



CROWDFUNDING FOR ENTERPRISE

(an examination of the crowdfunding landscape in Europe)

CRUCIAL Crowdfunding

CRUCIAL is an ERASMUS+ supported project designed to better inform all the different stakeholders who can potentially benefit from this innovative means of funding business ventures. The project will gather information on the current market conditions regarding the almost exponential growth of Crowdfunding in certain countries and amalgamate this into a pan-European vision of Crowdfunding. This will include all the key areas on both the demand and supply side of this funding mechanism.

The key groups are those seeking financial support, primarily SME's, but including start-ups and social enterprises and on the supply side entrepreneurs looking to support business investment. In addition those support agencies such as Innovation Centres, Cluster managers, and organizations, both public and private that look to support business and economic development, locally, Regionally and Nationally will be able learn more about how to use and promote Crowdfunding.

The main output will be a totally free access learning platform, with on-line knowledge awareness and learning materials, supported locally by direct partner intervention activities to better inform those considering how to benefit from this funding mechanism.

CRUCIAL Partners



Mullingar Employment Action Group
MULLINGAR, IRELAND



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YOUTH IN SCIENCE AND BUSINESS FOUNDATION

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INTRODUCTION

Simply put, crowdfunding is the process of asking the general public for start-up capital for new ventures... entrepreneurs and small business owners can bypass venture capitalists and angel investors entirely and instead pitch ideas straight to everyday internet users, who provide the financial backing' (and at the same time, early validation of the project concepts and the projected scope of target markets).

In total, 510 live platforms were identified as active in the EU on 31 December 2014 (Platforms database, Crowdsufer Ltd.)... 502 EU platforms and 8 non-EU platforms. Platforms with a primary focus in 22 of the 28 EU Member States were identified and projects were identified in every Member State. The UK had the greatest number of live platforms, accounting for 28.0% of the EU total number of platforms, and accounts for approximately 80% of the European alternative finance market.

The Crowdfunding market throughout Europe is diverse and complicated. Some European countries have embraced the industry and have introduced guidelines, and in some cases regulation, to address the minefield of risks and concerns that contribute to the uncertainty on behalf of both investors and investees. However, most EU member states have not yet grasped the nettle, and seem intent to wait for the EU itself to take the lead and introduce a legislative framework.

So, why is crowdfunding so attractive, and why SME's and entrepreneurs should consider it as part of their financing portfolio? Here are some of the main benefits that crowdfunding offers an SME/entrepreneur;

- It can provide access to capital,
- It can help hedge against risks associated with new product launch,
- It can be an excellent marketing tool, and allow you to test elements of your marketing approach,
- It can provide proof of concept, and help you test and prove the popularity of your product,
- It can facilitate crowdsourcing of brainstorming,
- It introduces prospective loyal customers,
- Your backers become part of your marketing team,
- It provides the opportunity of pre-selling,
- Unless equity crowdfunding, no transfer of shareholding or ownership of the business is a consequence of the financing,
- The project may receive unexpected and useful advice, and even tangible offers of assistance,
- If at first you don't succeed, you can try again...

On the flip side, there can be negative consequences associated with crowdfunding, including the following;

- It can be stressful, and requires tireless effort to succeed,
- It is not like a traditional product pitch – the crowd funder must be clear on who is the target consumer, and will require knowledge of consumer marketing, social networks and social marketing techniques,
- It requires a high level of creativity in how you publicize and promote the offering,

- The business / product is immediately in front of the public, and the competitors,
- The project must be sufficiently interesting to a sufficient number of people to have a chance of success,
- Any successful project requires dealing with a large number of stakeholders all with different expectations and demands,
- Projects compete against other projects as well as industry competitors,
- It doesn't always work,
- Even if the project gets funded, it may still but fail for other reasons (legal, moral & reputational consequences)

What should the campaign manager consider before Crowdfunding?

- How good is the idea... really?
- Is there something tangible to offer and to show?
- What value does the idea offer the customer?
- What differentiates the idea, product or service from the rest?
- Can the idea be expressed simply, at the same time get people excited?
- Can the target market/audience be clearly defined and understood?
- Can an attractive menu of rewards to give backers, appropriate to investment scale, be developed?
- Is the funding goal correctly calculated to cover all expenses, including cost to get off the ground, cost of reward fulfilment, payment to the crowdfunding service, taxes, contingencies etc?
- Is a strategy in place to deal with the demands of over-subscription (what if the campaign goes viral?)

Crucial - Crowdfunding Capital

CRUCIAL Crowdfunding is an ERASMUS+ supported project, designed to better inform all the different stakeholders who can potentially benefit from this innovative means of funding business ventures. The project will gather information on the current market conditions regarding the almost exponential growth of Crowdfunding.

The main output from the project will be a totally free access learning platform, with on-line knowledge awareness and learning materials, supported locally by direct partner intervention activities to better inform those considering how to benefit from this funding mechanism. The products are primarily intended to support those seeking financial support, primarily SME's, but including start-ups and social enterprises and on the supply side entrepreneurs looking to support business investment. In addition those support agencies such as Innovation Centres, Cluster managers, and organizations, both public and private that look to support business and economic development, locally, Regionally and Nationally will be able learn more about how to use and promote Crowdfunding.

EXECUTIVE SUMMARY

Crowdfunding has become a major trend in the field of business financing. Established companies as well as small start-ups are using crowdfunding to great effect as a means of accruing capital for their projects, via more than 500 platforms.

Crowdfunding can be very beneficial for both sides. It provides for an alternative method of financing which can be attractive when borrowers struggle to qualify for full funding from traditional sources, such as banks, private equity houses and angel investors. In fact, a crowdfunding campaign can bring with it more than financial support: the project owners can glean feedback, volunteers and the opportunity to profit from public recommendations about how to directly improve the project. Crowd investors on the other hand can invest directly into opportunities that have not previously been available to retail investors.

The Document 'On the Possibility of Crowdfunding in Europe' (Jan 2014) recognises that crowdfunding benefits the EU in a number of different ways, including;

- 'Crowdfunding Is a Bridge to Traditional Sources of Financing'
- 'Crowdfunding Is Social Engagement ... and changes the public opinion of entrepreneurship'
- 'Crowdfunding Creates Jobs and Stimulates Innovation'.

The European Commission Publication 'Unleashing the potential of Crowdfunding in the European Union' (2014) tells us;

'There is great potential in crowdfunding to complement traditional sources of finance and contribute to the financing of the real economy. Crowdfunding has real potential to finance different types of projects, such as innovative, creative and cultural projects, or activities of social entrepreneurs, that have difficulties in accessing other forms of financing.' The Commission recognise the importance of *'Promoting crowdfunding through raising awareness and building confidence'* and recognise that there is *'still a general lack of awareness about crowdfunding in Europe'*. They conclude *'A good understanding of how crowdfunding works, what it can deliver and what the risks might be is also key to establishing trust with both contributors and campaigners'* and *'Sustainable growth in crowdfunding is only possible if users have confidence in it. Running successful crowdfunding campaigns also depends on campaigners having the necessary skills and training'*.

- The EUROPEAN COMMISSION Directorate General Internal Market and Services Financial Markets published research 'Public Consultation on Crowdfunding in the EU' (March 2014) provided the following insight;
- Crowdfunding is cross-border by nature,
- Contributors appreciate choosing projects directly and being involved
- Crowdfunding offers various benefits to users, helps job creation, promotes innovation and entrepreneurship,
- For project owners, crowdfunding reduces dependence on traditional forms of Financing - Project owners perceive little risk in crowdfunding and almost three out of four responding project owners are planning to launch a crowdfunding campaign in the future,

- Sharing national experiences and regulatory best practices on crowdfunding models is supported by around 50% of respondents,
- Awareness raising for all forms of crowdfunding, particularly for equity and lending (49%), but also for other crowdfunding models (40-47%), is supported.

The 'Start-up Europe Crowdfunding Network – Final Report' (May 2014) research asked respondents that had not used crowdfunding so far, what kept them from it. Responses showed that 28% indicated they did not know what crowdfunding platform to choose as the main reason for avoiding this financing option. When asked about how to foster crowdfunding in the EU, respondents believed it is important to spread the knowledge about crowdfunding among entrepreneurs and investors as well as promoting best practices. 50% of respondents deemed organizing workshops and trainings to explain entrepreneurs how crowdfunding works important in order to stimulate the crowdfunding market.

This report examines the crowdfunding industry globally, paying specific heed to the landscape in Europe, before taking a closer look at the specific Countries participating in the CRUCIAL project. The report also looks at the legislative and regulatory situation in the USA and Europe, with an eye on what the future may hold for Crowdfunding.

1 - THE IMPACT OF CROWDFUNDING

By 2016 the crowdfunding industry is on track to account for more funding than venture capital, according to a recent report by Massolution. Regulatory reform, international expansion and cross-border deals have helped boost the industry, as has a tide of investors seeking rewards or equity in return for their cash. North America retained first place last year but its lead is being eroded. Growth is currently in Asia, where there was a 320% increase in funding in 2014, propelling the continent past Europe to become the second-largest crowdfunding region.

Andrea S. Funk, in the publication 'Institutions Influencing the Evolution of Crowdfunding in China: A Review of the World Bank Report on Crowdfunding's Potential for the Developing World', notes that A World Bank 'Report on Crowdfunding recognises huge potential for crowdfunding in developing countries, ascribing China the most promising future. By 2025, Chinese households might invest up to \$50 billion per year in crowdfunding projects'.

In India, according to Neha Punater, (KPMG India), global investment in FinTech ventures tripled to \$12.21 billion in 2015 from \$4.05 billion in 2014 with over 12,000 start-ups emerging globally. "P2P (peer-to-peer) funding, online lending, sourcing and m-wallets were the main areas" said Punater. In 2015 P2P lending emerged as an aggressive breed with close to 20 new online P2P lending companies launched. (As of now, P2P lending is not regulated in India). Crowd funding companies also saw an increase in the number of projects they funded this year, with platforms boasting increase in funded projects by 1000%.

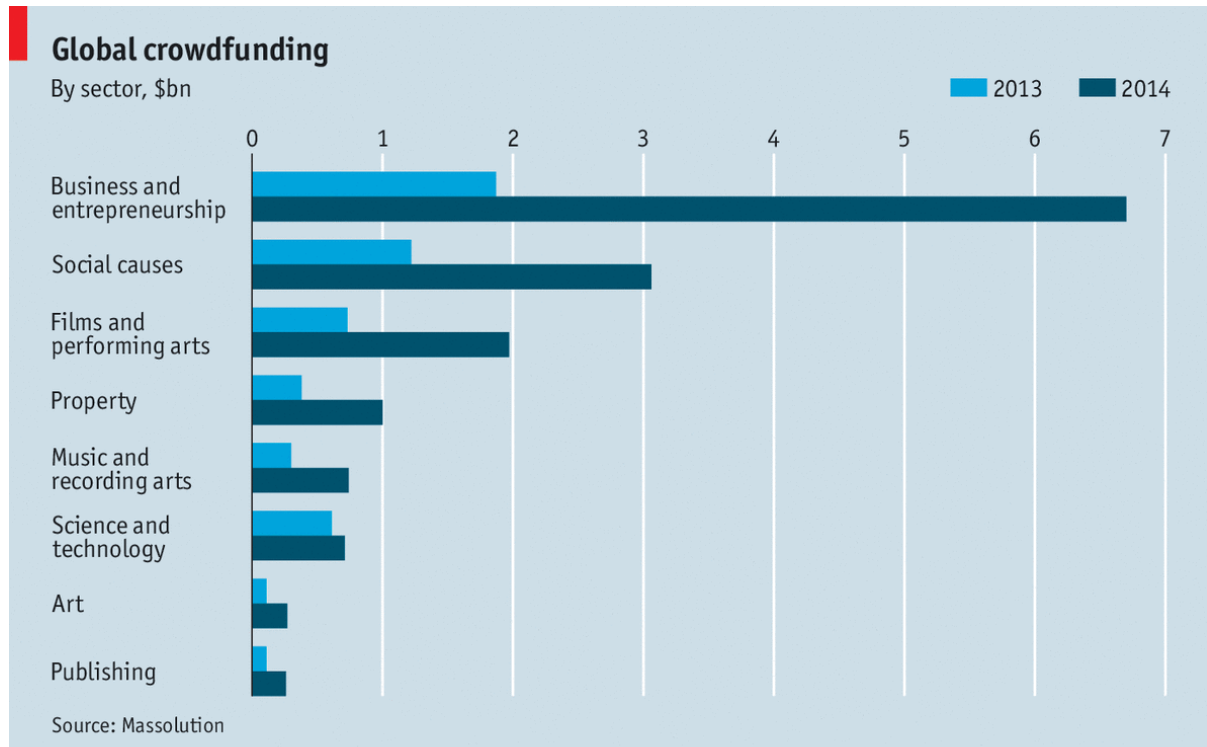
Russia has also followed the crowdfunding path with the emergence of local platforms for raising capital online since 2010. However, the existing barriers to entry for international crowdfunding platforms include; language barriers, local legislation and regulation. Data shows, geography or spatial distance is not a problem. In 'Non-equity Crowdfunding as a National Phenomenon in a Global Industry: The Case of Russia', Evgeny Torkanovskiy concludes that 'activity in this sector in Russia will be very low in the coming 2 or 3 years given the important role of a platform's reputation and the weak alignment of reputation among local and global players'. However, Russia may be seen as a sleeping giant with a significant impact to make to global crowdfunding when it awakens.

On a European scale the UK dominates the European perspective, accounting for about 80% in value of all the deals placed in 2014. The UK recorded €2337M out of a total of €2953M, with the French and German economies only recording €294, about 12% of the UK total. The UK has the highest per capita investment in crowdfunding at €36, with Estonia second at €16.7 and France/Germany about €2.

