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# The European Dimension of Civic Crowdfunding

The potential of crowdfunding for boosting the economic and social effectiveness of European Structural and Investment Funds

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## EXECUTIVE SUMMARY

The ongoing revision of the cohesion policy offers a unique opportunity for crowdfunding to emerge as a financial instrument within the ESI Funds framework. By its own nature, crowdfunding differs from other financial instruments in terms of citizen engagement, responsiveness to market and societal needs, and transparency, therefore positioning itself as a valuable option to reduce the shortcomings highlighted in the recent Seventh Report on economic, social and territorial cohesion.

Public authorities at the European, national and regional level must work together with crowdfunding platforms in order to explore new match-funding schemes that can increase citizen participation, as well as transparency, visibility and accountability in the management procedures of ESI Funds.

The paper will first provide a general overview of the current situation of both the cohesion policy and the crowdfunding landscape in Europe, and it will then highlight the main foreseen benefits that could derive from matching civic crowdfunding efforts with ESI Funds. The analysis will finally point towards the inclusion of crowdfunding in the text of ESI Funds Regulations, and will encourage the creation of a dedicated working group.

## **ABOUT THE EUROPEAN CROWDFUNDING NETWORK**

The European Crowdfunding Network AISBL (ECN) is a professional network promoting adequate transparency, (self) regulation and governance while offering a combined voice in policy discussion and public opinion building. ECN was formally incorporated as an international not-for-profit organisation in Brussels, Belgium in 2013.

We execute initiatives aimed at innovating, representing, promoting and protecting the European crowdfunding industry as a key aspect of innovation within alternative finance and financial technology. We aim to increase the understanding of the key roles that crowdfunding can play in supporting entrepreneurship of all types and its role in funding the creation and protection jobs, the enrichment of European society, culture and economy, and the protection of our environment.

In that capacity, we help developing professional standards, providing industry research, as well as, professional networking opportunities in order to facilitate interaction between our members and key industry participants. ECN maintains a dialogue with public institutions and stakeholders as well as the media at European, international and national levels.

## **DISCLAIMER**

The information and views set out in this paper are those of the authors and do not necessarily reflect the official opinion of the European Crowdfunding Network. Neither the European Crowdfunding Network nor any person acting on the European Crowdfunding Network's behalf may be held responsible for the use which may be made of the information contained therein.

## TABLE OF CONTENTS

INTRODUCTION .....	5
THE CONTEXT .....	8
The European Union .....	8
Crowdfunding.....	10
BENEFITS OF CIVIC CROWDFUNDING WITHIN THE SCOPE OF STRUCTURAL FUNDS .....	10
Financial Benefits .....	10
Visibility.....	11
Citizen Engagement.....	12
THE WAY FORWARD .....	12
CONCLUSIONS .....	13

## INTRODUCTION

Since the economic and financial crisis hit the European Union almost a decade ago, regional and local authorities have been witnessing an increase in the number of challenges that still affect their territories, while facing a steady reduction in their budgets. The latest findings that have been published in the Seventh Report on economic, social and territorial cohesion highlight that

*unemployment rates remain above the pre-crisis level in a number of areas while too many small and medium-sized enterprises are struggling to adapt to globalisation, digitalisation, green growth and technology change. Even in wealthier regions, poverty and social exclusion are still too high. At the same time, public investment remains low, especially in those countries and regions worst hit by the recent economic and financial crisis, to the point that cohesion funds are a lifeline for many of them.*<sup>1</sup>

The window of opportunity offered by the ongoing revision of the cohesion policy allows for an increased involvement of citizens and highlights the major need for an efficient implementation of financial instruments. In the context of alternative finance, crowdfunding has already established itself as a champion of popularity and democratisation, and the design of sounder and safer options for the coupling of such instrument with European Structural and Investment (ESI) Funds. This must be explored by both the crowdfunding industry and regional and local authorities together.

