



## POLICY RECOMMENDATION SUMMARY

# Good Practice Workshop – Theme 7 Creative Industries and Crowdfunding

25 March 2014 – Bratislava, Slovakia

## 1. BACKGROUND

Focusing on the development and implementation of non-grant financial based instruments, the overall aim of the **DIFASS PROGRAMME** is to improve access to finance for innovative SMEs by exchanging good practice on innovative business support measures. DIFASS originates from a previous 2008 Interreg Project where it became clear that non-grant financial support instruments are less likely to succeed on their own and need to be integrated with other non-financial support services to be successful.

Run in conjunction with 26 European Partners the project covers 8 themes – Micro Loans, Internationalisation, Guidance to Finance and Loan Guarantee Schemes, Mixed Grant/Non Grant, Intellectual Property and Human Capital, Spin offs/Start-up/Early stage, **Creative Industries and Crowdfunding**, Jeremie/Mezzanine/Equity/Venture Capital.

## 2. CREATIVE INDUSTRIES AND CROWDFUNDING – OVERVIEW

### ▪ Introduction: Background and Categories

Crowd funding can be defined as a **collective effort of many individuals who join a purpose led network putting in their resources to support business orientated efforts initiated by other people or organisations.**

The availability of applications and services offered by the web and the mobile phone has been a key factor in the growth of the crowd funding industry. Usually done through or with the help of the Internet, individual projects and businesses are financed with small contributions from a large number of individuals, allowing innovators, entrepreneurs and business owners to utilise their social networks to raise capital.

The **funder** normally identifying with the project, is driven by the opportunity to be amongst the first group of people to get the new product or service and play a part in benefiting the community. Profit maximisation is not his priority. Other crowdfunding models may have slightly different motivations.

There are **four basic categories** of crowd funding:

- **Donation**, a gift of funds without any financial or contracted reward of any kind
- **Reward**, a financial purchase for some type of product or service
- **Lending**, a contract of credit, where the credit is repaid with interest
- **Equity**, a shareholding contract to buy shares, equity-like instruments or a share of the revenue arising from the project/business.

▪ **Motivations of Funders/Investors**

People participating in crowd funding are generally motivated by a social return, material return and/or financial return.

– **Social Return**

Funders who are satisfied if the project is launched and achieved; they do not want anything else in return e.g. crowd funding donations for non-profit organisations.

– **Material Return**

Where funders get a product or service as a reward for their investment e.g. pre-sales crowd funding. The project owner can use the funds raised as working capital to create the product or service. The funder may be satisfied with a return which may be a much lower economic value than the original investment and/or may also receive a material return.

– **Financial Return**

Funders who like the concept of crowd funding but also want some financial return, (return on their loan or equity), where the risk is usually diversified between financial and emotional motivations.

▪ **Motivations of Project Owners**

– **To raise funds**

– **To test the market** and get feedback on their product or service before it is released into the market e.g. pricing information, demand, how design might be improved, demographic intelligence and direct views/feedback and advice from potential customers and investors.

– **As a marketing tool.** The opportunity to establish a direct link with potential customers. This link is the first step towards marketing, customer loyalty, participation, and emotional attachment to the product.

– Crowd funding offers a very effective way **to understand if their product or idea has a mass appeal.** A two-month long crowd funding campaign to make this assessment is a relatively fast turnaround for getting an idea off the ground.

– For project owners who experienced a successful crowd funding campaign for their first round of financing, those benefits can be extremely useful for a second round of financing rather than resort to more traditional forms of investment, like venture capital or business angels.

– Project owners who combine different approaches **can fund the whole life-cycle** of a project, product, services or other business innovation.

▪ **How crowd funding platforms work**

Crowd funding is viewed as an outstanding web based example of exponential growth in the collaborative economy. An online crowd funding platform usually serves as an intermediary between the project owner (entrepreneur or individual) and the funder. With a variety of models the relationship depends upon the platform and the business involved. The main features of a simplified scheme are:

- **An online platform** on which project owners who intend to publicise their business idea can submit their applications. Some platforms make a pre-selection of the ideas based on their own criteria, while others automatically publish every idea. Platforms that use pre-selection check

the background of the project owner and do a quick review on the feasibility of the crowd funding plan.

- **Campaign updates** from the project owner who keeps his funders/fans updated about the process on the online platform.
- **Time frames for fund raising.** If the funding goal is reached within the time frame allocated the project owner receives the funds requested. Funders are normally reimbursed if the full amount isn't raised.
- **On-going contact with funders/investors.** Some funders choose to remain involved in the decision-making and overall strategy of the business following their investment, (in some cases receiving voting rights). Communication continues through the online platform in most cases.
- **Costs/fees.** Successful crowd funding campaigns are normally subject to a fee structure; a registration fee plus a legal due diligence fee are common in equity crowd funding with equity participation also included in some schemes. Fee structures vary significantly between business models and countries.

**Raising €1.3 million in just thirteen hours a Dutch wind cooperative is a good example of how crowdfunding works in practice.** With 1700 Dutch households coming together to buy shares in a wind turbine, the project has set a new world record for crowdfunding.

All 6,648 shares in the electricity from the Vesta's V80 2-MW wind turbine located in Culemborg were sold at a share price of €200. Each household bought single shares or blocks of shares, with each share corresponding to an output of around 500 kWh/share per year.

