems, prudential safeguards, business continuity plan, professional standards for persons responsible for the management, prevention of conflict of interest, adequate outsourcing arrangements, handling of clients' complaints, arrangements for providing payment services, verification of KIIS, and the investment limits for non-sophisticated investors.

When looking at the governance of the platforms, different **governance rules** are envisaged to ensure proper management of risks and prevent conflict of interest⁴⁶. While crowdfunding service providers are prohibited from having a participation in the crowdfunding offers on their platforms, they are allowed to act as investors, provided the existence of certain safeguards against conflict of interest. Such requirements continue to apply even if some operational functions are entrusted to a third party.

The cornerstone of investor protection under ECSP is a high level of **transparency** in order to attenuate information asymmetry inherent in all financial markets, and specifically about the quality of projects seeking funding and the quality of platforms' services in crowdfunding. Up to the amount to which the publication of a prospectus is required (i.e. EUR 5 million in most cases), crowdfunding service providers are required to provide a **Key Investor Information Sheet (KIIS)**⁴⁷, drawn up by project owners, to investors⁴⁷ to help them make informed decisions. In addition to KIIS, ECSP lays down a number of **disclosure requirements** for crowdfunding service

⁴⁶ Such rules include hiring competent staff, prudential requirements that protect clients from operational risk, processes for handling client complaints, and business continuity plans ensuring protection against risks associated with the failure of the platform.

⁴⁷ KIIS is comprised of information concerning project owners and the crowdfunding project, crowdfunding process, conditions for capital raising or funds borrowing, risk factors, the type of transferable securities, admitted instruments for crowdfunding purposes and loans offered, special purpose vehicles, and investor rights and fees.

providers, in particular regarding their own services and fees, and a methodology for calculating credit score or pricing of crowdfunding offers. Drawing on similar provisions in the bespoke Member States regulations, the ECSP has introduced an **additional level of protection safeguards** for the retail, unsophisticated investors that constitute the bulk of crowdfunding crowd. They are subject to entry knowledge tests and limits on the maximum amount that they can invest per project. However, these limits can be exceeded after they receive a risk warning and provide the platform operator with an explicit consent.

Further to the ECSP, other directives and regulations are to be considered when looking at crowdfunding. The table below summarises the most relevant set of rules.

Table 8: Other regulations applicable to crowdfunding

Name	Description
Prospectus Regulation (Regulation (EU) 2017/1129 of the EP and of the Council of 14 June 2017)	The prospectus regulation lays down the disclosure requirements for all issuances of financial instruments above EUR 1 million. Compliance with these requirements grants a 'prospectus passport', meaning that the offer can be provided across the EU. Member States are allowed to exempt offers of securities to the public from the obligation to publish a prospectus provided that the total consideration of each such offer is less than EUR 8 million over a period of 12 months. This bears importance for crowdfunding offers that exceed the threshold laid down in the ECSP of EUR 5 million. If a Member State sets the threshold for exemption from prospectus requirements between EUR 5 million and EUR 8 million, the national regulatory regime of the Member state shall apply. However, most Member States set that threshold at EUR 5 million.
Payment Service Directive (Directive (EU) 2015/2366 of the EP and the council of 25 November 2015)	Only payment service providers are permitted to provide payment services as defined in the Payment Service Directive. An authorisation to provide crowdfunding services does not amount to an authorisation to also provide payment services. Therefore, where a crowdfunding service provider provides payment services in connection with its crowdfunding services, it also needs to be a payment service provider or rely on services of an authorised institution. ECSP Regulation even requires the crowdfunding service provider to inform the competent authorities whether it intends to provide payment services itself with the appropriate authorisation or whether such services will be outsourced to an authorised institution.
AML Directive (Directive (EU) 2015/849 of the EP and of the Council of 20 May 2015)	Crowdfunding service providers are required to rely on payment service providers that comply with national law implementing the AML Directive. According to the ECSP, crowdfunding service providers are not yet on the list of obliged entities for the purposes of that Directive, but the European Commission will consider the necessity and proportionality of subjecting them to obligations of compliance with AML/CTF regulations within three years after the ECSP goes into force.
AIFM Directive (Directive 2011/61/EU of the EP and of the Council of 8 June 2011 on Alternative Investment Fund Managers)	The operator of a crowdfunding platform typically does not raise capital from investors for its own business, and as such would not qualify as an AIF. Similarly, an operator of a crowdfunding platform typically does not manage the underlying investments on behalf of their clients as a manager of AIF. Under ECSP, crowdfunding service providers are explicitly forbidden from offering collective asset management services.

Name	Description
MiFID II (Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments)	The operator of an investment-based crowdfunding platform typically performs only the service of reception and transmission of orders in relation to one or more financial instruments, and as such may fall under the exemption from MiFID licensing regime for investment firms set out in Art. 3. This exception has been laid down to allow Member States to exempt certain operators from the scope of MiFID. To benefit from the exemption, the crowdfunding platform operators are not permitted to hold client funds or securities, nor perform other services of investment firms which would make them subject to the full MiFID regime. These services include portfolio management, investment advice, execution of orders on behalf of clients, or placing financial instruments on a firm commitment basis. However, it is not rare for crowdfunding platform operators established before the adoption of ECSP to hold a MiFID license, or to act as MiFID tied agents of an investment firm.

In addition to the regulatory framework applicable to crowdfunding investments, the combination of crowdfunding and ESIF would require an analysis of the applicable rules to the use of ESIF. These rules are mainly contained in the Common Provisions Regulation (CPR)⁴⁸ as well as the Implementing and Delegated Acts⁴⁹. When looking at the provision of support to single undertakings, the State Aid rules, notably *de minimis*⁵⁰ and Global Block Exemption Regulations (GBER), are to be taken into consideration. The table below summarises the scope of the abovementioned rules with relevance to the combination of ESIF and crowdfunding.

Summary box 6: Application of the CPR and State Aid rules in the context of crowdfunding

The use of ESIF for crowdfunding activities is subject to a specific set of CPR rules applicable at different stages of the operational programmes: i.e. programming, implementation, monitoring and evaluation, verification and audit. In the crowdfunding context, the rules governing the selection of final beneficiaries will be particularly important when ESIF are channelled to specific project owners.

The CPR framework will be applicable to all the potential combinations of crowdfunding and ESIF funds. Combination options fall under the framework of either grants or financial instruments. For all the potential roles that the MA can play in the crowdfunding process, a major consideration is whether the crowdfunding platform operator can act as the body entrusted with the implementation of grant or financial instrument operation under ESIF. This will depend on the type of support provided as well as the type of crowdfunding model (donation, reward, lending, or investment). In addition to the rules common to all ESIF, the CPR also sets out some specific provisions applicable only to the ERDF, the ESF and the Cohesion Fund (the 'Funds'), as well as specific provisions applicable only to the Funds and to the EMFF. In addition, certain Fund-specific rules are set out in separate regulations (e.g. Regulation (EU) No 1305/2013 for

⁴⁸ Regulation (EU) No 1303/2013 of the European Parliament and of the Council <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex%3A32013R1303>

⁴⁹ Implemented and Delegated Acts https://ec.europa.eu/info/law/law-making-process/adopting-eu-law/implementing-and-delegated-acts_en

⁵⁰ Regulation (EU) No 1407/2013 on *de minimis* aid for state aid <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R1407>

support under the European Agricultural Fund for Rural Development (EAFRD).

Providing both grants and financial instruments in the context of crowdfunding can trigger the application of State Aid rules when it confers an advantage on a selective basis to a crowdfunding platform operator or individual project owner⁵¹. The support from the MA can be seen as State Aid independently of the form of the financial or non-financial support. To qualify as State aid, it would also need to give a crowdfunding platform operator or project owner an advantage on a selective basis, e.g. favouring specific companies, industry sectors, or regional footprint. If such a support is unable to distort competition, nor it is likely to affect trade between the Member States, it would not qualify as State aid. In addition, the provision of ESIF to participants in the crowdfunding process has to be assessed in the light of policy objectives for which State aid can be considered compatible in line with *de minimis* or the Global Block Exemption Regulations (GBER)⁵². *De minimis* Regulation bears importance for combining crowdfunding and ESIF funds as project owners are usually MSMEs whose funding needs are limited to small amounts. This is particularly relevant for donation and reward-based crowdfunding, in which the total amount of funding raised in a crowdfunding campaign rarely amounts to EUR 200,000. MAs would usually contribute to only a fraction of the crowdfunding target amount. In contrast, support provided to project owners raising funds in an investment-based crowdfunding campaign is more likely to exceed the threshold set out in *de minimis* regulation, as the ECSP regulation allows for securities up to EUR 5 million.

The application of the different regulatory frameworks presented above will depend on the role the MA will play in the crowdfunding process, as well as the extent to which the crowdfunding platform operator will be taking over some of the responsibilities of the MA in the deployment of the ESIF, as set out below.

⁵¹ More information on State Aid available at:
https://ec.europa.eu/competition/state_aid/overview/index_en.html

⁵² With the exception of activities falling within the scope of Article 42 of TFEU and supported under EAFRD.

3.2 Role of Managing Authorities

MAs can intervene in different roles to unlock the crowdfunding potential for the ESIF:

Table 9: Overview of the potential roles for MAs

Level of interaction	Role of the MA
Facilitator	Providing non-financial support
Supporter	Providing financial support to platforms
	Providing financial support to investors
	Providing financial support to project owners
Participant	Operating a platform
	Acting as supporter/ investor in a crowdfunding campaign
	Acting as project owner

This distinction is fundamental for the purposes of the legal analysis. Indeed, only under the third function would the MA have to comply with the regulatory framework applicable to crowdfunding as, only in this case, would it be directly involved in the crowdfunding process. Understanding the MA's role will enable the assessment of the legal feasibility of different models of integration and select relevant case studies, as follows.

3.2.1. Managing Authority acting as a facilitator

Non-financial support

A MA could develop **training programmes for potential investors** on financial literacy to better understand the risks and opportunities stemming out of a crowdfunding offer. For example, within the H2020 project "Altfinator", an investment manual was developed to provide tips and tricks for private, institutional and public investors⁵³.

Alternatively, a MA could provide capacity **building support to project owners** to develop their business plans and prepare a crowdfunding campaign by offering services such as coaching and mentoring and dedicated online training (e.g. MOOC). For instance, the Dutch NGO Fonds 1818 provides capacity building support to enable entrepreneurs to start a successful crowdfunding campaign in the province of South-Holland, notably targeting projects that contribute to social well-being⁵⁴.

⁵³ Altfinator – Alternative Finance Investment Manual; additional information available at: <https://www.altfinator.eu/resources/Alternative-Financing-Investor-Manual>

⁵⁴ Additional information available at: <https://www.fonds1818.nl/trainingen/crowdfunding-voor-je-buurt>

3.2.2. Managing Authority acting as a supporter

Financial support to platforms

The MA can provide financial support to all platforms under certain conditions. Such support is likely to take the form of grants with the purpose of reducing operational costs of platforms. Platforms could then pass the advantage provided to project owners in the form of reduced fees, or use these resources to finance other type of initiatives for the development of their crowdfunding capabilities.

For example, the Dutch crowdfunding association received a EUR 300,000 grant from the Ministry of Economic Affairs to kickstart their work, create a code of conduct and initiate public awareness campaigns and promotion events. This way, the Ministry contributes to the public awareness of crowdfunding and acts as an enabler of the crowdfunding ecosystem, without supporting individual projects or platforms.

Financial support to investors

The MA can establish a scheme to incentivise investors' participation in crowdfunding by covering a share of the total losses/exposure incurred by investors, as a mean of democratising investment opportunities and attenuating the inherent risks in crowdfunding. This collaboration model is illustrated in Chapter 4 in the Case Study 4.4 Support to investors in the form of guarantees (Netherlands Enterprise Agency – StartGreen Capital). MA can provide free of charge collective guarantees by building up a portfolio of loans in collaboration with a given platform and grouping lenders into a SPV structure. The project owners would likely benefit from reduced costs of borrowing or otherwise improved borrowing conditions, such as reduced collateral.

Financial support to project owners

The MA can decide to provide support to individual project owners in addition to crowdfunding funds and alongside the crowdfunding process, usually before or after the campaign. This collaboration model is illustrated in Chapter 4 in the Case Studies 1. Public authority providing grants to project owners outside a crowdfunding campaign (City of Milano – Eppela) and 3. Public authority providing financial instruments to project owners outside a crowdfunding campaign (Bremen's promotional bank – Startnext). For instance, the MA can provide the first tranche of funding that would enable a project owner to set up a crowdfunding campaign. Alternatively, it can provide follow-up funding of projects that successfully completed a first fundraising round. This type of financial support does not have to be of the same type as the financial support provided by the crowd. For instance, a grant can be provided to a project owner who raises funding in the form of a loan or equity in a crowdfunding campaign. Alternatively, a loan can be provided to a project owner who runs a donation-based, reward-based or investment-based crowdfunding campaign. Even if the type of support provided by the MA and private investors are the same, the MA can invest under different terms, as the agreement is reached without the involvement of the platform. Moreover, this type of support also allows for the combination of grants with financial instruments in two distinct operations.

3.2.3. Managing Authority acting as a participant

Operating a platform

The rationale for the MA to operate its own platform can be multi-fold, inter alia, the lack of crowdfunding platforms, the need to increase local financing opportunities, the limited impact of the existing platforms, or even the need to reduce the costs of intermediation in engaging in crowdfunding. The establishment of a dedicated platform requires an upfront investment, notably for communication and building awareness, and dedicated staff for platform management. This collaboration model is illustrated in Chapter 4 in the Case Study 2. Public authority operating its own crowdfunding platform (Investitionbank Schleswig-Holstein – WIR BEWEGEN.SH). The MA can run a donation-, reward-, lending- or investment-based crowdfunding platform, each of these having different legal consequences for licensing and operating the platform, especially under the ECSP regime (see 3.1). The role of the MA as a platform operator can be combined with that of financial support provider for project owners, to provide both financing and technical assistance.

Acting as a supporter/ investor in a crowdfunding campaign

In order to narrow the funding gap for both for-profit and non-profit projects, the MA may decide to invest in crowdfunding projects that foster the priorities of the relevant ESIF programmes. This collaboration model is illustrated in Chapter 4 in the Case Study 5. Public authority acting as investor through a lending-based crowdfunding platform (Bpifrance – October). It may do so on a project-by-project basis, but a more wholesome strategy would be to determine ex ante the strategic sectors and pre-selection criteria for investment, and commit the overall funds to be distributed among those projects that are not only eligible but also receive support from the crowd. The support from the crowd that triggers additional funding from the MA can be defined as a percentage of the crowdfunding target amount. In this way, the MA invests on equal terms as private investors, and can match contributions in donation-, reward-, lending- or investment-based crowdfunding.

Matching of this type would require a signed agreement with a crowdfunding platform, and a public procurement procedure (e.g. platform selected via an open call for expression of interest, as it is the case for commercial banks acting as financial intermediaries for traditional FIs). In this regard, platforms would need to have the authorisation to perform the delegated responsibilities from the MA to manage, collect and distribute the funds, as presented in 3.1.

For example, the Lithuanian National Promotional Bank (INVEGA) uses reflows from an existing ESIF financial instrument to invest in crowdfunding platforms on a *pari passu* basis, thus enhancing its lending capacity for microenterprises. Avietė loans are granted through two crowdfunding platforms (FinBee and Nordstreet) which have signed cooperation agreement with INVEGA for the implementation of Avietė loans, although the loans are open to any other platform of interest. These platforms are responsible for the selection of business projects which will be co-funded under the Avietė instrument. The maximum amount provided per project is set at EUR 10,000, corresponding to maximum 40% of the amount of each loan.

Acting as a project owner

The MA may launch its own campaign on an existing crowdfunding platform to finance a public project. The idea would be to gain additional leverage from investors, and to test whether the proposed project spurs public and social interest. The MA may decide to commit certain amount of funds to its project before it receives additional funding from citizens/investors via the crowdfunding platform. This collaboration model is illustrated in Chapter 4 in the Case Study 6. Public authority acting as a project owner (Municipality of Bologna – IdeaGinger). Under this scheme, the Municipality of Bologna was able to collect more than EUR 300,000 from 7,111 donors to finance the restoration of a historical element of the city.

3.3 Appropriate options to integrate crowdfunding and Cohesion Policy

When looking at the integration of crowdfunding and the Cohesion Policy, the role of MAs needs to be assessed in line with the implementation options outlined in the CPR⁵⁵ and depending on whether the intervention is made through ESIF grants or revolving schemes. Different models of integration emerge from those considerations.

Table 10: Levels of interaction, roles of the MA and models of integration under the Cohesion Policy

Level of Interaction	Role of the MA	Model of integration under the Cohesion Policy
Facilitator	Providing non-financial support	Model 1: MA providing non-financial support to project owners and investors
Supporter	Providing financial support to platforms	Model 2: MA providing grants to platforms Model 3: MA providing financial instruments to platforms
	Providing financial support to investors	Model 4: MA providing grants to investors Model 5: MA providing guarantees to investors
	Providing financial support to project owners	Model 6: MA providing grants to project owners outside a crowdfunding campaign Model 7: MA providing financial instruments to project owners outside a crowdfunding campaign
Participant	Operating a platform	Model 8: MA establishing and operating its own platform
	Acting as supporter/ investor in a crowdfunding campaign	Model 9: MA acting as a supporter in a donation- or reward-based crowdfunding campaign Model 10: MA acting as an investor in a lending- or investment- based crowdfunding campaign
	Acting as a project owner	Model 11: MA acting as a project owner

The focus of this section is to identify any regulatory and practical concerns when both crowdfunding and Cohesion Policy rules are applied. Each model of integration is assessed based on:

1. The **type of financing** provided (i.e. donation-, reward-, lending- and investment-based crowdfunding);
2. The **level of integration** between the responsibilities of the MA and that of crowdfunding participants in order to implement the model (i.e. low, medium, high);

⁵⁵ And Fund-specific regulations when it comes to e.g. EAFRD.

3. The legal **feasibility** under the existing legal frameworks (i.e. obstacles vs. no obstacles under current rules);
4. The potential target **groups/beneficiaries** (i.e. platform, investors, project owners).

3.3.1. Models for a Managing Authority acting as a facilitator

Model 1: MA providing non-financial support to project owners and investors

This role of the MA may involve different services provided to potential project owners and supporters/investors in view of facilitating their involvement in crowdfunding. Under the CPR framework, the MA can provide non-financial services such as coaching and educating activities. The costs incurred for providing such non-financial services may be covered by ESIF grants, and could be administered through a third party such as a crowdfunding platform. Provision of such grants would need to be in accordance with CPR rules applicable to different stages i.e. programming, implementation, monitoring and evaluation, verification and audit, as well as State Aid rules.

This model entails no legal consequences for the MA under ECSP Rules or national crowdfunding regulations. In addition, providing non-financial services to project owners and investors entails a low level of integration between ESIF and crowdfunding, as both the MA and the crowdfunding platform operator stay within their conventional responsibilities. This means that no particular legal consequences emerge as a result of such an integration.

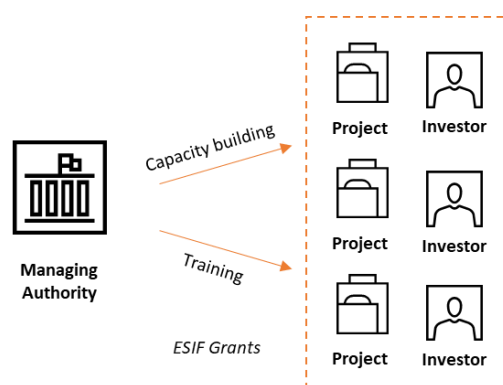


Table 11: Overview of the Model 1

Type of crowdfunding	Level of integration	Legal feasibility	Target group
All four types (particularly suitable for lending-based and investment-based crowdfunding)	Low	Feasible ⁵⁶ – no obstacles under current rules.	Project owners or investors

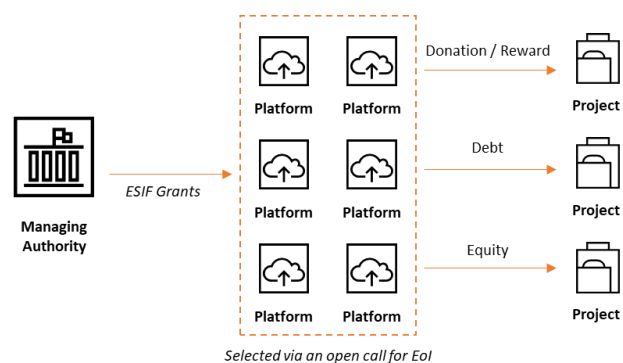
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3.3.2. Models for a Managing Authority acting as a supporter

MAs acting as a supporter provide grants or financial instruments to crowdfunding participants independently of the crowdfunding process. Depending on the recipient of ESIF (i.e. platform, investors, project owners) as well as the type of support (grants or financial instruments), six different models of integration are envisioned.

Model 2: MA providing grants to platforms

A grant can be provided to all crowdfunding platforms that satisfy ESIF selection and eligibility criteria with the view of lowering their operational costs or allowing them to provide additional services to investors or project owners. This model is equally applicable to all four types of crowdfunding, as long as they advance some of the ESIF objectives specified in the Operational Programme, i.e. the detailed plans in which Member States set out how money from ESIF will be spent over the 2021-2027 programming period. Provision of grants to platforms would need to be aligned with CPR rules (notably Article 67, section 1, point a) reimbursement of eligible costs actually incurred, and c) lump sums), and State Aid rules. Platform operators would act as beneficiaries within the CPR framework, and thus would have to comply with eligibility conditions set out in the operational programme. This model of integration does not lead to the applications of any of the crowdfunding rules on the MA or the entity entrusted with the implementation of some its activities.



Providing financial support to platforms in the form of grants entails low level of integration between ESIF and crowdfunding, as neither the MA nor the crowdfunding service provider step outside of their conventional roles. This means that no particular legal consequences emerge as a result of such an integration.

Table 12: Overview of the Model 2

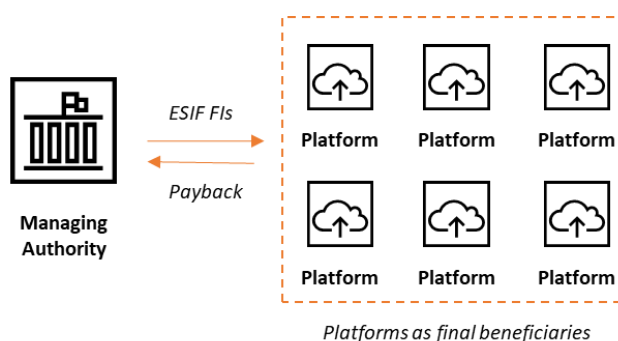
Type of crowdfunding	Level of integration	Legal feasibility	Target group
All four types (particularly suitable for lending-based and investment-based crowdfunding)	Low	Feasible ⁵⁷ – No obstacles under current rules.	Platforms

Model 3: MA providing financial instruments to platforms

The MA can provide financial instruments, equity or loans, to platform operators that satisfy ESIF selection criteria. Providing equity to existing platform operators would allow them to offer better or more extensive services to investors such as due diligence of project owners, thus increasing the trust in this financing mechanism. Compared to Model 8 in which the MA establishes its own platform, this model has the comparative advantage of risk sharing with the other shareholders of the beneficiary platforms and avoiding the costs of licensing and regulatory compliance with crowdfunding rules borne by the MA. Providing loans to platforms, although less likely, can help platforms bridge a temporary reduction of revenues.

Although less likely than Model 2, Model 3 is equally applicable to all four types of crowdfunding, as long as they advance some of objectives specified in the Operational Programme. Under this scheme, platform operators would act as beneficiaries within the CPR framework, and related CPR rules would there be applicable.

This model of integration does not lead to the applications of any of the crowdfunding rules on the MA nor the body entrusted with the implementation of some of its activities. Providing financial support to platforms in the form of financial instruments entails low level of integration between ESIF funds and crowdfunding, as neither the MA nor the crowdfunding intermediary step over their conventional responsibilities. However, if the MA



provides loans to platforms, legal consequences arise concerning the compliance with prudential requirements for platform operators. According to Art. 9 of the Directive 2015/2366/EU applicable to ECSP Regulation, the crowdfunding service provider needs safeguards equating at least 10% of the fixed overheads of the preceding year. Interest paid to service the loan provided by the MA would change the calculation of the fixed overheads, and thus the amount of required prudential

⁵⁷ In the cases of funds falling partly outside of the CPR, the feasibility should be assessed against the Fund-specific eligibility rules

safeguards.

Table 13: Overview of the Model 3

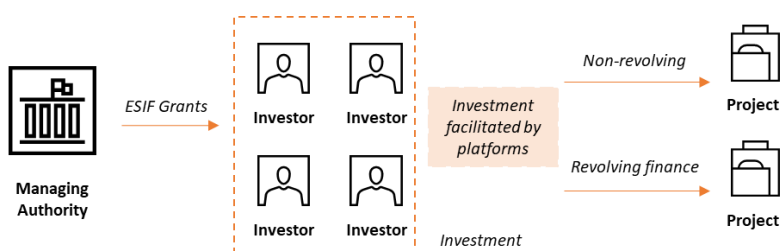
Type of crowdfunding	Level of integration	Legal feasibility	Target group
All four types	Low	Feasible ⁵⁸ – No obstacles under current rules. Provision of loans can affect compliance with prudential requirements under the ECSP regulation.	Platforms

Model 4: MA providing grants to investors

The MA can provide grants to potential supporters/investors to ensure a greater participation in crowdfunding campaigns promoting ESIF objectives. Individual investors are empowered to decide on public spending across projects, and under all types of crowdfunding, the latter depending on the agreement reached between the MA and investors.

The CPR provisions governing the planning and implementation stage of grants particularly focus on the eligibility and selection criteria for respective beneficiaries. The particularity of this model is that selection criteria can be defined regarding the characteristics of the future supporters/investors, or regarding the characteristics of the crowdfunding projects they will invest in.

This type of support to investors does not create any additional legal risks for the MA beyond effective selection, control and monitoring of the specific characteristics of the way grants are spent under the CPR. As crowdfunding investors are usually numerous, compliance with CPR control mechanisms becomes administratively burdensome. Delegating part of implementation process to the platform operator, which then becomes the intermediate body of ESIF grants, can help mitigate the practical difficulties of providing this type of support.



This model entails no legal consequences for the MA under ECSP rules or national crowdfunding regulations. As this model requires at minimum the platform operator to provide the MA with information on individual-level contributions from the grant recipients, this model can be considered of a medium level of integration between ESIF funds and crowdfunding. If the

⁵⁸ In the cases of funds falling partly outside of the CPR, the feasibility should be assessed against the Fund-specific eligibility rules

crowdfunding operator acts as an intermediate body of ESIF grants, a high level of integration emerges as a result.

Table 14: Overview of the Model 4

Type of crowdfunding	Level of integration	Legal feasibility	Target group
All four types (particularly suitable for lending-based and investment-based crowdfunding)	Medium to high	Feasible ⁵⁹ – No obstacles under current rules. However, this option appears to be very difficult to implement in practice. Indeed, this model is theoretically possible, but the cost of legal compliance is disproportionate.	Investors

Model 5: MA providing guarantees to investors

The MA can decide to lower the risks faced by investors by providing a guarantee scheme for crowdfunding loans or investment in crowdfunding projects in line with relevant Operational Programmes. In this regard, it is important to note that an ESIF guarantee can cover the risk of EU private investors, irrespectively of the location of the crowdfunding platforms⁶⁰. The provision of guarantees is explicitly laid down in the CPR provisions, and most MAs across the EU have experience in implementing guarantees for SME financing. Typically, these guarantee schemes – whether they are loan-to-loan or portfolio guarantees – are intermediated via commercial banks. One could also envisage the MA establishing a guarantee scheme in favour of supporters of reward-based crowdfunding campaigns. This collaboration model could allow investors to choose to opt in or opt out of the guarantee scheme at their convenience, which would in turn entail a more complex management process, or force investors to opt in to satisfy the MA’s chosen structure.

