

# Market and Operating Barriers in European Crowdfunding

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# About us

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

# What we do

ECN maintains a dialogue with public institutions and stakeholders as well as the media at European, international and national levels.



# The path to a «European» market



2008 crisis shows existing market failure: Incumbant financial services (professional and semi-professional) fail to answer funding demand from SME and individuals. Individuals are excluded from direct investment.

1. First crowdfunding platforms appear around 2006 with both, financial products and reward structures. USA providing lead examples. Uptake in EU slower, overall market remains marginal in the early years. **2008 Financial crisis becomes a market motivating factor.**

2. After slow growth, relevance of market is being realised by policy makers around 2012. Italy first EU country to introduce crowdfunding specific regulation. UK, France, Germany and others follow (11 to-date). **EC engages with crowdfunding sector as of 2012, launches stakeholder group in 2013.**

3. Experience with regulation across a number of EU Memberstates, EC follows developments closely and engages in fact finding. EC includes crowdfunding in the revised Prospectus Law in 2017. **Crowdfunding is included in EC FinTech Actions Plan. EC Finalises pan-EU crowdfunding regulation proposal at the beginning of 2018.**

# Within the decision process

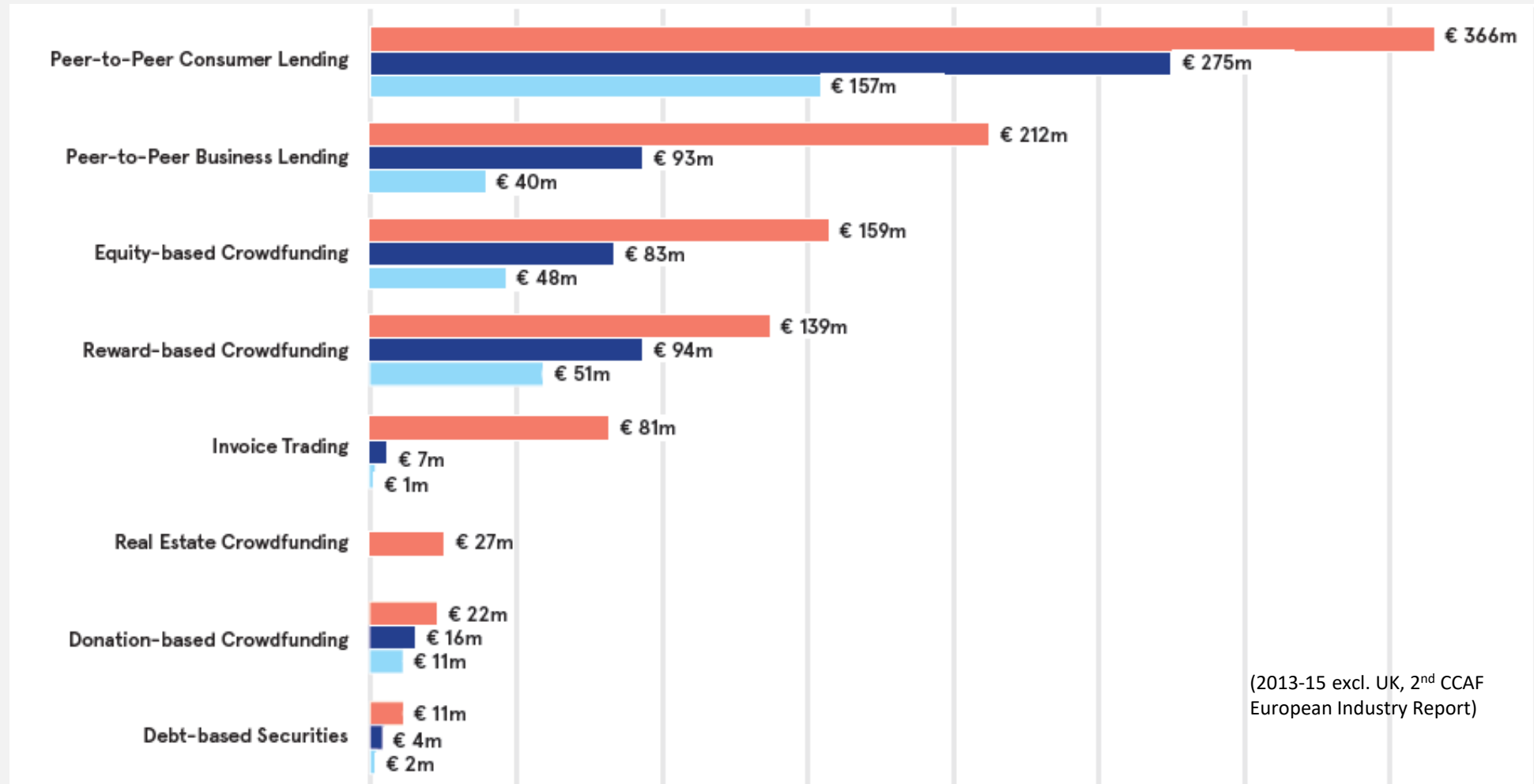
**2018:** Commission proposal for a regulation on European Crowdfunding Service Providers (ECSP) for Business COM(2018)113 as part of its FinTech Action plan.

