

Workshop: How can foundations make the most of crowdfunding?

1 December 2015 | 14:30 -17:15 | Philanthropy House, Brussels

Event Report

Overview and context

This joint workshop of the European Foundation Centre and the Belgian Network of Foundations brought foundations from across Europe together to consider how foundations can make the most of crowdfunding. Participants were able to explore together the opportunities, challenges and risks that the rapid growth of crowdfunding in Europe presents for foundations.

This report summarises key learnings and discussion points from the workshop and draws on presentations given by the following speakers: **Thérèse Lemarchand**, Founding Partner, Culture Time; **Ludwig Forrest**, Philanthropy Advisor, King Baudouin Foundation; **Anne-France Simon**, Head of Corporate Philanthropy, BNP Paribas Fortis Foundation; **Marc Félis** Deputy Head Corporate Philanthropy, BNP Paribas Fortis Foundation; **Charles Beckett**, Programme Officer, European Cultural Foundation; **Frédéric Théret**, Development Director, Fondation de France; **Thorsten Witt**, Project Leader, Wissenschaft im Dialog gGmbH; and **Lionel Slusny**, Loft Solutions, Founder of the European Crowdfunding Network.

Links to presentations made can be found at the end of this report.

What is crowdfunding?

Having originated in the USA, crowdfunding has experienced massive growth in Europe during recent years. The total transaction volume of crowdfunding in Europe was around €3 billion in 2014, representing a growth of 141% from the previous year. The largest part of this in the UK, but France, Germany, The Netherlands and Spain are also significant markets for crowdfunding.

For the purposes of the day's discussion, the following general definition of crowdfunding was put forward: *"Mobilisation of a great number of people via internet, to finance directly some projects"*¹

Crowdfunding can serve a range of purposes, the most common among which are:

- equity
- giving
- lending

According to research by the University of Cambridge, across the European market, lending is the purpose for which most crowdfunding is undertaken².

It is however the use of crowdfunding to facilitate giving that is most likely to be of immediate use to foundations.

Each donation based crowdfunding activity typically includes three key actors. These are:

- platform (service provider)
- project holders (fund seekers)
- donors

¹ Put forward by Thérèse Lemarchand, Founding Partner, Culture Time.

² See presentation by Lionel Slusny for further details

How is crowdfunding used in philanthropy?

Donation based crowdfunding can serve philanthropy in a variety of ways:

- it may be used for short term, goal orientated fundraising for specific projects, or for regular (e.g. annual) campaigns
- it can be used by a company or group of people to raise money jointly for a charity
- it often has a geographic element e.g. engaging a community in a local initiative

Foundations can use crowdfunding as a tool to raise or to distribute funds. A foundation may also consider setting up its own crowdfunding platform, but this carries a big investment of resources (both financial and non-financial) and may not be necessary as such a variety of actors already occupy this space. Foundations may also fund the development by other actors of platforms run on non-profit models.

In general, crowdfunding serves as a tool to gather large numbers of smaller donations. To take an example: Culture Time, a crowdfunding platform established specifically for philanthropy, culture, and education projects, receives donations of an average of €119, but ranging from €5 to €5,000.

What fresh opportunities does crowdfunding present for philanthropy?

Crowdfunding presents a number of opportunities for philanthropy, in that it can be:

- an opportunity to increase the visibility of a foundation and its projects and partners
- a means to promote philanthropy in society
- a way to contribute to building the capacity of organisations involved e.g. the platform may provide some coaching on how to run the campaign, or a foundation can play a role in providing training for project holders looking to use crowdfunding
- a way to implement and promote matched funding schemes
- a way to be able to fund a wider pool of beneficiaries
- a tool to diversify funding streams and/or scale up projects
- a tool to reach a new type and generation of donors
- a means to innovate in terms of how they source and support social innovation

What are the key risks to consider?

As with all opportunities, crowdfunding also comes with certain risks. Key risks identified in the discussion were:

- The rapidly changing nature of the crowdfunding landscape may present risks e.g. rapid changes in technology or regulation
- Regulatory uncertainty and tax implications, which may present risks in terms of organisational compliance, but also in terms of possible costs for needed adaptation of internal systems
- Reputational risk – by entering into a crowdfunding exercise a foundation necessarily enters into partnerships and brand/values alignment should be carefully considered
- More broadly, crowdfunding raises questions and potential risks when it comes to the integrity of what is funded and how it can be validated

What does the regulatory environment for crowdfunding in Europe look like?