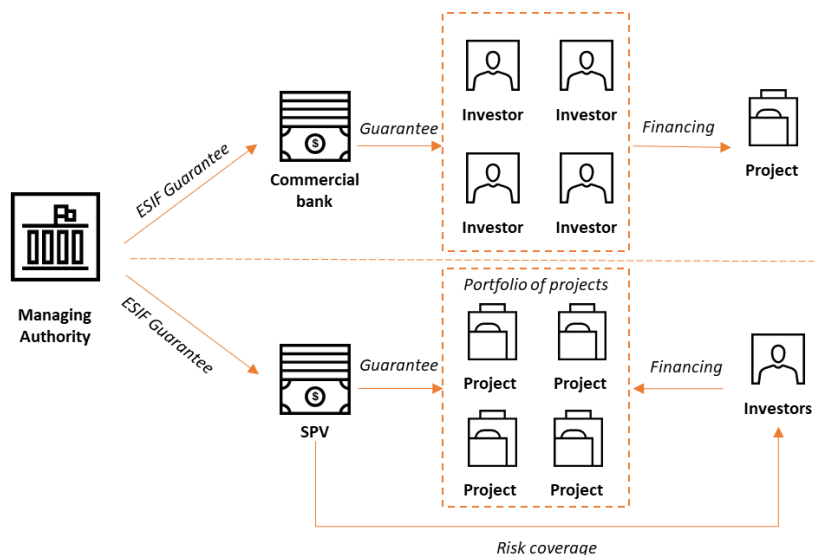
⁵⁹ In the cases of funds falling partly outside of the CPR, the feasibility should be assessed against the Fund-specific eligibility rules

⁶⁰ This is also made possible by the introduction of the ESCP, which will facilitate private cross-border investments.

Given the large number of investors, loans would need to be aggregated in an SPV structure and the MA would provide a guarantee to a portfolio of investment projects. A pre-agreed loss coverage for the ESIF guarantee schemes would need to be set up (e.g. in *pari passu* terms for uncapped, or covering 80% of the first losses, up to a 25% guarantee cap rate for portfolio guarantees, in line with GBER rules⁶¹) to comply with the selected State Aid regime. In addition, the calculation of the Gross Grant Equivalent provided to each individual project would need to be calculated in order to avoid State Aid under the *de minimis* rules.

The MA may also entrust the implementation of this guarantee scheme to a financial intermediary in line with Art. 38, paragraph 4 of the CPR.

According to these rules, the MA shall take due account of the nature of the financial instrument to be implemented, the experience of the financial intermediary in



implementing similar financial instruments, and the expertise and capacity, both financial and operational, of the proposed team members. Operators of lending-based crowdfunding platforms, which intermediate the provision of loan-based financial instruments, and which are supervised by the financial regulator of the respective Member States, are likely to fulfil these criteria – as reflected in the Case Study 4 presented in Chapter 4. Art. 6, paragraph 5 of the ECSP Regulation explicitly envisages the option for lending-based crowdfunding intermediaries to operate a contingency fund, which has a similar function to that of a loss guarantee fund. In contrast, operators of reward-based crowdfunding platforms do not intermediate the provision of financial instruments, and thus, are not likely to meet the above described selection criteria.

The level of integration of this model varies from 'medium' to 'high' depending on whether the platform operator is entrusted with the implementation of some of the responsibilities of the MA. In all cases, a certain level of coordination between stakeholders is needed in case of losses incurred for the effective transfer of funds from the SPV to the crowd lenders.

The case study 4. Public authority providing guarantees to investors presented in Chapter 4 provides a practical example and insights from the implementation of such collaboration model, highlighting a set of key success factors that could guide the MA. The reader interested in this model will find further details in the Blueprint 3. Providing guarantees to investors presented in Chapter 5.

⁶¹ Commission Regulation (EU) N°651/2014 of 17 June 2014

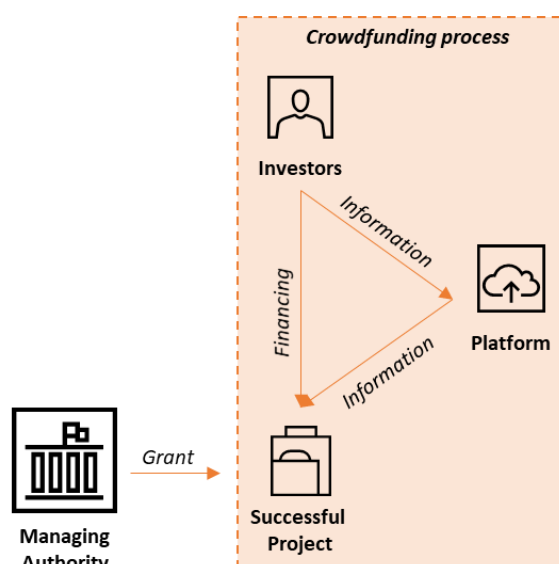
Table 15: Overview of the Model 5

Type of crowdfunding	Level of integration	Legal feasibility	Target group
Lending and reward-based crowdfunding	Medium to high	Feasible – No obstacles under current rules. Obstacles emerge when the reward-based crowdfunding platform operator is to be entrusted with the implementation of ESIF.	Supporters / lenders / investors

Model 6: MA providing grants to project owners outside a crowdfunding campaign

A grant can be provided to project owners as a pre- or post- crowdfunding campaign funding. Put in practice, this means that the grant can be provided before the project owners start their campaign to help them to start their fundraising campaign through the platform; or ex-post, e.g. once a project has successfully reached its investment target through a crowdfunding campaign. In this context and depending on their objective, MAs could use either one of these options, or combine them both.

It can be implemented under all types of crowdfunding, e.g. donation, reward, loan or investment-based crowdfunding. There are no legal obstacles under CPR for such practice. The Operational Programme would need to specify the crowdfunding-specific eligibility criteria, while evidence of a successful campaign completion should be provided for post-campaign grants. Such an evidence can relate to the crowdfunding campaign reaching a pre-set investment threshold, corresponding to a significant share of the financing needed for the project (in the case study 1. presented in Chapter 4, the investment threshold amounts to 50% of the total financing required for the project campaign). In other instances, the evidence of a successful campaign completion can relate to the number of supporters/investors supporting the campaign (see case study 4.3 presented in Chapter 4). In both cases, this helps proving the quality of the project and its relevance (see 1.1 High level analysis of crowdfunding). This is particularly useful for projects relevant to MAs policy objectives, and which are uncertain about obtaining the full campaign financing.



MAs can either manage the administration of the grants (providing them directly to the project’s owners as in the case of case study 4.1), or entrust the management of the grants to a

crowdfunding platform operator, which would act as intermediate body under Art. 123 of the CPR⁶² under a specific arrangement. According to the CPR, the platform operator shall provide evidence of its solvency, competence and management capacity. Crowdfunding intermediaries in lending-based and investment-based models are likely to satisfy these conditions, whereas platform operators of donation-based and reward-based models would need to demonstrate their administrative and financial management capacity to channel grants under the Cohesion Policy framework.

The level of integration between ESIF and crowdfunding service provider under the Model 6 can range from 'medium' to 'high' depending on whether the latter acts as an intermediate body channelling the grants. Nonetheless, a close cooperation between the MA and the platform operator will emerge as the grant recipient is likely to have successfully raised funds on a particular crowdfunding platform previously chosen (via a public procurement procedure if the crowdfunding platform acts as Intermediary Body).

If the crowdfunding platform operator is entrusted with the implementation of ESIF grants, this model entails a high level of integration. The crowdfunding platform operator assumes a number of responsibilities outside its usual course of business as set out in Art. 125 of the CPR⁶³, such as supporting the work of the monitoring committee, or drawing up and submitting to the European Commission annual and final implementation reports. The selection procedures and criteria of the platform would also have to be considerably adjusted to comply with CPR rules.

The case study 1. Public authority providing grants to projects outside the crowdfunding campaign presented in Chapter 4 provides a practical example and insights from the implementation of such collaboration model, highlighting a set of key success factors that could guide the MA. The reader interested in this model will find further details in the Blueprint 1. Providing grants outside a crowdfunding campaign presented in Chapter 5.

Table 16: Overview of the Model 6

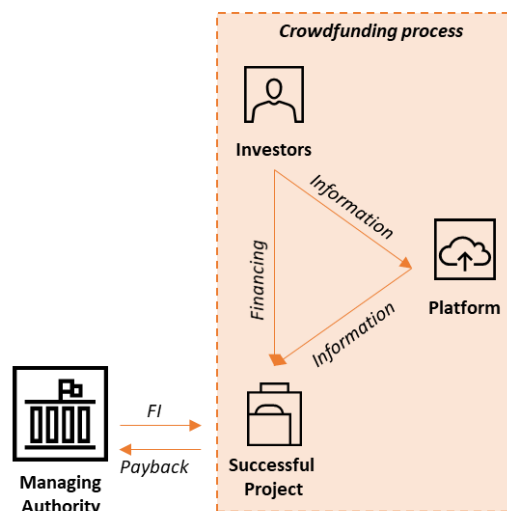
Type of crowdfunding	Level of integration	Legal feasibility	Target group
All four types (particularly suitable for lending-based and investment-based crowdfunding)	Medium to high	Feasible – No obstacles under current rules. When the donation or reward-based platforms operator acts as an intermediate body, it would need to provide guarantees of its competence, solvency, and its administrative and financial management capacity	Project owners

⁶² Regulation (EU) No 1303/2013 of the European Parliament and of the Council <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex%3A32013R1303>

⁶³ Regulation (EU) No 1303/2013 of the European Parliament and of the Council <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex%3A32013R1303>

Model 7: MA providing financial instruments to project owners outside a crowdfunding campaign

The MA can decide to provide financial instruments to project owners outside the crowdfunding process, as pre or follow-up financing. Financial instruments can be provided to project owners – especially (but not exclusively) in the broader context of financial-return crowdfunding. The flexibility associated with the model allows MAs to provide support under their chosen terms and conditions (e.g. terms of repayment, governance mechanisms or reporting obligations) and in their chosen type of financing (e.g. loan or equity), independently of the ones defined in the crowdfunding process.



The MA can decide to implement the financial instrument directly in case of loans, or to entrust the implementation to a financial intermediary (Art. 38 paragraph 4 of the CPR), such as, for instance, the operator of the crowdfunding platform. The illustration presents an example without intermediation. The chosen financial intermediary is required to have the adequate administrative and financial management capacity to successfully intermediate this type of instrument, as laid down in Art. 7 of the Delegated Act⁶⁴. As discussed in relation to Model 5, operators of non-financial-return crowdfunding models (i.e. donation and reward) are unlikely to meet these conditions. In contrast, operators of financial-return crowdfunding models, that focus on providing loans and equity to project owners and are subject to financial regulation and supervision from their respective Member State regulator, are likely to meet these selection criteria.

However, ESCP regulation adds constraints on the role of platform operator as the intermediary of an ESIF financial instrument. According to Recital 19 of ESCP, crowdfunding service providers do not have the right to provide individual or collective asset management services. Yet, Art. 3 paragraph 5 of the ECSP Regulation allows the operator of a lending-based crowdfunding platform to provide individual portfolio management of loans, provided that exercising discretion of behalf of the investor is within the parameters and risk indicators predetermined by the investor. The operator of the lending based-crowdfunding platform would still merely facilitate the conclusion by the MA and project owners of loan agreements, without at any moment acting as a creditor of the project owner, in line with Recital 19. Regarding the operators of equity-based platforms, no such exemption was envisaged in the ECSP Regulation. However, it is not rare for the operators of equity-based crowdfunding model, established before the adoption of the ECSP Regulation, to hold a MiFID investment firm license or less frequently an AIFM license, which would allow them to manage assets on behalf of the MA.

⁶⁴ Article 7 of Commission Regulation 480/2014: Criteria for the selection of bodies implementing financial instruments <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0480&from=EN>

Depending on the chosen option of implementing the ESIF financial instrument (intermediated by the platform or not), the level of integration of this model will vary from 'medium' to 'high'. This is due to the fact that the MA will likely finance project owners who successfully raised funds on a specific crowdfunding platform previously chosen via a public procurement procedure. Such a cooperation is particularly important when ESIF financial instruments are used as a follow-up financing for project owners that previously received support from crowd investors.

If the implementation of ESIF financial instruments is entrusted to the operator of a lending-based crowdfunding platform, or an investment-based crowdfunding platform holding a MiFID or AIFM license, the resulting level of integration between crowdfunding and ESIF instruments would be described as 'high'. The operator of a crowdfunding platform would assume a number of responsibilities outside its usual course of business, such as supporting the work of the monitoring committee, or drawing up and submitting to the European Commission annual and final implementation reports. The selection procedures and criteria of the platform would also have to be considerably adjusted to comply with CPR rules.

The case study 3. Public authority providing financial instruments to project owners outside a crowdfunding campaign presented in Chapter 4 provides a practical example of, and insights on the implementation of such collaboration model, highlighting a set of key success factors that could guide the MA. implementation of such collaboration model, highlighting a set of key success factors that could guide the MA. The reader interested in this model will find further details in the Blueprint 1. Providing grants outside a crowdfunding campaign presented in Chapter 5. While the latter focuses on grants, there are no major differences in the legal implications, as the provision of such financial support takes place outside of the crowdfunding campaign and follows the same regulatory requirements depending on whether financial instruments are intermediated by a platform or not.

Table 17 Overview of the Model 7

Type of crowdfunding	Level of integration	Legal feasibility	Target group
All four types (particularly suitable for lending-based and investment-based crowdfunding)	Medium to high	Feasible – No obstacles under current rules. Obstacles emerge when operators of donation, reward, or investment-based platform operators not holding a MiFID or AIFM license are entrusted with the implementation of ESIF financial instrument.	Project owners

3.3.3. Models for a Managing Authority acting as

participant

Model 8: MA establishing and operating its own platform

Under this role, the MA, establishes a crowdfunding platform – or entrusts its implementation – in view of promoting policy goals. This model would fall under the regulatory framework applicable to ESIF grants, and would also trigger the application of State aid rules, given that a public body would effectively become a competitor to private crowdfunding intermediaries.

Establishing and running a crowdfunding platform would trigger the application of crowdfunding regulations for platform intermediaries. Legal consequences would depend on the crowdfunding model.

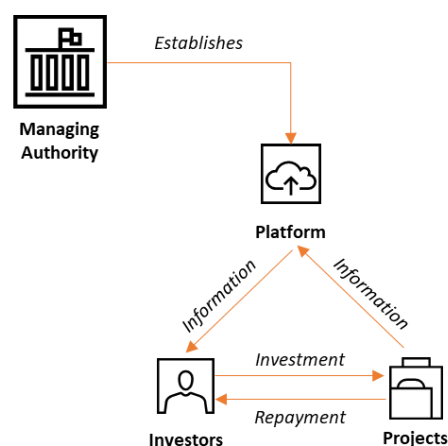
Operating a crowdfunding platform for corporate lending and investment crowdfunding would fall under the ECSP regime. As a consequence, the MA would need to comply with authorisation/licensing requirements (e.g. as prudential and governance requirements, rules on conflict of interest, rules on operational risks etc.) Rules on conflict of interest are particularly important when the MA also lists its own projects or co-finances listed projects. According to Art. 8 of the ECSP regulation, crowdfunding service providers are prohibited from having a participation in the crowdfunding offers on their platforms but are allowed to act as investors, provided that certain safeguards against conflict of interest are implemented. The platform or the intermediate body would also be supervised by the competent financial supervisory authority of the Member State.

Operating a platform that intermediates lending to consumers, donations or rewards, would fall under national crowdfunding regimes, which usually have lighter licensing requirements for non-financial return models.

When establishing its own crowdfunding platform, MAs may waive or reduce the listing and success fees paid by the project owners. Charging no fee or reduced fees when offering crowdfunding services would qualify as a contribution in kind, and should therefore be in line with Art. 67 and 69 of the CPR.

Establishing and running a crowdfunding platform by the MA or the intermediate body entails high level of integration between ESIF and crowdfunding. In this model, the MA takes over a number of functions which fall outside its usual activities, such as:

- providing boilerplate (i.e. standardised) contracts between the platform and market participants;
- providing contracts between market participants;
- pre-selection of projects to be listed;
- due diligence of projects;



- ensuring cybersecurity and data protection on its website;
- ensuring that the information provided by project owners is compliant with mandatory disclosure requirements;
- channelling private contribution from supporters to project owners, facilitating repayments in case of loans;
- other auxiliary services.

The case study 2. Public authority operating its own crowdfunding platform presented in Chapter 4 provides a practical example of, and insights on the implementation of such collaboration model, highlighting a set of key success factors that could guide the MA. The reader interested in this model will find further details in the Blueprint 4. Operating a crowdfunding platform presented in Chapter 5.

Table 18: Overview of the Model 8

Type of crowdfunding	Level of integration	Legal feasibility	Target group
All four types (particularly lending-based and investment-based crowdfunding)	High	Feasible – No obstacles under current rules.	Project owners

Model 9: MA acting as a supporter in a donation- or reward-based crowdfunding campaign

A MA can decide to become a direct supporter of projects seeking funding in a donation or reward-based crowdfunding campaign. For instance, a MA could invest in a specific project in line with its policy objectives, once a certain threshold of private funding has been reached (e.g. 75% of the total investment size), enabling project owners to reach their target amount.

Regulatory compliance of this model under the CPR rules largely depends on the MA ability to channel ESI grants on a project-per-project basis. In order to reduce the administrative burden of this option, the MA could enter into an agreement with a crowdfunding platform operator acting as an intermediary, selected via a public procurement procedure. The agreement would have to specify the selection criteria to qualify projects for matching contributions from public funds. The platform would need to comply with the reporting requirements of the MA, so as to ensure that ESIF money has been used for its rightful purpose, and demonstrate their administrative and financial management capacities to channel ESIF grants in accordance with Art. 123 of the CPR.

If the crowdfunding platform operator is entrusted with the implementation of ESIF grants, it assumes a number of responsibilities outside its usual course of business as set out in Art. 125 of the CPR. As a result, the level of integration can be described as 'high'.

Table 19: Overview of the Model 9

Type of crowdfunding	Level of integration	Legal feasibility	Target group
Donation and reward-based crowdfunding	High	<p>Feasible – No obstacles under current rules.</p> <p>When the donation or reward-based platforms operator acts as an intermediate body, need to provide guarantees of its competence, solvency, and its administrative and financial management capacity.</p>	Project owners

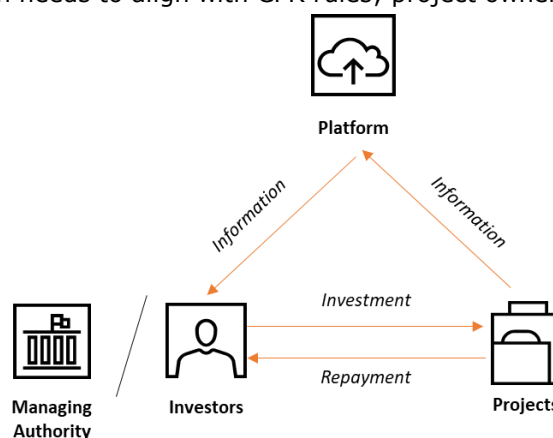
Model 10: MA acting as an investor in a lending- or investment-based crowdfunding campaign

The MA can decide to invest, through debt-based or investment-based instruments, in a crowdfunding campaign to provide additional liquidity in the market and enable relevant crowdfunding projects to reach their target amount.

Financial support from the MA could be triggered once a certain private financing threshold has been reached. Given that the MA invests alongside private crowd investors, the type of financial instruments and the negotiated terms and conditions of investments (e.g. terms of repayment, governance mechanisms or reporting obligations) need to match for both class of investors.

The CPR regulatory framework applies to this Model: the provision of financial instruments in a lending or investment-based crowdfunding campaign needs to align with CPR rules; project owners would be considered as final recipients and thus, would have to comply with eligibility conditions set in the ESIF Operational Programme.

With respect to loans, the MA can provide the financial instrument directly. This would, nevertheless, require tight cooperation with the crowdfunding platform operator, notably for eligibility pre-assessment of projects and the timing of provision of financial instruments, when conditional on a private investment amount threshold.



However, it is more likely that the provision ESIF financial instruments in a crowdfunding campaign would be entrusted to a financial intermediary or a fund of funds (even though MAs may retain the possibility to retain the possibility to provide loans). As discussed in Model 7, the CPR regulation allows lending and investment-based crowdfunding platforms to become the implementing body of an ESIF financial instrument.

According to ECSP rules, only operators of lending-based platforms can perform individual portfolio management services if certain conditions are met. Operators of investment-based crowdfunding platforms would need to hold a MiFID or AIFM license to be allowed to provide financial instruments on behalf of the MA.

This model of assumes a high level of integration, even if the operator of a crowdfunding platform is not acting as a financial intermediary. Such a collaboration model would have to be defined in an agreement between the MA or financial intermediary and the crowdfunding platform operator.

The case study 5. Public authority acting as an investor through a lending-based crowdfunding platform presented in Chapter 4 provides a practical example of such collaboration model, including its underlying challenges and added value. The reader interesting in this model may want to learn more by looking at the Blueprint 2. Investing through a lending-based crowdfunding platform presented in Chapter 5.

Table 20: Overview of the Model 10

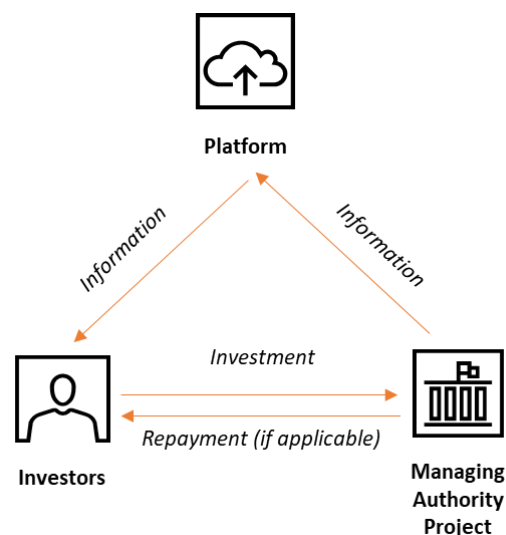
Type of crowdfunding	Level of integration	Legal feasibility	Target group
Lending and investment-based crowdfunding	High	Feasible – No obstacles under current rules. Obstacles may emerge if the investment-based crowdfunding platform operator does not hold a MiFID license.	Project owners

Model 11: MA acting as a project owner

The MA could potentially act as project owner by listing some of its priority projects on a given crowdfunding platform and let citizens becoming supporters or investors of these projects. This model falls under CPR regulation if ESIF are used to cover the expenses of developing and running the crowdfunding campaign or the projects themselves. The MA could commit certain amount of funds to its project before or after receiving additional funding from investors.

However, obstacles can emerge if the MA acts both as a platform service provider and a project owner, as this would trigger a conflict of interest under the ECSP rules.

This model of integration would require the MA to comply with crowdfunding rules applicable to project owners under the ECSP Regulation or national crowdfunding regimes, depending on the



crowdfunding type. The key requirement imposed on project owners from ECSP is to provide investors with the Key Investment Information Sheet (KIIS), used by prospective investors to make an informed investment decision. As a result, the level of integration can be described as 'medium'.

The case study 6. Public authority acting as a project owner presented in Chapter 4 provides a practical example of, and insights on the implementation of such collaboration model, highlighting a set of key success factors that could guide the MA.

Table 21: Overview of the Model 11

Type of crowdfunding	Level of integration	Legal feasibility	Target group
Mostly donation and reward-based	Medium	Feasible – No obstacles under current rules.	N/A

3.4 Conclusion and recommendations

When looking into the legal implications of different models to integrate crowdfunding with ESIF, we find out that:

- **The CPR and the ECSP regulation are the two main regulatory frameworks** to be considered when combining crowdfunding and ESIF. Other relevant regulations include the Prospectus Regulation, the Payment Service Directive, the AML Directive, the AIFM Directive, MiFID II, as well as the Implemented and Delegated Acts, and the State aid rules (notably *de minimis* and GBER).
- **MAs can play different roles** in the crowdfunding process. These roles depend on the type of support provided (e.g. non-financial or financial, and if so grants or financial instruments), the beneficiary (e.g. platforms, investors or project owners), and whether the MA provides support outside the crowdfunding process or becomes one of the crowdfunding participants.
- The existing regulatory frameworks and legal concepts **do not prevent MAs to support, invest or lead crowdfunding initiatives** in the context of the Cohesion Policy. As such, there is no need to reconcile the legal concepts between the ECSP and the CPR framework.
- **Models in which the MA does not act as one of the participants in the crowdfunding process** (i.e. operating a platform, acting as a supporter/investor in a crowdfunding campaign, or acting as a project owner), but rather provides support to crowdfunding participants independently, **raise fewer legal concerns** and assume lower level of integration, making their implementation easier for the MA.
- The provision of support alongside the crowdfunding campaign presents several advantages. It allows for a greater flexibility in terms of timing (i.e. before or after the crowdfunding campaign) and conditions (i.e. allows the provision of types of support which are different from those determined by the platform operator).
- **Entrusting the implementation of ESIF to operators of crowdfunding platforms assumes a high level of integration**, leading to a trade-off between improved efficiency and administrative burden on platforms to comply with CPR rules.
- In light of the CPR, **all four types of crowdfunding platforms could be considered as intermediary bodies of ESIF grants**, provided that they demonstrate their competence, administrative and financial management capacity. In addition, under the CPR both lending and investment-based crowdfunding intermediaries can become financial intermediaries for the implementation of ESI financial instruments.
- However, the ECSP license does not grant crowdfunding service providers the right to provide individual or collective asset management services. An exception is laid down in Art. 3 paragraph 5 of the ECSP Regulation, allowing the operator of a lending-based crowdfunding platform to provide individual portfolio management of loans of behalf of the investor provided that this is within the parameters and risk indicators predetermined by the investor. Therefore, **lending-based platforms could act as financial intermediaries for the implementation of ESI Funds**.

- However, no such exemption is envisaged in the ECSP Regulation for investment-based platforms. Therefore, operators of investment-based platforms can act as financial intermediary of ESIF only if they hold a hold a MiFID investment firm or AIFM license, as this would allow them to manage assets on behalf of the MA. This applies independently whether the financial instruments to project owners are provided outside the crowdfunding campaign or through a crowdfunding campaign.
- Models in which the crowdfunding platform operator acts as financial intermediary for the implementation of ESIF present higher levels of efficiency for the MA (particularly for those having limited experience).
- Under ESIF, the MA also has the option to operate its own platform. As a result, it would have to fulfil the conditions set out in the ECSP Regulation or national laws of the Member States for becoming an authorised crowdfunding platform. Although administratively burdensome, this model raises no legal questions, unless the MA also decides to list its own civic projects or co-finance projects that are listed on its platform. This would trigger the application of rules on conflict of interest under ECSP or national laws of the Member States.



4

Case-studies

4.1 Public authority providing grants to project owners outside a crowdfunding campaign



This case study focuses primarily on the example of the collaboration between the City of Milano and Eppela. Additional relevant examples can be found in the boxes below the case study.

A number of public authorities across Europe currently provide grants to projects outside the crowdfunding campaign. This trend is explained by the fact that there are no important legal considerations around this model as the public authority provides the grant to the project owners outside the crowdfunding platform. In most cases, the crowdfunding platform does not act as Intermediate Body.

Such a model is relatively easy to implement and is often considered as a first step for public authorities to participate in the crowdfunding process.

The present case study describes how the Municipality of Milano collaborated with the crowdfunding platform *Eppela* to support project owners based in Milano through grants, between 2016 and 2017. The said grants are provided ex-post if the project's campaign is successful (i.e. reaching 50% of the total targeted financing). The

collaboration evolved, based on preliminary mixed results from projects: technical assistance was provided to the second wave of projects, which increased their success rate by 28%, and communication campaigns were further tailored to maximise crowd engagement.

