



EUROPEAN COMMISSION

MEMO

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Communication on crowdfunding in the European Union - Frequently Asked Questions

See also [IP/14/320](#)

1. What is crowdfunding?

Crowdfunding is an emerging alternative form of financing that connects directly those who can give, lend or invest money with those who need financing for a specific project. It usually refers to open calls through the internet to the wider public to finance specific projects. Promoters of an initiative can collect funds directly. However, a web-based intermediary, a so-called 'crowdfunding platform', will often assist in publishing campaigns and collecting funds. In exchange, these platforms often charge a fee. While calls for funds to the public are not new, the phenomenon of using the internet to directly connect with funders emerged recently and brought significant visibility to this practice.

2. Are we talking about donations or investments?

Crowdfunding is not a homogenous concept. It can be used by different models of financing:

- **donations** are simple monetary contributions to help realise a project where nothing is offered in return
- **rewards-based** crowdfunding where those who contribute with money to the campaign get something in return, e.g. the cultural experience of appearing as an extra in the film they helped to finance
- **pre-sales** campaigns collect funds from the crowd to develop and produce a new product that will be shipped to the contributors
- **crowd-lending** refers to campaigns that borrow money from the crowd and promise to pay it back on certain terms either with or without interest.
- **crowd-investing** can take the form of profit sharing arrangements or investments into securities (debt or equity) issued by the firm that launched the campaign.

The two main categories to be distinguished are: crowdfunding with non-financial returns (donations, rewards and pre-sales) and crowdfunding with financial returns (crowd investing and crowd lending). The main difference between these two lies in the potential financial profit the latter model can offer and the specific investment risks attached to it (see below).

3. How widespread is crowdfunding in the EU?

The practice is becoming more and more wide-spread since the financial crisis, as banks' lending activity is reduced and access to finance is more difficult. Industry estimates show that almost half a million projects were financed through crowdfunding across Europe during 2012, raising €735 million, 65% more than in 2011([Massolution 2013](#)). The forecast for 2013 is €1 billion.

This figure is promising compared to the financing provided by business angel investors¹ (visible market segment estimated by the [Centre for Strategy and Evaluation Studies](#) at €660 million in the year 2010) or venture capitalists in seed, start-up, later and growth stages (€7 billion in 2012 [according to EVCA](#)), although it remains modest if compared to the European retail bank lending to non-financial institutions (€6 trillion in 2012 [according to EBF](#)).

4. What are the benefits of crowdfunding?

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. SMEs can also benefit as crowdfunding can respond to the needs of many small start-ups that do not manage to access bank finance, venture capital or reach the stage of IPO. Crowdfunding could thus contribute to bridging the finance gap for small firms and innovative projects and usefully complement other sources of finance. Better access to finance for small businesses would promote entrepreneurship and ultimately contribute to growth and job creation. One study² estimates that in Spain alone 7,500 direct 'crowd-jobs' were created through some 2,800 successful crowdfunding projects.

Crowdfunding creates opportunities for more people, who otherwise would not have access to traditional channels of finance, to become small-scale entrepreneurs. It creates competition for other sources of finance, and as it is often used by innovative, artistic and social projects, it promotes innovation, culture and social entrepreneurship.

5. What are the risks of crowdfunding?

Some of the most relevant issues for all crowdfunding models are:

- advertising and advice by promoters or platforms may be misleading;
- how platforms treat payments, whether reclaimable contributions are returned;
- risk of fraud (when the money collected is not used for stated purposes).

Financial return models may entail further risks:

- legal uncertainty arising from divergent national laws;
- financial risk, i.e. the risk of their investment being unprofitable or the risk of losing the invested capital as a result of project failure;
- lack of an exit option (liquidity risk).

¹ Business angels invest their own funds and use their business or professional experience to help the growth of small businesses, generally in start-up or early stage.

² In 2012 in Spain crowdfunding created an estimated 7,500 direct 'crowd-jobs' through some 2,800 successful crowdfunding projects. Ramos & Gonzalez (2013) Crowd-Funding as a new economic instrument for economic growth and employment. Paper presented in the seminar "Alternative ways of finance in the digital era". Ateneu Barcelonès May 2013.