Positive impacts and benefits deriving from crowdfunding are nowadays well known to an increasing number of stakeholders, ranging from those that have been directly involved in the crowdfunding industry to researchers and analysts, who have been monitoring the development of the sector in the past years. Crowdfunding benefits are primarily appreciated by project holders and supporters of successful campaigns, but they additionally spread in a range of related areas, closer to the broad population, such as: a) citizen empowerment and engagement, b) democratization of finance, c) diffusion of financial literacy

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<sup>1</sup> *Seventh Report on economic, social and territorial cohesion, Highlights*, European Commission, Brussels, p.i, October 2017.

and d) entrepreneurial culture.

The strong local dimension of crowdfunding is one of the many peculiarities of this financial instrument. Together with the recent diffusion of Internet-based solutions affecting citizens' daily activities in a range of fields, crowdfunding can encourage an inclusive "act local, think global" approach in the European Commission's assessment and regulation of the crowdfunding industry. At the same time, the creation of new financing schemes and their combination with traditional funding sources can facilitate the achievement of the ambitious goals set by the European Union not only in the framework of the cohesion policy, but also in other policy areas. In the light of the feedback collected during their 2017 annual convention, the President of the European Association of Economic Development Agencies, Esteban Pelayo asserts that

*"Most of the European Regional Development Agencies (RDAs) are promoting loans, guarantee schemes and venture capital to contribute to financing private investment. Financial instruments are being deployed to contribute to companies' competitiveness. However, there are still numerous challenges. Despite low interest rates private companies are facing important financial needs. Furthermore, from the point of view of RDAs, financial instruments are complex to manage and need continuous updating of the skills of the RDAs' staff. The purpose of this priority line is to help regional development agencies explore possibilities to increase the availability of funds for investments in economic growth."*

Historically serving as a linking mechanism between citizens and national or European governance levels, regional and local authorities are best positioned to foster private investments, address local needs and develop inclusive and democratic financing models. This position might foster positive effects in the implementation of crowdfunding as a **match-funding tool**, which could in turn amplify the impacts produced through – for example – ESI Funds. This approach would perfectly fit the suggestions highlighted in the Seventh Report on economic, social and territorial cohesion, where the European Commission stated that

*"improving public administration can strengthen competitiveness, boost economic growth and increase the impact of investments, including those co-financed by cohesion policy. This is why*

*it is important to continue to modernise public institutions and implement the necessary structural reforms to make them more efficient.*<sup>2</sup>

Cohesion policy is one of the most visible policies among the wide array of initiatives and actions that are funded and managed by the European Union. Designed as a fundamental pillar for a smooth development and a correct functioning of the Single Market, the cohesion policy aims at promoting a process of economic and social convergence between different European regions by providing economic support through the ESI Funds.<sup>3</sup> A feature of paramount importance within the scope of this paper is that all ESI Funds are allocated by the European Commission according to the principle of partnership and of additionality. As a matter of fact, the latter states that European funding shall not entirely substitute the regional spending, but only serve as a co-financing aid to projects that fall within the scope of their priorities.<sup>4</sup> Co-financing rates vary across the different Structural Funds and range from a minimum of 50% to a maximum of 85%, according to priorities, category of region and specific Fund. The remaining percentage of funds must come either from other national or regional public resources or of budgetary restrictions for public authorities, by leveraging on private capitals and investments.<sup>5</sup>

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<sup>2</sup> *Seventh Report on economic, social and territorial cohesion, Highlights*, European Commission, Brussels, p.ix, October 2017.

<sup>3</sup> Article 174 of the Treaty on the Functioning of the European Union (TFEU) provides that, in order to strengthen its economic, social and territorial cohesion, the Union is to aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favored regions or islands, and that particular attention is to be paid to rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps.

<sup>4</sup> REGULATION (EU) No 1303/2013, Part I, Art 87, and Annex I, Common Strategic Framework.

<sup>5</sup> Maximum co-financing rates: ERDF and ESF: between 50 % and 85 % depending on the category of regions (some increases possible according to ESF-specific rules); European territorial cooperation goal: 85 %; Cohesion Fund: 85 %; EMFF: 75 % (some increases possible under certain conditions); EAFRD: between 53 % and 85 % (some increases possible under certain conditions). European Commission, Directorate-General for Regional and Urban Policy, *European Structural and Investment Funds 2014-*

The aim of this paper is to highlight how crowdfunding can be a beneficial match-funding mechanism to be considered among those financial instruments that facilitate the implementation of the European Structural and Investment Funds.