Hence, the Municipality took the time to scope the challenges and lessons learnt from the first round of the crowdfunding scheme implementation, which led to continuous improvement and increased the chances of success for projects subsequently financed.

This successful experience was followed by a second collaboration with a crowdfunding platform named *Produzioni del Basso*, which is still ongoing. The crowdfunding scheme is wider and more sophisticated than the previous one, and includes ESIF resources. This collaboration integrates the lessons learnt from the first experience, highlighting valuable insights for MAs interested in this model.

Additional information about the generic collaboration model can be found in the Model 6 in Chapter 3 and Blueprint 1 in Chapter 5.



Comune di
Milano

Name: City of Milano

Role of the public authority: Selection of the crowdfunding platform, the projects, and provision of match-funding (up to 50% and EUR 50,000) for the selected projects that have successfully completed the crowdfunding process (i.e. reaching the required threshold set out in the campaign).

Resources committed: EUR 400,000; 1 Full Time Equivalent (FTE) – project manager.

About Eppela

Eppela is a non-profit crowdfunding platform specialised in reward-based crowdfunding. It operates in Italy (predominantly Northern Italy) and focuses predominantly on culture,

art, social entrepreneurship, although it is open to all kinds of projects. Eppela has financed over 6,000 projects and raised over EUR 4 million since its establishment in 2011.

crowdfunding process. To do so, a team of advisors is available to support entrepreneurs in setting up their campaigns and communication plan, including contacts with media outlets. This is completed by additional services such as graphic visuals by students from the design academy.

Eppela's added value

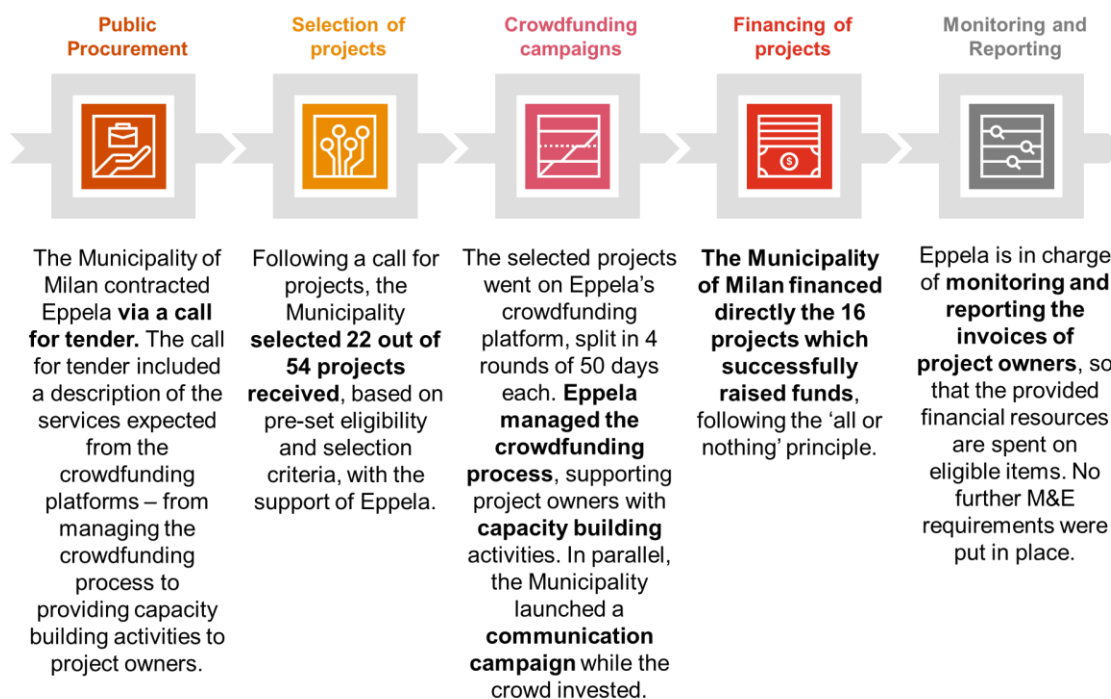
Eppela pays particular attention to accompanying projects' owners in their

Motivations of the City of Milano to collaborate with a crowdfunding platform:



- Explore innovative solutions to finance projects of public interest;
- Contribute to spreading new fundraising models for the NGO sector;
- Attract private investors to finance high social impact projects in the City and its metropolitan area;
- Directly involve citizens in the investment decisions and choices of the City.

How it works?



Financial benefits

More than 1,300 investors co-financed the projects within Eppela, with a *total*

investment of EUR 333,000, with an average of approximately EUR 250 per co-investor. This investment was doubled by the City of Milano, which invested a total of EUR

323,000 in the projects that successfully secured financing in the crowdfunding campaign.

A total of 16 projects were funded through crowdfunding, with a *success rate of 88%*. In addition, 60% of the project owners were social enterprises, whereas the remaining 40% were NGOs.

Non-financial benefits

Increased accountability: Beneficiaries are

not only accountable to the Municipality but also to the crowd and the citizens.

Professionalisation: Beneficiaries benefited from the training and other capacity building activities provided by Eppela.

Reputation and image: The Municipality and Eppela also benefited from an improved reputation and image: The City of Milan for being innovative, and successfully attracting EUR 333,000 from citizens who influenced the choice of projects receiving public funding, and Eppela for being a reliable player in the crowdfunding-market.

Example of project financed under this collaboration model



Name: SoLunch

Location: Milan, Italy

Sector: Social sector

Objective: SoLunch aims to promote relationships between people with and people without a job (including unemployed, retirees or stay at home parents). Through SoLunch, people can go online, find a SoLunch provider near their workplace, purchase the menu of the day and then enjoy it with new acquaintances in their homes.

EUR 20,032

Amount raised from the crowd
(out of a total of EUR 40,000)

96 Investors

Number of crowd investors

50 Days

Duration of the
crowdfunding campaign



3,205

Number of users of the
Solunch platform



17,000

Average monthly lunch
searches before Covid-19



Challenges

Being selected by the Municipality (before the actual crowdfunding campaign) required filling up several administrative documents. This process demanded time and effort to be completed, but this was no more work than normally with public funding campaigns.

Capacity building was a key success factor. Eppela provided training ahead of the campaign on communication activities and community engagement. This helped shape all communication activities and their content – from social media, to the organisation of a series of 8 events aiming to raise awareness around SoLunch.

Lessons learnt

Key success factors behind this collaboration

The active involvement of the Municipality translated into higher impact and increased learning. The Municipality was actively involved in this initiative, allowing its staff to learn more about crowdfunding, and being able to adapt the approach when needed. For instance, after the first round of campaigns, the Municipality asked Eppela to provide trainings to project owners to boost the success rates of their projects. Likewise, the Municipality also leveraged on communication means to maximise the chances of success of this collaboration. While this approach is demanding in terms of resources (1 FTE acting as project manager for the full duration of the collaboration), it is important in a context where knowledge and expertise with crowdfunding are limited.

Technical assistance to projects is the key for projects' success rate. In the first wave of projects, no technical assistance services were provided to the projects' owners, which led to moderate results. In fact, most projects that were unsuccessful during the collaboration correspond to those which did not benefit from technical assistance. This was improved in the later rounds, translating into higher success rates. These services were paid by the public authority as part of the collaboration with the platform. The projects that were part of this collaboration initiative were considerably more successful than projects

that did not receive the public support. Their success rate amounted to 88% as compared to 60% of regular project listed on the platform at the time - showing the impact of i) the training activities and ii) the Municipality stamp. In practice, these services focused on how to start and manage a crowdfunding campaign from a communication and community engagement perspective.

Public authorities can provide more than money: reputation, expertise in the field and access to their network. In this collaboration with Eppela, the Municipality implemented communication activities targeting different actors (the crowd, but also the private sector and even tourists). The communications channels used were also diverse: social media, newspapers, tv, websites; and the format was rather interactive and dynamic – use of videos, informal content etc. Because it was led by the Municipality, this contributed to the credibility and reputation of all actors involved in the crowdfunding scheme. The communication campaign was fully tailored to the crowd's needs in order to maximise their engagement – hence policy objectives are not put forward per se, as it is more the local and community aspects that feature in the campaign. In the second experience, the Municipality entered in partnership with the School of Art and Graphic of Milano, in order to provide project owners with expert advice on communication matters. This also

allowed each actor to focus their efforts on their core strengths.

Main challenges

Public procurement process: As it was the first time the Municipality of Milan collaborated with a crowdfunding platform, a certain degree of flexibility was needed. At the same time, this flexibility was impeded by the nature of its relationship with the crowdfunding platform, which was based on a contract with pre-defined activities. In their second collaboration, the Municipality entered into a partnership agreement with the crowdfunding platform, which allowed co-designing the process and products, but also leveraging on in-kind inputs (e.g. expertise and knowledge for training, platforms etc.). This approach was perceived as more relevant, especially in the context where experience with crowdfunding is limited.

Business model: While Eppela certainly gained in terms of image and credibility as a crowdfunding player, as well as experience in working with public authorities, it did not generate profits from the supported projects and contract with the Municipality, partly because of the costs behind the services provided to project owners and the reporting process. That being said, this was to some extent anticipated, and these investments were seen as useful for future collaboration with public authorities.

Application process: As in the case of a traditional application for grants, project owners had to provide administrative documents and justifications, in addition to explaining the business case of the project, and how the crowdfunding campaign strategy would be implemented in practice. This was found challenging by some project owners. As a result, in its second experience, the Municipality provided a support hotline for the application, in case project owners had questions or needed help.

Key takeaways for the cohesion policy

This first collaboration allowed the Municipality to learn about the

crowdfunding process. It was followed by a second collaboration (with Produzioni dal Basso, a different crowdfunding platform). In this case the lessons learnt and take-aways from the first experience could be used to improve the collaboration (e.g. more flexibility in the collaboration agreement and more focus on providing assistance to project owners). The second experience involves the use of ESF (EUR 550,000), and a more sophisticated approach to the collaboration with the crowdfunding platform.

Overall, this experience demonstrated that the degree of sophistication of a collaboration between public authorities and crowdfunding platforms can evolve over time based on the lessons learned.

This model proved to be easy to implement, as there were no legal issues, the financial support being provided not to the platform but to the projects directly. This model is hence a good example for other public authorities with limited experience in crowdfunding, and could therefore be applicable and transferable in many other countries.

The Municipality succeeded in leveraging public funds to attract private investments. Attracting a total investment of EUR 333,000 on donation-based crowdfunding is quite a success. At the same time, scaling up and leveraging more on private investments is challenging under this type of crowdfunding as it relies solely on philanthropy.

What happened next?

Based on its experience with Eppela, the Municipality of Milan developed another collaboration with the Produzioni del Basso crowdfunding platform, which started in 2019, and is expected to run until 2021. While it follows the same model, it incorporates some innovations and changes based on the lessons learned:

The Municipality used ESIF (ESF) in complement of the Municipality budget. In



doing so, the Municipality of Milan was able to test the combination between EU Funds and crowdfunding.

The scope was increased. Although the focus remained on the NGO/social sector, the scope and budget were increased (EUR 550,000). The maximum amount for a grant is set at EUR 40,000 and projects owner need to collect 40% of the total budget from the crowd. The share was adapted following the COVID-19 outbreak. So far, the results achieved are also better, with 100% of projects being successful in their campaigns (for the first three rounds of 7 projects).

More sophisticated approach with: i) a different process for the selection of the

crowdfunding platform (a different legal framework through a partnership agreement and not a traditional public procurement contract); ii) a different set up involving more partners (not only a crowdfunding platform Produzioni del Basso, but also the School of Art and Graphic of Milan supporting for communication activities and Ginger which provided the trainings), and where each actor focuses on their core strengths.

The Municipality of Milan is now aiming to upscale its crowdfunding related activities by leveraging on the upcoming Recovery and Resilience Facility.

Example of a similar funding scheme overseas

Goteo (Spain)

In another case study looking at the collaboration between the crowdfunding platform Goteo and the public authorities (including the Municipality of Barcelona, the region of Catalonia, Basque Country, etc.), the approach and process taken were fundamentally collaborative.



Indeed, the various departments of the public authorities (in charge of e.g. economic development, art and culture) together with business associations were invited to a roundtable session to design the match-funding process. This allowed to define the training needs, identify the roles and responsibilities of the stakeholders, discuss the process, while at the same time taking into account the needs and interests of different stakeholders. This approach reflected the objective of the Municipality to attract private investments in culture and art related projects, which often rely solely on public support.

In addition, project owners demonstrated their commitment to the financing of their projects, having to work on obtaining the support from the public in order to get a formal backing from the regional administration. This mechanism created a virtuous cycle of recognition and acknowledgment of the projects, ensuring that both the public and the regional administration support them. In this experience, trainings provided by Goteo not only helped project owners build their capacities, but also strengthened the relationships between the different agents that promoted and participated in projects.

CLIPPER Crowdfunding initiative in Split-Dalmatia County (Croatia)

Prior to the project CLIPPER implementation, Public Institution RERA S.D. for Coordination and Development of Split-Dalmatia County and regional self-government (Split Dalmatia County) addressed the maritime industries as important integral part of new Regional Development Strategy with the emphasis on vision of innovative financial instruments in order to stimulate innovative projects ideas in maritime industries.



Preparing the launching of the call for proposals for financing the innovative projects in maritime industries, RERA S.D. developed strong cooperation with CEDIOR (Center for Social Innovation and Sustainable Development (CEDIOR, Croatia) and International Crowdfunding Center (ICFC, Croatia). Through this collaboration, an innovative financing scheme has been set up in 2019 and 2020 as "CLIPPER – crowdfunding scheme for innovative projects".

A call for proposals/crowdfunding scheme for SMEs in the maritime industry sector has been launched in June 2020, with 70% of funding coming from crowd supporters, and up to 30% of funding coming from grants from Split Dalmatia County administration through an "all-or-nothing" approach. Moreover, all applicants were offered technical assistance from CEDIOR and the International Crowdfunding Center (ICFC) to prepare and implement their own campaigns.

RERA S.D., the County and the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture at Split University are responsible for project eligibility assessment and selection.

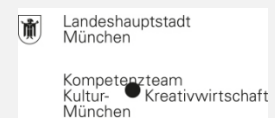
As mentioned in the introduction, the ultimate goal of the crowdfunding scheme is to support the drafting of Split Dalmatia County Regional Development Strategy as part of the INTERREG project CLIPPER (Creating a leadership for maritime industries - New opportunities in Europe). The crowdfunding scheme is also to be integrated within the regional program for innovation, research and development.

Lessons learnt from other CLIPPER partners and regions that implemented similar scheme and constitute learnings for RERA S.D. at the on-take of the scheme include: (i) the need to strengthen investment-based crowdfunding locally, (ii) the set-up of financial incentives, such as tax credits and exemptions on crowdfunding financing, (iii) the offering of capacity building and technical assistance to both investors and project owners, and (iv) the institutionalisation of crowdfunding by using publicly funded financial instruments or grants and providing incentives to public authorities to use such scheme.

Lessons learnt from the scheme in Croatia include: (i) the importance of cross-border collaboration within a united European crowdfunding community, as other European regions showed interest in setting-up similar model as the CLIPPER initiative, (ii) capacity building in banks by understanding the risk profile of Croatia entrepreneurs through a crowdfunding scheme, (iii) the leverage of crowdfunding on the level of socially responsible investments in banks.

City of Munich (Germany) pre-crowdfunding campaign grants to creative industry projects

The cultural and creative industries competence team of the City of Munich is supporting entrepreneurs in their set-up of reward-based crowdfunding campaigns, as they expressed the need for pre-campaign financial support. The grant is independent of the platform – so campaigns can run on any crowdfunding platform that supports German, Munich-based entrepreneurs in the creative industry. However, the Startnext platform has created a specific sub-page until April 2021, which lists 317 projects, financed by 24,000 supporters for a total funding volume of EUR 1.8 billion.



The City of Munich to set up a pre-campaign grant of up to EUR 3,000 per project. The grant covers up to 50% of the total costs of the preparation of the campaign and can be used for creative industry services, such as image- and text-based campaign content, video pitches and story-telling support. Due to COVID-19, the rate of support was increased to 75% of the costs in August 2020.

The main difference to many other support programs is that the grant is disbursed immediately

after the application. The project owner receives the grant after outlining the campaign goal to the City of Munich and providing an estimate of the costs. After the services have been bought, the project owner has to send the invoice to the City of Munich as a proof of expense. The financial support was created in a way to reduce the barriers usually associated with applying for public grants.

Several lessons learnt were derived from the experience.

First, most of the projects are applying for the maximum grant amount of EUR 3,000 Euro. The grant amount does not depend on any financing threshold, which is considered as the most efficient for supporting local creative industry service providers regardless of the scale of support.

A second lesson learned is that the grant was able to indirectly connect the start-up scene in Munich with the creative industry. The grant facilitated cross-sectoral collaboration, which was an important policy objective of the City of Munich.

A third lesson learned is that the grant was used mostly for complex services that project owners would struggle to do without additional support, such as the production of a video pitch, which helped increased their technological savviness and communication skills.

Other lessons learnt and challenges highlighted in the main case study can also be considered in these examples.

4.2 Public authority operating its own crowdfunding platform

WIR BEWEGEN.SH 

Die IB.SH-Spendenplattform für Schleswig-Holstein

This case study focuses primarily on the example of the creation of the WIR BEWEGEN.SH platform. Additional relevant examples can be found in the boxes below the case study.

The regional promotional bank of Schleswig-Holstein receives funds from the regional government to operate a donation-based crowdfunding platform called WIR-BEWEGEN.SH. As the client, the state of Schleswig-Holstein was therefore closely involved in the conception of the donation platform.

Together with local partners, such as sport or cultural associations, the bank provides trainings and awareness campaigns to inform civic society initiatives about the possibilities of using crowdfunding (as well as other digital fundraising methods), thus contributing to improve the digital and financial literacy skills of project owners.

The donations from private citizens are co-funded by financial support from local and regional savings banks (called "Sparkassen"). In fact, the Sparkassen in Schleswig-Holstein committed a total of EUR 50,000 per year in co-funding provided to successful crowdfunding campaigns. For the Sparkassen, this represents an opportunity to sponsor projects thus improving their brand's reputation.

The regional saving banks are independent in their decision to select the co-funding for the projects. They also cover the transaction costs for the projects on the platform. Since the operation of the platform is covered by the Investitionsbank Schleswig-Holstein and the payment costs are covered by the banks, the platform is free of charge for the project owners. This model allows combining the capabilities of the public and the private sector.

This approach helps financing social projects not just in the more urban regions of Schleswig-Holstein, but also extending the reach of the platform to rural areas of Schleswig-Holstein.

In the rural areas of Schleswig-Holstein, the other partners of the platform are especially relevant e.g. the Sports Association of Schleswig-Holstein, since they open their networks and contacts to the reach of the platform. Project owners can approach the platform before the campaign starts, but the platform also responds to requests during the campaign and provides advice for project owners.

Interested readers who may want to get a better understanding of this collaboration model should refer to Model 8 in Chapter 3 and Blueprint 4 presented in Chapter 5.

IB.SH
Ihre Förderbank

Name: Investitionsbank Schleswig-Holstein (IB.SH)

Role of the public authority: IB.SH is the promotional bank of the Land (state) Schleswig-Holstein, it owns and manages the donation-based crowdfunding platform

Resources committed: EUR 100,000 per year from Regional Government funds (plus EUR 65,000 before the start of the platform to set it up).

Duration: Since 2015 – ongoing. Its five-year mandate (2015-2020) was renewed in 2020 for another five years.

Target: IB.SH is active in all social sectors, including: Culture, Education, Sport, Health, Environment and Animals.

Motivations of the regional promotional bank to establish its own crowdfunding platform:

Unlocking the crowdfunding potential for the European Structural and Investment Funds (ESIF) 100

- Support social development on the Schleswig-Holstein region by increasing the visibility of civic society initiatives and offering charitable projects an easy method of collecting donations.
- Raise awareness and support the capacity of civic initiatives. The platform connects stakeholders in civic society through digital means and improve their knowledge of digital payment tools and digital fundraising channels.

Advantages

The platform www.wir-bewegen.sh is one of the few platforms which is operated by a regional public authority in Europe. This example is relevant as a case study for MAs for the following reasons:

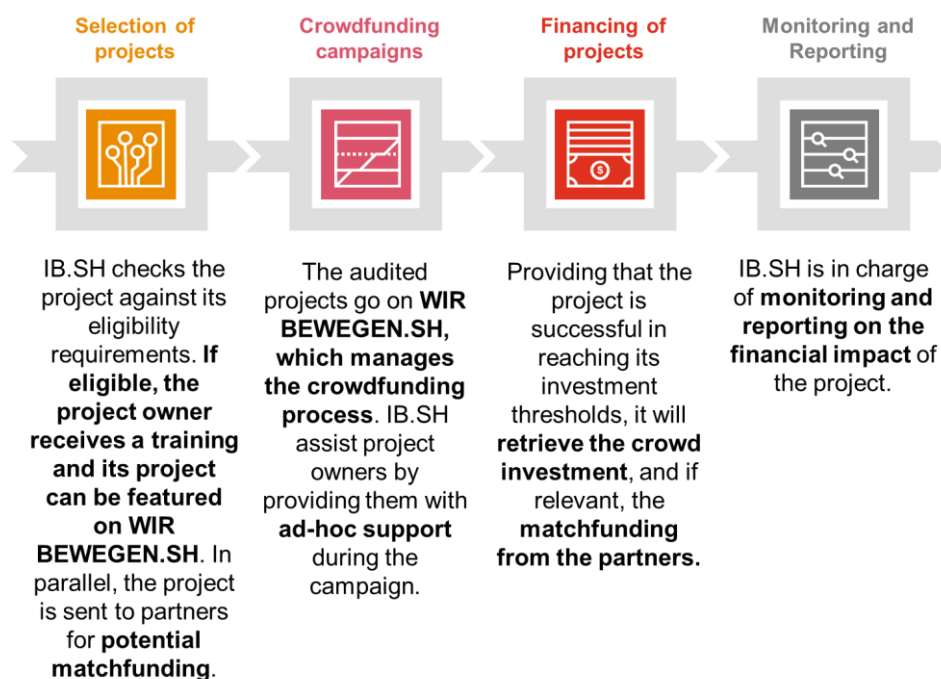
The model of donation-based crowdfunding has simpler legal implications compared to crowdfunding with financial return, because licensing requirements, if any depending on the state, are much lighter. In contrast to reward-based crowdfunding, the supporters do not receive any material items. The payment flows are one-directional – from the supporter to the

listed project.

This platform shows the importance and possibility of creating a regional partnership network, in order to boost the reach of the crowdfunding campaigns and thus leverage private funding.

The case study shows that the co-funding mechanisms implemented on the platform allows the civic society organisations to benefit from the reputation of the platform partners and to have a secure and reliable fundraising mechanism.

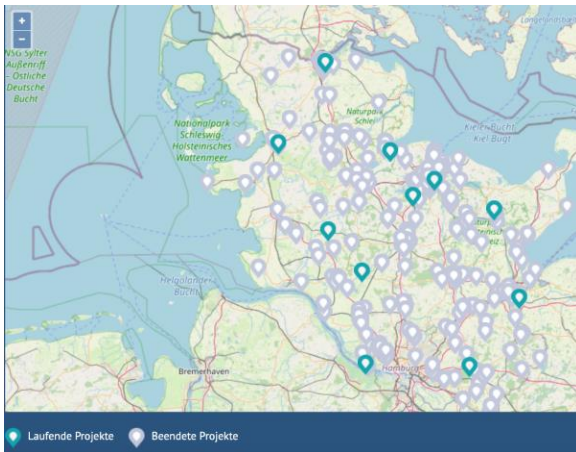
How does it work?



Results

A total investment of EUR 849,000 was raised from donors since 2015, funding a total of 383 projects, with a success rate of 80%. The projects financed through WIR BEWEGEN.SH are spread throughout the region of Schleswig-Holstein. Importantly, the projects are found in the semi-urban and rural areas and not only in the main cities.

Equally important, a number of non-financial



impacts were observed, notably:

IB.SH witnessed a professionalisation of the NGOs / social enterprises segment. The trainings provided to the project owners new

opportunities for NGOs funding their activities, which increased their communication and fundraising skills.

The platform helped to ensure the visibility of projects in semi-urban and rural areas in more urban areas, thus connecting the urban and rural areas in Schleswig-Holstein.

The COVID-19 pandemic motivated civic society initiatives to use online fundraising methods. While the preferred way to provide donations used to be through traditional (e.g. donation of cash through face-to-face meeting, or bank transfers), the COVID-19 pandemic created the necessity to switch to digital means of raising donations. The platform provided the infrastructure for these digital means.

The platform allowed the coordination between public and private financial and non-financial support. With the platform, the regional bank partners channel their sponsoring support to projects which were approved on the platform by the IB.SH, which brings additional credibility and legitimacy. The regional saving banks (Sparkassen) sponsor local initiatives on an ad-hoc basis and, through the platform, they streamline their sponsoring activities.

What's different between the first 5 year and the second 5 years?

Within the first 5 years of WIR BEWEGEN.SH the focus was mainly on marketing measures such as exhibition appearances, press work and diverse partnerships to make crowdfunding in general and the platform itself well known in the region.

After the first 5 years, it is evident that the number of projects constantly grows so the support activities of managing the platform require more capacities. The IB.SH is therefore building *exciting and innovative collaborations*⁶⁵ and continues to evolve the platform to keep it interesting and user-friendly. By fostering the platform's community e.g. with digital workshops, the networking between users and thus charitable organizations in Schleswig-Holstein is improved as well.

In addition, the assessment of projects is no longer carried out by the partners or savings banks, but exclusively by IB.SH.

⁶⁵ <https://www.wir-bewegen.sh/projekt-unterstutzen>

Example of project financed under this collaboration model



Name: Natural history museum.

Location: Eckernförde, Germany

Sector: Culture and animals

Objective: With the outbreak of the COVID-19, the Natural history museum had to close. To cover the operating costs, including the food for the marine animals or the electricity for the aquariums, donations were needed. The objective of the campaign was to raise EUR 1,000 from the crowd.

The museum received 98% of the total financing within the first five days of the campaign, and 100% within the timeframe of the campaign. The partnership with the local bank was useful because the project received match-funding (i.e. an extra EUR 1,000) from the bank and benefited from an increased level of visibility.

This showed that, despite the difficult economic situation, there was great willingness to support non-profit institutions in times of crisis out of solidarity and with the help of donations.

Challenges

While the platform is useful to raise donations, the total donation goal needs to be chosen on a realistic basis by the project owner. While the natural history museum of Eckernförde reached its fundraising thresholds of EUR 1,000, it helped to provide visibility to a wider audience.

Lessons learnt

Although the total fundraising volume might be small, the impact of crowdfunding was beyond the funding – it also allowed to inform regional audiences about the challenges faced by the museum through the pandemic.

Key success factors behind this collaboration

IB.SH partnered with several institutions, leveraging on their respective capacities and allowing to limit costs. While the IB.SH manages the platform (IT cost involved), conducts the trainings and project selection process, the regional saving banks provide an additional EUR 50,000 of co-funding. The media partners (e.g. local radio) provide communication support. Regional associations provide network and community outreach.

The network and provision of incentives is key. Thanks to their network and incentives provided through the platform (possible co-funding, trainings etc.), the IB.SH succeeded in covering projects in semi-urban and rural areas. In doing so, the platform allows these

areas to be more visible and supported by the crowd.

The activities of WIR-BEWEGEN.SH also supports other crowdfunding platforms.

Other platforms are also operating in Schleswig-Holstein, though focusing on reward-based or equity-based crowdfunding. Through the operation of the platform in Schleswig-Holstein, the regional development bank contributed to increase the overall knowledge about Fintech and Crowdfunding, which benefits other platform providers as well.