Organised by Windcentrale, a company that facilitates cooperative wind turbine purchases, the crowdfunding scheme enabled more than 6,900 Dutch citizens to buy shares in wind turbines with several thousand more people expressing interest in future purchase options.

In addition to the purchase price, shareholders also pay a fee of €23 per year for turbine maintenance. Homeowners are able to monitor wind speeds and electricity production levels in real time using a smartphone app.

#### ▪ **Crowd funding: Key Data/Evolution**

Key facts presented at the workshop included the following:

- Experiencing rapid growth across all world regions<sup>1</sup> the estimated number of crowd funding platforms worldwide increased from 283 platforms in 2010 to 536 in 2012, (an increase of 89%).
- Crowd funding platforms enabled project owners **to raise \$5.1BN in 2013, 3.4 times more than 2011**, with North America and Europe raising 59% and 35% of worldwide capital in 2012.
- **Reward based crowd funding was the most important and fast growing category** in 2010-2012, representing 43% of the market share.
- **Equity-based crowd funding** raises the highest amount of funds per project.
- **The most active crowd funding category is Social Causes** (30%), followed by Business & Entrepreneurship (17%).
- With data from Donation and Reward categories taken into account, the value of **funds invested are relatively small**. 35% are less than \$2.5K and 63% less than \$5K.

<sup>1</sup> GoGetFunding; Crowd funding statistics and trends, Sekhon 2013



- The average timeframe of Crowd funding campaign is 22/23 weeks. **The launch to completion stage takes the biggest part of the time involved**, 9.1 weeks on average. It takes more time for Donation and Reward (10 weeks approximately) and less for Lending (only 4.8 weeks).
- **Crowd Funding: Platforms Examples**  
With more than 500 plus crowd funding platforms available business owners select the crowd funding platform they consider will best suit their project. Five of the most commonly used sites are Kickstarter, Indiegogo, Crowd Funder, Rocket Hub and Crowdrise.

Further information on the most popular crowd funding websites and different crowd funding models/options used to raise funds is included in **Annex 4**

#### **FURTHER INFORMATION:**

**DIFASS YOU TUBE CHANNEL** Good Practice Overview, Creative Industries and Crowdfunding  
Simeon Karafolas, Scientific Partner: <http://www.youtube.com/user/DIFASSWorkshops>

### **3. OVERVIEW OF WORKSHOP DISCUSSION/KEY LEARNING POINTS**

Aiming to improve access to finance and internationalisation for innovative SMEs, the DIFASS project is tasked with identifying and encouraging take-up of programmes and innovative mechanisms that support businesses. Partners in the programme are looking to establish how the examples of good practice presented and discussed at each workshop can help them develop policies and programmes and support businesses in their own region.

The key issues to be considered when assessing each particular theme and good practice programme include:

- Overall Impact: Are the respective guidance to Creative Industry and Crowdfunding schemes discussed providing the support needed by SMEs? Have the schemes presented improved the current situation?
- Are the programmes presented responding to the difficulties encountered by those SMEs who are unable to access finance?
- Are funds supporting 'innovative' firms? Those firms most likely to contribute to longer term economic growth.
- What, if any, other non-financial support services have been integrated into the programmes to improve the success rate of the businesses involved?
- Has the approach taken helped to influence commercial lenders i.e. banks to overcome their reluctance to help SMEs?
- Are creative industry and crowdfunding schemes sustainable, transferable solutions that can be used to help small businesses?

Creative Industry and Crowdfunding Schemes:

- **InCompass Project**—Bratislava Municipality – Slovakia
- **CrowdAboutNow** —Business Development Friesland – Netherlands



- **How to Boost Crowdfunding for Innovative Businesses**—CEEI Asturias – Spain
- **Raising Business Finance through Online Investments**—Crowdcube/WSX Enterprise – UK
- **Co-Work**—Technology Centre Vorpommern – Germany

**Overall Impact: Are the respective Creative Industry and Crowdfunding schemes discussed providing the support needed by SMEs? Have the schemes presented improved the current situation?**

The DIFASS workshop included a **mix of good practice schemes**; three programmes focused on crowdfunding as a financial instrument and two programmes presented information on business support instruments for the Creatives sector.

CrowdAboutNow and Raising Business Finance through Online Investments (Crowdcube), focused on their own particular crowdfunding schemes, with a third programme, How to Boost Access to Crowdfunding for Innovative Businesses looking at the work CEEI Asturias was doing to raise awareness of this relatively new financial instrument, bridging the gap between SMEs seeking finance and the wide variety of schemes available.

Three of the schemes presented have improved the current situation:

- Relatively new schemes, **CrowdAboutNow**, a loan platform and **Crowdcube** an equity platform have raised < €16M, creating 94 deals, enabling almost 100 businesses to access the private sector finance they may not have been able to secure from other, more traditional financial instruments.
- Although none of the businesses attending the pilot Crowding event secured funds at the time, the **How to Boost Access to Crowdfunding** scheme was successful in raising awareness of crowdfunding as a financial instrument amongst 120 entrepreneurs and key stakeholders; all of whom will go on to promote crowdfunding as an emerging instrument to their own networks and clients, providing an important long term multiplier effect. The event also provided an important learning opportunity for the 25 businesses pitching their idea to crowdfunding partners who can use the feedback to improve their proposition and their approach.