**The European Parliament drafts a counter ECSP proposal** via a cross-party working group over the summer 2018, and publishes this in November 2018.

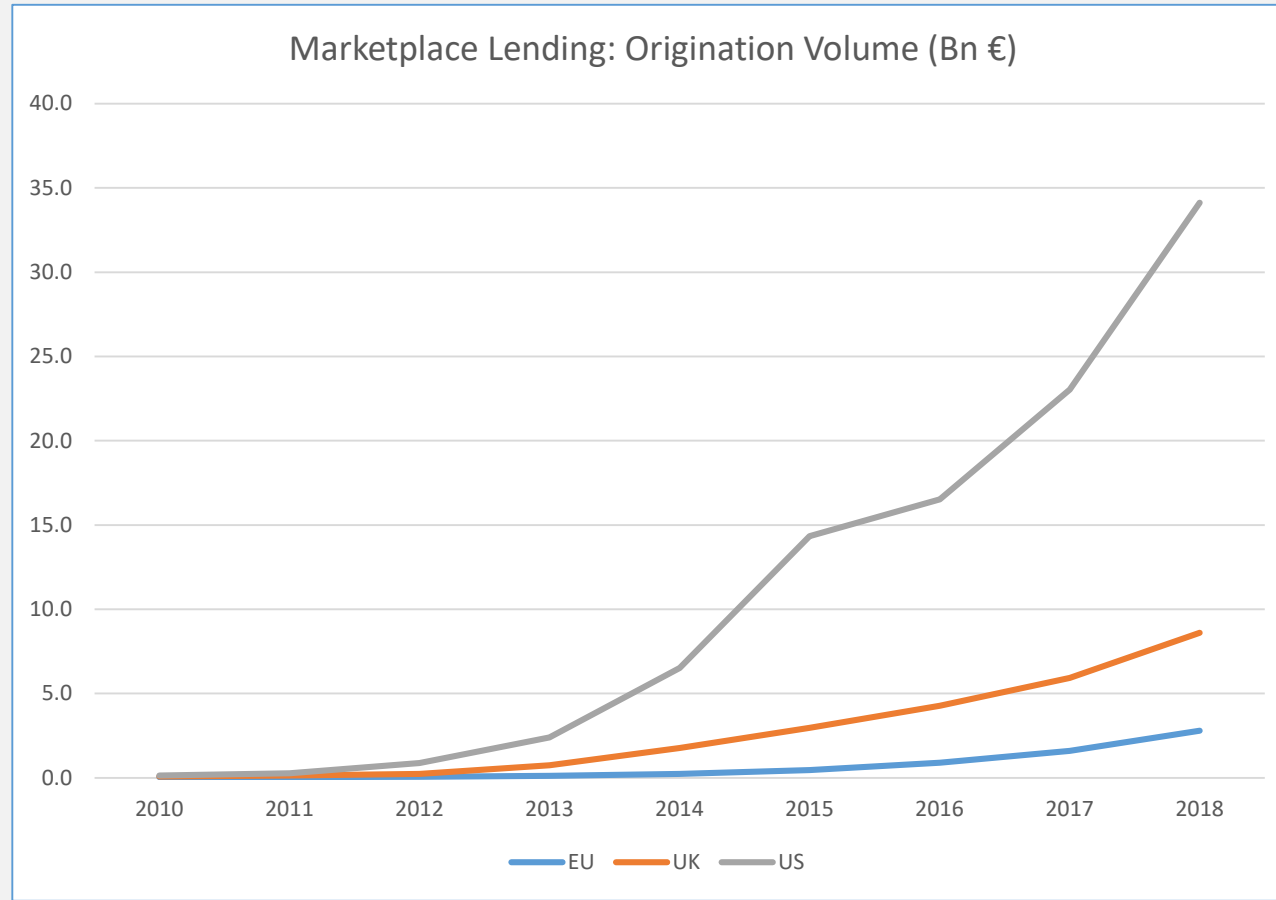
**The European Council takes up discussions around the ECSP proposal** in the third quarter of 2018 under the Austrian presidency and continues with this into the Romanian presidency in 2019.