Main challenges

The nature of the promotional bank created additional burden. The IB.SH is not a commercial bank and does not offer accounts to citizens. Therefore, the initial challenge was to define and implement the IT, KYC and AML processes.

For data protection reasons, the crowdfunding platform was not allowed to use PayPal as a payment service. IB.SH had to implement an alternative payment method, which was done with the support of the regional saving banks.

Key takeaways for the Cohesion Policy

The model where the public authority operates its own crowdfunding platform requires investments by the regional government in the continued running of the platform. In order to foster the growth of the platform, partnerships with private

stakeholders and civic society were established, which proved to be a successful innovation.

This model allows the public authority to raise awareness and attracts financial support in both urban and rural areas, especially when platforms cannot operate profitably. The regional focus allows a greater leverage of the resources by all partners.

This model is also relevant in contexts where MAs want to establish contacts to the crowdfunding sector, where crowdfunding market readiness is at least moderate.

Project owners who were not used to raising donations through a platform could improve their digital fundraising skills, which has an impact beyond the specific crowdfunding campaign.

Navigating technicalities – Setting up the IT Infrastructure

The technical service provider for the platform Wir-bewegen.sh is the German company Table of Visions. Table of Visions operates internal and external crowdfunding platforms.

The platform "WIR BEWEGEN.SH" was customized and adjusted according to the individual requirements of the state of Schleswig-Holstein and the Investitionsbank Schleswig-Holstein: Integration of preferred Payment Service Provider, implementation of an individual KYC process, etc. Among the general performance of the platform the service provider focused on data protection (GDPR compliance), data security as well as an individually configured payment process which has to be considered when operating a crowdfunding platform.

The technical workflow on the platform is as such:

- 1) Project owner registers on the platform.
- 2) Project owner inserts all project-related data into the form.
- 3) Project owner inserts a local partner if available (e.g. Sparkasse).
- 4) Project owner submits project.
- 5) Administrator from IB.SH checks the project. If the project presentation is not ideal or information are missing, the provider gets in touch with the project owner for marketing tips and clarification.
- 6) If everything is clear or the notations of the provider have been implemented the administrator of IB.SH publishes the project.
- 7) If the project matches to the funding criteria of a local partner the provider suggests the project for a partnership.

Example of a similar funding scheme overseas

ZAAR, Malta's first crowdfunding platform

The Malta Business Bureau and the University of Malta have set up the Foundation for the Promotion of Entrepreneurial Initiatives, and subsequently developed ZAAR in 2015 as the first avenue. ZAAR is a non-financial return (donation/reward) crowdfunding platform, set up as a way to introduce crowdfunding for the first time in Malta, promote entrepreneurship and support local start-ups.



ZAAR is the response to the important market gap highlighted by the Malta Business Bureau: the 2013 *Market Gaps in Access to Finance in Malta* assessment reports that 72% of start-ups are using traditional lending products that are not optimal for their needs, while 30% of companies have difficulties to access finance. A follow up report entitled *The Allocation of EU Funds in Aid of Private Enterprise report: 2014-2020* pointed to an important market gap for companies that require financing in the region of EUR 20,000 to EUR 50,000.

Several lessons learnt were highlighted in this experience.

First, the positive and strong collaboration between a business network and a university drives the growth of the ZAAR platform with purpose, and it is a key success factor for project owners.

Second, the financial constraints of these entities dedicated to this initiative made indispensable the support from Government and partnership with other national entities (e.g. the Arts Council of Malta) for financial support and agreements with firms for technical assistance delivered to project owners (e.g. Grant Thornton, Creditinfo Malta).

Third, more support and resources from Government and National agencies should be put in place to support this initiative deemed of high priority for the financing ecosystem and market gap.

Fourth, more awareness raising and engagement with crowdfunding should be conducted on the side of investors. While opportunities for crowdfunding investments exist, investors need to be educated and made aware of this avenue for maximising the implementation of the scheme.

Finally, leaning on best practices and lessons learnt from the European crowdfunding ecosystem will be key for smooth growth: certain models, such as match-funding using EU funds or private companies' funds, should be replicated through ZAAR.

Despite the limited resources of ZAAR and relative market readiness in Malta, the platform still managed to raise over EUR 400,000 for the different projects in 4 years.

Other lessons learnt and challenges highlighted in the main case study can also be considered in this example.

4.3 Public authority providing financial instruments to project owners outside a crowdfunding campaign



This case study focuses primarily on the example of the collaboration between the BAB and Startnext. Additional relevant examples can be found in the boxes below the case study.

Financial instruments (in the form of loans, equity or guarantees) can be provided before or after the crowdfunding campaign, so as to support project owners that advance some of the policy goals.

This is the case of collaboration between the regional promotional bank of Bremen (BAB), and specifically its department Starthaus Bremen, which works together with the crowdfunding platform Startnext since 2015. BAB provides an ERD-funded pre-crowdfunding campaign training to project owners through workshops and courses, to maximise the success rate of a project. The platform Startnext is then used for a traditional crowdfunding campaign, i.e. hosting the projects and facilitating payments from crowd investors. Once an entrepreneur or SME has successfully secured financing through the Startnext platform, it becomes eligible for microloans from the BAB under the Mikrocrowd programme, set up in 2018.

Moreover, the BAB has further developed the provision of financial instruments outside the

crowdfunding campaign, in the form of a microcredit line and a start-up credit programme.

In short, the collaboration with the crowdfunding platform was a positive experience, which was used as a steppingstone for the public authority for further addressing crowd needs through additional, long-term financial instruments.

Providing such microloans outside of the crowdfunding campaign provides the BAB with enough flexibility, and is relatively straightforward from a legal perspective as the microloans are not channelled through the platform, but directly to the project owners.

At the same time, the training activities helped businesses prepare for the crowdfunding campaigns, maximising their chances of success. The training was financed by ESIF (ERDF).

Interested readers who may want to get a better understanding of this collaboration model should refer to Model 7 in Chapter 3 and Blueprint 1 presented in Chapter 5. Though the latter focuses on grants, the processes could be replicated for the provision of financial instruments, as shown in Box 1: Evolution of Blueprint 1 - from grants to financial instruments.



Name: Bremen's promotional bank (BAB)

Role of the public authority: Through the “Mikrocrowd”-programme, BAB provides microloans (up to EUR 10,000) to projects owners reaching their crowdfunding thresholds with the support of at least 25 funders. The repayment of the microloans can last up to 8 years, with the first 2 years free of interest rate. In addition, the BAB (through their Starthaus Bremen unit) provides training to project owners, to familiarise them with the crowdfunding process and help them structure their communication and business plan. The coaching programme was funded by ERDF in 2019, supporting companies using crowdfunding to scale-up and attract private investments.

The Mikrocrowd is not the only form of collaboration between Startnext and the BAB. The BAB procured a white-label crowdfunding platform in 2015 under the label Schotterweg and hosted a crowdfunding competition in 2018 (EUR 50,000), co-funded by the Private Sector Business Association.

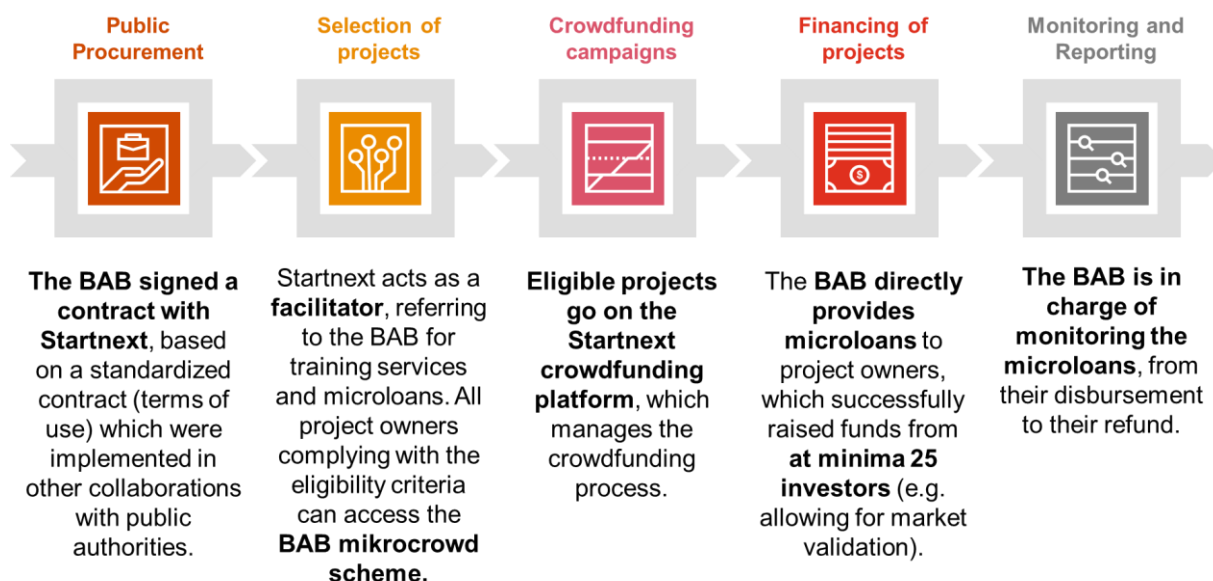
Companies using a crowdfunding campaign can today choose between three types of support: receiving coaching, receiving the mikrocrowd loan, or participating in co-funding competitions.

Resources (human/financial) committed: 2 FTEs to deliver the training and EUR 100,000 disbursed in microloans.

The **motivations** of the BAB to collaborate with Startnext were to:

- Reach a segment of businesses (microenterprises), which needs are not covered by traditional finance (i.e. commercial banks).
- To contribute to the activities of Bremen of supporting micro-enterprises, start-ups and social enterprises, by training project owners to maximise their chances of success, and providing the microloan to successful project campaign (i.e. those who get the support of at least 25 funders). Startnext focuses on creative and sustainable projects and startups via reward-based Crowdfunding.

How it works?



Result

A total investment of EUR 934,000 has been raised from over 11,600 reward-based supporters, funding a total of 204 projects.

These funds were disbursed through three main channels: the competition, the co-funding (grant provided by private sector donors in addition to the funds raised from the crowd), and the Microloan facility, which was used by 5% of these projects. This relatively low share can be explained by the fact that the mikrocrowd scheme was set up more recently (in 2018 while the collaboration started in 2015). More interestingly, as explained in the paragraph below, what is crucial is that the microloan can incentivise entrepreneurs to pursue growth opportunities, benefiting from other BAB's schemes.

More than an ad-hoc or one-time support.

The BAB Mikrocrowd provide a loan up to EUR 10,000, which can help foster

entrepreneurs on the short-term. However, the BAB put in place other programmes such as the microcredit line described below, which can be leveraged on following the successful repayment of the microloan.

As a result, the programme should be seen as a way to build a pipeline of projects to be further supported through other programmes. The BAB offers a microcredit line (not linked to the crowdfunding process), providing loans up to EUR 100,000 with a duration of maximum 10 years, with an interest rate of 3% (non-applicable for the two first years of the loan). In addition to this programme, BAB also provides a start-up credit programme, providing loans going up to EUR 2.5 million, covering up to 100% of the investment, and with a duration of 20 years (with an interest rates aligned with the capital market, non-applicable for the first 3 years).

Example of project financed under this collaboration model



Name: Huddy.

Location: Bremen, Germany

Sector: Sustainable fashion

Objective: Huddy is a sustainable fashion company based in Bremen. The business model is based on selling bio-textile hoodies for women and men, which are customized and made to fit each buyer before production.

Between April 2017 and May 2018, the company benefited from business coaching sessions, financed through ERDF. Part of the coaching involved the preparation of the crowdfunding campaign.

The crowdfunding campaign was hosted on the platform Startnext and the partner page, which was at that time called "Schotterweg Bremen". The campaign was opened for 1.5 months and was able to attract 64 supporters which provided a total of EUR 6,357. This allowed Huddy to benefit from the microloan scheme. In December 2018, the company applied for a micro-credit of EUR 30,000 (from the micro-credit line aforementioned). The Micro-loan was approved in January 2019 and was used to set-up the physical store and create a fabric stock for the creation of the first set of products. The Micro-Loan had a repayment-free period of 18 months, during which only interest had to be paid.

The campaign shows how three elements of public support can be blended in order to support micro enterprise development. Huddy i) received technical assistance and coaching; ii) leveraged on the crowdfunding campaign to support its communication and marketing activities; and iii) benefited from the micro-loan to scale up its business.

Lessons learned

The coaching was instrumental in creating a network for the entrepreneur. For instance, the photographer who supported the entrepreneur in creating visuals for the campaign, was met during the coaching. The “finance coach” was part of the same institution providing the microloan, therefore when the entrepreneur applied for the Microloan, the company, the customer base and the team was already well known to the public authority. In addition, the campaign was covered by the local and regional press and television, which helped attracting potential supporters and future customers, and raise awareness of the products.

The crowdfunding campaign served as a proof of concept to obtain the micro-loan. It allowed the entrepreneur to collect feedback and check whether people understand the products characteristics. The micro-loan allowed the entrepreneur to buy the industrial sewing machine needed to grow the business. The application for the micro-loan did not require additional documents to the market testing proof (i.e. the fact that the campaign was supported by more than 25 investors), the entrepreneur simply had to provide a personal credit scoring.

Key success factors behind this collaboration

Supporting the projects outside of crowdfunding campaigns limits any potential legal issues that can constraint the collaboration between a public authority and a crowdfunding platform. The contract signed between BAB and Startnext is based on a standardised template, used for both public and private collaborators. This model also allowed the respective actors to focus on what they are best at (BAB assess the eligibility conducting a due diligence and provides the financing directly to project owners; and Startnext handles the crowdfunding campaign process).

The crowdfunding element of mikrocrowd is essential, providing for a market validation test. That is why to be successful, crowdfunding campaigns needs to reach their investment thresholds, and ensure that such investments come from a minimum of 25 investors. This is used by the BAB to manage the lending risks, and is hence one of decisive criteria for providing the microloans.

The process does not end at the provision of the loan but continues with the possibility to get additional training and financial support.

BAB for instance provided the Watertuun project the necessary support to help the company grow/expand in the form of trainings and credit (with an upper limit of EUR 100,000 – above the amount received through crowdfunding). This was beyond the scope of the crowdfunding scheme.

Main challenges

The amounts of microloans were limited. While they may help getting things started for entrepreneurs, they need to be followed up by additional support (financial and non-financial) to grow further and expand the business. These needs cannot be systematically covered by traditional finance, which rarely cover lending for micro enterprises.

Remuneration model relies on donations from the crowd. While Startnext used to negotiate in contracts fixed fees for their collaborations with public authorities (and other stakeholders), they shifted their business model, to rely on donations from the crowd. In other words, their income comes from donations and not contractual fees from public authorities or private sector users. While this model may limit financial

predictability, it has proven to work and contribute to the growth of Startnext.

Key takeaways for the cohesion policy

EU funds can play a key role in further promoting crowdfunding. In this case-study, BAB was sceptical about the crowdfunding benefits, until it saw the EU developing initiatives and policies in this field such as the ESCP or the guidebook⁶⁶. This helped the BAB staff to build the case for why crowdfunding should be exploited as a way to support economic development.

While public authorities may seem reluctant to engage in crowdfunding, the case study

shows that once they do, they tend to further collaborate in more sophisticated ways to reach different policy objectives. The collaboration between Startnext and BAB dates back from 2015, where the model was focusing solely on providing technical assistance and to a lesser extent grants to project owners. In 2018, they added one more scheme with the mikrocrowd, involving this time loans, leveraging private investments from the crowd, and moving away from a grant-based model. form could improve their digital fundraising skills, which has an impact beyond just the specific crowdfunding campaign.

⁶⁶ Additional information available at: <https://www.crowdcreator.eu/crowdfunding->

[guide-book/](#)

4.4 Public authority providing guarantees to investors



This case study focuses primarily on the example of the collaboration between the Netherlands Enterprise Agency and StartGreen Capital. Additional relevant examples can be found in the boxes below the case study.

The provision of guarantees to investors is one of the options for MAs to support crowdfunding activities, without having to provide any direct investment in projects or a platform. The guarantees lower the financial risk for individual investors, hence increasing their appetite to invest through the platform.

The Netherlands Enterprise Agency (RVO) provided a guarantee to the StartGreen Fund for Sustainable SMEs, managed by StartGreen Capital (which is regulated under MiFID-II) as part of the COVID-19 recovery program from the Dutch government (namely the *Borgstelling MKB-kredieten - BMKB*). The Fund for Sustainable SMEs is financed by StartGreen, but also other professional investors and the national

promotional bank of the Netherlands, Invest-NL, who provided a one-off investment.

Provided that projects are eligible, the Fund can finance them directly through a loan covering a minimum of 60% of the financing amount requested. The remaining 40% can be co-financed through the StartGreen crowdfunding platform Oneplanetcrowd upon the choice of the project owners. Would the project not reach the 40%, the Fund would automatically increase its investment to cover the difference. In this context, the guarantee is provided to the Fund and covers equally all the investors (whether it is the crowd, or the professional investors and Invest-NL).

The duration of the collaboration is from November 2020 to December 2021.

Interested readers who may want to get a better understanding of this collaboration model should refer to Model 5 in Chapter 3 and Blueprint 3 presented in Chapter 5.



Netherlands Enterprise Agency

INVESTNL

Name: the Netherlands Enterprise Agency (RVO)

Role of the public authority: RVO provides a state guarantee with a rate of 90% and a cap rate of 75% for loans with a maximum of EUR 2m for a term of two to four years. The SME pays a one-time commission of 2% of the principal amount of the loan for a term of 2 years to use the guarantee. With a term of 4 years, this commission is 3%.

Resources (human/financial) committed by the public authority: State guarantee

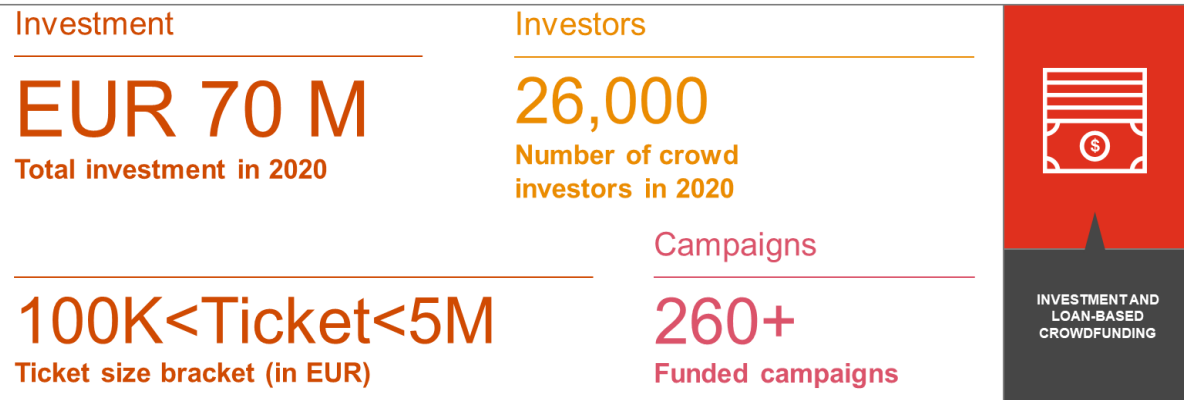
Name: Invest NL

Role of the national promotional bank: Invest-NL provides a loan of EUR 5 million to the StartGreen Fund for Sustainable SMEs to be allocated to projects benefiting from the guarantee. Invest-NL co-financing can go up to 50% of the total investment. Invest-NL invests pari passu with professional private investors.

Resources (human/financial) committed by the national promotional bank: EUR 5 Million.

About StartGreenCapital:

StartGreen Capital (MiFID-II) is a specialised private early stage investor, managing six funds including the StartGreen Fund for Sustainable SMEs. Oneplanetcrowd is the crowdfunding platform owned by the Fund. StartGreen Capital has operated the Fund since 2012, and invests in sustainable projects and start-ups across the Netherlands, particularly in the field of energy transition, circular economy, inclusive society. StartGreen Capital has designed Oneplanetcrowd so that it can support project owners through financial analysis, campaign support, support on distribution of repayments to crowd and on periodic reporting to crowd.



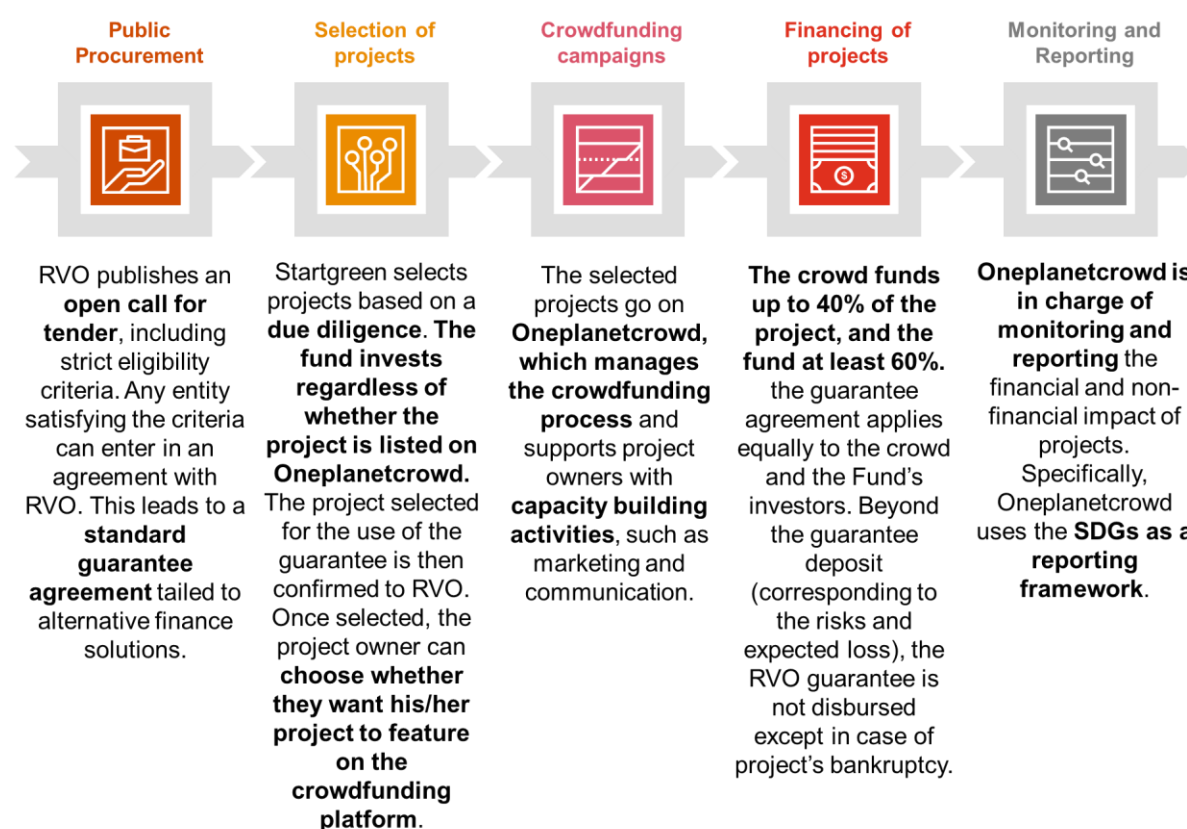
The **motivations** for RVO to collaborate with a crowdfunding platform are as follows:

- Crowdfunding platforms are important and fairly mature in the Netherlands, and reach companies struggling with accessing finance from the banking sector. Collaborating with crowdfunding would help RVO extend their outreach.
- RVO was already collaborating with the alternative finance sector, so working with crowdfunding platforms was perceived as yet another step in this process. In addition, the criteria put in place to select their crowdfunding partner help ensure that the latter are mature, demonstrating a certain level of maturity in terms of due diligence and reporting process, and capable to manage loans with a guarantee.

The **motivations** for Invest-NL to collaborate with a crowdfunding platform are:

- Invest-NL perceived this collaboration with StartGreen Capital (both its Fund for Sustainable SMEs and crowdfunding platform Oneplanetcrowd) as an opportunity to support Sustainable SMEs and to explore and test collaboration with crowdfunding platforms, in a rather safe environment:
 - Invest-NL invests in StartGreen Capital's Fund for Sustainable SMEs and has no direct relationship with Oneplanetcrowd.
 - The Fund for Sustainable SMEs and crowdfunding platform Oneplanetcrowd serve as financial intermediary for the BMKBC guarantee scheme, providing a certain degree of security, and hence mitigating potential risks.
 - Oneplanetcrowd is managed by almost the same team as StartGreen Capital, with whom they had already established relationships. The staff mostly consists of professional investors.
 - Startgreen/Oneplanetcrowd has a MiFID-2 license (and is hence allowed to carry out investment services in the EU), and is regulated by the AIFM Directive, making it easier to accept this platform as partner, because they already have a strong governance.

How it works?



Eligibility criteria to get accredited by RVO

- The crowdfunding platform must demonstrate significant professional expertise in investments
- The platform must have in place solid internal processes (risk management procedures, loan assessment and approval process, etc.)
- CF Platforms must involve a professional investor who takes a substantial amount of the credit risks
- The platform must provide all necessary information about its staff and their competencies
- Solid financial structure (sustainable business model and no risk of bankruptcies)
- StartGreen Fund for Sustainable SMEs and Oneplanetcrowd matched these

criteria. Provided that other crowdfunding platforms could satisfy those eligibility criteria, RVO could further extend its collaboration with the sector.

Eligibility criteria for SMEs to benefit from the guarantee

- SMEs must demonstrate that before the outbreak of COVID-19, their business was healthy (*RVO criteria*)
- SMEs must prove that their shortage of liquidity was caused by COVID-19 related measures (*RVO criteria*)
- SMEs must be able to demonstrate a clear sustainable or social impact (*StartGreen/Invest-NL criteria*)

Results

The structure has just been implemented, so no specific result can be mentioned yet.

The fact that Oneplanetcrowd is established by a regulated investment fund manager and has implemented regulations that require a high level of professionalism, facilitated the engagement of public authorities and Invest

NL. For the latter, the due diligence and engagement processes did not differ from their traditional businesses as they invested not in the crowdfunding platform, but in the fund managed by StartGreen. The crowd is able to co-finance up to 40% of the loan by crowdfunding via the platform Oneplanetcrowd.

Key success factors behind this collaboration

The public authorities are familiar with crowdfunding. The crowdfunding industry in the Netherlands is well developed and relatively mature. Public authorities knew what crowdfunding is and how it works. In the case of RVO, one of their staff members used to work in the crowdfunding industry. Having the knowledge and expertise made the collaboration more straightforward. As a result, the amount of public authorities' resources involved in the collaboration was limited, and relied very much on the capacities of the crowdfunding platforms to deliver the impact desired (just as in the case of collaboration with banks).

Crowdfunding platforms supervised by national and EU regulations (e.g. MiFID) are perceived as safer. They have to comply with a number of regulations relating to e.g. due diligence, KYC, reporting etc.), which public authority can rely on. In the case of this collaboration, the public authority did not require any significant changes to the processes in place.

All actors put their "skin in the game". All actors entering in this collaboration bear part of the risks involved in the transactions. This helps ensure that all actors are involved in ensuring the success of the operation.

Main challenges

The market demand from SMEs was lower than expected. This is partly due to the eligibility criteria demanded by RVO (e.g. SMEs having to prove that they are facing liquidity constraints because of COVID-19). While the guarantee is extended until December 2021, it remains to be seen whether i) more SMEs will be interested and eligible for such programme, and ii) whether any adjustments will take place, reflecting the challenges encountered

Key takeaways for the cohesion policy

From the crowdfunding platform perspective, a standardised template agreement that could be used for other collaborations with public authorities would be most useful. This template should include inter alia the:

- Business model of the crowdfunding platform, to demonstrate its financial sustainability
- The procedures and policies in place for loans' assessment and acceptance
- The monitoring procedures

The model with an investment fund attached to a crowdfunding platform facilitates the collaboration between public authorities (including National Promotional Banks). This seems to be a promising model, allowing for the deployment of financial instruments, and investment and loans based crowdfunding platforms. The investment

fund component helps build trust, as it is regulated by the AIFM and MiFID regulations, and can play the role of financial intermediary. At the same time, the crowdfunding platform allows channelling the funds towards projects and companies, which are underserved by banks.