The two creative sector programmes presented had a **business support focus** and are not financial instruments. **InCompass** is a two year strategic **research project aimed at identifying sustainable support mechanisms/innovative commercial practices for the Creatives sector** enabling partners to move away from previous dependence on public funding. The **Co-Work** programme is an operational business support instrument **set up to strengthen and champion the regional Creatives sector** by providing access to bespoke facilities, knowledge transfer opportunities and professional support.

**Are the programmes presented responding to the difficulties encountered by those SMEs who are unable to access finance?**

Providing access to, or information on crowdfunding, (termed **‘the next generation of business investment’** by one presenter), the three crowdfunding schemes have responded to difficulties encountered by SMEs unable to access finance.



Set up and run on a commercial basis, helping entrepreneurs gather investment funds from a large group of smaller investors who together may invest enough funds, loan or equity stakes, to raise the finance they need, the schemes **are providing access to an alternative source of finance for SMEs.**

Providing entrepreneurs with a **new way to raise finance**, the schemes enable access to a **wider investor reach** and an **easier/more cost effective** way to raise funds. Providing a 'win-win' matching service for many of the business and investors involved, like similar schemes, key benefits include:

- No upper or lower limit on how much a start-up can obtain
- The ability for businesses to **raise up to 100% of the investment** needed through the instrument **without the need for personal security**
- Repayment terms, interest rates and/or share options set by the entrepreneur
- Relatively simple application process i.e. to get onto the platform, with access to advice/help and professional support including preparation of information/promotional video for those that need it.
- Also viewed as a relatively quick process for raising funds.

Added value benefits for SMEs include the opportunity for market testing, e.g. through **good quality feedback** from a wider audience and access to a ready-made market, i.e. the investors who may buy the product/service themselves and act as champions. The schemes can also provide free PR; the media like to write articles on successful companies.

Success ratios range from 1 in 5 to 3 in 10 applications making the grade and getting a place on either of the platforms with between a third and half of the start-ups reaching their funding targets. **So like any other form of business finance, the better the proposition and the better prepared the business, the more likely they are to raise finance needed through the platform.**

The programme developed by CEEI Asturias provides the support needed for business to identify and select the best crowdfunding source from amongst the wide range of platforms/options available, matching the right business to the right platform to improve their chance of success. Its collaboration with a variety of crowdfunding platforms is undertaken as **part of a package of global financial support**, providing business initiatives with access to a range of funds. With extensive knowledge/experience of both entrepreneurs and business finance, CEEI act as a 'funding bridge', specialising in helping business overcome obstacles involved in raising early stage finance.

The How to Boost Access to Crowdfunding Scheme is viewed as a good promotion, enabling early stage businesses to raise funds on projects that wouldn't otherwise be funded by other instruments.

Neither the InCompass nor the Co-Work programmes are directly concerned with providing support for SMEs looking to raise finance.

#### **The Fee Structure: CrowdAboutNow - How It Works**

Fees incurred by starts-ups to pitch their idea and source funding on the platform include:

- 1% of the capital requested at the start
- 1% of capital on success/completion plus 0.1% pm for every month of the repayment terms
- €150 paid to Inqubator Leeuwarden to start the promotional campaign, €350 on completion of a successful launch.

For an entrepreneur looking to raise €30K over 20 months this equates to €1200 plus €500 for incubator support, **equal to around 5.6% of the capital.**

With interest paid to investors **this increases to around 9.6 %**, considered **comparable to that charged by other risk capital options, without the need to provide personal security.**

With current bank rates for start-ups c11-13 % and all the cost costs incurred **CrowdAboutNow is considered a cheaper option.**



**Are funds supporting 'innovative' firms? (Those firms most likely to contribute to longer term economic growth).**

Although the two crowdfunding platforms are not aimed specifically at innovative firms, they are both aimed at entrepreneurs. Investors are attracted by the prospect of investing in innovative and interesting businesses which are more likely to raise the funds they need.

The **CrowdAboutNow** platform is open to start-ups in any sector needing a relatively low amount of investment capital. **Crowdcube** is open to all start-ups, businesses and entrepreneurs.

CEEI's Crowdfunding service is, however, aimed mainly at innovative/technology-based companies and spin offs although the programme is also open to entrepreneurs/SMEs from all sectors. The best projects, i.e. those invited to pitch at the events will be selected on the basis of their innovation and potential from amongst applications received.

**What, if any, other non-financial support services have been integrated into the programme to improve the success rate of the businesses involved?**

Like any other form of financial instruments, the better prepared the business the more likely they will be to raise the finance they need. Each scheme provides access to support to help the businesses involved before making their online pitch.

Entrepreneurs making enquiries to the central **CrowdAboutNow** hub are referred to their regional partner, in this case Inqubator Leeuwarden who provide support and guide them through the process for a nominal fee of c€500. Businesses using the platform also gain access to the partner network supporting the scheme to get advice and coaching from business sector experts in their own region.

Businesses also get free advice, feedback and support from **Crowdcube** and can also introduce applicants to external partners if they need someone to create their video, write their business plan and prepare their financial information, (which does incur a cost). Businesses are advised to get their own tax advice.