According to 'Moving Mainstream - The European Alternative Finance Benchmarking Report' (Waldrop Et Al University of Cambridge - Feb 2015) In terms of the alternative finance models, peer-to-peer consumer lending is the largest market segment in Europe, with €274.62m in 2014; reward-based crowdfunding recorded €120.33m, followed by peer-to-peer business lending (€93.1m) and equity-based crowdfunding (€82.56m) (These figures exclude the UK). The average growth rates are also high across Europe: peer-to-peer business lending grew by 272% between 2012 and 2014, reward-based crowdfunding grew by 127%, equity based crowdfunding grew by 116% and peer-to-

peer consumer lending grew by 113% in the same period. Collectively, the European alternative finance market, excluding the UK, is estimated to have provided €385m worth of early-stage, growth and working capital financing to nearly 10,000 European start-ups and SMEs during the last three years, of which €201.43m was funded in 2014 alone. Based on the average growth rates between 2012 and 2014, excluding the UK, the European online alternative finance market is likely to exceed €1,300m in 2015. Including the UK, the overall European alternative industry is on track to grow beyond €7,000m in 2015.

Fig 1: Global Crowdfunding by Sector 2013 - 2014



Economist.com

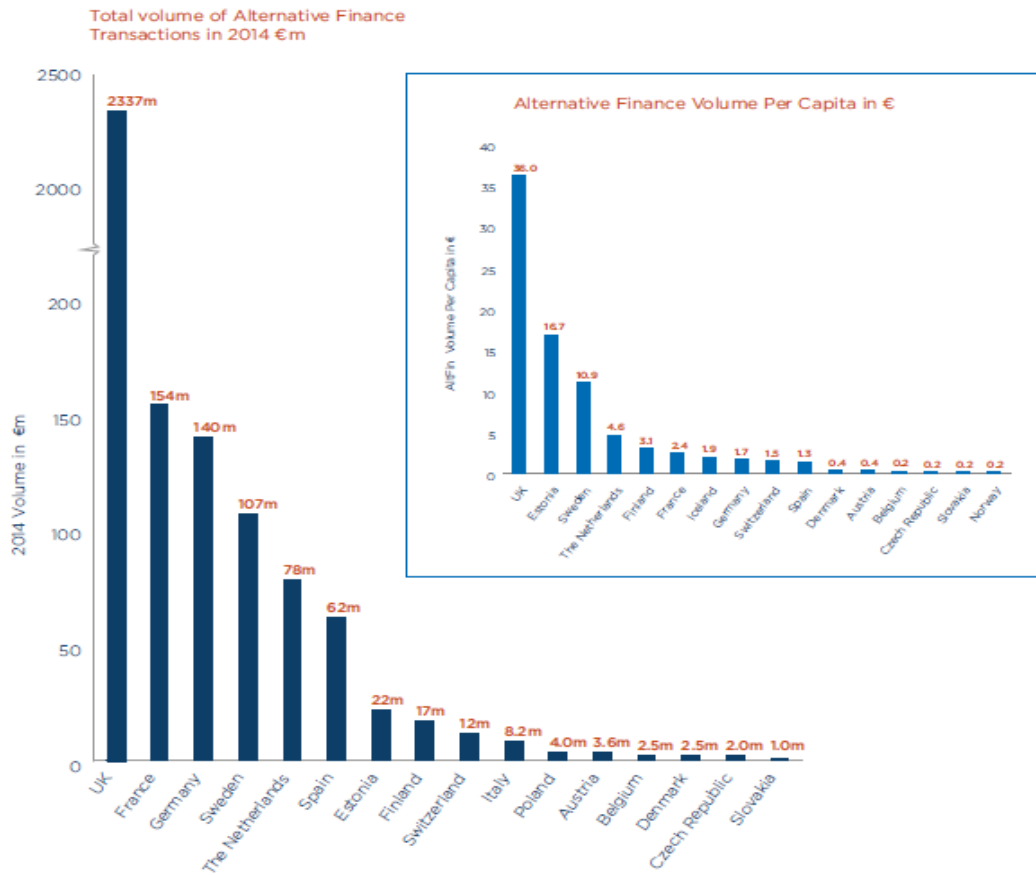
1.1 European Crowdfunding Notable Trends

This following paragraphs draw on the research presented in 'Moving Mainstream - The European Alternative Finance Benchmarking Report' (Waldrop Et Al University of Cambridge - Feb 2015)

The state of the European online alternative finance market is strong. Between 2012 and 2014, the University of Cambridge surveyed 255 platforms in 27 European countries, which facilitated €4,655m worth of funding to European consumers, entrepreneurs, creative artists, SMEs, social enterprises, renewable energy projects, community organisations and good causes.

They found that the overall European alternative finance market, including the UK, grew from €487m in 2012 to €1,211m in 2013 to €2,957m in 2014, with an impressive average yearly growth rate of 146%.

Fig 2: Overview of EU Crowdfunding in 2014

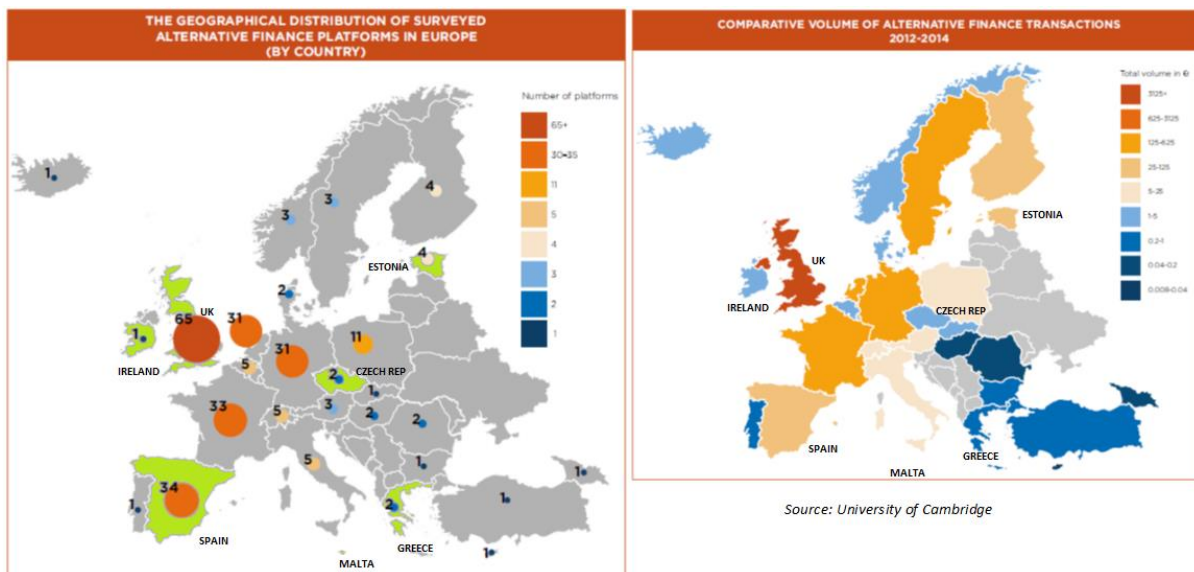


The UK, as an innovative leader in alternative finance, dominates the European market with some of the most advanced online platforms and sophisticated alternative finance instruments.

The UK online platform-based alternative finance industry reached an impressive €2,337m (i.e. £1.78bn7) in 2014 with a 168% year-on-year growth rate. The UK alternative finance sector increased its share of the overall European market from 72% in 2013 to 79% in 2014.

Outside of the UK, however, the alternative finance market is also flourishing, with France, Germany, the Netherlands, Spain and the Nordic countries recording the highest rates of growth. The European online alternative finance market, excluding the UK, grew by 147% from €137m in 2012 to €338m in 2013. In 2014, although the growth rate for the overall market slowed to 83%, the European alternative finance market grew by €282m to reach €620m. The three-year average growth rate for the European market is 115%.

Fig 3: Geographical distribution of Crowdfunding in Europe (2014)



This European benchmarking research largely utilises the working taxonomy that has been constructed and trialled in defining and segmenting the UK alternative finance market in studies carried out by the University of Cambridge and its research partners. When Ernst & Young/Crowdsurfer Ltd. prepared their report, *Crowdfunding: Mapping EU markets and events study* for the EUROPEAN COMMISSION (DOI: 10.2874/37466 ISBN: 978-92-79-46660-1) the total EU market was analysed by platform funding type. They found that active EU platforms operate a diverse range of funding type: 12 categories of funding types were identified, summarised by six broad types, as follows;

- Loan Based Crowdfunding,
- Rewards Based Crowdfunding,
- Equity Based Crowdfunding,
- Donation Based Crowdfunding,
- Invoice Trading,
- Other.

Crowdfunding business models vary significantly, even within a particular funding type, creating this diverse market. There are not only different target markets (for example, consumer loans, SME businesses, infrastructure development), but also the financial risk management differs, for example, on how lenders face potential losses on lending platforms, or how equity investors are protected from potential future dilution

This remainder of this section draws heavily on the above referenced document, ‘*Crowdfunding: Mapping EU markets and events study*’, EUROPEAN COMMISSION DOI: 10.2874/37466. ISBN: 978-92-79-46660-1

Figure 4: Analysis of platforms in the EU

2014						
Platforms	Participating platforms	Projects	Amount	Ave.	Max	Cross-border
#	#	#	€000	€000	€000	€000
114	35	403	104,802	260	6,047	1,767
107	35	106,007	1,126,994	11	4,989	11,158
152	73	14,960	99,445	7	2,555	49,864
93	34	2,579	9,295	4	1,014	1,593
4	1	2,743	207,766	76	1,498	-
32	7	1,650	10,754	7	2,461	-
502	185	128,342	1,559,056	12	6,047	64,381
8	3	n/a	n/a	n/a	n/a	n/a
n/a	n/a	12,176	52,816	4	3,901	52,816
510	188	140,518	1,611,872	11	6,047	117,197
n/a	n/a	14,377	73,960			

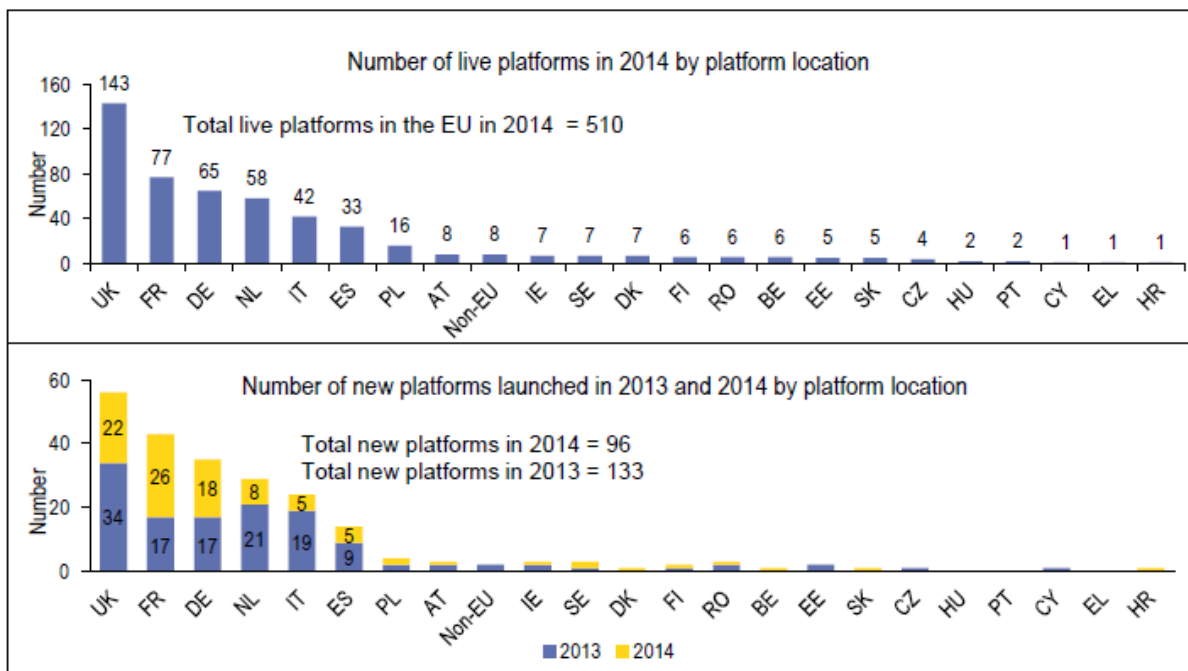
(Source: Platforms database, Projects database, Crowdsurfer Ltd.)

In total, 510 live platforms were identified as active in the EU on 31 December 2014. The total number of platforms at that date rose by 23.2% compared with its level in 2013, with growth in identified platforms slowing from a peak of 74.3% in 2010. The total number of new platform launches fell from 133 in 2013 to 96 in 2014.

Platforms active in the EU by the end of the 2014 comprise 502 EU platforms and eight non-EU platforms. Non-EU based platforms active in the EU are based mainly in the USA, but also platforms from Australia, Canada, China and New Zealand.

Platforms with a primary focus in 22 of the 28 EU Member States were identified and projects were identified in every Member State. The UK has the greatest number of live platforms, accounting for 28.0% of the EU total number of platforms. This was followed by France, Germany, the Netherlands and Italy, which cumulatively accounted for a further 47.5%. Outside of these markets, the number of identified platforms was lower, with eight of the 22 remaining Member States having five platforms or fewer in 2014. France had the greatest number of new platforms launched in 2014.

Figure 5: Analysis of platforms in the EU



When the total EU market was analysed by platform funding type, rewards and equity platforms were the most common, together accounting for over half of all live platforms in 2014. Their share of total platforms has steadily increased from 2009, while the share of donation-based platforms has decreased.