The model with a dedicated investment fund allows the public authority to preselect specific criteria for projects and companies being able to receive the funding.

By defining specific selection criteria, the public authority can set guidelines for the fund and CF platform upfront and can delegate the authority to decide on specific investments to the fund.

This model is particularly relevant in a context of advanced crowdfunding market readiness.

Example of a similar funding scheme overseas

SIDA guarantee scheme for crowdfunding

Following a public tender, the Swedish government agency for development cooperation (SIDA) selected two European crowdfunding platforms providing loans to Sub-Saharan Africa-based entrepreneurs: Trine and Lendahand, to which they provide a guarantee scheme, aiming to attract private investments in private sector for development.



The guarantee is structured in pari-passu terms to share the default. A limited fee corresponding to 3.3% of the total exposure under the guarantee is paid by the platforms to use this guarantee. In practice, the guarantee can cover up to 60% of the loan provided by the platforms to Sub-Saharan Africa-based entrepreneurs, meaning that crowd investors only lose a maximum for 40% of their investment. The platforms conduct a due diligence on the projects (while SIDA conducts a high-level due diligence on investors, and are in charge of the reporting).

The experience was different with both platforms: one used up to 90% of the capped amount of the guarantee, while the other only used 10% of it. The reason seems to be related to the way they market and present the guarantee to investors (i.e. strong promotion of the guarantee) as well as the use of SIDA as a well-known branding. Generally, the SIDA experience points out to the need of providing TA to platforms about the use of the guarantee and on its legal aspects. This was explored, but state aid rules did not allow it.

In addition, both platforms are to report on their financial and non-financial impacts (e.g. jobs created, reduction of CO2 emissions etc.). In the case of Trine, within half a year, EUR 7 million were raised for companies in Africa. The average investment volume per project rose from EUR 200,000 to EUR 900,000 – leading to a reduction of 316,543 tons CO2. Interestingly, SIDA is also exploring different ways of pricing the guarantee following these experiences, i.e. to price the guarantee not only based on the risks, but also on the impacts achieved by the platforms.

Lendino-Vækstfonden guarantee scheme in Denmark

Lendino is a Danish lending-based crowdfunding platform in the area of SME business lending, to finance areas such as generation shift, export, working capital requirements, or growth prospects. Lendino is currently partnering with the Danish Growth Fund Vækstfonden, the state's investment fund, to provide a guarantee scheme to SMEs hit by the COVID-19 pandemic. The guarantee scheme covers up to 90% of a loan for eligible companies. The collaboration model between Lendino and Vækstfonden entails that Vækstfonden first conducted a due diligence on Lendino before letting the platform access to its guarantee resources. The due diligence was a lean and small process comprising of AML procedure and risk analysis



The lesson learned from this collaboration is first the need to set up an efficient guarantee approval process. Vækstfonden has 48 hours to respond to incoming demands, which speeds up the process and enables the collaboration to become seamlessly fruitful.

A second lesson learned is the importance of spending sufficient time on drafting an initial agreement and collaboration model that sets the eligibility check and the clear definition of responsibilities for each entity. This will ensure clear communication to tackle arising issues.

Third, Lendino highlights the importance of developing trust with the Managing Authority (MA) before entering in a collaboration agreement. Lendino spent 4 years talking with various Agencies to uncover their needs and ways of working, before partnering with Vækstfonden.

4.5 Public authority acting as an investor through a lending-based crowdfunding platform



This case study focuses primarily on the example of the collaboration between the Bpifrance and October Factory. Additional relevant examples can be found in the boxes below the case study.

One of the most attractive – although complex – models of combining crowdfunding and public funds is the participation of a public authority as an investor in a lending-based crowdfunding campaign.

In this role, the public authority channels public funds via a lending-based crowdfunding platform to support SMEs project via debt financing. More specifically, the public authority contributes resources to October SME IV, which are then invested in individual projects listed on October platform.

Investing on a project-by-project basis would have been too cumbersome for the public authority due to costly due diligence requirements at the firm level. Instead, the public authority delegated the decision-making process to an entity called October Factory - a regulated asset management company who manages the October SME IV (a French securitisation fund). Bpifrance did so after conducting a thorough due diligence on October Factory (its team, investment and IT processes) and adding eligibility criteria (e.g. while the fund can invest in European SMEs, Bpifrance resources can only be used to finance SMEs operating in France). Last, the governance of the October Fund was adapted to allow for the introduction of an

advisory board, which includes the main institutional investors including Bpifrance. Public funds are then invested in projects, filling up any gaps between the amount of crowd investment collected, and the investment thresholds targeted by the project owner. This way, project owners always gets 100% of the amount they request.

Based on this experience, which helped Bpifrance familiarise with, and appreciate October IT processes and interface, Bpifrance engaged in another collaboration with October through the establishment of its Fonds Bpifrance Entreprises 1, which relies on the technology provided by October, in order to allow private investors to invest in the Fund (it is the first time in Bpifrance offers investment opportunities for private – and not professional investors). This shows that the collaboration evolved over time, as opportunities arose.

This case-study is characterised by a high level of sophistication and is therefore relevant for those MAs that are willing to combine crowdfunding and financial instruments. As such, this case study may be relevant for Member States with an advanced crowdfunding market readiness, given the challenges related to the technical implementation of such a model.

Interested readers who may want to get a better understanding of this collaboration model should refer to Model 10 in Chapter 3 and Blueprint 2 presented in Chapter 5.



Name: Bpifrance

Role: Bpifrance provided debt investment in October SME IV to finance SMEs in Continental Europe after investing in previous funds launched by October (October SME II & October SME III)

Resources (human/financial) committed: financial commitment and conduct of due diligence

Website: <https://www.Bpifrance.com/>

About October crowdfunding platform:

The crowdfunding platform October has been operating since 2014 and provides loans to SMEs in France, Spain, Italy, the Netherlands and Germany. October provides first and foremost financing solutions to SMEs. No technical assistance type of services are provided.

Investment

EUR 120M

Total lending in 2020

EUR 303K

Average lending in 2020

Investors

752

Average lenders per project in 2020

30K<Ticket<5M

Ticket size bracket (in EUR)

Campaigns

398

Funded projects in 2020

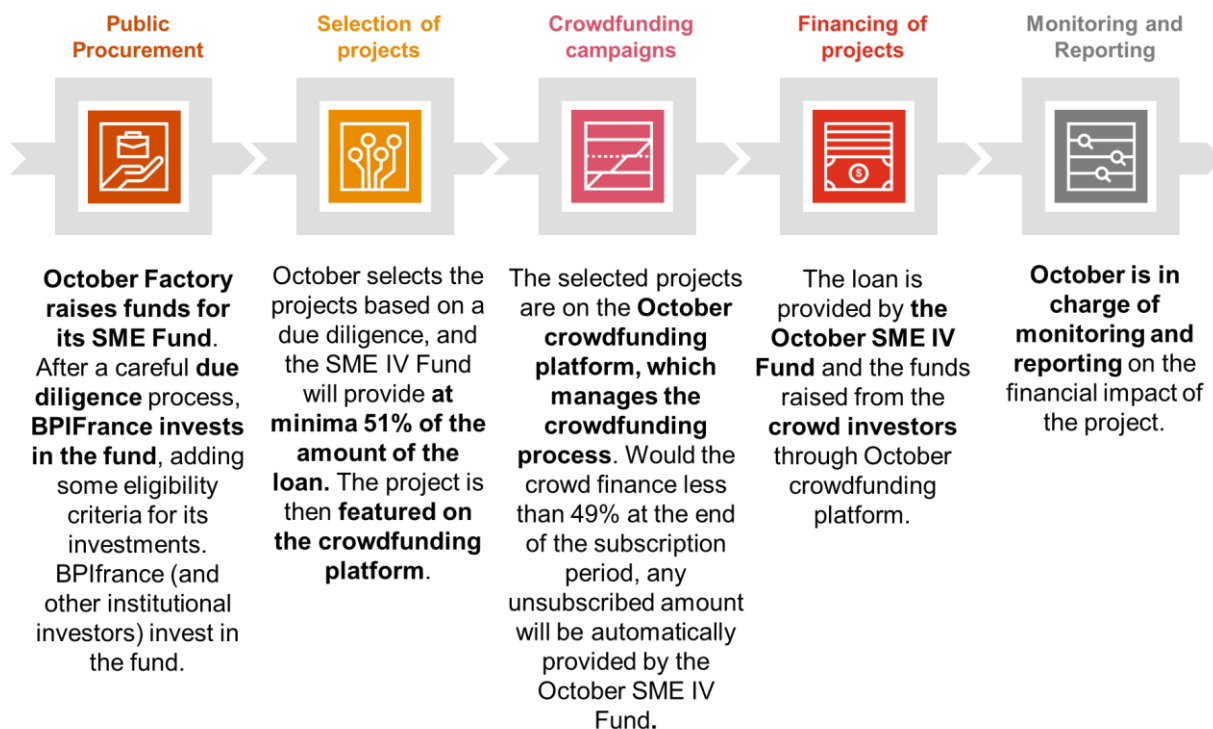
80%

Institutional investors

Motivations for Bpifrance to collaborate with a lending-based crowdfunding platform:

- **Bpifrance’s mission is to support the growth of micro-businesses, SMEs and mid-caps** by offering services around business creation, financing, guarantees or equity investment. Investing in projects listed on October is in line with Bpifrance mandate
- **Bpifrance collaborates with October who has accumulated significant experience and extensive data in SME financing in France and in Europe** over the past six years.

How it works?



Competitive advantage

One particular feature of the October SME IV is its nature. While it is a French Securitization Fund managed by October Factory (as a regulated asset management company), *it benefits from the European Long-Term Investment Fund (ELTIF) label created by the EU to sustainably support the economy*. In practice, the ELTIF is an investment vehicle that collects and channels financial resources from professional investors to SMEs. The ELTIF format allows

October Funds to operate at European scale. Most funds set up by October except for the first one benefit from the ELTIF label.

In turn, this pan-European feature attracted European institutions such as the EIF to provide an investment in the Fund. These public investments – from the EIF or Bpifrance played a key role in attracting private investors.

Results

EUR 134 M

Size of the October SME Fund IV

EUR 63 M

Investment amount by 2021 (lending)

EUR 1.2 M

Amount reinvested

236

Number of projects funded by 2021

Bpifrance actions relating to the crowdfunding market

Bpifrance is involved in many ways in the crowdfunding market, beyond its investment in October SME IV.

TousNosProjets initiative

Bpifrance supports the growth of the crowdfunding market by operating the [TousNosProjets website](#). This website aims to support the emergence of crowdfunding in France, by aggregating the crowdfunding operators on a single platform, which contains all the listed projects being collected. More specifically, TousNosProjets allows:

- investors accessing to a wide range of projects and hence investment opportunities in one place;
- project owners choosing the platform best suited to their needs;
- crowdfunding platforms, large or small, gaining visibility

In doing so, Bpifrance helps build the crowdfunding market. Crowdfunding platforms featured on TousNosProjets gain credibility and legitimacy. In turn, this helps potential crowd investors to get started with crowdfunding. In addition, the Bpifrance also set up a crowdfunding observatory, allowing the general public to access detailed statistics and information on the projects financed through crowdfunding (financial products, success rate, funding reached, impacts etc.).

The screenshot shows the TousNosProjets website interface. At the top, there is a navigation bar with the logo 'TousNosProjets' and the tagline 'La place de marché du crowdfunding'. Below the navigation bar, there are two circular icons: 'CONTRIBUTEUR' (yellow) and 'PORTEUR DE PROJET' (grey). To the right, there are social media icons for Facebook and Twitter, and a 'Menu' button. The main content area is titled 'Sites et plateformes de crowdfunding partenaires' and includes a sub-header 'Porteurs de projets'. The text describes the platform's mission to support the development of participatory finance in France and lists 31 partner crowdfunding sites. A yellow button labeled 'DÉPOSER' is visible on the right side of the page.

Fonds Bpifrance Entreprises 1

Bpifrance went a step further in 2020 by collaborating with “123 Investment Managers” and October to set up the Fonds Bpifrance Entreprises 1, which is open to private investors (for the first time in its history). The minimum investment is EUR 5,000 for a duration of minimum 5 years. The role that October plays is that of a technology provider. Based on its knowledge and experience dealing with SME financing, October provides the technological solution to the Bpifrance Entreprises 1, to ensure a positive experience from the angle of the investors and the investees.

Example of project financed under this collaboration model

Name : Lemon Hotel

Location : Ile-de-France, France

Sector: Hospitality services



Objective: Finance renovation work in hotel to grow business

Number of supporters: 51% of funding coming from institutional investors (including Bpifrance) and 49% from 1,601 crowd investors

Funding: EUR 156,000

Outcomes of the project/campaign

The project enables the hotel to finance renovation and *design an extension allowing for an additional 10 rooms.*

The loan application process is streamlined and extremely fast. The entrepreneur got an answer in a matter of few days, and the financing within two to three weeks following the submission of the loan application.

The entrepreneur observed that October's financing helps in case of loan application to commercial banks, as *it strengthens its credibility (ability to repay the credit).*

Contrary to other crowdfunding platforms, October provided the totality of the loan requested, without any further condition (e.g. no investment thresholds to reach).

Challenges

The project owner found that the financing costs are higher than with other crowdfunding platforms, recognizing that the latter may not be able to provide 100% of the financing and such a short timeframe.

Moreover, loans duration cannot extend beyond 84 months, which makes the financing less relevant for real estate acquisition.

Lessons learnt

The crowdfunding campaign attracted a significant number of crowd investors, which accounted for 49% of the financing of the project (the maximum share possible). While this is above the average of 20% coming from crowd investors, it shows that capacity of the platform to leverage private investments. In addition, one distinctive feature of the platform is its technology and highly professionalised team, which allows to provide the loan in a very short timeframe – especially when put in comparison to banks. This is due to the crowdfunding related IT processes put in place from the assessment of the loan application to its disbursement. As such October succeeded in offering SMEs with an alternative financing, complementing the more traditional finance offered by banks.

Key success factors behind this collaboration

The structure of the October, composed of the one hand the crowdfunding platform, and on the other, the Securitisation Fund (supervised by the Financial Regulator), made the operation possible. This set-up made October a credible actor, with robust processes in place, and a highly professionalised team. This was further reinforced by the presence of other institutional investors such as the European investment Fund or major assurance companies. In turn this allowed Bpifrance to rely on October processes, limiting its degree of involvement. In addition, there is

a clear governance involving large institutional lenders.

October leveraged on the presence of public investors such as Bpifrance or the European Investment Fund to attract private sector investments. In that sense, the investment of public authorities acted as a quality stamp, providing more credibility to October and the funds it set up. This feature is also of prime importance for other investors such as the European Investment Fund.

October adapted its Funds to accommodate to investors demands. In the case of the second October SME Fund (2016-2018), a different governance structure was

established with the introduction of an advisory board, which includes the main institutional investors. In addition, October Factory allowed for the introduction of eligibility criteria per institutional investor in their investment agreement: in the case of Bpifrance, only SMEs in France can be financed, while the EIF finances European SMEs.

Main challenges

The reporting requirements from institutional investors, including Bpifrance, are heavier, requiring more efforts (and costs), which are borne by October.

The due diligence of public investors such as the EIF and Bpifrance was extensive, covering all activities, including e.g. shareholder management, governance, technology processes and their robustness, data protection and security etc. While this requires significant resource and time on October side, efficiency gains can be built in case of future collaboration with the same or similar public investors. This also translates into a benefit for public investors, as October is fully prepared and can anticipate some of their needs and interests.

While other financial instruments have been tried, they were not as successful as the loan. For instance, the EIF provided a guarantee to October through InnovFin, but it was found i) expensive, and more importantly, ii) it was slowing down October processes, which is one of its main competitive advantages. Therefore, the guarantee was never used. This does not mean that guarantees are irrelevant when it comes to crowdfunding, but rather that

further processes need to be put in place in order to make it work. October is for instance now providing loans with a state guarantee for SMEs suffering from COVID-19 related impacts.

Key takeaways for the cohesion policy

Public authorities and banks can help build the crowdfunding market, before or in parallel to investing in it. Before its investment in the October SME Fund, Bpifrance had already provided technical assistance type of support, to support the healthy growth of the crowdfunding market. This took the shape of a website, which features crowdfunding platforms checked by Bpifrance, but also a crowdfunding observatory, allowing to generate data on crowdfunding, providing interested investors with information on the type of projects financed, the financial products (grant, loan, equity etc.), the financial/non-financial impact.

Collaborating with a crowdfunding platform can take different shapes at different times – and that one of their prime advantage. As illustrated in the case study, the collaboration between Bpifrance and October is not static, it has evolved over time following the challenges and opportunities identified. In turn, this shapes their level of interaction and engagement, which differs from one collaboration to another. For instance, while Bpifrance first leveraged on October SME funds as a way to reach more SMEs, they also get to learn about the technological processes of October, which they decided to leverage on in their following collaboration

. Example of a similar funding scheme overseas

Invega – investing in SMEs through lending-based crowdfunding platforms (Finbee)

INVEGA, the Lithuanian National Promotional Institution (NPI), set up a loan instrument called Avietė in cooperation with FinBee, a lending-based crowdfunding platform operating in Lithuania. Avietė loans are granted through the crowdfunding platform FinBee, which is in charge of selecting the projects (based on a due diligence) that will be co-funded. INVEGA invests alongside private investors on a pari passu basis, thus enhancing its lending capacity in favour of microenterprises. The total amount committed to financing Avietė loans is EUR 4,615 million (which consist of reflows from the previous programming period's financial instrument). Avietė funding cannot exceed the share of 40% of the total amount of loan or the amount of EUR 10 000.



One of a key success factor highlighted in the example was the importance to build on existing processes. To keep it as simple as possible, Avietė plugs into the existing lending processes of a crowdfunding platform. This facilitated the integration of Avietė funds into FinBee procedures.

Avietė loans are now granted through two crowdfunding platforms which have signed cooperation agreement with INVEGA for the implementation of Avietė loans: FinBee and Nordstreet. This shows the growing interest of both public authorities and in this case regulated lending-based crowdfunding platforms to collaborate to finance entrepreneurs and SMEs.

Slovak Investment Holding – investing in start-ups, innovative companies and SMEs through an investment-based crowdfunding platform (Crowberry)

Crowberry, established in 2015, is an investment-based crowdfunding platform, providing growth capital primarily for start-ups, innovative companies and SMEs based in Slovakia and Czech Republic. Investments are executed via a SPV structure for investors, resulting in a single investor (SPV) for target companies.



On a selective basis, Crowberry is inviting the [Slovak Investment Holding](#) (SIH) National development Fund II or Venture to Future Fund – VFF (both publicly owned funds) to co-invest in a growth capital fundraising campaigns to fill in the gap of missing private capital. This is to address the rather underdeveloped private capital market. Co-Investments done with the two abovementioned entities are under the indirect supervision of the Slovak Ministry of Finance via its 100% daughter company SZRB (Slovak Guarantee and Development Bank).

The Co-Investments are done on a pari-passu basis, with Crowberry having established a SPV – as a pool or private investors. While Crowberry carries out a due diligence through the support of external advisors, the public funds (SIH and VFF) separately conduct their due diligence. Legal documentation (investment agreements and shareholder agreements) are negotiated by Crowberry with SIH/VFF joining on the same terms. Both SIH/VFF are not joining the SVP established by Crowberry (as this would trigger a requirement for public procurement) resulting in a structure of two investors joining the capital structure of the target company and gaining dual control (e.g. supervisory board members have to be equal from both Crowberry investors and public vehicles)

Several lessons learnt were highlighted from this experience: i) duplication of processes: the due diligence is conducted by both the platform and the public authorities, which is not “market-friendly” – i.e. the target company needs to provide similar documentations twice; ii) the dual structure set up is redundant, making the investment process relatively long with a processing times of up nine months; iii) “automatizing” the public funding after private investors approval and funding of the target company and joining the SPV structure of the investor with all necessary investor protection provided (pari passu with private investors) would extremely simplify the governance for the target company with no negative impact on the public capital.

Other lessons learnt and challenges highlighted in the main case study can also be considered in these examples.

4.6 Public authority acting as a project owner



This case study focuses primarily on the example of the collaboration between the Municipality of Bologna and IdeaGinger. Additional relevant examples can be found in the boxes below the case study.

“Un passo per San Luca” was a civic crowdfunding project promoted by the Municipality of Bologna and the Committee for the Restoration of the Portico di San Luca (public entity with representatives from the Municipality and the local church).

It was realised with the collaboration of IdeaGinger, a non-for-profit organisation headquartered in Bologna that mainly targets arts and cultural projects. IdeaGinger provides, beyond its crowdfunding platform, workshops about the operational activities that project owners should do before, during and after the crowdfunding campaign (e.g. communication).

IdeaGinger was brought in the project with

the aim of collecting the necessary financial resources (EUR 300,000) for the restoration of the monument (the campaign lasted from October 2013 to December 2014).

This was the first case where a public authority used crowdfunding to raise private investments from citizens, businesses and other institutions in Italy.

In this case, the Municipality of Bologna, in addition to listing its project on IdeaGinger, allocated EUR 100,000 to encourage other contributors to invest. IdeaGinger provided the platform and necessary technical support. The restoration of the monument started in parallel with the campaign in March 2014, maintaining a certain momentum and involving the greatest number of people. Last, crowd investors got a reward for their donation, e.g. their name is mentioned next to the arch.

Interested readers who may want to get a better understanding of this collaboration model should refer to Model 11 in Chapter 3

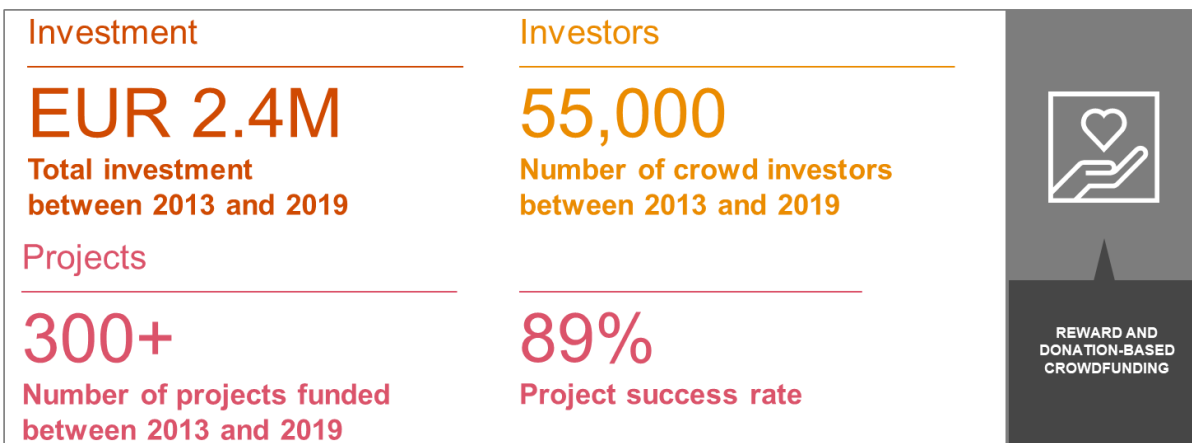


Name: Municipality of Bologna

Role of the public authority: Project owner, Passo San Luca

Resources (human/financial) committed: EUR 100,000 donation to the project through IdeaGinger.

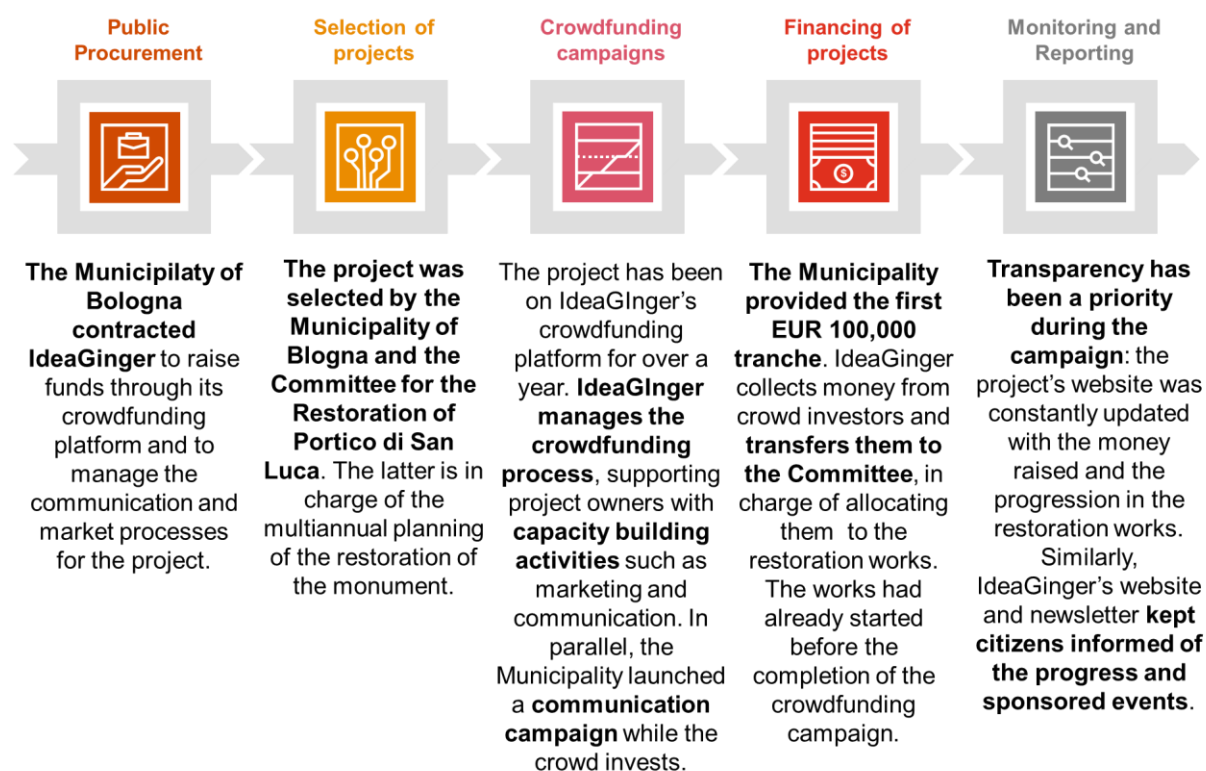
Website: <http://www.comune.bologna.it/>



The **motivations** for the Municipality of Bologna to collaborate with a crowdfunding platform are:

- This project contributes to one of the **key priorities of the Municipality**, i.e. the promotion of art and culture. It also contributes to the reputation of Bologna as an avant-gardist city from the point of view of supporting innovation, art and culture.
- This project will promote **economic development and employment**, by supporting a potential source tourism related income.
- Last, the project aims to **strengthen the link between citizens and their cities**, by inviting them to contribute to its development. In that sense, the project helped strengthened the legitimacy of the Municipality’s renovation project.

How it works?



Financial benefits

EUR 339,743

Amount collected

7,111 Investors

Number of crowd investors

50 Days

Duration of the crowdfunding campaign



EUR 33.7

Average donation*



*excluding the EUR 100,000 donation by the Municipality

Non-financial benefits

The non-financial impacts were not monitored or assessed. However, three main unexpected outcomes were highlighted:

- The project raised *citizens' awareness* and knowledge of the Portico of San Luca, its history and place in the city of Bologna. In doing so, it brought closer citizens to their cities and historic monuments. This strong sense of belonging of supporters contributed to building a relation between citizens and their city.
- Not only private citizens, but also associations, public institutions, businesses and schools played a role – through their *investments* but also by *organising donations' events and spreading the word* to help finance the portico of San Luca.
- The restoration of the portico of San Luca brought a *positive impact on the city as a whole*, as it is an important part of the city's cultural heritage. The restoration helped make the monument not only enjoyable by all citizens, but also a cultural and social centre of the city. This has also measurable positive impacts in terms of touristic attraction.