If there were a large scale scandal, it could undermine people's trust and stifle the growth of this form of financing. This is why it is important to have an adequate policy framework that addresses excessive risks, while promoting the growth of crowdfunding. Besides the general risks of crowdfunding mentioned here, financial return models also entail certain investment risks.

6. What EU legislation applies to crowdfunding today?

Given the great variety of crowdfunding campaigns, different EU rules might apply to crowdfunding, depending on the features of the specific campaign. The [Anti-Money Laundering Directive](#) and the [Regulation on information on the payer accompanying transfers of funds](#) aim at preventing money laundering and apply to crowdfunding under the same conditions as for any other type of financial transaction. The [Regulations on unitary patent protection](#)³ aim at creating a more easily accessible patent across EU countries for those project owners who wish to protect their invention before disclosing it to the public. The [E-commerce Directive](#) facilitates market access across the EU for platforms and lays down liability rules of on-line intermediaries. The [Directive on misleading and comparative advertising](#) and the [Directive on unfair commercial practices](#) aim to protect consumers and ensure fair advertising practices.

Further EU rules may apply to financial-return forms of crowdfunding, depending on the type of activity and the specific business model used. These include the [Prospectus Directive](#), the [Payment Services Directive](#), [MiFID](#), [CRD IV](#), [AIFMD](#), the [Consumer Credit Directive](#), the [Distance Marketing of Financial Services](#) and the [Regulations on Capital Requirements](#), [European Venture Capital](#) and [European Social Entrepreneurship Funds](#). These instruments lay the foundations of a single market in financial services with a high level of investor protection across the EU. Only some of these instruments would apply to a given business model and only in specific cases, depending on the financial crowdfunding campaign's design (such as the amount of money being raised).

New business models may however continue to evolve and therefore either further EU rules may become applicable or put some models beyond the scope of applicable rules.

7. What was the outcome of the recent public consultation on crowdfunding?

The aim of the public consultation was to explore how EU action, including a range of soft-law measures, could promote crowdfunding in Europe. The results of the consultation are summarised and published in a [feedback statement](#).

³ On 17 December 2012, the Regulations creating unitary patent protection in the EU were adopted in enhanced cooperation between 25 Member States. An international agreement among the Member States setting up a Unified Patent Court is currently in the process of ratification.

8. Is EU regulatory intervention necessary?

At the moment the European Commission does not intend to come up with legislative measures. In the first place it plans to further explore the market developments around crowdfunding and get a better overview on how this form of financing fits in the wider financial environment. The Communication proposes a number of actions aimed at promoting, raising awareness and building confidence in crowdfunding. At the same time the Commission will continue monitoring developments in this market and, if justified, it will consider whether further EU action is necessary. The Communication aims to develop, in cooperation with stakeholders, a common understanding at EU level and prepare the ground for possible future actions. The objective of this Communication is to accompany the development of crowdfunding in Europe, not to regulate donations, including to charities or political parties.

9. What action does the European Commission propose in this Communication?

Stakeholders responding to the public consultation identified some of the key challenges that need to be tackled for crowdfunding to flourish. These include a lack of awareness and understanding, lack of information concerning the applicable rules, risks of insufficient or misleading information disclosure, the functioning of crowdfunding within the Single Market and the issue of matched financing. The actions proposed in the Communication aim to address these issues in order to exploit the full potential of crowdfunding in the EU. The Commission will:

- carry out a study to explore market developments and the potential of crowdfunding to finance research and innovation
- raise awareness, provide information and training modules for project owners, especially for financial return crowdfunding (crowd lending and crowd investing)
- encourage exchange of industry best practices and standards, and facilitate the development of a European 'quality label' to build trust with users
- establish an expert group, called the European Crowdfunding Stakeholder Forum, that will advise the Commission on some of the above actions
- assess the possibilities for using public funds to support projects through crowdfunding
- hold regulatory workshops with national regulators to discuss obstacles to convergence of national regulations on financial return models and, where relevant, issuing recommendations to encourage Member States to avoid inconsistencies in national approaches
- closely monitor the market and legal developments and regularly assess whether further EU action is needed.