Businesses selected for the **CEEI Crowdfunding awareness scheme** get the chance for some live, on the spot feedback from their pitch and the follow up face to face meetings with representatives from the crowdfunding platforms attending events. They are also encouraged to access 'CEEI Asturias Financia', an integrated business support package specifically developed to help firms progress through each stage of the start-up phase covering everything from pre-feasibility analysis, to preparation of business plans etc through to investment readiness. **Better preparation of the businesses invited to pitch at events was one of the learning points arising from the pilot.**

**Has the approach taken helped to influence commercial lenders i.e. banks to overcome their reluctance to help SMEs?**

No. There is no evidence to support this and there was no direct involvement from any banks or any other commercial lender in any of the schemes, viewed as providing an alternative to banks.



Crowdfunding schemes do attract interest from angel investors and venture capitalists looking for investment opportunities though, with a large database of potential public and professional (i.e. institutions, business angels etc) investors registered on the Crowdcube platform.

**Are Creative Industry and Crowdfunding schemes sustainable, transferable solutions that can be used to help small businesses?**

**Sustainability**

The growth of crowdfunding schemes, filling the gap in business finance left by more traditional routes is viewed as a significant development for businesses looking to raise investment capital.

**The calibre of ideas and reputation of the crowdfunding platform in publicising good propositions is vital.** Initial applications from start-ups are subject to a first screening to prevent the platform being uploaded with unattractive, unrealistic business plans.

Both the **CrowdAboutNow** and **Crowdcube** schemes have proven to be attractive options for business with good propositions who put in the work to prepare their case on a professional basis, providing a quicker, cheaper option without the need for personal security with access to advice and support available for those that need it.

With many new crowdfunding schemes being set up, on a macro scale, Business Development Friesland anticipates the crowd funding market will go through a 'shake-up' at some point in the future, with stronger players surviving the market.

The **CrowdAboutNow** scheme has brought together a large pool of ordinary private investors i.e. members of the public who can invest from as little as €10 providing start-ups with a good, cheaper and quicker opportunity to raise the investment they need.

With no set up costs incurred by Business Development Friesland, the scheme has also provided them with an opportunity to attract start-ups to their incubators. Since the total amount of investment needed is relatively low and the start-up businesses have little funds of their own, it may be difficult for the platforms official partners to charge /cover their costs (normally €500 for the help & support businesses need).

A commercial enterprise itself, Crowdcube is run by a team of technical 'back office' and advisory staff. With average deals around €217K and largest deal to date of €2.3M, they are viewed as a leading online provider of equity finance in the UK and overseas. Focusing on both **entrepreneur and investor needs** Crowdcube have also attracted a large database of potential public and professional (i.e. institutions, business angels etc) investors, now registered on the platform.

Although businesses were unable to raise the full amount needed **CEEI Crowdfunding awareness pilot event** did raise awareness of crowdfunding as an alternative financial tool amongst a significant stakeholder network and did provide an invaluable learning opportunity for the businesses involved. Financed with European project funds, future events will be funded from the partners own resources, who view the events as a cost effective way of raising awareness and helping businesses access finance.



CEEI is also awaiting the outcome of national policy developments re lack of tax regulation and complex tax management rules that may prevent interest from investors.

Providing sustainable support options for the **Creatives industry** is the primary concern for both the InCompass and Co-Work project. Partners in both projects are **researching and piloting approaches and transferable solutions** that move away from their previous dependence on public funding but provide business support instruments needed by the emerging industries in the Creatives sector.

### **Transferability**

Taking aside the impact of each different regions approach to local tax benefits and tax implications, all three crowdfunding schemes were considered suitable for transfer.

Crowdcube themselves already have plans for **international expansion and ultimately cross border investment** underway, and are actively seeking European partners.

**Transferring the practice to a local level, Business Development Friesland are now in process of setting up a regional crowdfunding platform** for their own residents with local stakeholders. Offering favourable terms to attract and support local businesses, the municipality will offer a final loan equal to 20% of the funding required to those businesses that raise 80% of the funding required through the new online platform.

### **Latest News/Developments – ‘Unleashing the potential of Crowdfunding in the European Union’**

Supporting the emergence of crowdfunding activities and principles of self-regulation and consumer protection the European Commission announced help for Crowdfunding on the 27<sup>th</sup> March. Priorities include establishing an expert group, raising awareness of crowdfunding and mapping/publicising regulatory workshops.

[http://ec.europa.eu/internal\\_market/finances/docs/crowdfunding/140327-communication\\_en.pdf](http://ec.europa.eu/internal_market/finances/docs/crowdfunding/140327-communication_en.pdf)

### ▪ **NEXT STEPS – PARTNER POLICY IMPLEMENTATION PLANS/ APPLICATION OF GOOD PRACTICE**

Each region is to develop its own Policy Implementation Plan, taking into account the lessons learnt from Workshop discussions, the findings from the scientific analysis and the assessment of the pilot implementations, all of which will be used to implement or improve their own policies for supporting SMEs in different themes.