Understand crowd investors' needs and interests

In the case of "Un passo per San Luca", the Municipality and the Committee for the Restoration of the Portico di San Luca considered it useful to carry out a market research to better understand the interests and needs of the potential supporters targeted by the envisaged crowdfunding campaign. This market survey took the shape of a survey conducted before the campaign, which aimed to get feedback on potential supporters' expectations, needs, interests in regards with the restoration of Portico di San Luca; but also their relations with the city and its monuments. 844 people answered the survey, providing useful insights in terms of the relevance of the project itself, and on how to approach the crowdfunding campaign itself (using various offline and online media channels). Last, it also helped start raising awareness and interest around the project itself.

Key success factors behind this collaboration

The Municipality financial contribution provided further legitimacy and credibility to the crowdfunding campaign, and encouraged potential supporters to donate. For the citizens, the Municipality's contribution was a demonstration that the renovation of the Portico of San Luca is a common endeavour, involving all the community.

The crowdfunding campaign had clear objectives, and integrated potential supporters' interests and needs in its design. The objectives of the "Un Passo per San Luca" were SMART (specific, measurable, achievable, relevant, time-bound). The amount to be collected, timeframe, renovation objectives and work were all well-defined. In addition, the survey before the crowdfunding campaign started helped the Municipality tailor its design to make it more impactful (e.g. selected communication means).

The actors behind the crowdfunding campaign (the Municipality, the committee of restoration and IdeaGinger) all have strong roots and network in Bologna. The successfully managed to exploit this network, involving not only citizens, but also businesses, associations, other public institutions etc. in the campaign. In doing so, the campaign benefited from several ambassadors committed to its success. For instance, IdeaGinger was founded in Bologna and is deeply rooted in the city, relying on a local network of supporters, including the "Duse Theatre", the association "Succede solo a Bologna", Bologna's airport and public transport company, not to mention various local small businesses and stores. The involvement of several local actors, either through funding or promotional activities, proved that IdeaGinger was the right choice to be a partner in the project.

Organisations focus on what they do best. The Municipality of Bologna was mainly in charge of the coordination of the project. The Committee dealt with the collection and management of donations and the organisation of restoration activities. Last, IdeaGinger played mainly a technical role, dealing with defining the shape and characteristics of the crowdfunding campaign, to manage the web platform, to plan the strategy communication, to organize activities and events in support of the initiative and to take care of the online communication through the website and

social media.

Communication is key. The massive communication campaign that supported the project was one of its key success factors. Updates about the progress and development of the project, events related to the initiative were uploaded in the "News" section of the website "Un passo per San Luca". All major news regarding "Un passo per San Luca" were shared and published on newspapers, television, radio and blogs as well as on social media such as Instagram, Facebook, Twitter, Flickr and YouTube. This activity was carried out in collaboration with the Press Office of the City of Bologna. Importantly, also in-person ad-hoc events were organised, as well as specific initiatives to reward donors.

Main challenges

The project was a "first" in many ways. As mentioned, it was the first case of crowdfunding project from a public authority in Italy, hence there was no track record or existing practices to refer to. Moreover, the choice of IdeaGinger as partner proved to be a perfect fit, but represented a risk, as the platform was very young at the time.

Although the communication strategy was one of the strengths of the project, it also represented a significant challenge. In order to raise the significant amount of funds needed over such a long period of time, it was pivotal to keep the citizens engaged and do not waste the momentum over time. To this end, strategic choices were made, such as starting the renovation works already during the fund-raising phase, showing real progress and attracting donors.

Un passo per San Luca" had an unusually long duration for a crowdfunding campaign, lasting from October 2013 to the end of 2014. It is widely acknowledged that there is a negative correlation between crowdfunding campaigns' duration and their success rate. For example, Kickstarter, a crowdfunding platform, it's planning to lower the maximum duration of its campaigns⁶⁷, as shorter campaigns convey crowd-funders transmitting a sense of urgency. In this respect, "Un passo per San Luca" managed and overcame the challenge represented by the length of the project.

Key takeaways for the Cohesion Policy

Acting as a project owner is a straightforward

⁶⁷67 Kickstarter acknowledged that, while its overall success rate is 44%, for 90-days projects (their maximum length) it's only 24%

<https://www.kickstarter.com/blog/shortening-the-maximum-project-length>

way to start collaborating with crowdfunding platforms, as there are no legal complications. This approach was the first one explored by Italian public authorities, and has led since then to i) the spread of such a model (see box below); and ii) the development of more sophisticated approaches. However, this does not mean that any public authority acting as a project owner will be successful – this case study highlighted few key success factors which may be important to take into account when entering in such a collaboration and process. Moreover, acting as a project owner in a lending or equity campaign might be more challenging from a legal perspective.

Public authorities need to think strategically about the crowdfunding process, and put in place a proper business plan to maximise their chances of success. This case study reveals that the Municipality conducted a market study, leveraged strategically their network and their resources/capacities, and put in place SMART objectives, which were openly communicated to the public.

By acting as a project owner, public authorities have the chance to engage citizens in the development of their policy priorities. Potentially, this could lead to embedding crowdfunding in a systematic way in the cities' strategic plans. A step further would be the involvement of the citizenship not only in the fundraising phase but also in the selection of the policy priorities: Municipalities could propose to citizens a shortlist of initiatives suitable for crowdfunding and let them vote. More than that, for citizens, this represents a way to

strengthen their links with their cities and think about urban space in a different way.

What happened next?

The project "Un passo per San Luca" paved the way for more collaborations and projects based on collaboration between crowdfunding platforms and public authorities. For instance, between 2015 and 2017, *the project "I support San Petronio"*, aiming to renovate the Basilica of San Petronio, successfully raised over EUR 200,000. Starting from "Un passo per San Luca", IdeaGinger, engaged in more than 10 civic crowdfunding campaigns with public administrations, raising over EUR 390,000 from 8,500 citizens in the Emilia Romagna region. This led to the organization of a workshop "Crowdfunding for the public administration: potential, results and good practices of online crowdfunding"⁶⁸.

Moreover, IdeaGinger kept helping finance projects promoted by the Municipality of Bologna. For instance, the following project was featured on the platform: "Case Zanardi". The first consisted of a targeted crowdfunding campaign to support a set of social projects promoted by the Municipality of Bologna in collaboration with the University of Bologna and numerous companies operating in the city in the third sector, with the aim of combating poverty and social exclusion. Moreover, "Un Passo per San Luca" was a frontrunner initiative of "civic crowdfunding", paving the way for future citizen involvement

⁶⁸ Crowdfunding for the public administration: potential, results and good practices of online crowdfunding <https://www.emiliaromagnastartup.it/it/creative/eventi/il-crowdfunding-la-pubblica-amministrazione-potenzialita-risultati-e-buone-pratiche>

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Example of a similar funding scheme overseas

Regional government of Schleswig-Holstein as project owner for funding tree plantation

The regional government of Schleswig-Holstein was a project owner in a donation-campaign on the German platform Betterplace. Betterplace.org is a donation-based crowdfunding platform with more than EUR 150 million in donations in its 13 years of existence.



The regional government of Schleswig-Holstein used the festivities of the Unification Holiday in Germany to raise funds for planting trees. The aim was to raise the funds for 40,000 trees. A large company (Fielmann) pledged to pay for the first 10,000 trees and match-fund the next EUR 15,000 Euros. Within a few days, the first 40,000 trees were funded. In total the government of Schleswig-Holstein raised more than EUR 310,000 from private donors.

The first lessons learned was the impact of visibility of high-ranking MA representatives. For instance, the Prime-Minister of Schleswig-Holstein, Daniel Günther, was part of the communication. He was visible on the platform and the regional government used its media channels to spread the word for the campaign. The platform Betterplace took care of all the administrative issues for facilitating the donations and the payments.

Another lesson learned was that the benefit of continuous visibility of the advancement of the project. There were many questions towards this campaign (e.g. where will the trees be planted, how will a sustainable care of the trees be guaranteed, which kind of trees etc.) and they were transparently answered on the platform as well. There was also ongoing reporting, even photos of the actual tree planting. This helps increase the trust of crowd investors in governments for the proper use of their financial contribution in the crowdfunding campaign.

Other lessons learnt and challenges highlighted in the main case study can also be considered in this example.



5

Blueprint
schemes

Building on the findings from the market and legal analysis as well as on the insights from the case studies, Chapter 5 outlines four blueprints that can be taken as a reference by MAs for deploying ESIF through crowdfunding schemes.

Blueprint schemes were refined and vary based on five criteria that encompass the needs, interests and constraints faced by MAs:

- 01 Type of collaboration model** - The blueprints schemes cover collaboration that takes place both within and alongside the crowdfunding campaign, thus presenting different types of legal challenges.
- 02 Relevance to the level of market readiness for crowdfunding activities** - the selected blueprints schemes cover all types of market readiness level – whether low, intermediate or advanced. Hence, MAs will find at least one of the selected blueprint schemes suitable to their own context.
- 03 Degree of complexity** - The blueprint schemes feature different levels of complexity, which often correlate with the relevance of the scheme vis-a-vis the level of market readiness. Straightforward schemes are often more relevant in a low to intermediate market readiness context, while sophisticated schemes will accommodate to an advanced degree of market readiness.
- 04 Role of the MAs** - The selected blueprints assume MAs acting as supporters or participants and does not include MAs acting as a facilitator (i.e. providing non-financial support, see Model 1 in chapter 3). Though such role ought not to be ignored or overlooked, we choose to focus on the use of crowdfunding for its added value of offering an alternative mechanism to finance or select projects.
- 05 Sectoral focus** - The blueprint schemes cover a wide range of sectors ranging from social sectors, including art, culture and social development, to economic development.

As a result, four schemes were selected, as presented in the table below.

<p>1 MA providing grants outside a crowdfunding campaign</p> <p>This scheme is often considered as a first step towards collaborating with crowdfunding platforms. While this scheme is based on grants, it is not rare to see it evolving towards financial instruments such as loans.</p>	<p>2 MA investing through a lending-based crowdfunding platform</p> <p>This scheme is mostly relevant for MAs that wish to implement financial instruments to support SME access to finance in the next programming period.</p>
<p>3 MA providing guarantees to investors</p> <p>This scheme is relevant for MAs in advanced crowdfunding markets: they are able to attract additional investments and foster an efficient use of resources thanks to the risk coverage.</p>	<p>4 MA operating a crowdfunding platform</p> <p>In this scheme, the MAs handle the entire crowdfunding process, and hence can tailor it to its policy objectives. Yet, this scheme requires significant resources and presents several challenges.</p>

The table below provides a high-level overview of the collaboration models based on their five criteria measures.

These models include collaborations:

- taking place within and outside the crowdfunding process;

- relevant in low, moderate and advanced market readiness contexts;
- with a different level of complexity ranging from low, to medium to high;
- featuring different roles for MAs (as participant or supporter); and
- targeting different sectors – from social to economic ones.

Figure 15: high-level overview of the collaboration models based on the five criteria measures

	MA providing grants outside the Crowdfunding campaign	MA investing through a lending-based crowdfunding platform	MA providing guarantees to investors	MA operating a crowdfunding platform
01 Type of model	Outside the crowdfunding campaign	Inside the crowdfunding campaign	Inside the crowdfunding campaign	N/A
02 Relevance to level of market readiness	Low Medium High	Low Medium High	Low Medium High	Low Medium High
03 Degree of complexity	Low Medium High	Low Medium High	Low Medium High	Low Medium High
04 Role of the managing authority	Supporter	Participant	Supporter	Participant
05 Sectoral focus & target	<ul style="list-style-type: none"> • Art & culture • Sport • Social development <p>➢ Social enterprises and NGOs</p>	<ul style="list-style-type: none"> • Economic development – including SME support <p>➢ SMEs</p>	<ul style="list-style-type: none"> • Economic development • Innovation, including greentech <p>➢ Start-ups and SMEs</p>	<ul style="list-style-type: none"> • Social development • Economic development <p>➢ Social enterprises, NGOs and SMEs</p>

A generic blueprint scheme was developed for each of these collaboration models, with a view to explain how they work and how to set them up, and what type of aspects should be taken into consideration to ensure their successful implementation. These schemes are presented below.

5.1 Providing grants outside a crowdfunding campaign

This blueprint is a variant of the Model 6. MA providing grants to project owners outside a crowdfunding campaign presented in Chapter 3, where the platform is not an intermediate body and where grants are provided to successfully crowdfunded projects. The blueprint draws on insights and lesson learnt from the case study 1. Public authority providing grants to projects outside the crowdfunding campaign (Municipality of Milano and Eppela) presented in Chapter 4.

Providing grants to projects that have successfully completed a crowdfunding campaign is arguably one of the most accessible manners for MAs to collaborate with crowdfunding platforms. Indeed, this scheme i) requires limited investment; ii) involves limited risks; and iii) is relatively straightforward from a legal perspective. The value added of this version of the blueprint scheme is its simplicity, which makes it thus particularly relevant for MAs impeded by limited experience in crowdfunding or a context of low market readiness for crowdfunding activities. From a policy perspective, this scheme is well-suited for MAs who wish to support social development (art, culture, social entrepreneurship etc.), foster transparency in public spending, and promote citizen empowerment and involvement in financing impactful projects.

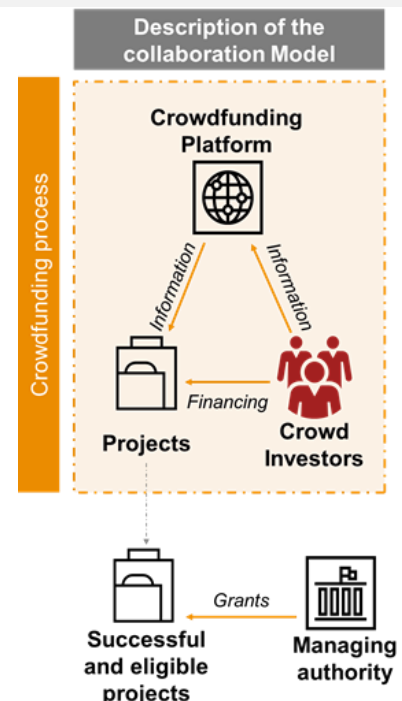


In a nutshell

Under this scheme, MAs provide grants to projects that have previously secured a predetermined level of financing through a crowdfunding campaign. Typically, the MA would sign a cooperation agreement with one or several selected crowdfunding platforms. This cooperation agreement should specify the nature of the companies and sectors targeted, as well as the minimum requirements for the provision of said grants. The platforms are in charge of the crowdfunding process, including project selection, due diligence, monitoring and reporting processes.

The platforms inform the MAs once an eligible entrepreneur has (1) developed a viable project meeting the selection criteria, or (2) secured sufficient financing to unlock additional public funding needed for project implementation. MAs then disburse the grant directly to the project owner.

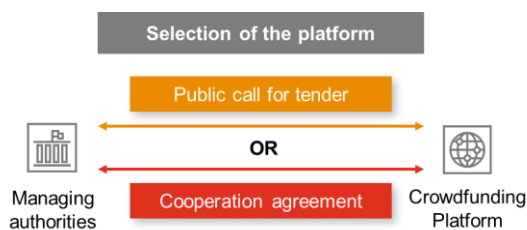
The MAs are also at liberty to provide a grant to the crowdfunding platform for the management of the collaboration, or technical assistance and capacity building. Though possible through further investment, this variant will not be included in the scope of this scheme.





Key Features

For the sake of argument, we will consider collaboration with only one crowdfunding platform at the time. MAs can engage with a crowdfunding platform either through a cooperation agreement or a public call for tenders. The cooperation agreement is a non-competitive procedure, where the MA selects and negotiates the terms of the collaboration with the crowdfunding platform. On the other hand, an open call for tenders invites crowdfunding platforms to provide competing offers to the MA, who selects the preferred proposal for collaboration.



Entering into a cooperation agreement is the most agile way to set up the cooperation system between the two parties, as it often involves proactive discussions, which not only lead to effective collaboration patterns but also capacity building for the public authority.

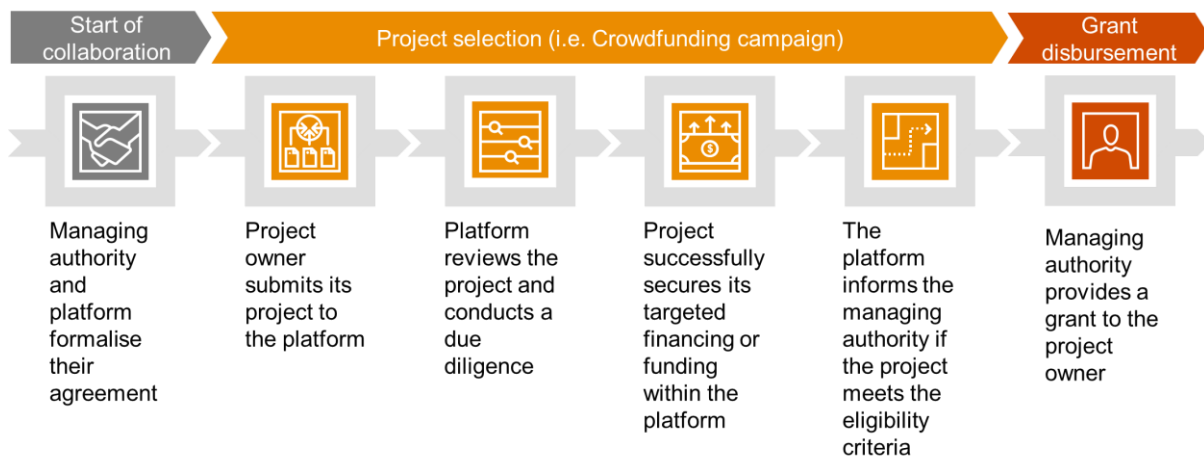
Conversely, a public call for tenders will be better suited to those MAs that have a precise idea of their needs, objectives, and preferred approach to achieve their goals. Independently of the approach chosen, the following dimensions should be addressed: the project selection process (e.g. eligibility criteria and due diligence process), project

financing (including the conditions and thresholds attached to the grant), non-financial services provided (e.g. capacity building activities), the reporting and monitoring requirements, and financial control provisions corresponding to the responsibility for managing public funds.

In designing the project selection process, MAs and the crowdfunding platform should ensure that i) roles and responsibilities are clear (who conducts the due diligence, who selects the projects, what is the involvement of the MA, etc.); and ii) the eligibility criteria are well-defined to ensure a clear articulation between project financing, the project impact and its contribution to policy objectives.

The MAs can choose to: i) actively select projects that could benefit from a grant; ii) rely on the crowdfunding platform to select eligible projects; or iii) select the project jointly with the crowdfunding platform. That been said, the easiest way to set up this collaboration would be to delegate the due diligence and the selection of projects to the platform (in line with pre-defined criteria). The platform would then inform the MA each time that a project that meets the predefined criteria completes its crowdfunding campaign and need additional funding, so the grant can be provided.

Once collaboration is firmly established, the next step is to market the initiative and invite project owners to submit their projects into the crowdfunding platform



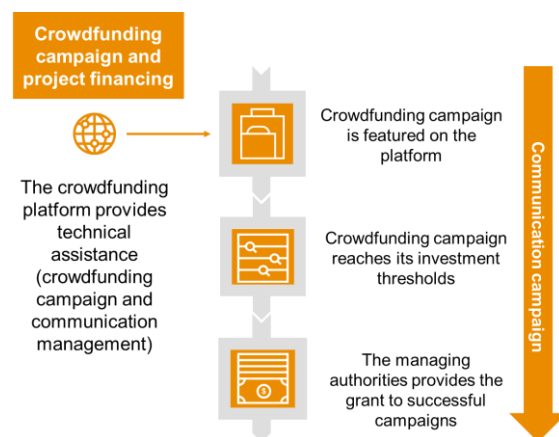
Before and/or during the crowdfunding campaign, trainings may be provided by the crowdfunding platform or third parties to the project owners to build their crowdfunding capacities, which translates in higher project success rates.

As seen in the case studies, the overall process may benefit from developing a well-rounded communication campaign about the collaboration between the MAs and the crowdfunding platforms, providing further credibility to the platform.

Providing trainings to project owners not only boosts the chances of success of crowdfunding campaigns, but also improves their financial capabilities (e.g. preparation of business plan) and skills as entrepreneurs, particularly pertinent for leading social enterprises and NGOs. In addition, trainings can increase the long-term fundraising capacities of social enterprises. Furthermore, using grants outside campaigns does more than provide financing: project owners can leverage the credibility of the MAs with which they collaborate, thus enhancing their attractiveness for investors.

MAs will manage the monitoring process as for any other grant under ESIF. Therefore, such scheme would not result in additional burden for MAs.

In fact, this scheme could even reduce the monitoring of reporting process of the MA. The crowdfunding platform will need to monitor the use of the funds obtained by the project owner as part of the crowdfunding campaign, so as to report to the crowd-investors. The information gathered could also be shared with the MA (if defined as such in the cooperation agreement) to further simplify the reporting procedures for the project owners and the MA.





Pros and Cons



Benefits

This scheme allows MAs to reach a broad range of projects with more citizen engagement without requiring extensive prior expertise.

The legal set-up is straightforward and poses limited business risks for both parties. As such, this option is often seen as the easiest way to engage in crowdfunding activities while avoiding cumbersome procedures.

Since the success of this scheme depends on neither the crowdfunding expertise nor the amount of financial investment from the MA, they are free to choose their level of engagement.

Generally, the more involved MAs are, the more experience they will gain, which in turn creates opportunities to engage in more sophisticated models of collaboration.

If the MA decides to provide financial instruments instead of grants outside the crowdfunding process, the selection of a financial intermediary (e.g. a commercial bank or an investment fund) could further simplify the disbursement of the ESIF resources. In such case, the financial intermediary would need to engage with the platform and screen each potential project individually, to ensure the alignment and coherence with the objectives of the MA.



Risks

While this scheme does not present significant business risks, MAs should carefully select the crowdfunding platform with which to engage. To maximise the impact of the initiative, the parties should align their individual and joint objectives and targets.

In addition, MAs should ensure that the eligibility criteria are designed so that grants can directly contribute to reaching their policy objectives.

Furthermore, MAs implementing this blueprint should carefully design the monitoring and reporting requirements to ensure that i) they respond to the ESIF requirements; ii) they do not bear additional costs for the crowdfunding platforms and project owners.



Tips and tricks



Think holistically

Using crowdfunding following this scheme can have further reaching and longer-term effects than just an injection of cash. Be sure to provide capacity building activities to project owners to support them in their process of professionalisation / upskilling, particularly when looking at social enterprises.

MAs can also play a key role in supporting communication activities by providing access to their network and leveraging on their relationships with regional stakeholders and media to reach out to a wider crowd.

A grant by the MAs also provides credibility to the project, which are particularly helpful for young entrepreneurs or local companies.



Be visible

This scheme allows citizens to witness and influence public fund spending.

By communicating on the projects that they support, MAs develop their accountability to supporters and citizens, while gathering more awareness and potential support for their endeavor.

Project owners are hence accountable not only to the MAs but also to the crowd and citizens. This puts additional pressure on their shoulders to deliver on their promise. In ensuring their visibility, MAs contribute to their credibility and success, and at the same

time incentivise them to maximise their impact.



Be strategic

This scheme allows MAs to choose their level of implication in the crowdfunding process.

The more involved the MAs, the more learning and capacity building will be accomplished. The lessons learnt can then be used to replicate such scheme or develop a more sophisticated approach to crowdfunding schemes involving financial instruments.

Box 1: Evolution of Blueprint 1 - from grants to financial instruments

This model of collaboration is one of the simplest that can be set up. That said, it can evolve over time and get more sophisticated, e.g. by switching the type of financial support provided outside of the crowdfunding process from a grant to financial instruments (e.g. a loan). The use of FIs would particularly relevant for MAs operating in a moderately developed crowdfunding market, and aiming to support, alongside local social development through type of projects, economic development through support to entrepreneurs and SMEs.

Switching from grants to financial instrument support has limited impact on the collaboration modalities or legal issues (with the exception of when the crowdfunding platform acts as a financial intermediary).. As the support is provided outside of the crowdfunding process, the scheme allows MAs to provide support under their chosen terms and conditions (e.g. terms of repayment, governance mechanisms or reporting obligations) and in their chosen form of financing (e.g. loan or equity), independently of the ones defined in the crowdfunding process.

An aerial photograph showing a winding asphalt road that curves through a dense, lush green forest. The road is dark grey with white lane markings. A small yellow car is visible on the road. The surrounding trees are vibrant green, and some bare branches are visible, suggesting a mix of tree types or a specific season. The overall scene is a natural, scenic landscape.

Aligning the Managing Authority's Investment Strategy with the EU Green Deal Objectives

Fighting climate change is a predominant area of civic debate and action. Specifically, the EU's Green Deal provides an action plan and investments and financing tools, to make the EU's economy sustainable and help people most affected through the Just Transition Mechanism. For MAs, aligning their Investment Strategy in Crowdfunding schemes with the EU Green Deal strategic objectives would have the joint benefits of financing projects close to their citizens' concerns and needs, while driving sustainable development in Europe in compliance with the EU strategic direction. This alignment could take the form of eligibility criteria for public funding disbursement for the environmental and societal impact of the project. Another manner would be the designation of priority green projects contributing to urgent sustainability transitions, e.g. infrastructure efficiency or urban greening. This idea holds through all the blueprint models of this report.

5.2 Investing through a lending-based crowdfunding platform

This blueprint draws insights and lesson learnt from the Model 10. MA acting as investor in a lending- or investment-based crowdfunding campaign presented in Chapter 3, and the case study 5. Public authority acting as an investor in a lending-based crowdfunding campaign (Bpifrance – October) presented in Chapter 4.

The use of financial instruments in a lending-based crowdfunding campaign is one of the most sophisticated types of collaboration. As such, this scheme is most suited to well-developed crowdfunding markets, both from a financial and regulatory standpoint (e.g. countries/regions with a well-developed financial-return crowdfunding market, with platform operators being licensed under a bespoke crowdfunding regime, or the ECSP).

This scheme entails both a higher level of risks, but also greater benefits in comparison to simpler schemes, given that the MA would channel ESIF through the platform to finance projects of its interest. Therefore, the implementation of this scheme requires solid knowledge and experience in the field of financial instruments. This is particularly important to cope with legal and operational challenges.



In a nutshell

In this scheme, MAs act as a co-investor in a crowdfunding campaign. In practice, MAs would have three main options:

- **Leveraging on a platform as Financial Intermediary:** The MA could enter into an agreement with one (or several) regulated platforms (see Chapter 3 for more information on legal considerations) that would conduct thorough due diligence of projects, identify potential investment opportunities in line with the investment MA, invest on behalf of the MA, and manage the reporting process.
- **Leveraging on a third party:** The MA could entrust the implementation of the scheme to an external entity e.g. an equity fund, that would invest in projects in several platforms in line with the eligibility criteria of the MA.
- **Manage the investment by its own:** MA would analyse the different projects crowdfunding campaign and invest on specific projects. This approach is nonetheless very cumbersome. In order to simplify it, a cooperation agreement could be signed with one (or several) platforms, whereby the platforms would notify the MA each time there is a project that meets the investment criteria of the MA. As in the other options, the platform would merely facilitate the conclusion of loan agreements between the investors (including the MA) and the project owners, without acting as a creditor / holding deposits.

The description of the blueprint below is based on the first option, due to the fact that this is the most likely option for MAs.