By Member State, the proportions of platforms by funding type were broadly similar across the largest EU markets, with a few exceptions. Italy, in contrast to the UK, had a significantly larger share of rewards and donation platforms and a smaller share of lending platforms. Donations also accounted for a relatively large proportion of platforms in Austria, the Netherlands, and Slovakia.

No equity or loans platforms were identified in six Member States (Croatia, Cyprus, Hungary, and Portugal and CRUCIAL states the Czech Republic and Greece); rewards or donations platforms dominated in these Member States.

The majority of platforms offered a single funding type, with a minority offering more than one type of funding. The most common funding types offered by participating multi-type platforms are rewards, equity and loans.

Analysis of platform activity by Member State is complicated by a number of crowdfunding platforms engaging in cross-border activity, with projects outside of the country in which the platform is predominantly active. 25.4% of platforms have supported successfully funded projects outside their platform location in 2014.

1.2 EU Projects

The Crowdfunding: Mapping EU markets and events study identified 206,908 successfully completed projects in-the 24 months Jan 13 – Dec 14, amounting to €2.3 billion. By analysing the data we can see that the average amount raised across all funding types remained broadly constant at €10,000 to €12,000 per month.

The majority of projects are of smaller sizes, and we can identify that the average project size is €12,000. With that in mind, the charts show a cluster of projects equal to around €120,000 and €180,000 suggesting funding targets are often set at round-sum milestone amounts.

1.3 Projects by Member State

Successful projects were identified in all Member States, indicating that crowdfunding has been adopted as a form of finance throughout the EU. There are, however, significant variances in the levels of activity identified, with activity in some Member States at an extremely nascent level. The figure below summarises activity across 2013 and 2014 by Member State.

There are significant differences in the number of projects (and the corresponding growth rate) between Member States. The summary overleaf of project activity by Member State demonstrates that the UK has by far the largest amount raised and number of projects funded through crowdfunding.

Figure 6: Analysis of successfully completed projects (2013-2014)

Countries	Code	2013		2014		Change		Change*	
		Projects #	Amount €000	Projects #	Amount €000	Projects #	Amount €000	Projects %	Amount %
Austria	AT	92	817	151	2,297	59	1,480	64%	181%
Belgium	BE	27	1,574	42	1,381	15	(193)	56%	-12%
Bulgaria	BG	5	11	15	186	10	175	200%*	1,549%*
Cyprus	CY	-	-	3	2	3	2	n/a	n/a
Czech Republic	CZ	8	92	20	1,511	12	1,419	150%	1,535%*
Germany	DE	1,573	16,608	2,388	36,633	815	20,025	52%	121%
Denmark	DK	131	1,460	350	2,271	219	811	167%	56%
Estonia	EE	2,385	6,715	4,757	11,281	2,372	4,566	99%	68%
Greece	EL	16	191	33	226	17	35	106%	18%
Spain	ES	2,368	7,656	4,572	13,929	2,204	6,272	93%	82%
		184	2,968	1,314	6,489	1,130	3,520		
Finland	FI							614%	119%
France	FR	4,270	21,921	7,511	50,494	3,241	28,574	76%	130%
Croatia	HR	3	0	13	101	10	100	333%*	25,101%*
Hungary	HU	10	10	21	330	11	321	110%	3,351%*
Ireland	IE	25	299	85	2,010	60	1,712	240%*	573%*
Italy	IT	309	2,373	373	4,504	64	2,131	21%	90%
Lithuania	LT	4	100	11	57	7	(43)	175%	-43%
Luxembourg	LU	-	-	5	14	5	14	n/a	n/a
Latvia	LV	2	90	3	48	1	(43)	50%	-47%
Malta	MT	-	-	2	125	2	125	n/a	n/a
Netherlands	NL	903	7,730	1,480	16,204	577	8,473	64%	110%
Poland	PL	844	1,392	2,934	4,111	2,090	2,719	248%*	195%
Portugal	PT	70	241	169	511	99	271	141%	112%
Romania	RO	37	81	57	586	20	505	54%	621%*
Sweden	SE	140	3,324	167	5,058	27	1,734	19%	52%
Slovenia	SI	6	714	10	152	4	(562)	67%	-79%
		55	130	379	936	324	806		
Slovakia	SK							589%*	621%*
United Kingdom	UK	49,045	634,937	101,477	1,397,611	52,432	762,674	107%	120%
EU28	EU28	62,512	711,436	128,342	1,559,056	65,830	847,620	105%	119%
Add non EU									
Non-EU platforms		n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Non-EU projects		3,878	24,962	12,176	52,816	8,298	27,854	214%*	112%
Total		66,390	736,398	140,518	1,611,872	74,128	875,474	112%	119%

(Negative quantities shown in brackets)

* Note that very large percentage increases may be a result of a very low base in 2013

2 - CROWDFUNDING IN CRUCIAL COUNTRIES

To help us understand the crowdfunding market in Europe, it is helpful to consider the wide variations in the market at National level.

Some European countries such as Germany, the Netherlands, Belgium and Finland have addressed the concerns around crowdfunding through guidelines, and many others are considering or have taken regulatory action.

The most notable pieces of regulatory intervention are as follows;

- Italy (26 June 2013) – Regulation of equity crowdfunding by the Commissione Nazionale per le Società e la Borsa (CONSOB) under Regulation 18592,
- UK (1 April 2014) – Regulation of crowdfunding by the Financial Conduct Authority (FCA) under a new dedicated regime,
- France (30 May 2014, applicable from 1 October 2014) – Regulation of crowdfunding and the introduction of two specific regulatory statuses that require registration with ORIAS,
- Spain (25 March, 2015) - Spanish Business Finance Promotions Law (“Ley de Fomento a la Financiación Empresarial”).

However given the pace that the market is developing in the European Union it would be timely for the EU Commission to propose legislation specific to this sector.

To provide some insight into this we again we look towards the CRUCIAL countries and provide a snapshot of the market in each.

Below is an observational overview of the situation in the countries represented on the CRUCIAL partnership.

2.1 Ireland

While there is evidence of success in specific projects, Crowdfunding is still in its infancy in Ireland and plays a very limited role in the financing of business. However it is clear that Crowdfunding has the opportunity to play a significant role for start-ups, existing businesses and one-off projects.

The challenges involved in crowdfunding in Ireland are that it is a relatively new concept and most people setting up a campaign have little or no knowledge about this source of financing. Empirical evidence suggests there is a strong interest in crowdfunding but there is a lack of information out there for people who wish to learn more about it.

There is very little evidence that SME’s across the sectors are taking advantage of Crowdfunding, but of those who are, creative sectors, food and hospitality represented a large proportion of the crowdfunding activity in Ireland.

The most successful projects to be funded on Kickstarter fall under the category of Music, Film & Video and Art. At the time of publication 412 Irish projects have been launched on Kickstarter, 112 of which have so far been successful.

Fundit.ie, established in 2011 as Ireland's first crowdfunding website for creative projects, in its first four and a half years, has successfully hosted approximately 1,200 projects ranging across the creative arts, raising over €3million.

Linked Finance, a platform that supports SMEs all across the country aims to reach a €24million target of finance raised by the end of 2015. The weight of projects appears to lean towards the food & drink, and leisure & hospitality sectors.

Policy and Legal Basis

The development of a Crowdfunding market and the regulation of Crowdfunding in Ireland is at a very early stage. At present there is no legislation or regulation in Ireland which specifically deals with Crowdfunding.

The central Bank of Ireland issued a consumer notice on Crowdfunding in June 2014. Consumers were warned that various protections do not apply to consumers of Crowdfunding. The Central Banks code of conduct does not apply to Crowdfunding platforms and it warns that complaints cannot be made to the Financial Services Ombudsman as they are not regulated firms.

The Central Bank also pointed out that consumers are not offered protection under the Irish Deposit Guarantee Scheme or under an Irish investor compensation scheme.

In June 2014 an Oireachtas report on Access to Finance for Small and Medium Enterprises was published and recommended that state intervention to boost crowdfunding initiatives would be an effective and efficient use of state money and that the UK government backing to crowdfunding should be replicated in Ireland. This would provide a strong support both financially and in terms of legitimising this type of modern funding facility.

In October 2014 the Irish Government published a national policy statement on Entrepreneurship. One of the action points in this document was to undertake a review of new and innovative means of funding including Crowdfunding.

A Legal framework would boost mainstream acceptance and provide certainty to platforms and projects.

2.2 Estonia

There are surprisingly many well-functioning crowdfunding platforms available for campaigners in Estonia, considering the limitations of the base of potential investors. The main players in the market are;

- Hooandja.ee (crowd-sponsoring),
- Investly.eu (crowd-lending, crowd-funding),
- Fundwise.me (crowd-funding),
- Crowdestate.eu (crowd-funding),
- Bondora.ee (crowd-lending).

The annual value of the Estonian crowdfunding market is impossible to ascertain, but a good estimate would be around 10 million euros.

It is certainly true that crowdfunding is a very important source of financing for one-off projects that appeal to the masses, yet would be difficult to finance through more conventional means. For start-ups and existing businesses it is perhaps not so vital and more in the category of "an interesting option".

The biggest flow in Estonia in terms of business sectors for crowdfunding is real-estate. It has become increasingly popular to pool resources to invest in the sort of real-estate that would otherwise be way beyond the reach of ordinary investors. Crowdestate.eu provides a popular platform for just such projects.

As is usual with all innovation, it appeals first to the younger, more educated part of society who is quite familiar with global trends and not afraid to take a leap of faith with new and innovative solutions.

The biggest challenge in the crowdfunding industry – as with any (technological) innovation – is raising awareness of possibilities among the not-so-savvy, so that a larger part of the population would take part in financing crowdfunding projects and reaping the rewards from therein. A wider understanding of the possibilities and risks of crowdfunding would increase the combined annual revenue of crowdfunding platforms, provide innovative businesses with new opportunities for financing and ultimately encourage growth in the economy.

Policy and Legal Basis

While crowdfunding is not an entirely new concept in Estonia there is still the issue that the use of respective online platforms and practices for attracting local and international investors needs to comply with existing regulations, which have not been designed with crowdfunding in mind. Legal entities are established and governed in Estonia in accordance with the Commercial Code. The relevant regulatory framework in Estonia is based on, among others, the Directives on Prospectus, Payment Services, Markets in Financial Instruments (MiFID), Capital Requirements (CRD IV), and Distance Marketing of Financial Services.

The Estonian Financial Supervision Authority (FSA) has not provided any guidelines on crowdfunding. Thus there are no specific legal requirements to be taken into account in seeking financing through crowdfunding. However, campaigners must comply with all general requirements, including those arising from contract and consumer protection laws.

As a side note, The Republic of Estonia is the first country to offer e-Residency — a transnational digital identity available to anyone in the world interested in administering a location-independent business online. E-Residency enables secure and convenient digital services that facilitate credibility and trust online, and may, as an unforeseen consequence, solve a number of problems for current crowdfunding platforms, and therefore provide an additional boost to the industry.

2.3 Czech Republic

There are no official statistics or annual data available on the Czech market, so most information is taken from a study (Crowdfunding Visegrad) made by the Visegrad Group in November 2014. The study was elaborated by 4 organizations from Visegrad Group (“V4” – Czech Republic, Hungary, Poland and Slovakia). The aim of the study was to explore community funding in countries of “V4”. The main relevant findings of the Crowdfunding Visegrad study include the following;

- The sectors most prominent in Crowdfunding are culture & creative projects, activities in social fields and non-profit areas, community projects forming the public space,
- most successful Czech CF campaign to date is the PC game ‘Kingdom Come’ which was run on

Kickstarter,

- Rewards based Crowdfunding is the most popular form in Czech Republic
- The first commercial Crowdfunding platforms appeared in 2011, only one has survived till nowadays (www.nakopni.me)
- Currently Czech Republic has 12 active CF platforms unique to the country, the most successful platforms being 'Hithit' with 65% of the market (successful campaigns 43%); and 'Startovat' with a further 27% of the market
- The first equity-based crowdfunding platform is to be released soon. Fundlift <http://fundlift.cz/> is backed by investment group Rockaway and Roklen

Policy and Legal Basis

There is no government policy or legislative framework to govern the specific term 'crowdfunding' in the Czech Republic. However, the legislative framework does provide for terms such as 'public collection' and 'donation', and it seems that the regulations for crowdfunding will come under such terms until more specific additions to the framework are included.

So far, each aspect of Crowdfunding is governed separately by relevant Acts... i.e. capital gains, income, investment, donations etc.

In general, Crowd-funders must be persons of over the age of 18 years and hold a bank account, otherwise no restrictions appear to apply.

2.4 Greece

Crowdfunding is one way that businesses and entrepreneurs can seek money to startup their businesses, finance a new product, or expand their operations. Raising capital for a startup has traditionally been one of the most difficult parts of getting an idea off the ground, particularly given Greek liquidity crisis of recent years, but new technologies and platforms have given entrepreneurs a variety of new ways to make that happen.

The existing businesses use Crowdfunding for varied reasons. Smaller companies with limited funds have the potential to implement and manage more projects than they could just with their own resources. Another important factor is the feedback they get of campaigns. The market messages make them think about product's viability, new features and improvements and how it should be sold. The sector with most crowdfunding finance is the technological sector. Because of the overall development of technology, investors are turning towards to this direction. Moreover, it seems that investors and backers identify themselves more easily with a new technology business idea than any other ideas.

Policy and Legal Basis

In the absence of specific Government policy and Legislative Framework regarding the function of Crowdfunding, means that Crowdfunding activities under the jurisdiction of Law 3606/2007. This law governs the offering of investment services and transaction of investment activities in Greece in a professional capacity, authorized in principle to investment services firms which are authorized by the Hellenic Capital Market Commission (HCMC), or alternatively in companies providing investment services from other Member States of the European Union.