**FURTHER INFORMATION: DIFASS:** <http://www.difass.eu/downloads>

**DIFASS YOU TUBE CHANNEL:** <http://www.youtube.com/user/difassworkshops>

#### 4. DO'S AND DON'TS – TOP TIPS FOR CROWDFUNDING SCHEMES

##### DO

- ✓ If you're setting up your own scheme, **keep it simple.**
- ✓ Encourage entrepreneurs to prepare professional online documentation e.g. financial information/business plan etc and a professional video e.g. 'pitch'. **The better their pitch, the more likely they are to raise the full amount needed to fund their projects.**
- ✓ Screen initial applications to prevent the platform being uploaded with unattractive, unrealistic business plans. **The calibre of ideas and reputation of the crowdfunding platform in publicising good propositions and attracting investors is vital.**
- ✓ **Keep the minimum investment amounts small** e.g. €10. This encourages more browser interest and more investment from lots of smaller investors who provide a ready-made client base and service/product advocates.
- ✓ **Encourage entrepreneurs to make their own investment on the platform;** it demonstrates their own faith, making the project more attractive to external investors. First investments from friends and family also get fund raising off to a good start, encouraging further investors interest.
- ✓ Encourage project owners to choose the right crowdfunding platform for their project. **Projects that the crowd funding audience/investors can relate to and are enthused by are more likely to raise the funds needed.**

##### DON'T

- ✓ **Avoid setting lower/upper limits** on how much start-ups can obtain. The platform will find its own level.
- ✓ **For partners, don't count on recovering on your business support costs** which may be difficult to realise if the total amount of **investment needed is relatively low** and the start-up businesses has little funds of their own. (It may be difficult for platform partners to charge/cover their costs)

## ANNEX 1: CREATIVE INDUSTRIES AND CROWDFUNDING – METHODOLOGY

The initial presentation on the Creative Industries and Crowdfunding theme from the project’s technical partner was followed by presentation and discussion on five areas of good practice:

- GP34 – InCompass Project** - Bratislava Municipality
- GP35 – CrowdAboutNow - Business** Development Friesland
- GP36 – How to Boost Crowdfunding for Innovative Businesses** - CEEI Asturias
- GP37 – Raising Business Finance through Online Investments** - Crowdcube
- GP38 – Co-Work** - Technology Centre Vorpommern

Facilitated using a World Café technique, Q & A round table discussions after each presentation enabled groups to draw out the strengths of the good practice and barriers to transfer.

- What key **strength** makes this Good Practice suitable for transfer? (what might make it attractive to other regions)
- What **barrier** can you see to transferring this good practice? (what might make it less attractive to other regions)

The presenter of the good practice moved around the tables answering any queries and each table was asked to write their key strengths and barriers on sticky notes and add them to a flip chart. Comments were grouped according to a sub-topic and delegates asked to rank and vote for the points raised using voting points.

Feedback on each discussion was then shared with the wider group. This concluded with a vote on the suitability and ease of transfer for each of the good practices and which Good Practice overall, during the day of the Workshop, they were most interested in with results as follows:

GP34 – InCompass Project—Bratislava Municipality	1 vote
GP35 – CrowdAboutNow—Business Development Friesland	17 votes
GP36 – How to boost crowdfunding for innovative businesses—CEEI Asturias	4 votes
GP37 – Raising business finance through online investments—Crowdcube	13 votes
GP38 – Co-work—Technology Centre Vorpommern	0 votes

Good Practice 35, **CrowdAboutNow** was identified as the scheme generating the most interest in terms of taking forward with comments on all the schemes used to inform the policy recommendation paper.

## ANNEX 2: GOOD PRACTICE WORKSHOP DISCUSSION – PARTNER FEEDBACK/COMMENTS

<b>SUITABILITY FOR TRANSFER, OPPORTUNITIES &amp; STRENGTHS:</b> What key strengths make this good practice suitable for transfer?	<b>EASE OF TRANSFER, EASE &amp; CHALLENGES:</b> What <b>BARRIERS</b> can you see to transferring this good practice?
<p><b>GP34 - INCOMPASS PROJECT</b></p> <ul style="list-style-type: none"> <li>▪ Encouraging incubators to become less dependent on public finance and look for other sources.</li> <li>▪ Support in early stage</li> <li>▪ Creative incubators opportunity for cities (city centre alive)</li> <li>▪ Bring all partners together – Planning</li> </ul>	<p><b>GP34 – INCOMPASS PROJECT</b></p> <ul style="list-style-type: none"> <li>▪ Different project, frameworks and regulations.</li> <li>▪ Funding of the network of creative incubators</li> <li>▪ No standardised package (yet) transfer. No effects yet, not consolidated/ready for transfer.</li> <li>▪ Difficult to implement since its and 4Innterreg P</li> </ul>
<p><b>GP35- CROWDABOUTNOW</b></p> <ul style="list-style-type: none"> <li>▪ Investment range from €10, - allows many investors</li> <li>▪ Very flexible for sums raised, 100% financed.</li> <li>▪ Attractive also for investors with little resources</li> <li>▪ Relatively quick process</li> <li>▪ Opportunity for incubators to attract start-ups</li> <li>▪ Work as a one stop shop, helping with Business Plan, coaching provided to be successful in crowdfund raising</li> <li>▪ Platform connected to the incubator system</li> <li>▪ Engagement of public sector. 20% funding from the city.</li> </ul>	<p><b>GP35- CROWDABOUTNOW</b></p> <ul style="list-style-type: none"> <li>▪ Many platforms already exist/around 500+ already</li> <li>▪ Application cost a bit high/not the cheapest financing, relatively costly in cases of failure</li> <li>▪ Legal restrictions in some countries</li> <li>▪ Quality of ‘Dragons’</li> <li>▪ No practical outcomes yet</li> </ul>
<p><b>GP36 – HOW TO BOOST CROWDFUNDING FOR INNOVATIVE BUSINESSES</b></p> <ul style="list-style-type: none"> <li>▪ Great crowdfunding promotion</li> <li>▪ Fairly transferable (no bureaucracy, not expensive)</li> <li>▪ Opportunity to choose appropriate platform for business ideas</li> </ul>	<p><b>GP36 – HOW TO BOOST CROWDFUNDING FOR INNOVATIVE BUSINESSES</b></p> <ul style="list-style-type: none"> <li>▪ Limited number of crowd funding platforms locally</li> <li>▪ In some regions absence of crowdfunding actors</li> </ul>