The regulatory framework for crowdfunding can generally be seen as somewhat underdeveloped in Europe. There are however, some jurisdictions that are seen as pioneers when it comes to the regulation of crowdfunding: Italy (where equity crowdfunding has been regulated since 2013), The UK (which introduced a dedicated regime for crowdfunding in 2014), and France (where in 2014 two specific regulatory statuses for crowdfunding have been introduced). Spain, Germany and Finland have also developed specific regulation on crowdfunding.

In a number of contexts, it may be unclear where the (legal) line is between online giving and crowdfunding for philanthropy. One important practical distinction that can be made is that in the case of crowdfunding, if the funding target is not met, the project does not receive any of the below-target funding pledged.

The discussions identified a number of regulatory risks and uncertainties that a foundation should keep in mind if engaging in crowdfunding and explore in their own regulatory context:

- Tax implications – it may not be possible to offer donors a tax incentive for giving via crowdfunding
- Commission – platforms generally generate income by taking a commission on the funds raised - how much will this be? How will this be communicated to donors and beneficiaries?
- Rewards for giving – if donors receive a reward in return for their gift, there may be legal restrictions as to the value and nature of the reward
- Due diligence - who is doing background checks on the projects seeking funding and how?

Important to note is that national regimes such as those referred to above are local in scope and support the activity of domestic platforms; they do not facilitate crowdfunding across borders, nor donors' access to tax incentives cross-border.

Foundations exploring and using crowdfunding: different entry points and approaches

As indicated, there are a number of ways in which a foundation might choose to use or to engage with crowdfunding. At this event several practice examples were explored. The different scenarios and some key learnings are briefly summarised below:

- European Cultural Foundation – exploring the possibilities: be part of the research!
In order to inform its decisions on how best it might engage in crowdfunding, the European Cultural Foundation launched a survey asking foundations and funders for their views on crowd funding and participatory grantmaking, in particular whether they use crowdfunding, what they identify as the main benefits if they do, and what are the reasons if they do not. Initial findings revealed that increased visibility rather than increased financial resources was the most frequently identified main benefit of crowdfunding for philanthropic work. After a pilot round, the research has been extended. A wider pool of responses to the survey will be sought and in-depth interviews with small group of key foundations and funders will be undertaken.

The survey is open until Wednesday 18th January and foundations are welcome and encouraged to take part:

<https://www.surveymonkey.com/r/RKRDYKD>

The results will be shared with all the participants, anonymously, so that all can learn more about the potential of these new approaches. The European Cultural Foundation can be contacted for more information (CBeckett@culturalfoundation.eu).

- BNP Paribas Foundation – a crowdfunding pilot programme:
The foundation found itself receiving more worthy and well prepared funding applications than it was able to support: despite a steady increase in the foundations' budget, 75% of applications made were not funded; of those not receiving funding, half could easily be considered as fully eligible and good potential partners. Through its own research, the foundation was also aware that this was taking place in a context in which almost half of associations believe that their financial resources will decrease in the near future. It was clear that additional sources of funding needed to be found. The foundation invited 21 associations to participate in a crowdfunding pilot project. 10 organisations agreed to participate and were given coaching on best practices using the resources and expertise of the foundation and with input from the chosen platform. The coaching covered such issues as communications strategies and tax aspects. The projects were then launched on the platform and the foundation and its parent company also undertook an extensive communications campaign to promote the initiative. Of the 10 participating associations, 5 had their project fully financed as a result of the crowdfunding campaign and 1 received the resources it needed as an in kind donation as a result of the publicity. The results make clear that whilst it is not a silver bullet, crowdfunding can tap resources for projects that might otherwise go unfunded. Foundations can add value to the process through capacity building and outreach, leveraging their nonfinancial resources and their networks. For future rounds of the programme, the foundation is considering offering matched funding for crowdfunded projects, as an additional stimulus to giving.

- Fondation de France – a new way to bring donors and causes together:
Crowdfunding as a notion sits very with the overall and historic aims of the Fondation de France, which already acts as an umbrella for some 775 donor advised funds, namely to enable ordinary people to give in order to help other ordinary people. With this in mind, and despite all the questions that crowdfunding raises about the nature of philanthropy and the role of institutional funders, Fondation de France has created 2 crowdfunding platforms. The platforms play a role in creating communities of interest among donors and also represent a modernisation in fundraising techniques – direct mail is no longer an efficient or effective way to approach most donors and potential donors.
- King Baudouin Foundation – integrating a crowdfunding platform:
Seeing that crowdfunding was being more and more widely discussed, the King Baudouin Foundation set out to establish whether it is likely to be a long term trend or a passing hype. The foundation examined the possibilities presented by crowdfunding both for its own work directly and for the sector in Belgium more broadly. The key issues that the foundation found that it needed to address in the process were: questions around branding (with whom would the foundation be willing to publicly align itself) and how to integrate the use of a crowdfunding mechanism into existing internal systems (such as accounting and reporting systems).
- Wissenschaft im Dialog “Sciencestarter” - crowdfunding and science communication:
Wissenschaft im Dialog has created “Sciencestarter”, a platform for funding research, science and science communication projects. The platform provides new ways of raising money for scientific projects in Germany, for example for some equipment or a field research trip. The platform is run on a non-profit model (no commission). This has been made possible with financial support from funders such as the Stifterverband für die Deutsche Wissenschaft. In return for their financial support the backers can receive a special reward provided by the project. This can be something as simple (yet engaging) as a postcard from a researcher undertaking field work that has been supported by their contribution. As well as offering the opportunity to researchers to seek funding for certain activities related to their work that they might otherwise be unable to undertake, the platform contributes both to developing the science communication skills of the researchers seeking funding and in turn to the overall communication of scientific research. In this context, the use of crowdfunding represents much more than just a way to generate financial resources; it is about visibility, networks and communication. The initiative highlights that there is scope for crowdfunding to supplement and act as a complement to traditional sources of funding.