When a Crowdfunding platform facilitates the offering of securities to the public and / or provides advice to investors about investing in securities, it may be considered that the platform manager provides investment placement services of financial instruments and / or investment advice, which require the HCMC permit.

Law 3401/2005 provides that the public offer of securities in Greece requires the prior publication of a prospectus, which must be approved by the HCMC. There is an exception from the obligation to publish prospectus for offer of securities totalling less than €100,000 within a period of twelve months. This exception might suit those wishing to utilise Crowdfunding platforms for campaigns of moderate value.

2.5 Spain

Within the financial crisis context, crowdfunding as alternative finance source is becoming more and more important in providing new ways of financing. Moreover, crowdfunding in Spain is getting more efficient and specialised, as well as social. Nevertheless, the increasing importance of the social and cultural sectors does not exclude the potential of other type of initiatives more related to start-ups and entrepreneurship oriented projects. Ramos and Gonzalez report on crowdfunding in Spain provides the following data on the crowdfunding expansion and further insights on how crowdfunding practices are helping creators and entrepreneurs to fund their projects and create employment in Spain:

“In 2012 crowdfunding platforms attracted 400 million euros and 2.825 crowdfunding projects. Or: the funds raised by successful projects (5.137,638 EUR) have created around 3.000 direct jobs (crowd-jobs), which represent just 1.61% of the total target budget. In one year (2013), the total target budget has decreased (332.145,063 EUR), however the funds raised by the successful projects have increased (8.526,094 EUR), especially in the Social and Cultural Sector, creating more crowd-jobs (5.635) and improving the success rate (2.57 %) in 2013”.

As a tendency, new platforms specialising in solidarity and cooperation are emerging, for example, in 2013 Microdonaciones, BBVASum, Totsuma, together with new platforms specializing in business and entrepreneurship, including: Inverem, Bihoop, Empredalia, Seedquick nad Arboribus were launched: New platforms have also been launched in sectors of innovation and education: Vorticex, CrowdAngel and Nuuki.

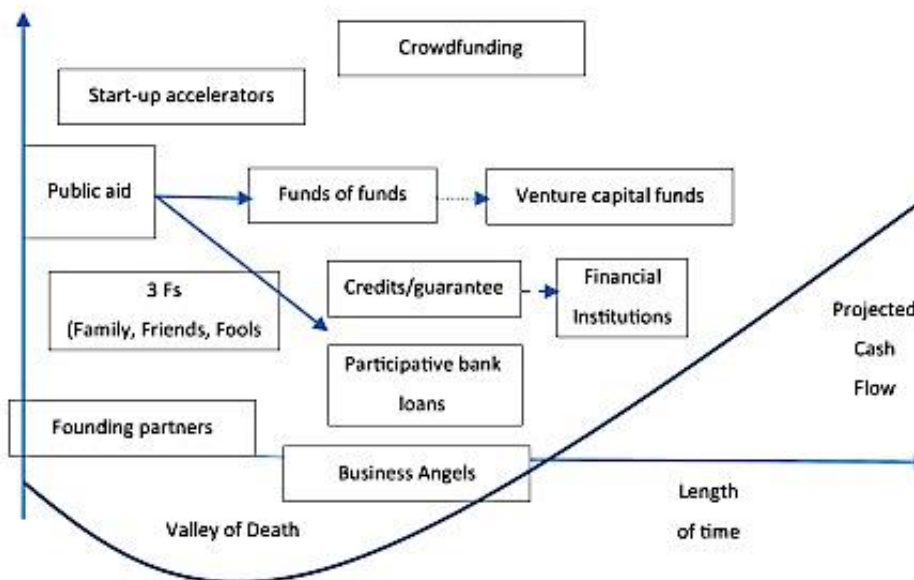
Access to bank financing is among the main barriers that Spanish entrepreneurs encounter nowadays. Taking into consideration that the largest percentage of funds provided comes from financial institutions, the difficulty and necessity to obtain resources and funding is very high and thus, the need for alternative financing instruments and alternatives.

As Ruben J. Cuñat Gimenez puts it forward;

“In Spain there is a combination of both less developed markets and a trend for venture capital funds to be aimed mainly at stable and increasingly more mature companies (private equity), which causes them to be less likely to provide backing for higher risk companies in earlier stages of growth. In this context, the informal segment of business funding sources acquires greater prominence. Such informal investment encompasses the previously mentioned 3Fs, professional investors (Business Angels) and

other funding sources which have not yet been fully developed in Spain and which are subject to regulatory uncertainty". The graphic below summarizes the alternative funding sources, approached by seed and start-up businesses.

Figure 7: Seed and start-up business funding sources, source: Ruben J. Cuñat Gimenez



Policy and Legal Basis

On March 25, 2015, the Spanish Senate approved the Spanish Business Finance Promotions Law that significantly reforms capital formation rules in Spain, particularly in the areas of structured finance and crowdfunding. The law aims at adopting certain reforms in order to allow SME's in Spain to raise capital without having to exclusively rely on banks for credit and strengthen financial and lending institution operations by adopting more stringent suitability and governance rules.

The new regulation provides a specific legal framework for financial crowdfunding platforms and so, protects non-professional investors. The new regulation provides enhanced legal guarantees for equity crowdfunding, but also sets limits on the amount contributed by investors for each project and platform.

The regulation also limits the use of equity and debt crowdfunding to a maximum €2million per project where non-accredited investors are involved, and €5million where only accredited investors are included. Limits on the amount that each non-accredited investor can contribute are also defined.

It is important to distinguish that businesses that engage in donative activities, sell goods or services, or provide interest-free loans are not considered as participatory financing platforms within the framework of the regulation.

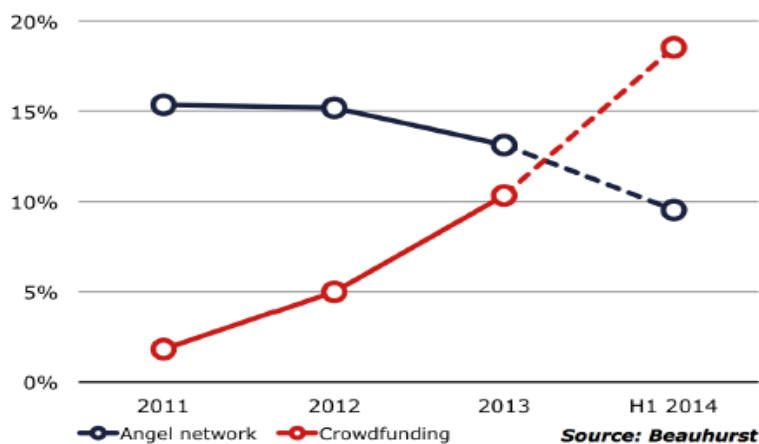
2.6 United Kingdom

The UK is the standout leader in Crowdfunding in Europe and the market predominantly comprises of 2 main areas, Loan-based Crowdfunding and Investment-based Crowdfunding. The most recent trend is towards Equity or investment-based crowdfunding. Having originated in the USA about 10 years

ago, this form of crowdfunding appeared in the UK in 2011. The average amount raised in 2014 approached £200,000 with almost 95% of the funded deals being eligible for potential Tax relief to investors under the EIS or SEIS schemes. Loan-based crowdfunding however is still the dominant part of the UK crowdfunding market, typically being 90% in value on current available data which some variations quoted due to differing methodologies between the Nesta data and the Beauhurst data.

The rise in UK crowdfunding activity is fundamentally affecting the way the alternative finance market operates, with the traditional form of alternative business finance of Venture Capital (VC) and Angel investing starting to be challenged by crowdfunding. These operators are now taking a major interest in crowdfunding and starting to use this as part of their finance portfolio offer. The chart below demonstrates the dramatic climb in the use of crowdfunding but as previously explained some of this rise could be attributed to the traditional alternative finance types becoming incorporated into crowdfunding deals. This hybrid investment model of angel networks and genuine equity platforms is developing very quickly and would appear to be being used to attract both the professional investor and the “armchair” investor, to co-invest together. In addition the market is seeing the development of debt-based “mini-bonds” offering affixed rates of interest and also convertible loans. The ability to develop a clear picture will inevitably become more difficult as more hybrid models of crowdfunding investment are developed.

Figure 8: The rise of Crowdfunding compared to Angel Investment



Many of the Alternative finance deals do not have total public visibility which make accurate data collection and publication of a marketplace that is not totally regulated difficult. Some deals now are an amalgam of what was seen originally as Angel investing or Venture Capital (VC) investment being incorporated into a crowdfunding deal with this form of investment forming an “anchor” investment that encourages others to invest and is being seen as a means of demonstrating financial probity to the investment. The ability to measure the quality of the investment opportunity is now becoming a major factor in determining the success of a crowdfunding campaign with platforms starting to incorporate ratings into their offer, using agencies such as Moody's.

As would possibly be expected the Technology/Intellectual Property sector shows the greatest use of Crowdfunding in the UK at the moment. This includes the many app-based developments that are now being launched daily into the marketplace, some of which have created enormous financial returns for their early investors. The majority of these ventures included a software element to their development.

The Business and Professional Services sector includes crowd funders themselves who have used the marketplace that they have helped to establish to access funding for their own expansion.

Industrials include food and drink processors, with those processing and retailing alcohol, notably breweries being particularly popular, as were those manufacturing artisan-type products and those with improved benefits for the health-conscious sector within the general public

Collectively these three sectors account for over 60% of the number of deals and 60% of the total investment in 2014.

The joint NESTA and University of Cambridge Report “Understanding Alternative Finance. The UK Alternative Finance Industry Report” provides a detailed breakdown of the demographics for both investors within crowdfunding and those seeking crowdfunding investment. The research suggests that the distribution generally follows the UK’s population distribution, with users of alternative finance tending to be older, with almost three quarters of all users being 45 or older, with almost a quarter over 65 years old. Conversely, funders of reward, donation and in particular equity-based crowdfunding tend to be younger than those accessing the finance.

Fig 9: Fundraiser age across the different alternative finance models

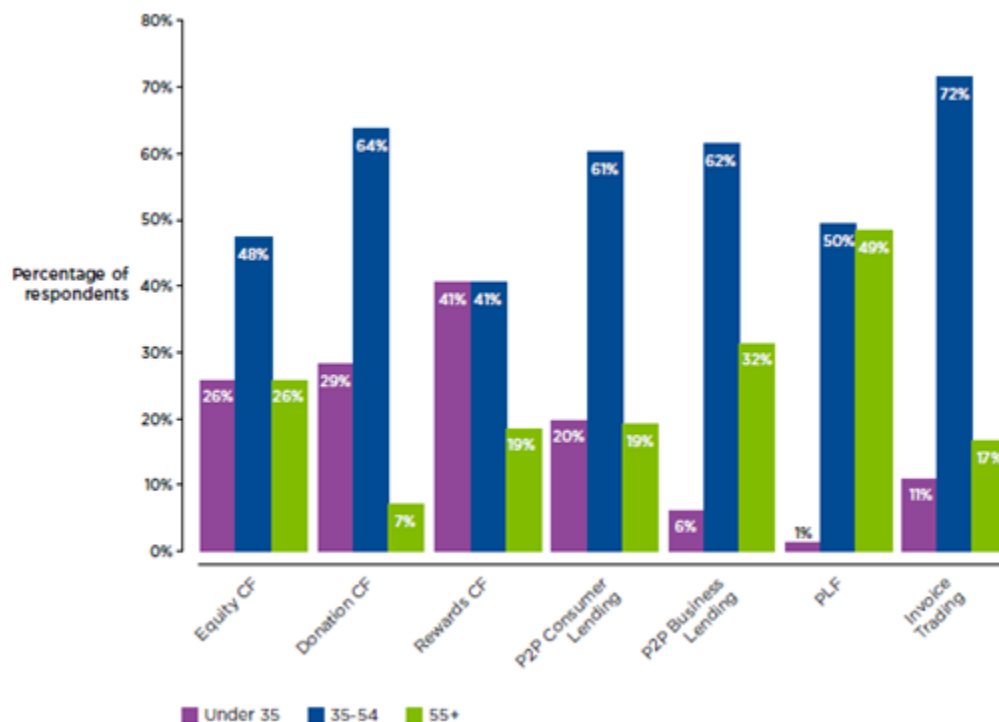
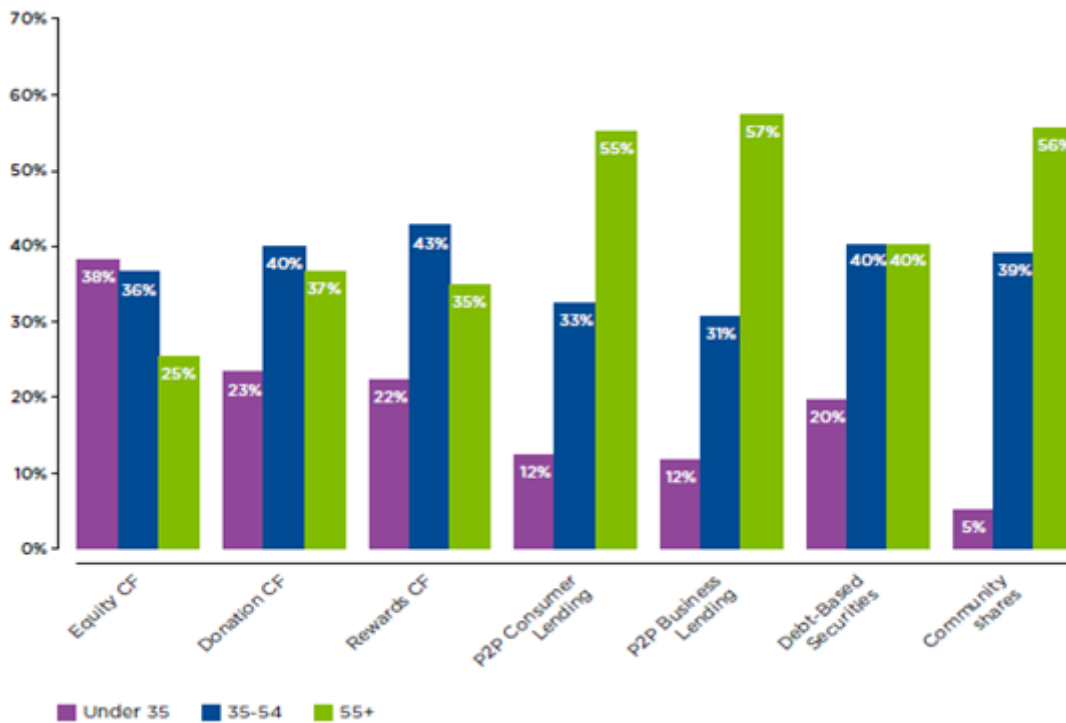