<p><b>GP37- RAISING BUSINESS FINANCE THROUGH ONLINE INVESTMENTS</b></p> <ul style="list-style-type: none"> <li>▪ <b>Fee depends on success/no fees upon failure</b></li> <li>▪ <b>Real example/real results/real experience. System is validated</b></li> <li>▪ <b>Lots of experience and easy implementation process</b></li> <li>▪ Equity based</li> <li>▪ Government tax incentive</li> </ul>	<p><b>GP37- RAISING BUSINESS FINANCE THROUGH ONLINE INVESTMENTS</b></p> <ul style="list-style-type: none"> <li>▪ Crowdfunding public awareness 'lag' across countries</li> <li>▪ <b>This system is expensive to run. Expensive to apply</b></li> <li>▪ <b>National regulatory framework</b></li> <li>▪ <b>Policy and regulation not clearly established in different countries</b></li> <li>▪ <b>Tax incentives on investment only apply in the UK</b></li> </ul>
<p><b>GP 38 – CO-WORK</b></p> <ul style="list-style-type: none"> <li>▪ <b>Applicable also available in small regions</b></li> <li>▪ Easy to transfer</li> <li>▪ Facilitator of business relations in a creative industry</li> </ul>	<p><b>GP 38 – CO-WORK</b></p> <ul style="list-style-type: none"> <li>▪ Not too much creative industry specifics</li> <li>▪ <b>No financial support for companies</b></li> <li>▪ Not too innovative</li> <li>▪ Availability and access to free office spaces/constraint of a building in city centre</li> </ul>

Comments highlighted in **bold text** indicate the key strengths of most interest/relevance and key barriers of most concern to delegates.

ANNEX 3 – CREATIVE INDUSTRIES AND CROWDFUNDING PROGRAMME SUMMARY

DIFASS PARTNER	GOOD PRACTICE SUMMARY – PROGRAMME, KEY OBJECTIVES AND INNOVATIVE FEATURES AT A GLANCE	POLICY IMPLEMENTATION – KEY POINTS AND RECOMMENDATIONS ARISING FROM THE WORKSHOP
<p><b>Bratislava Municipality</b> Slovakia</p>	<p><b>GP 34 INCOMPASS PROJECT</b> Two year research project aimed at <b>identifying sustainable support mechanisms/innovative commercial practices for the Creatives sector</b>, enabling the 12 partners involved to <b>move away from previous dependence on public funding</b>. (Business support instrument, not a financial instrument). <b>KEY OBJECTIVES:</b> To <b>identify existing, innovative good practice</b> that contribute towards the achievement of <b>financial sustainability, assess/test</b> the transferable nature of good practices between regions for <b>local implementation and adoption into policy and develop practical/realistic implementations plans</b>. <b>INNOVATIVE FEATURES:</b>  <ul style="list-style-type: none"> <li>✓ Research to date has identified practices that <b>really stand out, particularly inspiring or unique</b>.</li> <li>✓ Will provide useful source of practical/sustainable ideas for all European partners.</li> </ul> </p>	<ul style="list-style-type: none"> <li>▪ <b>Encouraging less dependence on public finance.</b></li> <li>▪ Brings all partners together, (planning).</li> <li>▪ <b>No standardised package (yet) to transfer</b>, outcomes not consolidated/ready for transfer.</li> <li>▪ <b>Different EU framework/regulations in partner countries</b> may make it difficult to implement.</li> <li>▪ <b>Not a financial instrument.</b></li> <li>▪ Creative incubators opportunity, keeping city centres ‘alive’.</li> </ul>
<p><b>Business Development</b> <b>Friesland</b> Netherlands</p>	<p><b>GP35 CROWDABOUTNOW</b> Dutch <b>national network/online finance company helping SMEs/entrepreneurs gather investment funds</b> from a large group of smaller investors, who together may invest enough funds to raise the finance they need. Providing a ‘win-win’ matching service for businesses and investors involved. <b>KEY OBJECTIVES:</b> To <b>connect start-up enterprises looking for private and/or public sector investment in their project with potential investors, looking to invest</b> relatively small amounts money in good/interesting projects for an appropriate return. <b>INNOVATIVE FEATURES:</b>  <ul style="list-style-type: none"> <li>✓ No minimum/maximum funding levels for entrepreneurs. Investors can invest as little as €10.</li> <li>✓ Only high quality ideas approved by partners are uploaded onto the platform.</li> <li>✓ Added value includes creation of ready-made client base and company champions/ advocates.</li> <li>✓ <b>Municipality of Leeuwarden now setting up their own regional crowdfunding platform offering favourable terms</b>, (e.g. the offer of a final loan equal to 20% the target funding), to attract and support local businesses.</li> <li>✓ Also identifies a pipeline of clients for the local incubator.</li> </ul> </p>	<ul style="list-style-type: none"> <li>▪ <b>Investments range from €10 – allows many investors.</b></li> <li>▪ Very flexible for sums raised, 100% financed.</li> <li>▪ <b>Many platforms already exist/around 500+ already.</b></li> <li>▪ <b>Application cost a bit high/not the cheapest financing.</b></li> <li>▪ <b>Legal restrictions</b> in some countries.</li> <li>▪ Difficult for Incubator Leeuwarden to <b>charge/recover their business support costs for lower value projects.</b></li> <li>▪ Relatively <b>quick process.</b></li> <li>▪ <b>Opportunity for incubators to attract start-ups.</b></li> <li>▪ Engagement of public sector. <b>20% funding from the city.</b></li> </ul>