Due to the availability of many diverse models such as donation, reward, lending and equity, crowdfunding can provide the necessary flexibility at the local level. At the same time, a coordinated effort at the European level must be put in place, as to build capacity building and reciprocal understanding between public authorities and the crowdfunding industry, and to generate a standardised reference framework for the implementation of such kind of partnerships in European regions.

## THE CONTEXT

### The European Union

The topic of innovative financial instruments and new options of mixing the available financing sources, have been gradually gaining a prominent role in the agenda of many European regional and local authorities. Therefore, the use of such innovative financial instruments has been steadily encouraged by both the European Commission and the European Parliament.

In defining the priorities that will guide its period in office, the current President of the European Commission Jean Claude Juncker has devoted particular attention to three issues: economic recovery, citizen engagement and participation, and sustainability of economic development.<sup>6</sup> The European Strategic Investment Fund (ESIF) has furtherly called upon regional and local authorities to implement actions that will help economic growth in their territory, stressing the need to leverage on private capitals and match-funding mechanisms that could combine

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*2020: Official Texts and Commentaries*, Publications Office of the European Union, Luxembourg, November 2015

<sup>6</sup> Jean-Claude Juncker A New Start for Europe: My Agenda for Jobs, Growth, Fairness and Democratic Change Political Guidelines for the next European Commission, Opening Statement in the European Parliament Plenary Session, Strasbourg, 15 July 2014

traditional and innovative funding sources. At the same time, the cohesion policy is undergoing its periodical review, which will likely fall in the same footsteps as the ESIF recommendations. In this context, and in line with the view of regional and local authorities as key players in fostering an inclusive and sustainable economic recovery, the European Commission has published a booklet containing guidelines on how to combine ESIF and ESI Funds<sup>7</sup>.

In a recent opinion on the simplification of ESIF, the Committee of the Regions highlighted the relevance of financial instruments in having

*“a direct, concrete and tangible impact on citizens’ quality of life through hundreds of thousands of projects implemented all over Europe and so be capable of improving their overall opinion of the EU at a time when its popularity is declining.”<sup>8</sup>*

The opinion also called for a simplification that would increase the effectiveness and impact of both the Strategic Investment Fund and the Cohesion policy. The aim of a simplification of the access and of the auditing procedures, as well as of the reporting and certification of expenditures, would be that of making the overall process clearer and more transparent for both the managing and the auditing authorities.

This recent trend has also led to the approval of a European Parliament Resolution on the right funding mix for Europe’s regions, which was developed in close cooperation with the Committee of the Regions and included in the framework of the ongoing Cohesion Policy Review. Furthermore, in the same Resolution, the European Parliament

*calls on the Commission to work closely with the EIB, the EIF and managing authorities to combine much more easily ESI Funds microcredit, loans, guarantees, equity and venture capital,*

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<sup>7</sup> European Commission, *European Structural and Investment FUNDS and European Fund for Strategic Investments complementarities, Ensuring coordination, synergies and complementarity*, Brussels, February 2016

<sup>8</sup> Opinion of the European Committee of the Regions — Simplification of ESIF from the perspective of Local and Regional Authorities (2017/C 088/04), Brussels, 21 March 2017.

*while ensuring the same level of transparency, democratic scrutiny, reporting and control.<sup>9</sup>*

## Crowdfunding

In the light of the trends and commitments emerged throughout the years in the framework of the cohesion policy, and even more so in the context of the above-mentioned European Parliament's Resolution, it is not surprising that crowdfunding is regarded as a further option to be included in the existing mix of financial instruments that integrate the resources of the European Union in this policy area. Transparency, democratization of finance, easier access to funds, as well as accountability and control over funded actions are only some of the benefits that this relatively young instrument can offer. Furthermore, the inclusion of regional and local authorities into the overall procedure of raising funds via crowdfunding might help tackle some of the most important barriers that the industry is currently facing at the European level, such as the uncertainty about the legal framework under which crowdfunding is regulated in different Member States, the lack of trust towards internet-based transactions, the lack of financial literacy and knowledge about the functioning mechanisms of crowdfunding, and the generally short-term focus of crowdfunded projects.