Fig 10: Age of funders across the different alternative finance models



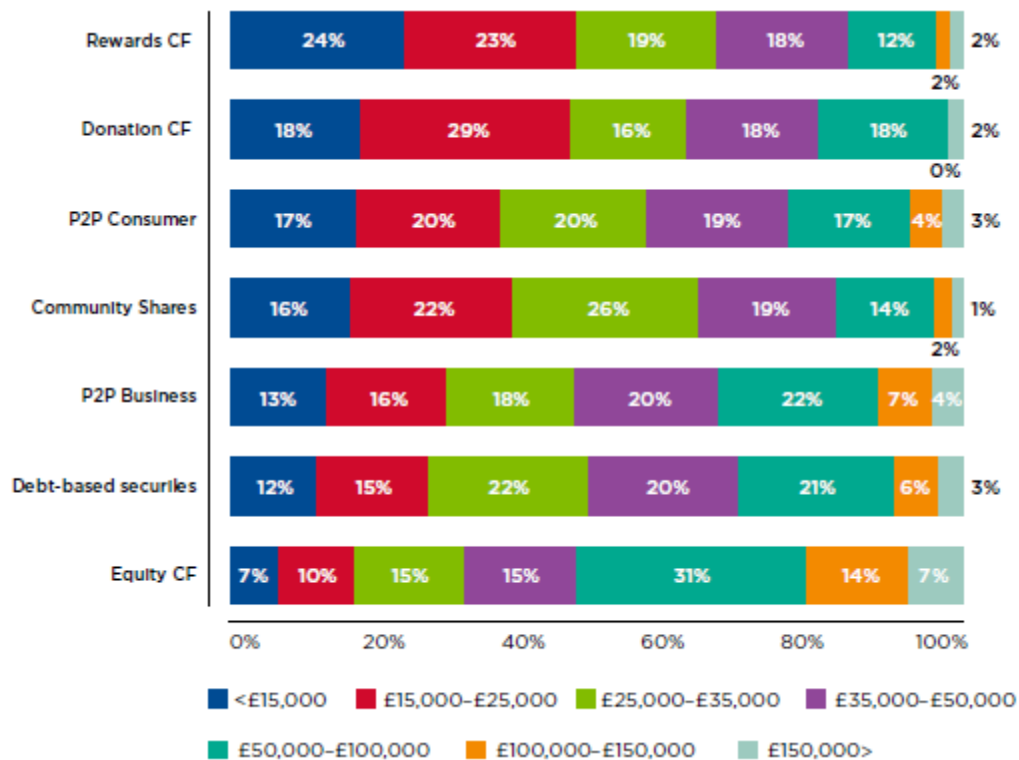
The Nesta charts provides an insight into the gender split within crowdfunding. For Peer-to-Peer and equity-based crowdfunding almost three quarters of the fundraisers are men, yet when one looks at donation and reward-based activities women comprise the majority.

The income distribution of funders and their chosen form of crowdfunding provides an interesting insight into the motives behind their choice of investment. For Peer-to-Peer lending the ability for a fundraiser to achieve a lower rate of interest charged below the norm available on the High street seems a critical factor, coupled with the speed by which his loan can be effected and the ease of use of the funding platform. For those investing in Peer-to-Peer lending there was no evidence that they were particularly affected by backing locally-based businesses or supporting social causes.

Those supporting reward and donation-based lending in general were more motivated by the concept and ideas proposed by the fundraiser.

In general the higher income earners followed the path of interest on their investment whereas those with lower incomes tended to be more altruistic in their outlook.

Fig 11: Annual Income of Funders



Policy and Legal Basis

The UK Government is taking an approach of a free market economy with limited control and intervention operated via the Financial Conduct Authority (FCA). FCA has a Government mandate to implement control mechanisms across the Crowdfunding marketplace that safeguard potential investors to ensure consumers have access to, “clear information... that allows them to assess risk”.

The FCA has set out and is constantly reviewing rules for Crowdfunding activity which apply to platforms under UK jurisdiction only. Control of investor funds is of great importance with UK platforms being required to register and comply with the new regulations from October 1st 2014. The FCA has different regulatory criteria for firms operating loan-based crowdfunding platforms and investment-based crowdfunding platforms, with both requiring a rigorous authorisation process managed by the FCA.

Key factors include;

- Full disclosure of all relevant information to allow potential investors to make informed decisions on whether or not to invest,
- Disclosure of the nature of the shares being offered compared to those already issued,
- Equal disclosure of benefits as well as risks associated with the investment, and equal weighting off all information.

The FCA is concerned that some financial instruments being offered within the Crowdfunding portfolio such as mini-bonds (which offer a fixed interest rate and no equity participation) sit outside of any financial protection scheme and are predominantly classified as unsecured loans.

While the FCA is the legal guardian for the UK Crowdfunding market, it can only legislate and control platforms based within the UK. Many of the investment schemes offering equity participation are

offered within this legislation in the form of Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS). These allow tax relief upon the investment with rules governing applicability and term of shareholding deemed necessary to qualify for claiming relief. Losses incurred within these forms of investments also provide relief to investors. In 2014 almost 95% of the funded deals were eligible for EIS or SEIS schemes.

2.7 Malta

Start-ups based in Malta with global growth aspirations are the ones typically to seek crowdfunding and VC investment. These companies are often also based, through a parent company, in another market such as the UK. Therefore, start-up funding is mostly sought from more mature markets. Local players who have successfully managed to raise funds have relied on international platforms such as Kickstarter.

A sudden increase in interest has been noted especially amongst the art and culture community. Initial interests on starting social entrepreneurship projects are starting to emerge. However crowdfunding at this level is still at the early developmental stages.

Desk research carried out suggests that the most successful campaigns revolve around games (e.g. board games, card games) and artistic projects (such as comics and photography projects). However, examples of unsuccessful ventures in these sectors were also uncovered.

There is an insufficient pool of crowdfunding attempts to make significant inferences on factors determining success or otherwise. However, considering the high over-funding rates for MightyBox's and LudiCreations' campaigns, it would appear that there is a strong pool of backers for innovative (offline) game concepts.

There are at present no Malta-based crowdfunding platforms, albeit progress in this respect is expected in 2015/2016, as the launch of a new platform (ZAAR.com.mt) is in the pipeline.

Regardless, attempts by Malta-based start-ups on foreign platforms (such as Kickstarter and Indiegogo) indicate that the absence of local platforms is not necessarily a hindrance to seek crowdfunding.

Given the current circumstances, only potential challenges are listed below;

- Legal uncertainty: The ambiguous legal and regulatory circumstances surrounding investment in crowdfunding campaigns could prove challenging to both prospective campaign managers and investors alike,
- Know-how: It does not appear that Malta enjoys a substantial pool of 'crowdfunding experts' that would support campaign managers before and during their campaigns to ensure successful funding. This could limit overall success of crowdfunding in Malta,
- Small Projects: Small projects on local crowdfunding platforms run the risk of attracting limited interest and/or the risk of being non-scalable. This could undermine the success rate of such campaigns and potentially the general attraction of crowdfunding as a concept,
- Diseconomies of Scale: Given Malta's smallness, diseconomies of scale could undermine local platforms' attempts at reaching a critical mass of CF projects.

Policy and Legal Basis

Despite general public interest in crowdfunding and some ad hoc initiatives aimed at promoting crowdfunding activity, there appears to be no specific initiative for a dedicated legislative framework. The main legal provisions relevant to crowdfunding include general financial and investment regulations such as;

- Income Tax Act (1949),
- Value Added Tax Act (1999),
- Financial Institutions Act (1994),
- Investment Services Act (1994).

Some pending policy initiatives relating to the sector include the following;

- Seed Investment Programme – This initiative offers tax credits matching investment in start-ups up to a maximum of €250,000 per year, and is due to be launched in Q4 2015,
- Budget 2016 proposal to provide support for companies pursuing crowdfunding strategies.

3 - CRUCIAL SURVEY

To supplement the research above, and to help focus the development of the CRUCIAL Crowdfunding solution, a survey of the project target audience was conducted by the partners across all CRUCIAL partner countries. The main points of note for the development team include the following:

3.1 Crowdfunding General Awareness

- 86% of respondents are interested in crowdfunding (43% stating that they are 'very interested),
- Recognition (and knowledge) of specific crowdfunding terminology is reasonably high among the target group. However levels of recognition in general terminology is significantly higher than specific industry jargon and investment terms. Details of the terms and levels of reported knowledge is presented below;

Crowdfunding	90%
Intellectual property	63%
Seed capital	63%
Return on investment	62%
Venture capital	60%
Credit score	59%
Crowdfunding campaign	56%
Crowdsourcing	53%
Funding portal	52%
Due diligence	49%
Capital gains	49%
Donation based crowdfunding	48%
Peer to peer lending	45%
Equity based crowdfunding	40%
Loan based crowdfunding	37%
ESCROW	36%
Royalty based crowdfunding	30%
Stretch goals	28%
Pre-money valuation	27%
Post-money valuation	25%

- In terms of Crowdfunding Platforms, Kickstarter appears to be ubiquitous within the industry, with Indiegogo following up in second place. Levels of knowledge of other platforms is surprisingly low in comparison;

Kickstarter	90%
Indiegogo	53%
CrowdCube	26%
Seedrs	19%

RocketHub	19%
Funding Circle	11%
FundedByMe	10%
Others	8%
FundAnything	8%
Gotoe	8%
Patreon	7%
Ulule	6%
FunderHut	4%
Tilt	2%
Companisto	1%

3.2 Crowd Investing

- Of our sample group, 67.6% said that they have never crowd invested, and had no immediate plans to do so. Lack of knowledge was cited in most cases as the reason. 25% of respondents have invested, and a further 7.3% are currently considering an investment,
- For those who have invested, Kickstarter is the runaway favoured platform,
- Investors found the investment projects as follows;

Referred by a friend/colleague	42%
Social media	35%
Internet browse/search	33%
Specific Crowdfunding site	33%
Other	4%

- Investment levels recorded by our survey group was relatively low, with significant majority of investments pledged falling below the €100 mark.

Up to €49	57%
€50 - €99	35%
€100 - €499	13%
€500 - €999	4%
More than €1,000	13%

- None of our respondents reported a negative crowd investing experience, and none said that they would not recommend it to a friend.

3.3 Raising Finance

- 14% of our respondents said that they would not consider crowdfunding as an option to raise finance, while 86% are positively disposed to the possibility. (15% have already tried to raise crowd finance, or are in the process of considering it),
- Over 55% of respondents are not confident that they could run a successful crowdfunding campaign at the moment, and would need more information/training before attempting to do so.

4 - THE FUTURE OF CROWDFUNDING

4.1 The Evolution of Crowdfunding

Crowdfunding is constantly evolving, and at a pace that legislators are struggling to keep up with. Equity-based crowdfunding (crowdinvesting) has been discussed by U.S. legal scholars since 2009. This discussion was triggered by questions of the legality of some crowdfunding. The legal issues, combined with the tremendous speed of growth of crowdfunding and the by the economic crisis, led to a legislative proposal to increase access to capital for new and small ventures in 2012. The main objective of the JOBS (Jumpstart Our Business Start-up's) Act was to make it easier and cheaper for new and small companies to raise equity capital. Although the JOBS Act came into force in 2012, the market waited until October 30, 2015 for the SEC to adopt the final rules and allowing issuers to sell securities to the public under certain circumstances without registering such securities with the SEC. The rules will be effective in late April 2016.

Title III of the JOBS Act, called the CROWDFUND (Capital Raising Online While Deterring Fraud and Unethical Non-Disclosure) Act determines the rules and requirements for issuers of equity, investors and platforms. Until now, in order to invest in a private business, investors had to be qualified intuitional buyers, accredited investors, or limited in number (35 total) or within the confines of a particular state. Now within the parameters set forth by the SEC, companies can seek financing from ordinary individuals without subjecting themselves to the public registration process.

4.2 The Impact of Title III

Companies raising money under Title III will find themselves with hundreds of investors, and without a method to manage them. Shareholder management after the fact will be key. Companies that properly manage and communicate with their shareholders pre, during, and post campaign will be well poised for success if they apply the basic principles of marketing, communications and customer service to their shareholders.

For equity crowdfunding portals, this means that due diligence is even more important. The consequences of failure are high, both in terms of reputational damage, and people affected. There is the risk that Title III crowdfunding will attract only the worst or most risky investment opportunities that can't access the Title II or other private capital markets.

Another risk to be considered is that of the lack of a transparent secondary market for crowdfunding securities. The securities offered pursuant to the new rules will be freely tradeable after one year, however due to the potential lack of publicly available information and marketplaces, the secondary sales may be made without adequate price discovery and execution. This too, is a valid concern and something that the industry and the SEC will no doubt work to overcome.