<p><b>CEEI Asturias</b> Spain</p>	<p><b>GP36 – HOW TO BOOST CROWDFUNDING FOR INNOVATIVE BUSINESSES</b> Set up to <b>raise awareness and understanding of Crowdfunding</b> as an optional financial instrument amongst the regions businesses, stakeholder and advisory community. Through collaboration with a variety of crowdfunding platforms the service/awareness events are implemented as part of a package of global financial support, providing business initiatives with access to funds. <b>OBJECTIVES: to raise awareness of Crowdfunding as a financial option, improve the financial planning and business modelling capabilities of entrepreneurs and provide the support needed for business to identify and select the best/most appropriate crowdfunding source, thereby facilitating access to financial resources for business projects in Asturias.</b> <b>INNOVATIVE FEATURES:</b>  <ul style="list-style-type: none"> <li>✓ Acts as an independent validator, providing the ‘know-how’ for business projects interested in applying for crowdfunding as part of a package of funding lines.</li> <li>✓ Provides <b>free public forum</b>, bringing carefully <b>selected platforms</b> and businesses together.</li> <li>✓ Events help businesses make sense of crowdfunding options/ select the most appropriate platform for their project. Crowdfunding platforms checked out/screened in advance.</li> </ul> </p>	<ul style="list-style-type: none"> <li>▪ <b>Great crowdfunding promotion</b></li> <li>▪ Opportunity to choose appropriate platform for business ideas</li> <li>▪ <b>Absence of crowdfunding ‘players’/ i.e. platforms in some regions.</b></li> <li>▪ Can work with <b>national schemes</b></li> <li>▪ <b>Current tax regulation and rules may prevent interest from investors</b></li> <li>▪ <b>Fairly transferable</b> (no bureaucracy, not expensive).</li> </ul>
<p><b>Crowdcube / WSX Enterprise</b> UK</p>	<p><b>GP37 – RAISING BUSINESS FINANCE THROUGH ONLINE INVESTMENTS</b> <b>Crowdcube is a ‘new way’ to fund start-ups and business expansion by crowdfunding for equity rather than loans, giving entrepreneurs a platform to connect with people and raise venture capital.</b> Authorised by the Financial Conduct Authority, Crowdcube uses an online platform to attract lots of investors who then select and invest smaller amounts of money into a person, company, product or idea, bypassing the traditional ways of raising venture finance. <b>KEY OBJECTIVES: To provide entrepreneurs with the opportunity to take control of fund raising from their own network of friends, family, customers as well as the public and provide the general public with the opportunity to become armchair ‘Dragon’s’; build their own investment portfolio, and provide them with a chance to support exciting new British businesses.</b> <b>INNOVATIVE FEATURES:</b>  <ul style="list-style-type: none"> <li>✓ Equity rather than loan platform. Investors offered the chance to buy Type A or Type B shares</li> <li>✓ Has attracted a large database of potential public and professional (e.g. institutions, business angels) who have registered on the platform.</li> <li>✓ Provides information on possible UK tax incentives.</li> <li>✓ Plans for international and cross border expansion.</li> </ul> </p>	<ul style="list-style-type: none"> <li>▪ <b>Fee depends on success/no fees upon failure</b></li> <li>▪ <b>Real example/real results/real experience. System is validated</b></li> <li>▪ <b>Lots of experience and easy implementation process</b></li> <li>▪ Equity based, not loans.</li> <li>▪ Crowdfunding public awareness ‘lag’ across countries</li> <li>▪ <b>System is expensive to run. Expensive to apply</b></li> <li>▪ National regulatory framework</li> <li>▪ Policy and regulation not clearly established in different countries</li> <li>▪ Tax incentives on investment only apply in the UK</li> </ul>