These obstacles could be significantly reduced by the development of partnerships between locally-rooted public institutions and crowdfunding platforms, with the support of European – such as ESI – Funds. At the same time, the emergence of standardised procedures for the establishment of the above-mentioned kind of partnerships within the scope of the European Cohesion policy would facilitate the learning process and the execution phase for any actor willing to enter the process at a later stage.

## BENEFITS OF CIVIC CROWDFUNDING WITHIN THE SCOPE OF STRUCTURAL FUNDS

### Financial Benefits

- **Match-funding would provide an additional share of private resources while**

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<sup>9</sup> Resolution on the right funding mix for Europe's regions: balancing financial instruments and grants in EU cohesion policy, European Parliament, Strasbourg Plenary Sitting, 18 May 2017, p. 17.

**maintaining the set of strategic priorities identified by Member States and the European Commission.** Priorities and thematic objectives detailed in the Operational Plans by regional authorities, would allow for a concentration of funding that would continue to fall within the scope of and match the general goals of the cohesion policy.

- **Increased efficiency, effectiveness and transparency in the allocation of ESI Funds,** therefore solving the issues highlighted for the 2007-2013 period.<sup>10</sup> The dynamics enshrined in civic crowdfunding initiatives could offer a viable option for a mitigation of this trend by awarding citizens a primary role in the selection, allocation and implementation procedures of projects co-funded via crowdfunding campaigns.
- **A limitation of mismanagement or delays in the allocation of funding from the European Commission can be achieved,** as the accountability and the reputation of the public authority involved in the civic crowdfunding initiative would be at stake in case of failure.

### Visibility

- The European Union and **the cohesion policy would become more visible,** due to the intense use of communication channels of all kinds that project holders use when deploying and promoting their crowdfunding campaign.
- **Crowdfunding platforms would consolidate their position as a recognised tool** that enables the above-mentioned benefits in all European regions involved, while **ensuring a stable flow of incoming high quality and high impact projects.**
- **The combination of public funds and private resources would also increase the success rate of projects, while citizens' active involvement would ensure the correct implementation of financed projects.**

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<sup>10</sup> Although economic recovery has narrowed disparities between regions, unemployment is still above its pre-crisis level, investments in innovation, skills and infrastructure are insufficient, government efficiency differs greatly between Member States, and national public investment has not yet fully recovered. *Seventh Report on economic, social and territorial cohesion, Highlights*, European Commission, Brussels, p. ix, October 2017

## Citizen Engagement

- **Citizen engagement** would not only be achieved in the punctual activity of contributing to projects or following its implementation. Citizens **would be integrated in the decision-making and allocation of funding procedures**, as they would be able to directly communicate their preferences or perceived priorities in their area.
- **Civic crowdfunding initiatives promote the acquisition and deployment of a set of skills that benefit citizens both in the development of a crowdfunding campaign and in the jobs market at large** in a practical, learning-by-doing approach. This lies at the core of the priorities outlined in two different Structural Funds, namely the European Social Fund and the European Regional Development Fund.<sup>11</sup>
- **A higher degree of involvement and interest by citizens at large** would not only include those that have financially contributed to the crowdfunding campaign for a specific project, but also those that have been following the development of the campaign and might become interested in receiving updates about the implementation.

## THE WAY FORWARD

Leveraging on their close connections to citizens, European regional and local authorities have played a role of immense importance in the process of European development throughout the years, while representing a significant intermediary through which the European Union makes itself visible to Europeans. At the same time, regional and local governments have been called upon as to support the European Commission in achieving its most ambitious objective of promoting even living standards and economic growth across Europe through the funding of several initiatives included within the scope of the cohesion policy and European Structural Funds.