4.3 Applicable European Securities Laws

According to the EU Prospectus Directive, a prospectus must be published when an offer of securities is made to the public within the European Economic Area (EEA). Equity Crowdfunding offerings are publicly promoted and therefore offerings made via a crowdfunding platform would typically fall within the scope of the definition of securities in the Prospectus Directive if it exceeds a value of €5,000,000. The Prospectus Directive also contains a number of exemptions which apply to securities

offerings irrespective of the €5,000,000 threshold. Under these exemptions, no EEA-Member State may require a prospectus to be prepared for offerings of less than €100,000. For offerings between €100,000 and €5,000,000 the choice is left to the individual Member States.

It is important to note that the company offering its shares must comply not only with the regulations of its home Member State, where it is established, but also with the prospectus requirements of the host Member State where the shares are being offered to the public.

Thus, structuring an Equity crowdfunding campaign that runs across the EEA can be quite complex, depriving start-ups from raising funds on a cross-border basis.

An additional layer of limitations in Europe that may apply to public offerings derives from national company laws. Start-ups usually opt for “cheap” company regimes, which effectively are closely held company types. Closely held company types in various Member States in Europe impose cumbersome limitations on offering equity to potentially large numbers of investors in a crowdfunding campaign. These limitations may either be derived from public offering limitations or substantial formalities imposed upon equity raising and share issues.

- Public offering limitations - Many Member States, including the UK, prohibit private limited companies in their national company laws from making public offers. Businesses established as a private limited company might for that reason not be able to benefit from the ‘public offering’ opportunity of Equity Crowdfunding.
- Formalities - A similar problem arises when national company laws impose substantial formalities on private limited companies in the case of equity raises and share issues, e.g. notarised shareholder resolutions/subscriptions, or votes requiring qualified majorities. In many cases, closely held companies are thus unsuitable for equity crowdfunding.

4.4 Crowdfunding Platforms under European Securities Laws

Platforms also face important legal restrictions in promoting crowdfunding campaigns. To deal with these, crowdfunding platforms for company funding either try to “engineer” a transaction model around the legal barriers, or they organise themselves as an “eBay” business model (De Buysere et al., 2012). Each model has its own limitations or regulatory uncertainties.

- Transaction model - Platforms using the transaction-engineered model usually offer their investors investment-type contracts. After a crowdfunding campaign has been successfully conducted, the intermediary entity may either continue to act as the owner of the equity stakes in the crowdfunding campaigns/ businesses, or they may distribute the stakes among the investors.
- E-Bay model – Platforms provide only the technical means for potential investors and investees can get in contact with each other. Therefore, the platform operator itself does not constitute a party in the equity raise that may ultimately result.

4.5 EU Tax Decision on Crowdfunding VAT

Also in 2015, the European Union made a decision regarding the Value Added Tax (VAT) on crowdfunding activities, concluding that VAT should be due on reward-based crowdfunding projects. While not legally binding on member states, the conclusions of the EU VAT Committee

are generally followed by national tax authorities. So soon, at least in government terms, this could be law in some, most, or all, EU member states.

What this means is that those who provide goods or services as part of a crowdfunding campaign you will need to include VAT in the reward cost. While equity crowdfunding falls somewhat outside the scope of the decision, it will have a big impact on pre-sales and reward based models.

Already burdened by variable shipping costs, platform fees and taxes, project creators suddenly become liable for the collection of taxes for foreign governments (at rates circa 20%).

While it might not mean the demise of crowdfunding inside the EU, it will discourage project creators, and make the economics of reward-based crowdfunding far less attractive. This is bad enough if you're based inside the EU, but the implications for campaigns that cross borders add even more levels of VAT complications to the existing burden on import taxes.

4.6 Future Regulation in the EU

Crowdfunding, by definition, improves capital formation, but investor protection remains an issue, so regulation of the industry needs to be based upon the balancing of these two conflicting goals: fostering capital formation and investor protection (Bradford, 2012; Meredith, 2011; Pope, 2011).

A first set of potential problems relates to the relationship between the investor and the investee. Information asymmetries exist in crowdfunding projects. Investing in SMEs is very risky. Crowdfunding platforms make it possible for relatively unsophisticated investors to invest in ventures facing high liquidity and business failure risk, in addition to risks of fraud and self-dealing (Dent, 1992). Crowdfunding platforms are typically not able to resolve these problems. Issuers themselves usually provide very limited information and crowdfunding portals conduct very limited due diligence in picking the investment project.

Given the problems with limited investor information, voting and exit rights, some countries have introduced restrictions on the offerings or on the companies making the offerings. By taking this approach, all these countries look to minimising investor losses without destroying its utility to entrepreneurs raising capital. There is, however, limited consistency in the legal measures applied to reach this goal.

Most investors involved in crowdfunding are unsophisticated so it is incumbent on the regulators to insure public offerings have to be accompanied with "sufficient information on factors that may have a material effect on the value of the shares". Bearing in mind the huge diversification in crowd funders, and backers, the level of the disclosure obligation should be in proportion to the issuers scale, level of financing sought, and capacity to comply, as well as the target group's investment experience, investors' knowledge of the securities.

A second set of problems applies to the relationship between the investors and the platforms. Most platforms are remunerated based upon successful crowdfunding campaigns. These fees are independent of the eventual success of the investment or the business venture, meaning, in theory at least, platforms are incentivised to offer a high number of ventures to the market. In some cases an intermediary may even play a dual role, operating a co-investment model, whereby a VC fund completes investment rounds or provides funding in the form of seed capital picking the better investment opportunities than the investors participating through its platform.

Many countries who have regulated the industry limit the total amount of the offering and the total amount that each individual investor may invest (often depending on the category of investor), as well as in some cases placing caps per project.

The cap per investor/participation can take into account the relative wealth of the investor, and/or between sophisticated and unsophisticated investors. Self-certification provides a mechanism for collecting information regarding the wealth and financial knowledge of individual investors.

4.7 A Pan-European Legislative Proposal

Various legal initiatives have been initiated in Europe to foster crowdfunding and close the liquidity gap for SMEs. Following the development of various differing legal initiatives in Europe, including in Finland, France, Germany, Italy, Spain, and the UK, the result is a regulatory landscape that is fragmented. This fragmentation along national lines poses challenges for platforms, entrepreneurs and investors. Only harmonisation on the European level may overcome these problems.

In their document, 'The Perfect Regulation of Crowdfunding: What Should the European Regulator Do?', Sebastiaan N. Hooghiemstra and Kristof de Buysere propose a legislative framework for the EU. The proposal seeks to reduce barriers on the European level concerning crowdfunding offerings by introducing a pan-European basis, a combination of;

- Self-certification – e.g. All investors would be required to fill out some questions giving evidence that they understand the risks of equity investments and that their personal estate will not be compromised.
- A cap for investors/offerings – set caps on investment per project / per year appropriate to the category of investor
- Min. disclosure requirements – e.g. For Prospectus Directive exempt offerings between €1,000,000 and €5,000,000, the introduction of a key information document could be considered.

Other legislation harmonisation proposals include;

- Light Company Law Structures - Introducing a special business form on the European level that applies to crowdfunding to fully utilise the potential of cross-border European crowdfunding offerings. SMEs typically choose relatively “cheap” private limited company regimes. However, by choosing such a private limited company they unintentionally run counter to limitations in various Member States when publicly offering crowdfunding campaigns to investors.
- Restrictions on Crowdfunding Sites - Introducing a special regulation for equity crowdfunding platforms addressing the following issues;
 - Licensing/Registration Requirements
 - Organisational requirements for equity crowdfunding platforms.
- Cross-Border Dimension for (Equity) Crowdfunding Platforms - Such a European passport would only require crowdfunding platforms to obtain one single authorisation/registration from any competent authority to be able to offer their services on a cross-border basis throughout the EEA.

4.8 Other Impacting Events

Any attempt to predict the future of crowdfunding in Europe will do well to take a close look at the continuing evolution of the industry in the USA where modern crowdfunding began in 1997, when fans underwrote an entire U.S. tour for the British rock group Marillion by means of a fan-based Internet donations campaign, and ArtistShare became the first dedicated crowdfunding platform in 2000.

4.9 Registered (and Regulated) Crowdfunding Portals VS. Bulletin Boards

In the USA, equity crowdfunding rules require that all offerings be conducted through a registered broker or funding portal. FINRA, (Financial Industry Regulatory Authority - a private corporation that acts as a self-regulatory organization), has proposed rules that will enable registration for “funding portals”, though these rules have not yet been accepted the SEC. The SEC has adopted rules under Section 4(a)(6) in order to clearly set out what is required in order to conduct a proper, exempt crowdfunding transaction to investors in the United States. These rules are contained in “Regulation Crowdfunding” and include Rules 1T the following rules;

- Set out the requirements for any offering made in reliance on Section 4(a)(6).
- Provide a framework for the funding portals and brokers through which all such offerings must be conducted;
- Create a registration regime for funding portals, which also relates to the new FINRA rules that have been proposed;
- Set out the resale restrictions for securities sold in crowdfunding offerings.
- Exempt securities sold in Section 4(a)(6) offerings from counting toward the Exchange Act registration threshold in Section 12(g).

Under legal loopholes certain sites are able to divorce themselves from the requirement to perform due diligence and be licensed broker dealers, and operate “bulletin boards” for equity (e.g. AngelList, Equity, Wefund, and Crowdfunder). Companies then disclose only what they choose to, and investors make their buying decision at their own risk.

This leaves investors open to fraudulent deals that would have been prevented by the due diligence process of regulated crowdfunding portals, meaning that while these bulletin boards continue to be hands off with due diligence, cases are bound to continue to pop up.

The SEC caught, and responded to, some fraud cases (e.g. ascenergy). This should indicate that the companies raising money via bulletin boards (and those running the bulletin boards) have caught the attention of the SEC. Bulletin board operators will be under increasing pressure in 2016 to adopt measures to protect investors, and by association, their own brands, from similar fraudsters.

The sector will find itself facing the issue of how regulated these boards need to be to protect the sector as a whole.

Oscar Jofre in his Published EBook: Equity Crowdfunding 101: The Global Guide to a Financial Revolution wrote, ‘I believe that regulated crowdfunding is the future, and that 2016 will play this fact out... Financial systems that have been in place for generations are crumbling to the ground, and in their place something newer and better is appearing that decentralizes economic power. Now, investment is becoming truly democratic’.

4.10 The Emergence of Secondary Markets

The emergence of secondary markets is game changing, disrupting capital markets. Typically, a company's life cycle involves either selling your company, or going public. With the emergence of secondary markets, companies and investors now have a third choice. They can remain private, and still provide investors with the opportunity to exit through a legal framework to do so. These secondary markets will come in three different forms:

- Stock Exchanges - Those that currently operate listed issuer business have or will launch private capital markets. The only issue here is the current way these exchanges operate is not in the interest of the company, investors, or dealers, but purely themselves, and therefore unless the culture changes, they will not be able to successfully compete with the other two models.
- Equity Portals - Some portals are creating their own secondary markets to allow the investors that use them to achieve liquidity, providing a solution to one concern that many investors have, which is liquidity after they invest.
- Co-Ops - Some commentators consider that this could be a viable way for a number of equity portals to work together build and own their own secondary market.

4.11 The Impact of China on the Global Market

The Chinese government has also announced its intention to develop regulations allowing non-accredited investors to take advantage of equity crowdfunding internally, meaning that portal operators and companies looking to raise money should be paying serious attention to the Chinese market. To do otherwise would be to neglect a future regulated crowdfunding powerhouse now able to invest internationally.

APPENDIX 1 CROWDFUNDING – SUCCESSES & FAILURES

Crowdfunding has the power to create mega-million dollar companies overnight, but, significantly less than half of crowdfunding campaigns meet their targets, and only a tiny fraction become superstars. Donating to a crowdfunding campaign is also inherently risky as money is being pledged to internet strangers who give you nothing but a promise in return. The deficit of regulation can mean that the level of risk and reward is not completely clear, and not understood by the investor.

Kickstarter has been host to many of the highest profile crowdfunding flops of 2015 and in response created an 'Integrity Specialist' this year to crack down on these potentially damaging cases. Below we present some of the most famous of such cases.

Laser Razor

A company called Skarp raised \$4 million for its Laser Razor. Then Kickstarter pulled Laser Razor because it didn't even have anything close to resembling a working prototype. Skarp, undaunted, relaunched its campaign on Indiegogo and collected over \$442,000. The campaign has already pushed back its shipment date and backers are complaining that it's not responsive to requests on updates.

Zano

The Torquing Group's small drone was a Kickstarter hit, scoring over \$3.4 million. BABY DRONE was a smashing success—until people tried to fly them. While objectively adorable, the Zano flagrantly sucked. Torquing Group declared bankruptcy. Backers were down and out. The debacle was so embarrassing for Kickstarter, it hired a freelance journalist to investigate exactly where it all went wrong... this case is set to go on for a while yet.

Crystal Wash 2.0

Backers of Crystal Wash are complaining about the pushed-back shipping date and lack of communication from creators. Since it's a campaign for a thoroughly debunked pseudoscientific product that promises to clean clothes by shrinking water molecule clusters it is unlikely actually receiving the product will make backers feel any better.

While not a failure in the money-making sense, these con artists took over \$268,000 for what is a well-recognized scam. More than any other, this campaign shows how lax crowdfunding sites can be about quality.

Asylum Playing Cards

This Kickstarter failed so hard this year that it was fined and forced to give back some of the money it collected. While the campaign itself happened back in 2012, the failure came to its fullest fruition this year, when Altius Management was fined for failing to live up to its promises, which is especially impressive because all it promised was to print some playing cards.