10. How does this Communication fit into the wider EU policy framework and what preparatory work has been done?

Responses to the Green Paper on "Long term financing of the European economy" (see [IP/13/274](#)) showed that crowdfunding – alongside many other initiatives – can play a role in promoting access to finance for sustainable and inclusive growth. This Communication is part of the "Long Term Finance Package" (see IP/14/xxx).

Preparatory work includes the [Report on Crowdfunding Schemes in Europe](#) prepared for the European Commission in 2011. The [workshop on crowdfunding](#) of 3 June 2013 organised by the European Commission in Brussels, which confirmed that it was timely and necessary to assess how Europe could nurture the growth of this new form of financing, while ensuring the protection of contributors. The Commission held a public consultation between 3 October and 31 December 2013 to gather stakeholders' views on the benefits and risks of crowdfunding and their opinion on where EU action would add value.

Crowdfunding offers many benefits that fit in with the wider objectives of the European Commission. The European Council in its [June 2013 conclusions](#) emphasised the need to develop alternative sources of financing in close cooperation with Member States. The Entrepreneurship 2020 Action Plan (see [IP/13/12](#)) aims to increase the level of employment through reinforcing entrepreneurship across Europe. It invites Member States to *"assess the need of amending current national financial legislation with the aim of facilitating new, alternative forms of financing for start-ups and SMEs in general, in particular as regards platforms for crowd funding"*. See also [MEMO/13/393](#) - Improving access to finance for SMEs: key to economic recovery.

A few examples of successful crowdfunding campaigns from across Europe

Volocopter

(An innovative project with a rewards-based campaign, co-financed with EU public funds)



A German start-up, E-volo, raised €1.2 million in a reward-based crowdfunding campaign on a German platform for the development and testing of its Volocopter, which is an environment-friendly and emission-free helicopter. Instead of one combustion engine, eighteen electrically driven rotors propel it. The project, besides the crowdfunding campaign, is also supported by the EU's main climate innovation initiative [Climate-KIC](#).

The Eye of the SeaOrbiter

(An innovative project with a rewards-based campaign, co-financed with national [French] and US public funds)



In the beginning of 2014 the "Eye of the SeaOrbiter" project successfully closed a rewards-based crowdfunding campaign collecting €344,650 from 664 contributors. The project is described as an "exploratory, scientific and technological adventure. Drifting with the main oceanic currents, SeaOrbiter will allow a crew of explorers to live 24 hours a day over a long period of time in the heart of the ocean, this vast territory still widely unknown being the last frontier on the planet." Only part of the whole construction (the "eye" which is a watch- and communication post) is financed through crowdfunding, accounting for only 1% of the total costs. The campaign was launched by the designer of the project, Frenchman Jacques Rougerie, through a French crowdfunding platform. The project is scheduled to be realised in cooperation with Ifremer (the French research institute for exploration of the sea) and NASA.

Panomo

(An innovative project with a pre-sales campaign, fully financed from crowdfunding)



A Berlin-based company raised €912,500 for its throwable panoramic ball camera on a US-based platform. The invention is a "ball" with 36 cameras inside that take a snapshot each and compose a 360 degrees panoramic image. The pre-sales campaign was launched in 2013. Contributors could order their throwable camera balls for about €374, paying the price upfront for an expected delivery in autumn 2014.

An example of crowd lending

(A loan to finance personal consumption)



As one example of peer-to-peer lending, a market that is worth about €262 million in the UK, a borrower on a UK-based lending platform explains his experience with crowd lending: "We borrowed £3,500 [about €4,150]... to finance the installation of a sauna in our back garden. My wife Vanessa took out the loan to fund the Sauna as a present for my 50th birthday and we can honestly say it has been the best money we've ever spent as we are paying a better rate than we would have got with our bank or other provider." Similar crowd lending transactions made up the above total UK market figure, while another estimated €141m is collected from individual lenders for companies as borrowers, as sort of peer-to-business lending.