For further details on the examples above, please refer to the presentations made at the event (links are given at the end of this report).

For foundations that want to engage with crowdfunding – where to start?

If looking to engage with crowdfunding, a foundation will need to ask itself an array of questions, such as: How many partners to engage with? What type of projects to support? How much money will we aim to raise per project? What type of donors are the target (individuals/corporates)? What tax and administration issues might there be? How is crowdfunding perceived in my eco-system? Are there opportunities for new tools and platforms?

Even when the basic questions have been answered, the details of practical implementation will need to be addressed (payment methods, accounting and tax deductibility integration if possible; training and support for staff using managing the tool; project selection procedures; communications strategies; impact measurement etc.) and a system for integration of the mechanism into the foundation's existing practices should be rigorously designed at the outset. Choosing which technology to use is of course a crucial decision, as is being clear from the outset what level of resources are available (in terms of finance and human resources for instance).

Conclusions - How is crowdfunding changing philanthropy?

Just as the internet has changed the way that we consume products and services and interact socially, so too is it changing the way that philanthropy happens and the way that people engage with philanthropy.

Crowdfunding can be seen to raise fundamental questions about how philanthropy is best served. In particular, it brings together the giving and the spending sides of activity that traditional foundation governance has separated. This means, on the one hand, that it offers a new and accessible channel for fund seekers and makes giving participatory for donors, bringing them closer the beneficiaries of their gift and creating communities of interest. On the other hand, questions arise as to where the added value of experience and expertise that institutional funders bring fits in; whether the mechanism leaves project holders/fund seekers too exposed; and how funding driven by public preference might leave 'hard to sell' but important projects without resourcing.

Given its growing scale and impact and its role as one piece in a larger picture of new forms of economy and philanthropy, crowdfunding is something that foundations would do well to take account of, whether they will directly engage with it or not. For those that do choose to engage, it may, as one carefully applied tool in a box of many, offer exciting opportunities. It is however, a means and not an end in itself.

Presentations made at this event:

All the presentations given at this event can be accessed via the links below:

- **Thérèse Lemarchand, Founding Partner, Culture Time**

Introduction to crowdfunding

http://www.efc.be/wp-content/uploads/2015/12/01-IntroductiontoCrowdfunding_TLemarchandfin.pdf

- **Lionel Slusny, Loft Solutions, Founder of the European Crowdfunding Network**

Crowdfunding for foundations

http://www.efc.be/wp-content/uploads/2015/12/06-CrowdfundingforFoundations_LSlusny.pdf

- **Charles Beckett, Programme Officer, European Cultural Foundation**

Crowdfunding: a European perspective

http://www.efc.be/wp-content/uploads/2015/12/04-Crowdfunding-Europeanperspective_CBeckett.pdf

- **Anne-France Simon, Head of Corporate Philanthropy, BNP Paribas Fortis Foundation**

Crowdfunding pilot Programme

http://www.efc.be/wp-content/uploads/2015/12/02-Crowdfunding-PilotProgramme_AFSimon.pdf

- **Marc Félis Deputy Head Corporate Philanthropy, BNP Paribas Fortis Foundation**

Legal and tax implications of crowdfunding in Belgium

http://www.efc.be/wp-content/uploads/2015/12/03-Crowdfunding-taxLegalImplicationsBelgium_MFelis.pdf

- **Thorsten Witt, Project Leader, Wissenschaft im Dialog gGmbH**

Crowdfunding for science, research, and science communications

http://www.efc.be/wp-content/uploads/2015/12/05-Crowdfundingforsciencecommunications_TWitt.pdf

Questions, comments, or ideas? Please do get in touch: policy@efc.be