Chicago Murder Suspect GoFundMe

Chicago Police Officer Jason van Dyke was charged with first degree murder this November for killing 17-year-old Laquan McDonald. Shortly after his arrest, his wife tried to crowdfund enough money to get him out on bail on GoFundMe. GoFundMe shut the campaign down, since it has a policy of not allowing campaigns in support of people 'alleged to be involved with criminal activities.'

Of course, the flip side of this is the really successful campaigns. Crowdfunding has given wings to thousands of start-up entrepreneurs, and when a campaign captures the imagination of the crowd the results can be truly spectacular. Below we present some of the superstar campaigns (compiled by Rebecca Butler for tiltBlog). These campaigns are more than financially successful, they have also jump started some amazing products and projects that are revolutionary in their respective industry.

Star Citizen

Possibly the most ambitious video game off all time, Star Citizen is a space simulation game for Microsoft Windows and Linux, using Oculus Rift's virtual reality capabilities, a device yet to be released in 2016.

Star Citizen holds the record for raising the largest amount of money for one product, through crowdfunding. The developers of Star Citizen started a crowdfunding campaign in October 2012 on their own website. They also launched a campaign on Kickstarter, closing with \$4.2 million at the end of their November 2012 campaign.

Funding continued to flow into Star Citizen's website, amounting to more than \$50 million in 2014, and surpassing \$85 million in July 2015. Backers of Star Citizen are rewarded with currency in the game's virtual economy.

Oculus Rift

First launched from Kickstarter in 2012, Rift is a PC based virtual reality headset. The 2012 crowdfunding campaign raised \$2.4 million, which went into the development of the head-mounted display and distribution of its first prototype. The virtual reality device promises multiple applications for gaming and media, while remaining affordable for regular consumers. The first development kit or prototype was released in 2012, a second one was released in 2014.

The company's finished product, the Oculus Rift, will be available in Spring of 2016. This virtual reality headset was bought by Facebook for a whopping \$2 billion in early 2014. The original 2012 funding goal of the Oculus team was just \$250,000, but thanks to an incredibly successful crowdfunding campaign and Facebook, we can look forward to virtual reality in our living rooms and offices in the next five years.

Smartwatches by Pebble Technology

The smartwatch by Pebble Technology first came out on Kickstarter in April 10, 2012. The designer, Eric Migicovsky had already attracted some big investors but still fell short on funding, so he turned to crowdfunding to launch the smartwatch. At that time, the Pebble Smartwatch was the first affordable smartwatch available, and something almost science fiction in appeal. It captured the internet's imagination and received \$10.3 million in pledges by the time its campaign ended in May 18, 2012 on Kickstarter.

Pebble Technology has since introduced several of other products through crowdfunding platforms including next generation smartwatches: Pebble Time and Pebble Time Steel. Pebble Time was even more successful than its predecessor, raising \$20.3 million pre-orders in 30 days. To date, Pebble Technology has sold more than a million smartwatches and has its own app store.

Ethereum

An open source project, allowing anybody to contribute to the codebase, Ethereum is a massive peer-to-peer network intended to decentralize the internet, as they envision the internet is supposed to work. The Ether network uses its own cryptocurrency to reward backers and as payment to contributors who provide computational services, storage and information-routing. Ethereum begun crowdfunding independently in August 2014, accepting pledges and Bitcoin. The crowdfunding campaign has so far raised \$18.4 million. Some pundits project Ethereum currency to replace Bitcoin in the future.

Soylent Drink

Soylent is the most successful crowdfunding campaign for a food product to date. Soylent is a meal replacement created by software engineer, Rob Rhinehart. Soylent quickly accumulated a cult following among young Silicon Valley professionals who would rather drink a meal replacement to save time and allow them to do more work. In 2013, Rhinehart took Soylent to crowdfunding and raised \$3 million in pre-orders with Tilt/Open. Soylent has since come out with seven different formulas, the latest Soylent 2.0, will be released in October 2015. In January 2015, Soylent received \$20 million in investment from the \$4 billion venture capital firm, Andreessen Horowitz. The company looks forward to building an expansion outside the United States.

Coollest Cooler

A multipurpose, durable, and waterproof cooler that doubles as a Bluetooth speaker, blender, dish rack, USB charger, light source and bottle opener. Designed by Ryan Grepper, the Coolest Cooler crowdfunding campaign was launched on Kickstarter in August 2014, and raised \$13.3 million. It has since gone into production and the first shipment of Coolest Coolers was announced July 2015, which means more than 60,000 backers are anticipating their new Coolest Cooler's arrival in the mail. Many backers were unhappy with Coolest Cooler when, post funding, they commenced selling the product on Amazon before delivering rewards to the campaign backers.

Flow Hive

Flow Hive is a new design beehive box that allows bee keepers to harvest honey from the beehive box without disturbing the bees. Traditionally, honey is harvested by sedating the bees and taking the beehive apart. This new design saves a massive amount of dangerous labour for the honey industry. Flow Hive's crowdfunding campaign with Indiegogo's InDemand program has since raised \$12.4 million from their April 2015 campaign. They also continue to take pre-orders on their website.

Exploding Kittens

Exploding Kittens is a whimsical card game involving kittens, laser beams, explosions and possibly goats, designed by the creative minds of Elan Lee, Shane Small and Matthew Inman. A Kickstarter page was made for the game in January 7, 2015, with the lofty goal of raising \$10,000. They exceeded their target in just 7 minutes and went on to raise \$8,782,571 in just 24 days. The first demonstration of the game was played by the hosts of Smosh Games on YouTube. Smosh Games' YouTube channel has more than 6 million subscriber, most of which are game addicts. The first batch of Exploding Kittens cards ships in July 2015.

Reading Rainbow

The most successful educational tool to source capital from crowdfunding, Reading Rainbow is a children's TV series with an emphasis on early reading. The show premiered in 1983 and continued until it was cancelled in 2006. In May 2014, LeVar Burton, a former executive producer of the show, launched a crowdfunding campaign on Kickstarter to make Reading Rainbow accessible online and on streaming devices to a new generation of young readers. The campaign raised \$5.4 million, surpassing LeVar Burton's initial \$1 million goal. Reading Rainbow also received an additional \$1 million donation from comedian Seth MacFarlane, who pledged the donation if the crowdfunding campaign reached the \$5 million mark, which makes Reading Rainbow's total pot \$6.4 million. Currently, the Reading Rainbow App has consistently topped ranks as the best and most popular education kid's app for iPads. Reading Rainbow has also been made available for free to thousands of disadvantaged classrooms.

Veronica Mars Movie Project

The movie was released in March 2014, and is the first film ever to be successfully campaigned by fans with crowdfunding. The Veronica Mars movie grossed \$3,485,127 worldwide, not exactly a financial success but the fans of Veronica Mars would disagree. It is the first film to be released simultaneously in theatres, video-on-demand, and online platforms. The film adaptation was proposed after the Veronica Mars, the TV series starring Kristen Bell was cancelled. The film script was written by Rob Thomas, but was rejected by Warner Bros. A Kickstarter campaign for the movie was launched by Rob Thomas and Kristen Bell in March 13, 2012 and ended 30 days later, overshooting its \$2 million goal with \$5.7 million pledges.

European Projects

Germany based investment crowdfunding platform Companisto claims Europe's most successful crowdfunding offer ever. The offer from 'Weissenhaus' was to fund a unique German resort in Northern Germany has raised from 819 investors in 2013-2014. The project had set an initial funding goal of raising €1million but that amount was easily passed. The offer is actually for investors to participate in a subordinated profit participating loan, the minimum expected interest rate is 4% with a high end at 8% per annum. There is an additional opportunity to benefit if the property increases in value. Most investors participated at the lowest€1,000 level but two investors have contributed € 250,000 to the project.

There have been other very large crowdfunding investment campaigns with Seedrs doing a self-crowdfunding offer that raised over \$3.5 million, and more than a few multi-million rewards based campaigns.

APPENDIX 2 CROWDFUNDING JARGON BUSTER

Ad Swap	Fellow crowd funders who promote each other's projects. This is useful as it is free advertising in exchange for you placing some poster or banner up and helping out a fellow Crowd funder.
All-Or-Nothing Model	Where crowdfunders get to keep the funds raised only if the campaign reached its goal.
Angel Investor	An angel investor, also known as a business angel or informal investor, is an individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity.
Audience Interaction	The audiences who are active in the progression of your project, be it by responding to polls, leave feedback or throw in their opinion of the plot of the story or the marketing techniques. This is ideal for 'Creators' who like to interact with other creative people and it breaks down the barrier between them and the consumers.
Backer	An individual who supports a project financially, also known as a Donor or Patron.
Balance Sheet	A statement of the assets, liabilities, and capital of a business or other organization at a particular point in time, detailing the balance of income and expenditure over the preceding period.
Barker	Someone who uses social networking sites and other mediums promote a project and help show it to the masses. This can be a hired service, or friends and supporters of the Creators can do this, and get ten times the amount of people to notice a project.
Best Practices	Commercial or professional procedures that are accepted or prescribed as being correct or most effective.
Break-even Point	The point at which gains equal losses. Knowing this helps a business see how much sales are needed to cover costs and expenses in order to start making a profit.
Bridge Financing	A method of financing used by companies before their IPO, to obtain necessary cash for the maintenance of operations.
Broker-Dealer	Broker-Dealers execute securities sales and purchases on behalf of clients, provide investment advice to customers, supply liquidity through market-making activities, publish investment research, raising capital for companies, and operate market platforms.
Burn Rate	The rate at which a new company spends its initial capital.
Business Traction	The progress of a start-up company and the momentum it gains as the business grows.

Call For Prompts	Asking the audience to offer up their ideas, inputs and feedbacks. Prompters may get an advanced sneak peek at the results. This activity can be done live (see 'Fishbowl').
Campaign	The funding period for a specific project on a crowdfunding platform.
Capital Gains	A profit from the sale of property or an investment.
Cash Flow Statement	A document that represents the cash inflows and outflows from the business operations.
Class A Shares	A specific share class that can be accompanied by more or less voting rights than class B shares. Typically Class A shares have more voting rights.
Class B Shares	A specific share class that can be accompanied by more or less voting rights than class B shares. Typically Class B shares have less voting rights.
Community Shares	The term community shares refers to withdrawable share capital; a form of share capital unique to co-operative and community benefit society legislation. This type of share capital can only be issued by co-operative societies, community benefit societies and charitable community benefit societies.
Convertible Debt (Convertible Notes)	A financing vehicle that allows start-up's to raise money while delaying valuation discussions until the company is more mature. Though technically this is debt the company promises to pay back to its lender(s), convertible notes are meant to convert to equity at a later date. Investors who agree to use convertible notes generally receive a discounted price when they purchase equity since they put in their money in at the earliest, riskiest stages of the business.
Copyright	The exclusive and assignable legal right, given to the originator for a fixed number of years, to print, publish, perform, film, or record literary, artistic, or musical material.
Creator	The person who runs a Crowdfunded project.
Credit Score	A statistically derived numeric expression of a person's creditworthiness that is used by lenders to assess the likelihood that a person will repay his or her debts. A credit score is based on, among other things, a person's past credit history.
Crowd Equity	This is used to describe the type of crowdfunding which offers equity in a business in exchange for the funds. Also known as Crowd Financing, or Equity (Based) Crowdfunding.
Crowd Lending	This is used to describe the type of crowdfunding used for loans.
Crowdfunding Platform	An online portal or intermediary that allows projects to be represented on the web portal to attract backers, investors and donors.
Crowdfunding Portal	Similar to a crowdfunding platform, a portal does not handle investments or finances, but merely acts as an intermediary connecting investors with projects and businesses online.

Crowdfunding	The practice of soliciting financial contributions from a large number of people especially from the online community. Crowdfunding activities are generally intermediated by crowdfunding platforms.
Crowdsourcing	Obtain (information or input into a particular task or project) by enlisting the services of a number of people, either paid or unpaid, typically via the Internet.
Cyberfunded Creativity	Cyberfunded creativity is a subtype of Crowdfunding, which concentrates on creative material in online sites.
Debentures	A type of debt instrument that is not secured by physical assets or collateral. Debentures are backed only by the general creditworthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond in order to secure capital.
Debt Crowdfunding	A form of crowdfunding in which the contributors provide support in the form of a loan with expectation of financial return. Debt crowdfunding is further divided into peer-to-peer (P2P) lending and business loans.
Dilution	A reduction in the value of a shareholding due to the issue of additional shares in a company without an increase in assets.
Discount Rate	Required rate of return of the interest rate.
Dividends	A sum of money paid regularly (typically annually) by a company to its shareholders out of its profits (or reserves).
Donation Based Crowdfunding	Individuals donate small amounts to meet the larger funding aim of a specific charitable projects while receiving no financial or material return in exchange. Projects are usually characterised as charitable or have social benefits.
Donation Button	The small graphic on the screen which may be clicked to take the shopper to a money handling site where they may send funds to the creator.
Due Diligence	Due diligence is a reasonable investigation of a proposed investment deal and of the principals offering it before the transaction is finalised, to check out an investment's worthiness.
Earnings Yield	The earnings yield is the inverse of P/E ratio. The earnings yield ratio shows the percentage of each Euro invested in the stock that was earned by the company.
Enterprise Investment Scheme (EIS)	A program used in the United Kingdom to make it easier for smaller, riskier companies to raise capital by giving their investors tax relief as an incentive to invest in those companies' shares.
Elevator Pitch	An elevator pitch, elevator speech, or elevator statement is a short summary used to quickly and simply define a profession, product, service, organization, or event and its value proposition.
Equity Based Crowdfunding	Sale of a stake in a business to a number of investors in return for investment. Predominantly used by early stage firms.