Key Features

MAs that want to set up this scheme should first publish a call for tender to select the lending-based crowdfunding platform (i.e. following a similar procedure to the one utilised for the selection of financial intermediaries when implementing financial instruments).

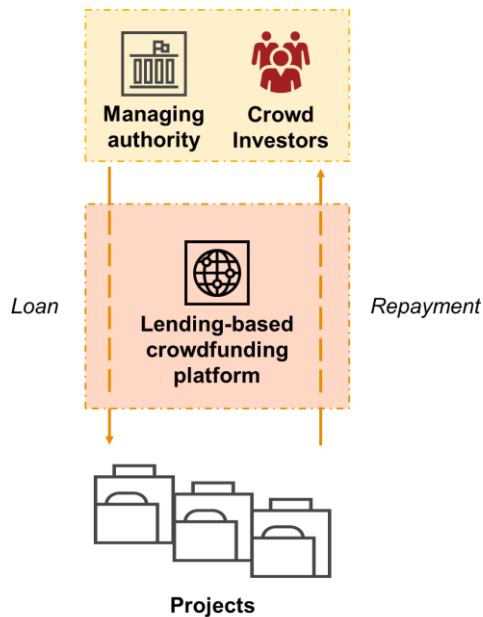
This call for tenders should outline the eligibility criteria for the selection of potential final recipients (e.g. geographical scope, type of beneficiary, prohibited activities, etc.), the amount of financing, the roles and responsibilities of the MA and the platform (e.g. communications, monitoring, reporting), the provision of non-financial services provided (e.g. capacity building activities), etc.

While the platform would typically perform the due diligence on the specific project owners, the MA will need to conduct its own due diligence on the platform to be selected.

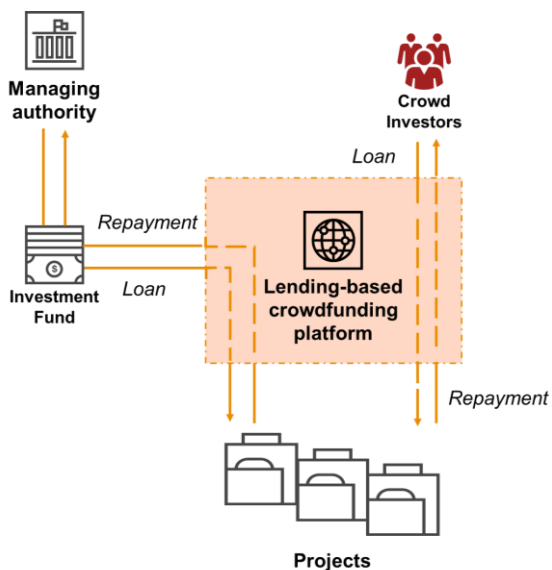
As such, the call for tenders should require the interested platforms to provide a detailed track record (e.g. years of operation, average annual investment, legal form, etc.), as well as a comprehensive proposal that outlines the pipeline of projects to be potentially financed through the instrument. In parallel, this due diligence will also allow the MA to assess the level of professionalism of the platform, and to better understand the main characteristics of the platforms.

Most lending-based crowdfunding platforms can act as financial intermediaries under the CPR and ESCP regulations, if they comply with a predefined set of conditions, such as that their decisions on the allocation of funds are within the parameters and risk indicators predetermined by the MA. In addition, those platforms falling under certain regulations (e.g. AIFM or MiFID) often feature very robust and professionalised processes and teams.

The platform would act as financial intermediary, managing the funds of the MA in line with the agreed investment strategy, and attracting other investors to co-finance projects running a crowdfunding campaign. The funds of the MA could be used to finance a specific percentage of the total investment, or a pre-agreed amount based on the contribution of the project to the objectives of the MA.



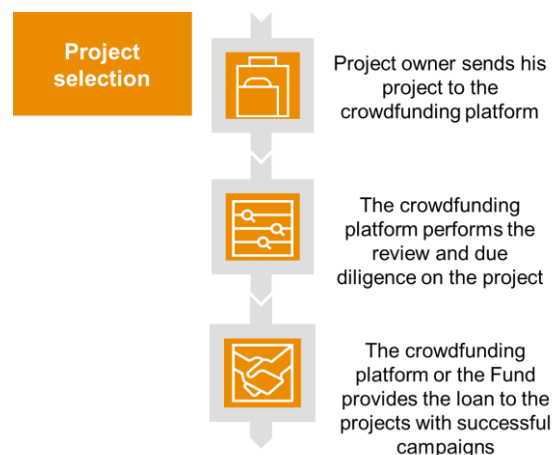
Besides collaborating with a regulated lending-based crowdfunding platform that would act as financial intermediary, MAs can also opt to lend funds indirectly to crowdfunding campaigns through an investment fund. This approach would be as



followed:

Indeed, to attract institutional investors (but also other specialised private operators), some lending-based crowdfunding platforms have set up Investment Funds, regulated under the AIFM and in some cases the MiFID directives. In doing so, they upgrade their capacities to become professional investors – implementing the required processes in mechanisms to ensure that investment and portfolio management activities are compliant with the relevant EU Directives.

In practice, the MA would provide a loan to an investment Fund, which would act as financial intermediary. The Fund would lend the funds to individual projects through a crowdfunding platform.



This approach often reassures potential investors eager to support alternative finance. However, the establishment of this collaboration with an investment fund may lead to a higher administrative complexity.

As a first step, MAs interested in this model of collaboration may want to start their collaboration with a lending-based crowdfunding platform that is regulated.

The project selection process is often delegated to the lending-based crowdfunding platform (or the investment fund), based on eligibility criteria agreed ex-ante between the MAs and the platform. The eligibility criteria

(e.g. sectoral, and geographical scope, type of final beneficiaries), should be carefully designed, so as to integrate the policy objectives of the MAs in line with the Operational Programme.

Indeed, directly investing on a project-by-project basis would be too cumbersome and resource consuming for the MAs – especially when taking account of due diligence requirements at project level. In addition, lending-based crowdfunding platform often have in place IT processes allowing them to screen and respond fast to any loan applications.

By delegating the process to lending-based crowdfunding platforms, MAs can leverage on their processes to incentivise project's owners to use crowdfunding. In addition, this approach would also be simpler for project owners, as they will only engage with the platform (i.e. undertaking one single operation / engagement).

In exchange, the MA could partially cover the operational cost of the selected crowdfunding platform (e.g. through management fees).

One of the main differences in terms of processes in comparison to the previous scheme is that there are two possibilities regarding the project financing process. The MA can decide to provide the loan to the project owner (i) at any moment during the crowdfunding campaign, or (ii) once a predefined threshold has been reached. For instance, the loan of the MA could be provided to all projects that have successfully raised 70% of their targeted amount, thus allowing project owners to secure the financing they need for their investments, and provided that they comply with the eligibility requirements defined by the MA.

This approach would contribute to reduce the

number of lending-based crowdfunding campaigns that are not able to raise the funds needed, which is one of the major drawbacks of lending-based crowdfunding.

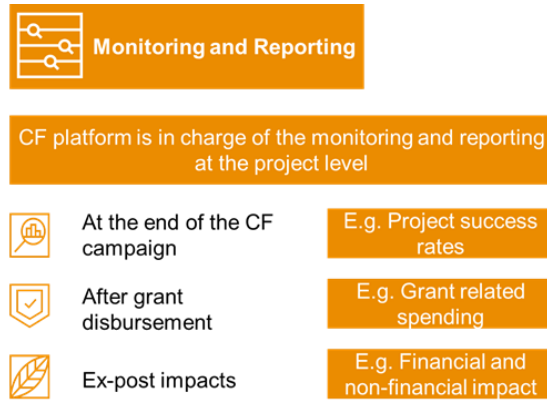
MAs should carefully analyse the pros and cons relating to both possibilities aforementioned when envisaging their collaboration with the lending-based crowdfunding platform. Their choice will ultimately impact their own spending, and incentivise (or not) i) project's owners to use crowdfunding to get their loan; ii) crowd investors to use the lending-based crowdfunding platform.

Their choice should also reflect the possible technical assistance / capacity building type of interventions that they could eventually provide to support the development of the crowdfunding market. In addition, the reflows of the investment made by the MA could be re-invested to finance additional operations, or used as grants to partially finance the non-financial support measures, in line with Art. 44 of the CPR.

Lending-based crowdfunding platforms are often responsible for the monitoring and reporting of financial and non-financial impacts, and often have more experience and capacities than reward and donation-based crowdfunding platforms.

MAs, through the due diligence, will be able to assess whether the monitoring and evaluation system is fit for purpose. In doing so, they should be ambitious by requiring non-financial indicators, and pragmatic by providing additional support to lending-based crowdfunding platforms through technical assistance. Indeed, this can incentivise lending-based crowdfunding platforms to do more, while avoiding generating additional costs on their side.

An increasing number of platforms are using the Sustainable Development Goals to screen projects, which could help reconcile MAs' policy goals and the project owners impact objectives.



Pros and Cons

Benefits

This scheme allows MAs to make use of its reputation and market footprint and resources to attract private investments.

In addition, this scheme also helps reaching out to SMEs with no or limited access to traditional finance and provide them with an alternative source of financing, thus helping them address their investment needs.

In this scheme, the MAs can rely on the capacities of the fund and lending-based crowdfunding platforms, delegating responsibilities such as promotion, project identification, due diligence, and monitoring and reporting, thus limiting the level of resources to be involved in such a collaboration.

If a limited degree of engagement is

Risks

privileged (e.g. allowing a regulated platform to undertake investment decisions on their behalf) MAs may not be consulted for each investment decision. As such, MAs need to make sure that their policy priorities are well-reflected in the eligibility criteria applied for investments, which are to be agreed with the platforms.

As this collaboration concerns financial-return crowdfunding, investments may focus on projects located in developed market such as urban areas, rather than rural areas.

In addition, MAs should pay attention to the monitoring and reporting mechanism of the platform, to ensure that the latter allows them to report properly on ESIF



Tips and tricks



Be practical

MAs may want to collaborate at first with a *regulated* lending-based crowdfunding platform – whether directly or indirectly (through an investment fund).

While this may seem complex, this set-up allows dealing with highly professionalised lending-based crowdfunding platforms, with robust due diligence and monitoring and reporting processes in place.

Based on the experience built, the MAs can start engaging with a wider range of lending-based crowdfunding platforms.



Tailor your approach

One of the key advantages of crowdfunding platforms relates to its high degree of flexibility. Their set up can be tailored to address specific needs of MAs, such as adapting the governance model, or their eligibility criteria.

To make it work and keep the momentum, it is important for MAs to take account of the constraints in which crowdfunding platforms operate – i.e. the costs induced by their

demands, and how these can be alleviated, through e.g. the provision of technical assistance, communication support, or other non-financial services.



Break silos

MAs can do more than investing in lending-based crowdfunding campaigns. In fact, they can help build the crowdfunding market even before investing through a crowdfunding platform.

In practice, such non-financial support can take the shape of supporting the professionalisation of crowdfunding platforms, raising the awareness of the public vis-à-vis crowdfunding opportunities, reinforcing the credibility and reputation of crowdfunding by providing e.g. quality stamps to those platforms demonstrating sufficient level of maturity in terms of processes and security etc.

Last, MAs can also help building knowledge on the crowdfunding market by collecting data on crowdfunding, providing potential interested investors with information on the type of projects financed, the financial products (grant, loan, equity etc.) as well as the financial and non-financial impact of investing in crowdfunding

Box 2: Applicability of Blueprint 2 to investment-based crowdfunding platforms

This blueprint scheme is tailored to the needs and procedures for lending-based crowdfunding platforms, as most MAs financing project under this scheme do so through lending-based platforms. That being said, this blueprint is equally applicable to investment-based crowdfunding platforms, if the MA wants to invest equity in start-ups and projects. Where the funds are distributed by the MA on its own or by a third party, the mechanism works identically. Furthermore, the MA can leverage an investment-based platform as a financial intermediary to the extent that the platform holds the respective authorisations for individual or collective portfolio management under MiFID or AIFD under the national regime, as this would allow them to manage assets on behalf of the MA and comply with ECSP regulation.

5.3 Providing guarantees to investors

This blueprint draws insights and lesson learnt from the Model 5. MA providing guarantees to investors presented in Chapter 3, and the case study 4. Public authority providing guarantees to investors (Netherlands Enterprise Agency – StartGreen Capital).

The scheme whereby MAs provide guarantees to investors is sophisticated and not (yet) widespread across the EU. However, following the impact of the COVID-19 outbreak and the overall reluctance of traditional finance actors to invest in high-risk / innovative projects, a number of public authorities have started testing this scheme.

This blueprint scheme can be structured in two different ways: (i) the MAs manage themselves the guarantee instruments, or (ii) guarantees are entrusted to an experienced financial intermediary. The second structure option is prevalent in the industry.

This scheme is hence of particular interest for MAs aiming to contribute to policy objectives with large market gaps, such as social and green innovation, (digital) technology development, and SMEs financing. This scheme is relevant for MAs operating in an advanced crowdfunding market context, with a solid knowledge of lending-based crowdfunding and investment-based crowdfunding, and experience in managing guarantee schemes.



In a nutshell

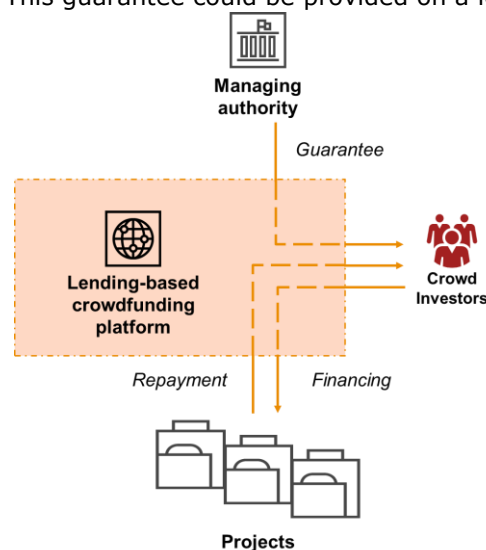
Under this scheme, MAs will provide a guarantee to investors in a crowdfunding campaign. The choice of whether the guarantee will be compulsory for investors in the specific campaign remains in the hand of the MA.

In order to set up this scheme, the MA should select a crowdfunding platform that will be responsible for identifying project opportunities and attract investors. As for the previous blueprints, the MA could launch a call for expression of interest.

The selected platform will be responsible for the due diligence of both investors and projects. The guarantee would cover the investment made by all crowd-investors in a project that satisfies the eligibility criteria set by the MA. In practice, the guarantee provides credit risk protection to investors on

a selected platform. Typically, this guarantee would be provided at a cost (e.g. guarantee fee), and this should be clearly marketed so as to raise the interest of investors and maximise the leverage effect of the guarantee.

This guarantee could be provided on a loan-



to-loan basis per project, or on a portfolio

basis, capped (i.e. covering the exposure of the lender up to a pre-defined percentage or amount of the loan and for the portfolio in default), or uncapped.

In case of default, the guarantee will be channelled through the platform to refund the investors.



Key Features

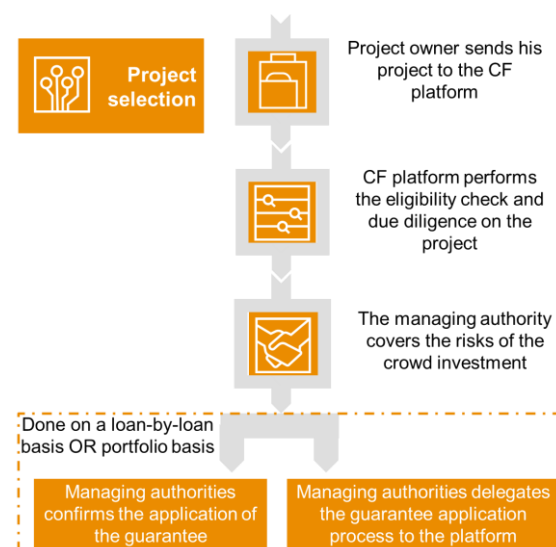
The implementation of a guarantee scheme for crowd-investors would bring several advantages, as it would i) address specific capital constraints of investors in the crowdfunding industry; ii) increase the overall capital available to finance riskier operations (start-ups, innovative SMEs, social enterprise etc.) and iii) maximise the leverage effect to attract private investments in alternative finance.

The implementation of a guarantee scheme would also reduce actual budget utilisation of the MA, as these funds are provisioned to cover expected losses, and disbursed only in case of default. As such, the implementation of a guarantee to investors would allow MAs to reach a higher leverage effect compared to risk-sharing or co-investment instruments and schemes. In this regard, and based on existing experience, a leverage effect of 1:5 is estimated (i.e. EUR 1 of public money spent for every EUR 5 of private capital invested). This ratio will nonetheless depend on the risk profile of the investments and on the type of guarantee.

During the procurement process, MAs need to consider the experience of the platform in leveraging of similar schemes, the expertise and experience of proposed team members, as well as its operational and financial

capacity.

Once the collaboration established and communicated, project owners start submitting their project fiche to the crowdfunding platform. After a careful review of the eligibility criteria and due diligence by the crowdfunding platform, MAs can either: i) delegate the full selection process to the crowdfunding platform (portfolio approach); or decide to check the assessment of the crowdfunding platform on a loan-by-loan basis, after which the provision of the guarantee is approved. Such a choice will ultimately depend on the experience of the crowdfunding platform in managing a guarantee scheme, and on the level of trust



between the MAs and crowdfunding platform.

During the selection stage of the projects, the guarantee scheme needs to pay attention to the Gross Grant Equivalent provided to each individual project to avoid State Aid under the *de minimis* rules.

At the start of the collaboration, it is often the case that the crowdfunding platform will require the formal approval of the guarantee from the MA (to ensure that the projects financed fall under the guarantee scheme and that crowd investors' risks are covered), and that MAs may want to have a more active role in ensuring the proper use of the guarantee.

As the collaboration develops, MAs will feel more comfortable delegating the guarantee approval process to the crowdfunding platform. Importantly, MAs' ability to treat request for guarantee approval timely is crucial in order to ensure that the application process from a project owners' perspective is not slowed down.

Once the project is selected, it will feature on the crowdfunding platform. Crowd investors will be incentivised to finance such a project thanks to the guarantee of the MA.

Provided that the campaign reaches its investment thresholds, the project gets financed and the crowd investors' risks are covered by the guarantee.

Should the project default, the investors would be covered until the agreed cap by the guarantee, and recover part of their initial investment. In case the project does not default (i.e. it is successful), the amount covered by the guarantee is freed up.



Pros and Cons



Benefits

By reducing the crowd investors' risks exposure, the guarantee helps attracting private investments that can contribute to policy objectives. Guarantees help finance companies traditionally overlooked by traditional finance such as (innovative SMEs, etc.), thus extending the reach of ESIF to new market segments.

Furthermore, the nature of guarantees can improve the conditions of the underlying investments, as well as to allow the platform to better manage its exposure if the guarantee is implemented at portfolio level.

Besides being able to achieve a higher leverage effect, guarantees involve a deposit rather than an upfront transfer of capital, except in cases where projects default – thus maximizing the efficiency of the resources of MAs.



Risks

A strong involvement from the MA would be required in order to approve the guarantee when this approval is not delegated to the platform based on a predefined set of criteria.

A careful due diligence needs to be conducted by the platform on the projects – but also on the investors – so as to ensure the bankability of the projects, and the legitimacy of the investors.



Tips and tricks



Assess the market gaps

Assessing the market is a key step to ensure that the guarantee crowds-in private sector investment in the targeted sectors, MAs should conduct an ex-ante assessment to identify the market failure that should be addressed through its collaboration with a crowdfunding platform. To do so will require MAs to consult with crowdfunding stakeholders, which will also be an opportunity for MAs to assess how to best collaborate with crowdfunding platforms.



Adaptability is key

In order to make the collaboration work, crowdfunding platforms will have to comply with MAs' requests (e.g. due diligence, monitoring and reporting processes etc.). At the same time, MAs should also ensure that their processes fit the nature of crowdfunding: a lengthy guarantee approval process will discourage potential project owners to use crowdfunding to raise funds. A certain degree of flexibility and adaptation should be embraced by each of the actors. Last, the implementation of a guarantee requires a solid understanding of the legal

implications, which may be hard to get for (first-timer) crowdfunding platforms.

MAs should hence try to facilitate such an understanding by simplifying to the extent possible their documentation and/or providing support to crowdfunding platforms.



Adopt a standardised approach

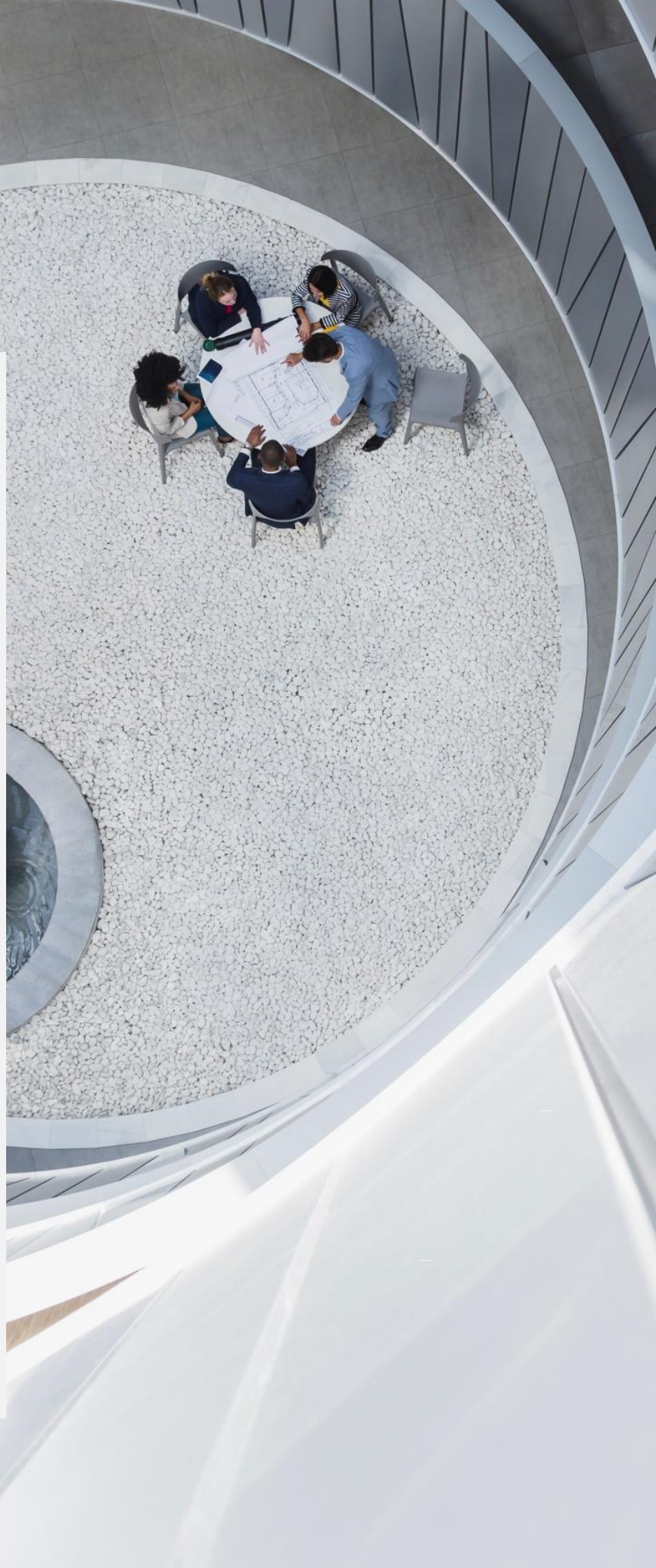
From the crowdfunding platform perspective, a standardised template agreement could be used for other (or additional) collaborations. This template should include inter alia the:

- Continuity perspective of the platform (to assess the viability of the business model)
- The procedures and policies in place for loans' assessment and acceptance
- The monitoring procedures

Such a template could be communicated by the MAs to the crowdfunding platforms, to raise their awareness about the potential for such collaboration, and their understanding of the requirements involved in such a collaboration.

Managing Authority as an enabler of capacity building in the crowdfunding ecosystem

Capacity building support and training have a decisive impact on the chances of success of a project. Pre-campaign training on marketing or communication help with awareness raising and project owner credibility. Post-campaign support on business strategy can improve the viability of the project. The MA can focus on knowledge transfer and steering discussions between project owners, regulators and exterior coaches, for the benefit of increasing the market readiness for crowdfunding activities.



5.4 Operating a crowdfunding platform

This blueprint draws insights and lesson learnt from the Model 8. MA operating its own crowdfunding platform presented in Chapter 3, and the case study 2. Public authority operating its own crowdfunding platform (Investitionbank Schleswig-Holstein – WIR BEWEGEN.SH).

This scheme whereby MAs set up and operate their own crowdfunding platform is not yet widespread across Europe. Such scheme requires significant knowledge and expertise in the field of crowdfunding, as well as important resources to build and maintain the crowdfunding platforms. In fact, some dimensions do not fall in the traditional remit of MAs, e.g. managing a payment method system, handling the KYC and AML processes etc. As such, this blueprint scheme could be considered as an ambitious yet practical goal targeted by MAs who would like to commit to developing their crowdfunding expertise.

Given its complexity, this scheme is rather implemented by national and regional promotional banks. This scheme is relevant for MAs operating in a moderate to advanced crowdfunding markets, and particularly interesting for those MAs aiming to cater to market segments that are currently not being served by existing crowdfunding platforms (e.g. social entrepreneurship, cultural and/or historical sites, etc.). The complexity of the scheme could partly be skirted by setting a reward- or donation-based crowdfunding platform, generally more manageable than financial return-based platforms.

While this scheme may be resource consuming, it can also be adapted and tailored to the needs and interests of the MAs and can evolve over time (e.g. shifting its focus in terms of final beneficiaries or form of support).

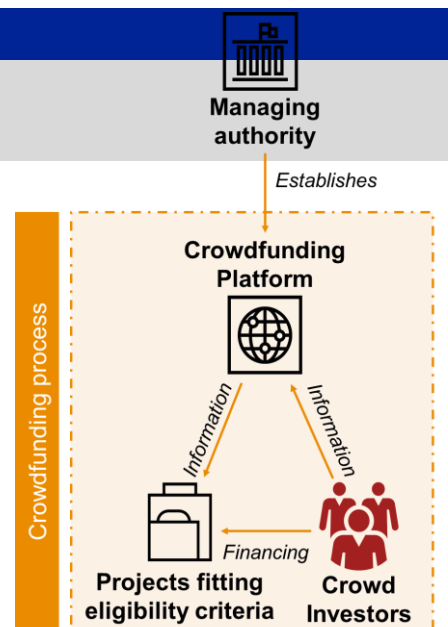


In a nutshell

In this scheme, MAs set up and operate their own crowdfunding platform, which is used to finance (and attract private investments) in specific projects contributing to the achievement of their policy priorities.

The implementation of such scheme requires MAs to design and implement the IT infrastructure (which can be outsourced), the establishment of KYC / AML processes, the development of data security processes, etc.

In addition, MAs are expected to play a key role in raising awareness (e.g. via a communication campaign), and building partnerships through their network (e.g. regional or local authorities), so as to promote the platform, attract project owners and incentivise investors to use the newly set crowdfunding platform.





Key Features

As the first step before setting up and operating a crowdfunding platform, the MA should understand the licensing requirements and apply to obtain the necessary license for operating a crowdfunding platform,

In a subsequent time, MAs should analyse the state of play of the regional crowdfunding market to better understand its level of maturity/readiness.

This should include mapping crowdfunding platforms operating in its territory, as well as their scope and type of crowdfunding in order to build synergies with existing private operators and ensure the complementarity and additionality of the intervention. In addition, the MA should also seek to understand whether the existing platforms provide non-financial support to project owners, and the potential needs that could also be addressed by the new platform.

This will allow MAs to assess whether there is a need to set up their own platform or whether it would be more beneficial to support existing platforms.