<p><b>Technology Centre</b> <b>Vorpommern</b> Germany</p>	<p><b>GP 38 – CO-WORK GREIFSWALD, CREATIVE INDUSTRIES IN GREIFSWALD</b> The Co-Work Greifswald programme is a <b>small business support instrument set up to strengthen and champion the Creatives sector</b> which despite its economic significance attracted little support. With insufficient opportunities for networking, lack of a nationwide approach/support policy and resources/options available for large scale support/project, businesses ‘came up against a brick wall’ for support.</p> <p><b>KEY OBJECTIVES:</b> Launched in response to these challenges, <b>the objectives of the pilot phase were to bring together and strengthen</b> the creative industries in Greifswald, <b>raise the profile of the industry,</b> adopting a collaborative approach to provide marketing and promotional opportunities for the businesses involved and <b>provide knowledge transfer opportunities.</b></p> <p><b>INNOVATIVE FEATURES:</b></p> <ul style="list-style-type: none"> <li>✓ Pay as you go rates. Businesses only pay for the time they spend at the co-working space</li> <li>✓ Creates a focal point and flexible business support model. No waiting times for access to space.</li> <li>✓ Aimed at more innovative aspects of the Creatives sector (not handicraft)</li> <li>✓ Provides support for the 4<sup>th</sup> most important but previously overlooked sector in the economy.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Applicable also available in small regions</b></li> <li>▪ Easy to transfer</li> <li>▪ <b>No financial support for companies</b> (Co-work is a business support instrument)</li> <li>▪ Not too innovative</li> <li>▪ (Subject to) availability and access to free office spaces/constraint of buildings in city centre.</li> <li>▪ Facilitator of business relations in a creative industry</li> </ul>
---	--	---

**FURTHER INFORMATION**

**DIFASS You Tube Channel:** <http://www.youtube.com/user/difassworkshops>

**DIFASS Website:** <http://www.difass.eu>

## ANNEX 4 - CROWD FUNDING PLATFORMS AND CROWDFUNDING BUSINESS MODELS

### 1. CROWD FUNDING – COMMONLY USED FUNDING PLATFORMS

With more than 500 plus crowd funding platforms available business owners select the crowd funding platform they consider will best suit their project. The 5 most commonly used sites are:

- **KICKSTARTER:** One of the first platforms, Kickstarter is modelled on **donation based funding for creative projects**, big and small, from films, games and music to art, design, and technology. 6 million people have pledged \$1B, funding 60,000 creative projects since its launch in 2009.
- **INDIEGOGO:** An international crowdfunding site where anyone can raise money through donation based fundraising campaigns for film, music, art, charity, small businesses, gaming, theatre and the arts. One of the first sites in the crowd funding industry, their international growth has been aided by their flexibility and broad approach.
- **CROWD FUNDER:** A UK crowd funding platform ‘with no project too big or small’ for businesses, tech startups, small businesses and social enterprises that also has a growing social network of prospective investors registered with the scheme.
- **ROCKETHUB:** A platform set up to generate donation-based funding for a wide variety of creative projects. Not an ‘all or nothing’ model, project owners are able to keep the collected funds if the funding target is not reached by the deadline date.
- **CROWDRISE:** A well-known platform for donation based funding for charities/causes providing people with the opportunity to raise money for their/a cause.

### 2. CROWD FUNDING - BUSINESS MODELS

Crowd funding encompasses a range of different business models that can be used to finance different types of projects at different stages of their development. Key models include:

<b>DONATIONS</b>	Donations collected for a specific project. Knowing that their money will be used on a very specific project encourages individual funders to donate higher amounts. Motivated by social concerns these types of donors tend to be more loyal in the long term.
<b>REWARDS</b>	A business model used by project owners who want to collect donations for a specific project and give (often small) non-financial rewards in return. The rewards are of a symbolic value and normally much lower than the original value donated to ensure there is enough money left for the project.
<b>PRE- SALES</b>	An online model used to publicise and test consumer interest in a new product or service. If successful the project owner raises the working capital needed by getting interest buyers to order the goods/services and pay in advance. Replacing traditional market research, this model enables the project owner to validate demand and provide working capital. Funders participating in these crowd funding campaigns do so because they want to buy the product or service. (They’re also rewarded with a discount on the sales price).

<b>LENDING</b>	A model used by a company to borrow money from a group of people instead of a bank. With different variations available, some platforms act as a middle-man and make the repayments to lenders, other platforms act only as match-makers and the borrower and lenders are connected once the target funding is reached the deal is closed.
<b>SOCIAL LENDING</b>	Platforms that provide people with the opportunity to lend funds to social projects with no interest offered, e.g. providing micro finance for businesses in developing countries.
<b>PEER-TO-PEER LENDING</b>	Similar characteristics to crowd funding but providing anonymity for lenders and borrowers. Funders are motivated by a higher financial return with interest-rates based on the risk-factor calculated by the platform or an independent institutions based on financial data and personal securities.
<b>PEER-TO-BUSINESS LENDING</b>	Using a similar model, platforms that provide loans to small and medium sized businesses now/may attract the attention of government funds as co-investment.
<b>EQUITY CROWD FUNDING</b>	A model used when a company wants to attract investment from a group of people instead of funding by a business angel or another private investor. Referred to as equity crowd funding or crowd investing.
<b>HYBRID MODELS</b>	Some platforms experiment with a combined loan/presales model. A percentage of the funding is put into a loan (and repaid with interest) and the other part of the funding used to pre-finance the production of the product or service.

## VARIATIONS

Variations on the above models include:

- **Revenue Sharing**, where funders also receive a return based on the company's future revenues through revenue sharing arrangements e.g. royalty-based financing.
- **In Kind (reward)**, crowd funding schemes that offers the option for a payoff in kind. The exact amount is not always clear at the start of the project and so subject to risk, (normally products or services from the organisation).
- **In Kind (funding)**, crowd funding schemes that offer the investor the option of offering products or services instead of money. In most cases, these are products or services that would otherwise have to be paid for by the project and therefore have a real financial value to the investee. For the funder, the cost of the investment is restricted to opportunity and operating cost.