Equity	Ownership of a piece of a company as an investment.
ESCROW Account	An ESCROW account is a temporary pass through account held by a third party during the process of a transaction between two parties. The funds are held by the ESCROW service until it receives the appropriate written or oral instructions or until obligations have been fulfilled.
Exit Strategy	The method by which a venture capitalist or business owner intends to get out of an investment that he or she has made in the past. Usually it comes in the form of IPO, acquisition by a larger company or selling assets.
Fan	A fan is someone who is dedicated to a Crowdfunded project, but who maybe doesn't contribute money to it. Instead they promote the project, comment on the page and create a buzz and enthusiasm for the project.
Financial Forecast	An estimate of future financial outcomes for a company.
First Reader	Also known as a Beta Reader, this can be a friend, family member, or a fan, who looks over a rough draft and suggests improvements so that you can make before the final version gets published. Some crowdfunding projects provide perks for supporters who do this.
Fishbowl	An exercise in which an audience makes suggestions or analytical comments whilst observing the Creator (or someone in his/her team) as they make suggestions about their project. In Cyberfunded Creativity this can be done online, usually on a live blog. The fishbowl technique can also be used for brainstorming business projects or other ideas.
Fully Diluted Shares	The total number of shares that would be outstanding if all possible sources of conversion, such as convertible bonds and stock options, were exercised.
Funders	This is the people who provide funding for a person or project
Funding Period	A specific time, which is set in advance (typically 90 days), allowed for the company to raise funds. Also known as Funding Window.
Funding Portal	Crowdfunding intermediary that does not: <ul style="list-style-type: none"> (i) offer investment advice or recommendations; (ii) solicit purchases, sales, or offers to buy securities offered or displayed on its website or portal (iii) compensate employees, agents, or others persons for such solicitation or based on the sale of securities displayed or referenced on its website or portal (iv) hold, manage, possess, or otherwise handle investor funds or securities
Gross Margin	The difference between Revenue and cost of sales/service.
Growth Stage	A stage in the life cycle of a company characterised by revenue and profit increase.

Honour Roll	A list of names accrediting a project's patrons and/or other supporters.
Hub Site	Websites such as that show many different projects.
Illiquid Asset	The state of a security or other asset that cannot easily be sold or exchanged for cash without a substantial loss in value.
Initial Public Offering (IPO)	An Initial Public Offering is the first sale of stock to public investors by a new company or by an existing company in a new product or project.
Intellectual Property	The ownership of ideas. Unlike tangible assets to your business such as computers or your office, intellectual property is a collection of ideas, concepts patents, copyrights, etc.
Interest Rate	The proportion of a loan that is charged as interest to the borrower, typically expressed as an annual percentage of the loan outstanding.
Intermediate Term Debt	A type of fixed income security with a maturity, or date of principal repayment that is set to occur in the next 3-10 years.
Internal Rate of Return (IRR)	The discount rate often used in capital budgeting that makes the net present value of all cash flows from a particular project equal to zero.
Investment Crowdfunding	Investing in a company via crowdfunding in exchange for equity ownership, debt payments, a convertible note, or some other financial return.
Investment Memorandum (IM)	Document stating the objectives, risks and terms of investment involved with a private placement. This includes items such as the financial statements, management biographies, detailed description of the business, etc.
Investor Relations	A responsibility of the Company relating to how and when the Company communicates with investors in connection with the Company's performance. Strategic Investor Relations can help a Company maintain a good relationship with its investors and for subsequent investments can advocate for a Company.
Invoice Trading	Firms sell their invoices at a discount to a pool of individual or institutional investors in order to receive funds immediately rather than waiting for invoices to be paid.
Issuer	A legal entity that develops, registers and sells securities for the purpose of financing its operations.
Keep What You Raise Model	Entrepreneurs get to keep the funds raised regardless of the funding goals.
K-Fan	This is a fan who spends €100 or more, per year on a one creator's work. These fans started the idea of crowd-funded projects.
Landing Page	The project/campaign web page which contains the necessary information and details of the project.

Limited Liability Company	A corporate structure whereby the members of the company cannot be held personally liable for the company's debts or liabilities.
Linkback	The promotion of a project by posting the URL to its landing page. This helps entice more people to the project. Also known as linklove or linkluv.
Liquidity Event	The merger, purchase or sale of a corporation or an initial public offering. A liquidity event is a typical exit strategy of a company, since the liquidity event typically converts the ownership equity held by a company's founders and investors into cash.
Liquidity	The availability of liquid assets to a market or company.
Loan-Based Crowdfunding	A crowdfunding model where individuals agree to loan others in return for interest.
Long Term Debt	Loans and financial obligations lasting over one year.
Market Opportunity	A forecasted demand in specific market/markets for a particular product or service in which unsatisfied customer need exist.
Mezzanine Financing	Debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full.
Micro-Donation	Micro-donation or micro-philanthropy is a form of charitable donation that is small in the donated amount.
Micro-Loan	A very small, short-term loan at low interest, especially to a start-up company or self-employed person.
Minority Shareholders' Agreement	An agreement that supplements the constitutional documents of the company. The contents of individual shareholders' agreements vary, but they are commonly used for regulating the ownership and voting rights of the company's shares, management of the company, dispute resolution, and protection of the competitive interests of the company.
Networking Effect	A phenomenon whereby a good or service becomes more valuable when more people use it.
Non-accredited investors	Anyone in the general adult population who wants to invest.
Online Crowdfunding	Raising finance via platforms (websites) that let people give money in exchange for a small reward, such as a product under development or access to special events.
Options	A financial derivative security whereby the security provides the buyer the right but not the obligation to buy/sell a security at a predetermined price during a specified period of time.
Ordinary Share	A share entitling its holder to dividends which vary in amount and may even be missed, depending on the fortunes of the company.

P/E Ratio	Price-Earnings Ratio is a measurement tool frequently used in the investment industry and calculated by dividing the price per share by the earnings per share.
P/S Ratio	Price-to-Sales Ratio is a measurement tool frequently used in the investment industry and calculated by dividing the company's market capitalisation (total value of shares) by the sales revenue.
Patron	Someone who contributes money to a Crowdfunded project. It may apply to a specific item for publication, or to the project as a whole. Also known as donor, backer or sponsor.
Peer to Peer (P2P) Business Lending	Debt based transactions between individuals and existing businesses which are mostly SME's with many individual lenders contributing to any one loan.
Peer to Peer (P2P) Consumer Lending	Individuals using an online platform to borrow from a number of individual lenders each lending small amount; most are unsecured personal loans.
Pension Led Funding	Mainly allows SME owners/directors to use their accumulated pension funds in order to invest in their own businesses. Intellectual properties are often used as collateral.
Perk	A benefit for doing something in a crowdfunded project, such as making a donation or linking back to a post. Perks may be individual or collective.
Pitch Deck	A presentation of a summarised business plan.
Pitch	This is the promotion of the campaign used to garner interest from potential funders.
Platform	This is the term used to describe the various websites which facilitate crowdfunding.
Pledge	This is a term used to describe the promise to pay the person/people crowdfunding the defined amount
Pooled Investment Vehicle	Funds from many individual investors that are aggregated for the purposes of investment, as in the case of a mutual or pension fund.
Portal Fee	The fee due to the Funding Portal for its work in facilitating and managing the Crowdfunding process. Typically, the Portal Fee is due from the company only if the Target Raise is met.
Portfolio Diversification	A technique of risk management which involves owning multiple investments in order to diversify the risk through a wide variety of assets, both in terms of quality and quantity. The rationale of diversification is to reduce non-systematic risk in a portfolio in order to cover the poor performance of some investments with the good performance of others.

Post Money Valuation	Post-money valuation refers to a company's valuation after funds, such as investments from venture capitalists or angel investors have been added to the balance sheet.
Pre Money Valuation	A pre-money valuation is a term widely used in private equity or venture capital industries, referring to the valuation of a company or asset prior to an investment or financing. If an investment adds cash to a company, the company will have different valuations before and after the investment.
Pre-Buzz	"Pre-Buzz" is the campaign's preseason. This is the week or weeks leading up to the Go-Live date where the message and how you deliver it is refined. People can't invest in an opportunity they don't know about so the more people who know the more likely you are to reach your funding goal. Pre-Buzz is everything from going to pitch meetings to developing a social media presence.
Pre-emption	The purchase of shares by one person or party before the opportunity is offered to others.
Preference Shares	A share which entitles the holder to a fixed dividend, whose payment takes priority over that of ordinary share dividends.
Pre-Sales Crowdfunding	Backer supports a product that has yet to be manufactured. The crowdfunder receives the necessary funds to produce their products, and offers finished product to backers as rewards.
Primary Market	The first sale of new securities to investors in order to raise investment money for the issuing company. (As opposed to a Secondary Market in which investors buy and sell securities among each other without the issuing company receiving the funds.)
Private Placement	The sale of securities to a relatively small number of select investors as a way of raising capital. Also known as a Private Offering.
Profit and Loss Statement	A financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time.
Progress Meter	An interactive graphic that provides a visual representation of how the venture is moving towards its target.
Project	This is the crowdfund campaign for the product or cause.
Projected Cash Flow	Presents projected changes in the Company's cash balances.
Prompter	Someone who provides creativeness and proposals to a creator, usually during a call for prompts. Regular prompters in an ongoing project can build up considerable sway.
Real Estate Crowdfunding	Reserved largely for wealthy investors, real estate crowdfunding involves using mainly equity and peer-to-peer lending to finance real estate purchases using multiple investors.

Return on Investment (ROI)	A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. ROI measures the amount of return on an investment relative to the investment's cost. To calculate ROI, the benefit (or return) of an investment is divided by the cost of the investment, and the result is expressed as a percentage or a ratio.
Revenue Model	Key component of the business model. It primarily identifies what product or service will be created in order to generate revenues and the ways in which the product or service will be sold.
Revenue Sharing	Revenue sharing has multiple, related meanings depending on context: In business, revenue sharing refers to the distribution of profits and losses between stakeholders, who could be general partners (and limited partners in a limited partnership), a company's employees, or between companies in a business alliance.
Reward Based Crowdfunding	Individuals donate towards a specific project with the expectation of receiving a tangible (but non-financial) reward or product at a later date in exchange for their contribution.
Rewards	This is what the funders get in exchange for pledging on a pre-sale/rewards based crowdfunding platform
Royalty Based Crowdfunding	Royalty crowdfunding offers backers a percentage of revenue from the project or venture the backer supports, once it is generating.
SAFE (Simple Agreement for Future Equity)	A contract between an investor and entrepreneurs whereby the investor provides capital to the business in exchange of a warrant to issue stock in the future.
Secondary Market	A market on which securities and assets such as stocks are bought and sold between investors. Secondary Markets provide liquidity by allowing investors to exchange their investment for cash. Also called the aftermarket. (As opposed to a Primary Market in which securities and assets are purchased directly from the issuer.)
Secured Loan	A loan that is supported by some type of collateral.
Securities	A financial instrument that represents: an ownership position in a publicly-traded corporation (stock), a creditor relationship with governmental body or a corporation (bond), or rights to ownership as represented by an option.
Seed Capital	The initial capital used to start a business.
Series A Financing	The first round of funding after the initial seed capital.
Series Anchor	An audience member with a prevailing influence over a series.
Shareholders' Agreement	A contract among shareholders of a company that describes rights and obligations.

Short Term Debt	Loans and financial obligations due in one year.
Social Proof	Also known as informational social influence, is a psychological phenomenon where people assume the actions of others in an attempt to reflect correct behaviour for a given situation.
Sponsor	A person who pays for a specific item to be released. A sponsor covers the whole price; some projects allow for several cosponsors to split the price. (This is distinct from general patrons who may donate toward the project as a whole, rather than individual items)
Start-up Business	A business which generally is less than a year old and has no revenue or only nominal revenue.
Start-up Capital	The money that is required to start a new business, whether for office space, permits, licenses, inventory, product development and manufacturing, marketing or any other expense.
Stretch Goals	A stretch goal is an additional funding goal that will finance another specific piece of your project once the initial goal has been met. A stretch goal should be concrete and reasonable, and should give contributors a little extra motivation to get involved. A really great stretch goal can even motivate contributors to give a second time.
Swag	The items that are used as perks or promotions as rewards for a project.
Tag	A word or short phrase that identifies a project or topic. Tags function in online venues to help people find projects or material that interests them
Target Raise	The amount of money that the company wants to raise in a crowdfunding campaign. The company may not raise more than the Target Raise. Only if the entrepreneur meets his funding target is the project funded. This is a form of investor protection that requires a minimum buy-in from all the backers before a project is funded. It raises the bar on meeting one's funding target and forces an entrepreneur to strategically consider how much he needs.
Tender Offer	An offer to purchase some or all of shareholders' shares in a corporation. The price offered is usually at a premium to the market price.
Term Sheet	A non-binding agreement setting forth the basic terms and conditions under which an investment will be made. A term sheet serves as a template to develop more detailed legal documents.
Tip Jar	This is a method by which audiences can donate random amounts of money to a project that doesn't have set prices, or in addition to set prices for people who wish to support the project as a whole.
Trademark	A symbol, word, or words legally registered or established by use as representing a company or product.
Unsecured Loan	A loan that is not supported by any type of collateral.

- Valuation Cap** The valuation cap is associated with convertible notes in the second round of funding. To reward early investors for taking a risk in the first stage of funding, convertible notes can be converted to shares at a discounted price on a predetermined discount rate.
- Valuation** The process of determining the current worth of an asset or company. There are many techniques that can be used to determine value, some are subjective and others are objective.
- Venture Capital (VC)** Equity funding in a start-up (Seed Capital) provided by an investment company.
- Warrants** A derivative security that gives the holder the right to purchase securities (usually equity) from the issuer at a specific price within a certain time frame.