**Triologue between the European Council, the European Parliament and the European Commission** to find a compromise of the three proposals will after the Council has issued its proposal. The final version will be voted on in the European Parliament.

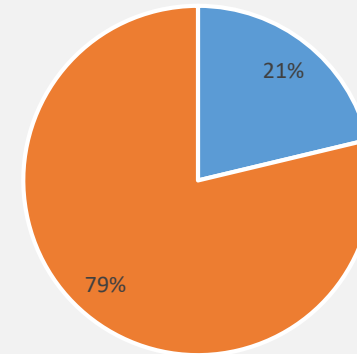
# European Crowdfunding Sector: Context



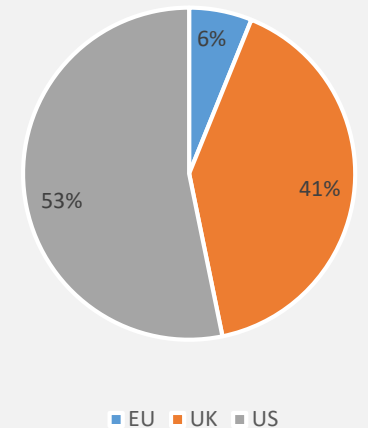
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2017 Total Volume

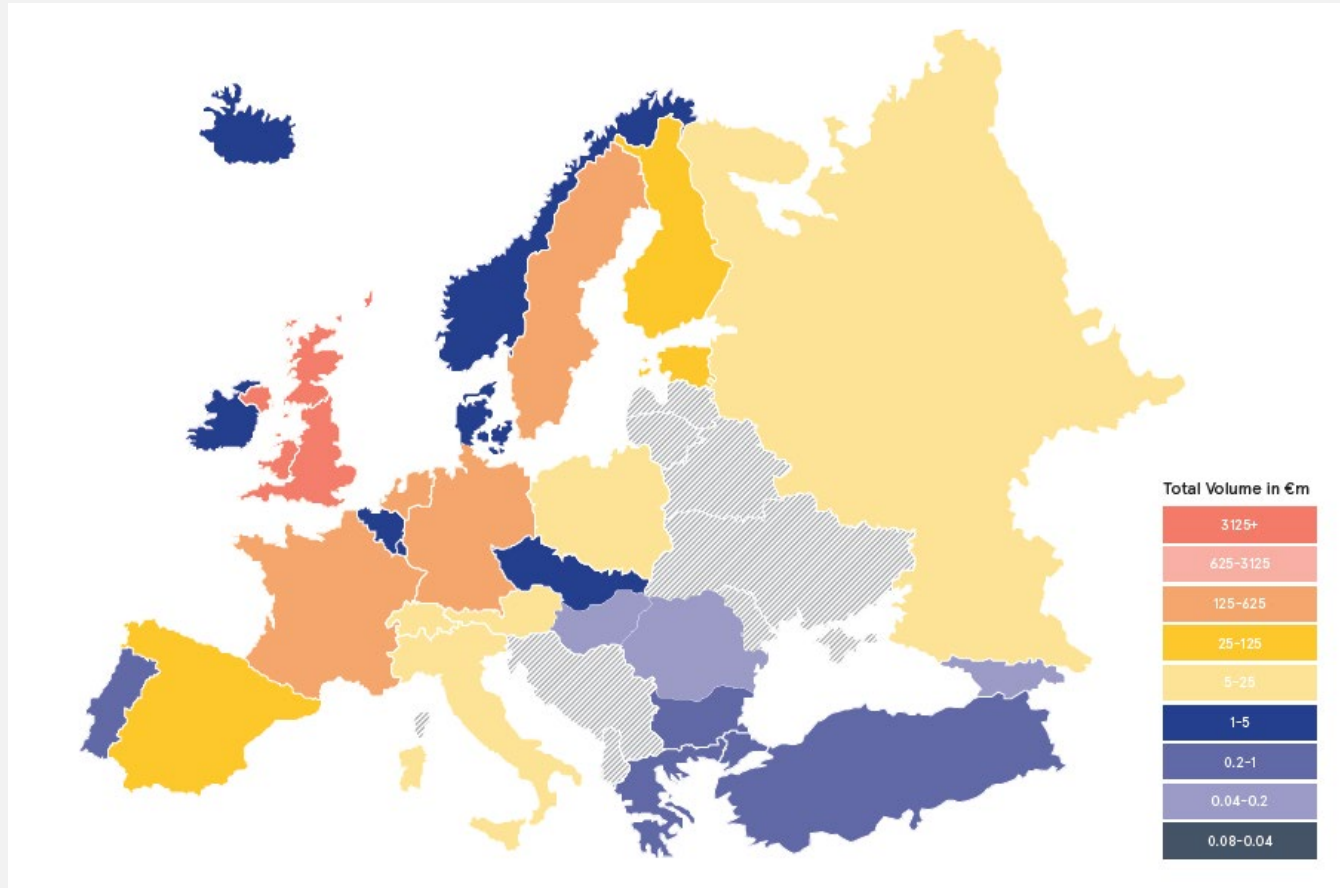


2017 Business Lending



Source: AltFi Data, <https://www.altfidata.com/commentary/2018-origination-volumes-usa-set-approach-40bn-uk-nearly-8bn-eu-almost-eur2-8bn/>