Although the latest developments of the crowdfunding market in the European

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<sup>11</sup> Regional Development Fund specifically addresses the issue of workers' skills under thematic objective 10; The European Social Fund offers an even wider financial coverage in this regard, supporting for additional investment priorities under thematic objective 8.

Union show much promising results, a harmonising intervention of the European Commission in the legal domain is still required<sup>12</sup> if the market wants to reach even more significant volumes.<sup>13</sup> Integrating the flexibility of crowdfunding models into the functioning mechanisms of the European Structural and Investment (ESI) Funds could provide a good window of opportunity for the implementation of match-funding initiatives aimed at funding local projects.

The coupling of private resources collected through crowdfunding campaigns with ESI Funds can be envisioned as an emerging financial scheme in the light of the principle of additionality. Such match-funding option could certainly scale-up to the European level most of the benefits that civic crowdfunding initiatives have already produced in several European local and regional territories.

## CONCLUSIONS

In the light of the above-mentioned challenges and emerging trends witnessed in the domain of regional development, ECN encourages regional and local authorities to engage in exploratory and assessment activities related to the implementation of civic crowdfunding initiatives. These activities will be aimed at determining how to best exploit the unexpressed potential of such financial instrument in combination with regional and European funds.

The most desirable outcome – and ultimate purpose of efforts to come – will be of explicitly including match-funding through civic crowdfunding initiatives in the text of the coming ESI Funds regulations, as to promote the implementation of such new financial scheme and facilitate the widespread diffusion of its benefits in European territories.

In this context, ECN commits to the creation of a Working Group that will aim at providing detailed insight and valuable contributions within the scope of the ongoing discussion about the Cohesion Policy Review. The Working Group will take into account both the regional and local, and the crowdfunding industry's

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<sup>12</sup> *Review of Crowdfunding Regulation 2017, Interpretations of existing regulation concerning crowdfunding in Europe, North America and Israel*, European Crowdfunding Network, Brussels, 2017

<sup>13</sup> The European Commission has recently launched an open consultation that calls upon stakeholders to provide feedback regarding the Inception Impact Assessment for the forthcoming legislative proposal for an EU framework on crowd and peer to peer finance [Ref: Ares(2017)5288649].

perspectives, as to provide guidance and policy recommendations that will favour the establishment of civic crowdfunding as a standardised yet tailored match-funding mechanism across European regions.

Actions of the working group will be aimed at developing proof-of-concept pilot projects in domains such as culture, renewable energies and energy transition, social innovation, according to the commonalities among the Working Group Members' Smart Specialisation Strategies.

In his capacity of European industry association, ECN will coordinate and facilitate the activities of the working group and the reciprocal understanding of the Members, both by providing training on crowdfunding to regional and local authorities and by supporting crowdfunding platforms in growing familiar with ESI Funds mechanisms.

Activities of the Working Group will be structured over a period of two years, running from January 2018 to December 2019.

The first year will be dedicated to assessing the state of the art and to identifying potential areas of intervention. During this period, two live meetings and one interim conference will be organised, as to facilitate and foster the development of one assessment report about current obstacles, one scoping paper identifying most suitable areas in which the match-funding mechanism could be deployed, and one action plan for the second year in each region.

The second year will be devoted to implementation of actions on the ground. ECN will provide capacity building trainings to Public authorities and crowdfunding platforms, so that open calls for projects in previously identified areas can be launched. Such activities will be then reported and evaluated, and included in a final report. The report will present all case studies, highlighting common obstacles and best practices. Such outcomes will be directed to the several European institutions and networks, as to provide them with valuable evidence in support of crowdfunding as a match-funding mechanism in the context of ESI

## Funds.<sup>14</sup>

The long-term objectives of the Working Group will be those of clearly presenting civic crowdfunding as a valuable option for match-funding in the overall framework of ESI Funds, as well as to produce knowledge and best practices around Europe that will facilitate the expansion of such mechanism in more regional and local territories.

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<sup>14</sup> Contact with potentially interested institutions and networks is already established by ECN within the scope of its past and current activity, and additional input will be provided by the Working Group Members.