In parallel, it is also important to analyse if there is sufficient demand from fund seekers (i.e. project owners with limited access to finance that could benefit from the establishment of such a platform), as well as the willingness of private co-investors to participate in such investment schemes, and the type of crowdfunding that these investors would be interested in.

Having a clear view on the target sector is also essential when setting up the platform.

Indeed, the MA should define its precise target (e.g. financing social initiatives, restoration of cultural and architectural heritage, innovative ideas, etc.), so as to clearly assess the gaps of financing in the precise areas in which the platform wishes to intervene.

In case MAs envisage to provide a financial instrument to the final beneficiaries, an ex-ante assessment could be undertaken to assess the financing gaps and define the final structure of the instrument.

Before setting up your own platform...

Define your target and type of support

Map the existing supply

Assess the type of financing provided

Understand the non-financial support

Quantify the demand for financing

Analyse the type of financing needed

Identify the capacity building needs

Consider conducting an ex-ante assessment

Based on this assessment, the MA can decide whether to set up (or not) a crowdfunding platform.

If so, the MA will need to go through a four-step process:

First, the MA should clearly define the objective and purpose of the platform, and the specific policy areas targeted with this platform.

Second, the scope of the platform should be defined in terms of type of crowdfunding (financial or non-financial-return crowdfunding) geography (region and rural and/or urban areas), and target (SMEs, social enterprises, NGOs etc.).

Third, the instrument serving the purpose of the platform should be identified (grant or financial instruments) and whether technical assistance should be provided as part of the platform offer (e.g. development of an incubator that will be financed through grants and that will support project owners through e.g. coaching, capacity building, investment readiness assistance and other non-financial services).

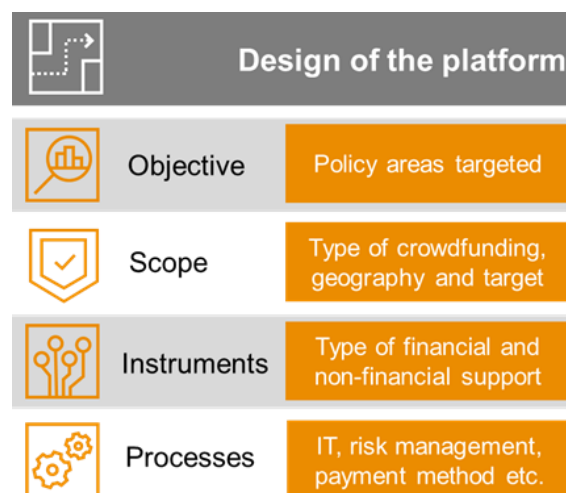
Fourth, the processes from the due diligence to the payment methods, the KYC and AML processes, the monitoring and reporting framework should be designed, with a view to address the interest and needs of the MAs, but also the platform users (supporters and project owners). If the platform relies on an external payment service provider, the processes can follow that of the contracted provider. This exercise should be accompanied by an assessment of needed capacities and resources, which will result in a roadmap of actions.

Once the strategy finalised, the implementation can start following the roadmap of actions.

MAs should take into account two dimensions: collaboration and communication.

MAs often have a wide network upon which

they can rely to tap into their resources. As such, MAs should be strategic in internalising



or outsourcing some of the processes and activities.

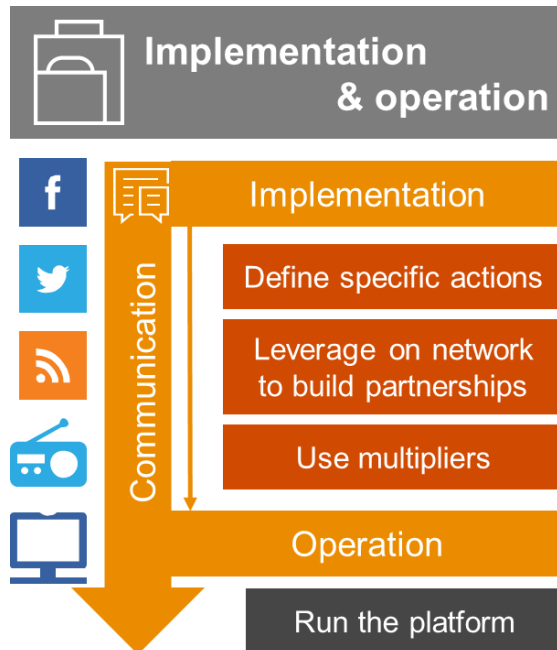
For instance, MAs can collaborate with commercial banks or even local fintech in order to set up a payment method, as well as KYC and AML processes.

Alternatively, they can also collaborate with an external provider to get the relevant IT expertise and outputs. Reaching out to local Universities can also be a way to set up good IT infrastructure at a low cost, while at the same time building partnerships that will allow the platform to gain visibility.

Second, communication before and during the implementation is crucial to raise the awareness and interest of project owners and investors. As seen in the case-studies, engaging with multipliers (e.g. academic institutions, local accelerators, chambers of commerce, commercial banks, etc.) and being active online (e.g. through social media campaigns, the organisation of online events, pitch sessions, competitions, etc.) is key when promoting the platform.

Following the implementation of the platform, the MAs can start operating it, selecting eligible projects and facilitating

their financing by the crowd. Although this approach is obviously more time consuming in terms of resources, MAs can “start slow” by allocating limited resources (e.g. 1 or 2 FTEs) that can run the platform on a day-to-day basis.



To ensure that the platform set up contributes to the policy objectives set ex ante, MAs should establish a proper monitoring and reporting framework allowing them to i) report on the use of the ESIF as per the CPR requirements; ii) assess the financial and non-financial impacts of the projects financed by the platform; iii) evaluate the relevance of the intervention vis-à-vis the market failure targeted.

In doing so, MAs will be able to slightly adapt the scope of the platform and/or its functioning, thus leveraging on one of the core strengths of crowdfunding: its flexibility.



Pros and Cons



Benefits

This scheme allows MAs to operate a crowdfunding platform whose design, processes and structure are fully in line with MAs' needs and interests.

In addition, the crowdfunding platform could be adapted over time to reflect the changing priorities of the MAs. This scheme puts the MAs in the driving seat, with a full control over the different crowdfunding processes – limiting potential risks and reputational issues that could arise in case of collaboration. More control also means more responsibilities – which in some instances translate into increased learnings.

Last, this scheme allows MAs to address complex issues, which cannot necessarily be tackled by other actors from traditional or alternative finance. This may include for instance providing access to finance to rural areas.



Risks

Although the development of solid partnerships with local entities help, MAs should not underestimate the costs and resources involved in i) setting up and operating a crowdfunding platform, with some of the tasks being outside of their core business (IT security, payment methods, KYC etc.) and ii) communicating the initiative to the potential supporters and project owners. This will also determine the sustainability of the platform on the mid to long-term.

MAs should avoid duplicating what is already existing and aim to build synergies with existing crowdfunding actors. In doing so, they will ensure that their intervention is not crowding out other crowdfunding actors, and contribute to building the crowdfunding market



Tips and tricks



Be loud and adapt your communication

Such scheme needs not only to be set up and operated, but especially to be used by the targeted actors. To do so, MAs should develop a communication campaign using several media channels – social networks, but also radio, newspapers etc.

Communication efforts, in order to reach and engage citizens, should be relevant, clear and easy to understand. Put in practice, citizens will prefer to hear about a project in a given neighbourhood set up by specific persons, rather than high-level policy objectives.



Leverage your network

MAs opting for this scheme do not have to do it all alone. Instead, they can leverage resources from, and involve, their regional network, and especially the private sector. This can be done by identifying win-win situations: e.g. sponsoring activities of companies could be featured at the platform or project level, showing the involvement of the private sector in the region. Such a collaborative approach will contribute to raising awareness around the crowdfunding

platform, and gain ground and legitimacy in the region.



Don't shoot for the moon

This scheme being rather complex and resource consuming to operate, MAs should adopt a gradual approach aiming for incremental change. This is line with the flexible nature of crowdfunding, which allows for adaptation, as priorities evolve. It is also a less risky approach

An aerial photograph of a person with braided hair, wearing a blue shirt, sitting in a field of rows of green lettuce plants. The person is holding a white tablet and looking at the screen. The field is planted in neat rows with brown soil between the plants. The lighting suggests it's daytime with some shadows cast on the ground.

Managing Authorities' role in maintaining the balance in urban and rural area investments

As crowdfunding funnels public and private financing to projects chosen by crowd investors, areas or territories can be overseen by crowd investors. Specifically, the rural economy, comparatively less digitalised and visible to the external public than the urban economy, is yet to take full advantage of crowdfunding.

Consequently, MAs could help direct private financing to rural projects and business owners by driving the crowd to them, offer additional capacity building support, and even crowdfunding development across regional territories. This is in fact a key benefit arising from the collaboration between MAs and crowdfunding platforms.

Conclusion

Driven by the offered flexibility and proximity with civic priorities, crowdfunding has attracted the attention of policymakers, investors and citizens. As shown in Chapter 1, **the European crowdfunding market has witnessed an exponential growth over the past five years**. This growth, driven by maturing financial-return crowdfunding schemes, has been unevenly spread. EU Member States display different degrees of crowdfunding market readiness and size, which entails the need to adapt the model of potential collaboration between the MA and crowdfunding platforms in the context of ESIF.

Collaborating with crowdfunding platforms brings **many advantages to MAs**, such as addressing financing gaps for relevant projects, empowering EU citizens or achieving a deeper regional impact. Although crowdfunding also bears a number of risks, which can be properly addressed through mitigating measures, they do not preclude the viability and feasibility of a public intervention.

Crowdfunding can contribute to both the Cohesion Policy and the policy goals of the Capital Markets Union by filling the gap of traditional finance.

The fragmented regulatory framework for crowdfunding investments shows the importance of legal harmonisation among the EU Member States.

The upcoming implementation of the ESCP regulation will help streamline EU regulation. Regardless, while the legal set-up in each Member State is more or less complex depending on the type of crowdfunding and collaboration model, it is not an impediment to the use of crowdfunding schemes by MAs.

Indeed, many success stories exist, some of which presented as case studies in Chapter 4, and deliver important lesson learnt on how to effectively collaborate and set up a crowdfunding financing

mechanisms that supports and EU policy objectives relevant to the use of ESIF.

Building on the market and legal analysis of the European crowdfunding ecosystem. and practical insights from six case studies, the report highlights **four blueprint schemes** for cooperation between crowdfunding platforms and a MA. These are:

- (i) Providing grants outside a crowdfunding campaign;
- (ii) Investing through a lending-based crowdfunding platform;
- (iii) Providing guarantees to investors;
- (iv) Operating a crowdfunding platform.

The blueprint schemes focus on the operational, legal and strategic considerations for ensuring a successful implementation of the scheme, independently of the market size and readiness for crowdfunding. The blueprints presented in this report entail an increasing level of interaction among the parties, as differing risk exposure levels and implementation costs for each party, such as the additional costs of developing a public crowdfunding platform compared to investing via an existing lending-based crowdfunding platform. The operation and implementation process vary, ranging from the easiest when giving out grants to more complex set-ups such as providing guarantees through a third party to crowd investors.

Several public authorities already collaborate with crowdfunding platforms, independently of the level of market readiness they operate in.

Overall, the four blueprints provide a practical stepping stone into crowdfunding for MAs and prove that, despite potential operational challenges, crowdfunding is a viable and effective way to channel financing towards projects that promote Cohesion Policy objectives across the EU.



6

Annexes

Annex 1: Overview of the different types of crowdfunding

The table below, based on desk research, provides an overview of the different types of crowdfunding, in terms of their legal nature, their processes and requirements when it comes to e.g. reporting obligations or risk assessment.

	Investment-based Crowdfunding	Lending-based Crowdfunding	Reward-based Crowdfunding	Donation-based Crowdfunding
	Financial-return crowdfunding		Non-Financial-return crowdfunding	
Legal status	<p>License requirements for platform operator (in most MS).</p> <p>A regulation requirement for SMEs seeking funds (in most MS)</p> <p>Will be regulated in the ECSP</p>	<p>License requirements for platform operator (in most MS)</p> <p>A regulation requirement for SMEs seeking funds (in most MS)</p> <p>Will be regulated in the ECSP</p>	<p>Unregulated activity in most MS both for platform and project owner</p>	<p>Unregulated activity in most MS both for platform and project owner</p>
Ownership of the platform	Private ownership	Private ownership	Private ownership Public ownership	Private ownership Public ownership
Products offer	<p>Securities</p> <p>Invoice-Trading</p> <p>Debt-based Securities</p> <p>Mini-Bonds</p> <p>Profit-Sharing Rights</p> <p>Community Shares</p>	<p>Loans (P2P Consumers)</p> <p>Loans (P2P SMEs)</p> <p>Loans (Balance Sheet Lending)</p> <p>Micro-Finance</p> <p>Pro-Social Lending</p>	<p>Immaterial and material Rewards</p>	<p>Tax-Relevant Donation Receipts</p>
Fee structure	<p>Placement Fees up-front, Marketing Fees from Issuer</p> <p>Fees for the completion of financing round (after the campaign) from the issuer</p> <p>Exit-based/financial-return-based fees from Investors</p>	<p>Placement Fees up-front, Marketing Fees from Lender</p> <p>Fees for the completion of financing round (after the campaign) from the issuer</p> <p>Portfolio Management Fees from Investor</p> <p>Interest-based/financial-return-based fees from Investors</p>	<p>Fees for Successful crowdfunding Campaigns from Project Owner</p> <p>(Voluntary) Fees from Project Supporters</p> <p>Fees from Services with Public Partner (so-called Civic crowdfunding) or Corporate Partner (Enterprise crowdfunding)</p>	<p>Fees for Successful crowdfunding Campaigns from Project Owner</p> <p>(Voluntary) Fees from Project Supporters</p> <p>Fees from Services with Public Partner (so-called Civic crowdfunding) or Corporate Partner (Enterprise crowdfunding)</p>

	Investment-based Crowdfunding	Lending-based Crowdfunding	Reward-based Crowdfunding	Donation-based Crowdfunding
	Financial-return crowdfunding		Non-Financial-return crowdfunding	
Targets (investors and companies)	Retail investors Sometimes institutional investors SMEs Start-Ups in Seed Stage	Retail Investors Frequently Institutional Investors Companies, including established companies Consumer as Lenders	Retail supporters Private projects Entrepreneurs, especially social entrepreneurs Large companies (Enterprise crowdfunding)	Retail donors Non-profits Charities
Project selection	Based on long-term investment criteria Often based on future value expectations Depending on the niche of the platform	Based on short-term business profitability and credit risk assessment	Based on the innovative character of the specific idea Based on social and environmental impact	Based on social and environmental impact
Risk assessment	Due diligence is done by the platform	Due diligence is done by the platform	Basic background checks	Basic background checks
Reporting obligation	Depending on Member State regulation on the platform level and project level ECSP: platform and project level	Depending on Member State regulation on the platform level and project level ECSP: platform and project level	None	None.
Geographic coverage	Available in all Member States Predominant in Western and Northern Europe	Available in most Member States Predominant in Western and Northern Europe, South-Western Europe	Available in all Member States Large platforms in Western Europe, but many local players in Eastern and South-Eastern Europe	Available in all Member States. Large platforms in all countries
Specific activities during COVID-19	Platform Co-operation to increase financing rounds	Reduction of Fees Interest Moratorium	Co-operation with public entities	Co-operation with public entities

Annex 2: Market assessment readiness methodology

The first step consisted in identifying and defining the variables to be used for the assessment, based on desktop research and the knowledge and experience of crowdfunding experts. Each of the variables was categorised by dimension, as presented in the table below.

Table 22: Market readiness assessment's four dimensions

	Description
Dimension 1: Economic Statistics	The rationale for having this dimension stems from the fact that a) the capacity of the MAs in each Member State to receive and implement ESIF in combination with crowdfunding depends on the economic capacity of the Member State; and b) the potential of the crowdfunding ecosystem to grow depends on the economic capacity in each Member State.
Dimension 2: crowdfunding Statistics	This dimension was selected as the volumes of crowdfunding in the Member States highlights potential attractiveness (and feasibility) for MAs to interact with crowdfunding platforms.
Dimension 3: Regulation and Self-Regulation Regimes	The clarity of regulation is a major driver of crowdfunding volume, but also enables MA to be clear about the obligations of crowdfunding platforms in risk management. Self-regulation serves as important method to fill regulatory gaps and identify market failure, and therefore the existence of industry bodies accompanied with self-regulation codes of conduct indicates a mature crowdfunding economy.
Dimension 4: Existing collaborations between public authorities and crowdfunding platforms	The rationale for selecting this dimension stems from the fact that that public authorities in several countries (regardless if they are acting as MAs or not) have already interacted with the crowdfunding platforms. By doing so, the public authorities have built up technical capacities to support the crowdfunding platforms. An additional indicator is the percentage of ESIF spent on Financial Instruments. Here the rationale is that MAs which are already using financial instruments (vs grants) are more willing to interact with crowdfunding authorities.

The table below provides an overview of the variables, including for each their rationale, thresholds and source of data.

Table 23: Economic statistics

Variable	Reason why included	Thresholds	Source
GDP per Capita (2019)	Proxy for Economic Activity in country	<ul style="list-style-type: none"> • 3 points: >EUR 40K • 2 points: >EUR 25K • 1 point: >EUR 10K 	Eurostat (2020). Real GDP per capita. https://ec.europa.eu/eurostat/web/products-datasets/-/sdg_08_10
Financial Literacy	Proxy for Readiness to invest by citizen, Supply for Alternative Finance	<ul style="list-style-type: none"> • 3 points: >60% • 2 points: >40% • 1 point: >20% 	S&P (2015). Financial Literacy Around the World. https://gflec.org/wp-content/uploads/2015/11/3313-Finlit_Report_FINAL-5.11.16.pdf?x38887
% of SMEs whose bank loan applications were rejected (2019)	Proxy for Demand for Alternative Finance	<ul style="list-style-type: none"> • 3 points: >8% • 2 points: >6% • 1 point: >4% 	EC (2019). Survey on the Access to Finance of Enterprises. https://ec.europa.eu/docsroom/documents/38423

Table 24: Crowdfunding statistics

Variable	Reason why included	Thresholds	Source
Crowdfunding country volume (2018)	Large crowdfunding volumes are more attractive for MA to interact with crowdfunding platforms	<ul style="list-style-type: none"> • 3 points: >EUR 1bn • 2 points: >EUR 500m • 1 point: >EUR 100m 	Cambridge Center for Alternative Finance (2019). The Global Alternative Finance Market Benchmarking Report. https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/the-global-alternative-finance-market-benchmarking-report/

Variable	Reason why included	Thresholds	Source
Crowdfunding country volume per capita	Captures market readiness of small economies	<ul style="list-style-type: none"> • 3 points: >EUR 50 per capita • 2 points: >EUR 20 per capita • 1 point: >EUR 10 per capita 	Cambridge Center for Alternative Finance (2019). The Global Alternative Finance Market Benchmarking Report. https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/the-global-alternative-finance-market-benchmarking-report/
Non-financial-return crowdfunding (Donation- & Reward-based crowdfunding) per capita	Captures structure of crowdfunding market	<ul style="list-style-type: none"> • 3 points: >EUR 0.3 per capita • 2 points: >EUR 0.15 per capita • 1 point: >EUR 0.1 per capita 	Cambridge Center for Alternative Finance (2019). The Global Alternative Finance Market Benchmarking Report. https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/the-global-alternative-finance-market-benchmarking-report/
Financial-return crowdfunding (Investment- & Lending-based crowdfunding) per capita	Captures structure of crowdfunding market	<ul style="list-style-type: none"> • 3 points: >EUR 30 per capita • 2 points: >EUR 15 per capita • 1 point: >EUR 1 per capita 	Cambridge Center for Alternative Finance (2019). The Global Alternative Finance Market Benchmarking Report. https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/the-global-alternative-finance-market-benchmarking-report/
International crowdfunding Platforms operate within country	Proxy for attractiveness of crowdfunding market	<ul style="list-style-type: none"> • 3 points: >5 international platforms operate in this country • 2: points: >1 international platform • 1 point: 1 international platform 	Crowdfunding database by K. Wenzlaff, in combination with consultation with crowdfunding networks

Table 25: Crowdfunding regulation and self-regulation

Variable	Reason	Thresholds	Sources
Existing member states crowdfunding regulation	Proxy for crowdfunding reputation	<ul style="list-style-type: none"> • 3 points: Bespoke-Regime for Investment AND Lending (or one regime which covers both types) • 2 points: Bespoke-Regime for either Investment OR Lending • 1 point > Stretch-To-Fit (an existing legislation for a different financial institution is used to regulate crowdfunding platforms, for instance stockbroker license for investment-based crowdfunding) • 0 points > No Regulation 	<p>EC (2018). Impact Assessment. https://ec.europa.eu/info/sites/info/files/180308-proposal-crowdfunding-impact-assessment_en.pdf</p> <p>ECN (2017) Assessment. https://eurocrowd.org/2017/10/26/ecn-review-crowdfunding-regulation-2017/</p> <p>Citizenenergy (2017) Assessment. https://citizenergy.eu/legal_framework</p> <p>Crowd-Fund-Port (2017) Assessment. https://www.crowdfundport.eu/wp-content/uploads/2019/03/DT4.1.1-Analysis-of-legal-systems.pdf</p>
Crowdfunding (Fintech) Association	Proxy for Maturity of crowdfunding Industry	<ul style="list-style-type: none"> • 3 points: Several crowdfunding/Fintech Associations exist, which govern various types of platforms and they all have a code of conduct which regulates the behaviour of platforms. • 2 points: Crowdfunding Association/Fintech Association exists and has specific code of conduct to regulate behaviour of platforms • 1 points: Crowdfunding Association/Fintech Association exists, but has no specific code of conduct to regulate behaviour of platforms. • 0 points No Association Exists for Crowdfunding/Fintech; No Information available 	<p>Crowd-Stream (2017) Assessment http://www.interreg-danube.eu/uploads/media/approved_project_output/0001/11/10eb486deec88118eb54ff389a3db9da0e94d1c9.pdf</p> <p>CrowdfundingHub (2016). Assessment. https://www.crowdfundinghub.eu/main-conclusions/</p> <ul style="list-style-type: none"> • Member-States Comparison on Investment Crowdfunding Regulation. https://www.ijbssnet.com/journals/

Variable	Reason	Thresholds	Sources
			Vol 9 No 2 February 2018/11.pdf Feedback from Advisory Board & AltFinator Policy Network after Completion of Intermediate Report

Table 26: Existing collaboration between public authorities and crowdfunding platforms

Variable	Reason	Thresholds	Source
Number of Collaborations between Public Authority	Proxy for ESIF attractiveness	3 points: > 10 examples 2 points: > 5 examples 1 points: > 1 example	Research and consultations with crowdfunding networks ECN (2018). Triggering Participation: A Collection of Civic Crowdfunding and Match-funding Experiences in the EU". https://eurocrowd.org/2018/07/04/cf4esif-report-triggering-participation-collection-civic-crowdfunding-match-funding-experiences-eu-published/
Percentage of ESIF (ERDF and CF) spent on Financial Instruments	Proxy for MS appetite to use FI as part of ESIF	3 points: >10% 2 points: >5% 1 point: >0.1% 0 points =0%	EC (2018). 'Financial instruments under the European Structural and Investment Funds. https://www.fi-compass.eu/sites/default/files/publications/Financial%20instruments%20under%20the%20European%20Structural%20and%20Investment%20Funds_0.pdf
Percentage of ESIF (ESF and YEI) spent on Financial Instruments	Proxy for MS appetite to use FI as part of ESIF	3 points: >5% 2 points: >2% 1 point: >0.1% 0 points =0%	EC (2018). 'Financial instruments under the European Structural and Investment Funds. https://www.fi-compass.eu/sites/default/files/publications/Financial%20instruments%20under%20the%20European%20Structural%20and%20Investment%20Funds_0.pdf

Because of the limited literature on this topic, we consulted with a set of selected crowdfunding experts pertaining to the Advisory Board. The objective was for them to review, challenge and provide feedback on:

- **The comprehensiveness of the variables:** Do the selected variables cover the necessary dimensions/indicators to conduct a market readiness assessment? Are they complete?
- **The relevance of the variables:** Are the selected variables and indicators the most relevant to conduct a market readiness assessment?

The weighting of the variables for this Intermediate Report was conducted following the Delphi Method. The Advisory Board⁶⁹ provided inputs on the weighting of the different variables on a scale from zero to five, which average was used to calculate the final weighting of each variable. The result of the consultation is presented in the table below. Table 27: Weighting of the indicators of the market readiness assessment

Indicators	Weighting
Economic statistics	
GDP per capita Proxy for Economic Activity in-country	2.6
Financial literacy Proxy for Readiness to invest by citizen	3.1
Access to Finance Proxy to the relevance of Alternative Finance	3.3
Crowdfunding statistics	
Country volume in crowdfunding Large crowdfunding volumes are more attractive for MA to interact with crowdfunding platforms	3.4
Country volume per capita Captures market readiness of small economies	4
Non-financial-return crowdfunding (Donation- & Reward-based crowdfunding) per capita Captures the structure of the crowdfunding market	3
Financial-return crowdfunding (Investment- & Lending-based crowdfunding) per capita Captures the structure of the crowdfunding market	4
International crowdfunding Platforms operate within the country Proxy for the attractiveness of crowdfunding market	2.7

⁶⁹ The advisory board is composed of industry members from all regions of Europe, representing financial-return crowdfunding and non-financial-return crowdfunding platforms, academia and advisors. Therefore, the weighting can be considered a representative opinion from the crowdfunding industry.

Crowdfunding regulations	
Existing Member States crowdfunding regulation Proxy for crowdfunding reputation	4.4
Crowdfunding (FinTech) Association Proxy for Maturity of crowdfunding Industry	3.7
Existing collaboration between public authorities and crowdfunding	
Number of Collaborations between Public Authority and crowdfunding Proxy for ESIF attractiveness	3.9
Percentage of ESIF (ERDF and CF) spent on Financial Instruments Proxy for MS appetite to use FI as part of ESIF	2.7
Percentage of ESIF (ESF and YEI) spent on Financial Instruments Proxy for MS appetite to use FI as part of ESIF	2.4

The weighting indicates that the four variables with the largest weighting are:

- **Existing Member State regulation:** Highlighting the need identified by the advisory board for a clear regulation of crowdfunding platforms in each Member State.
- **Crowdfunding Country Volume per capita:** Highlighting the fact that crowdfunding volumes need to be seen in context of the size of the population, which for instance allows some countries like the Baltic States to receive higher positions in the ranking due to their above-average crowdfunding volume per capita.
- **Financial-return crowdfunding:** Highlighting the fact that financial-return crowdfunding (investment-based and lending-based crowdfunding) is seen as the best option to combine financial instrument of ESIF with activities of crowdfunding platforms.
- **Number of Collaborations between Public Authorities:** Highlighting the view of the advisory board that existing collaborations can have a positive impact of the willingness of MAs to use financial instruments with crowdfunding.

Following the consultation, the data was collected and the scores calculated following the three points thresholds defined for each variable and multiplied by the weighting attributed. For instance, a number of collaborations between public authorities and crowdfunding platforms exceeding ten scores 3 points, multiplied by the weight 3.9 for a final weighted score of 11.7 points. Based on this process, we calculated the overall score for each MS – with the ones obtaining the highest score being the ones most ready to combine ESIF and crowdfunding.

For the purpose of this analysis, the EU Member States are divided into three groups: **advanced countries** that well-positioned to accelerate their use of ESIF crowdfunding in the 2021-2027 programming period; those **moderately ready**; and those where opportunities to undertake this combination are more **limited** in the short-term.

Table 28: Criteria for the definition of the readiness level

Readiness level	Definition and criteria
Advanced	Weighted score >75
Moderate	Weighted score >50
Limited	Weighted score <50

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