# European Crowdfunding Sector: Context



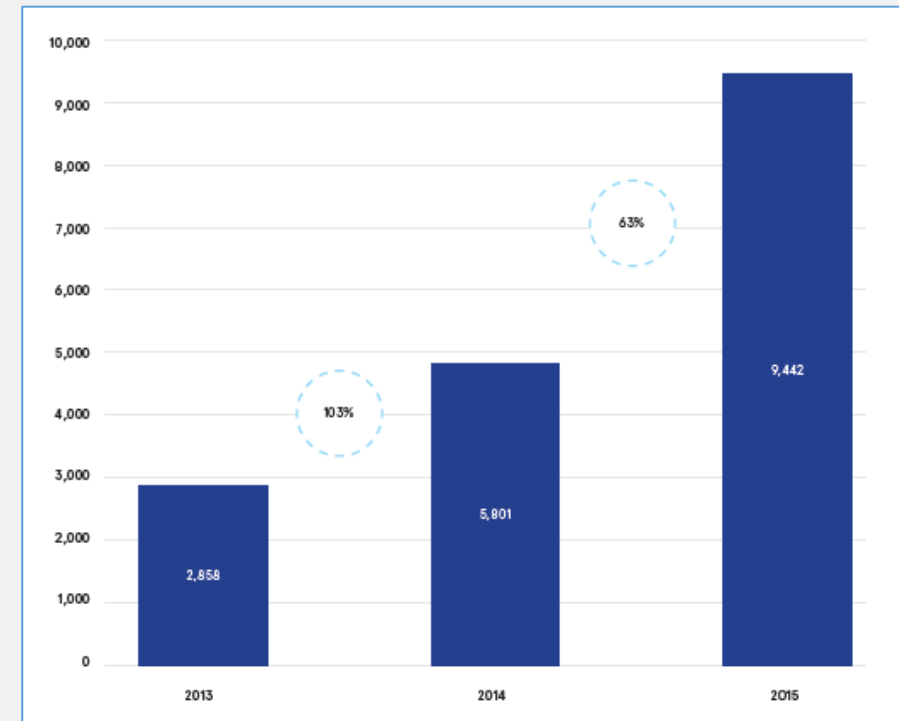
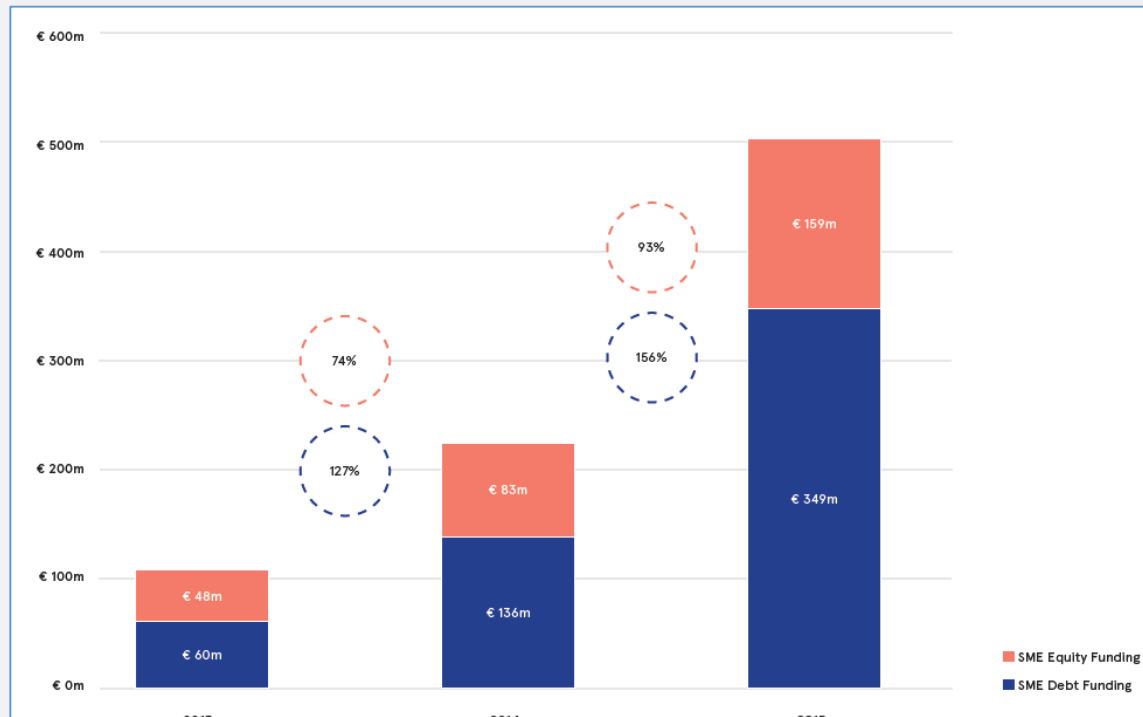


# Role of Crowdfunding in SME Finance

Financing instruments	Clusters						
	Mixed-financed (other loans)	Mixed-financed (retained earnings or sale of assets)	State-subsidised SMEs	Debt-financed SMEs	Trade-financed SMEs	Asset-based financed SMEs	Internally-financed SMEs
Retained earnings or sale of assets	7.5%	<b>92.8%</b>	12.7%	0.0%	1.0%	0.0%	0.0%
Grants or subsidised bank loans	6.2%	1.1%	<b>100%</b>	0.0%	0.3%	0.0%	0.0%
Credit line, bank overdraft or credit card overdrafts	48.5%	35.5%	56.5%	<b>85.7%</b>	45.8%	37.2%	0.0%
Bank loans	21.8%	14.6%	49.7%	35.6%	18.4%	0.0%	0.0%
Trade credit	23.7%	22.1%	29.2%	0.0%	<b>95.6%</b>	0.0%	0.0%
Other loans	<b>93.9%</b>	14.2%	0.0%	0.0%	0.5%	0.0%	0.0%
Debt securities issued	0.5%	0.4%	1.0%	0.0%	9.8%	0.0%	0.0%
Equity	0.9%	10.4%	0.0%	0.0%	0.5%	0.0%	0.0%
Leasing, hire-purchase or factoring	16.8%	20.3%	23.0%	6.9%	23.6%	<b>100%</b>	0.0%
Other <sup>(a)</sup>	11.7%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%
No external finance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	<b>100%</b>
N	1,129	1,324	602	2,481	1,382	859	5,321
Percentage of firms	8.6%	10.1%	4.6%	18.9%	10.6%	6.6%	40.6%

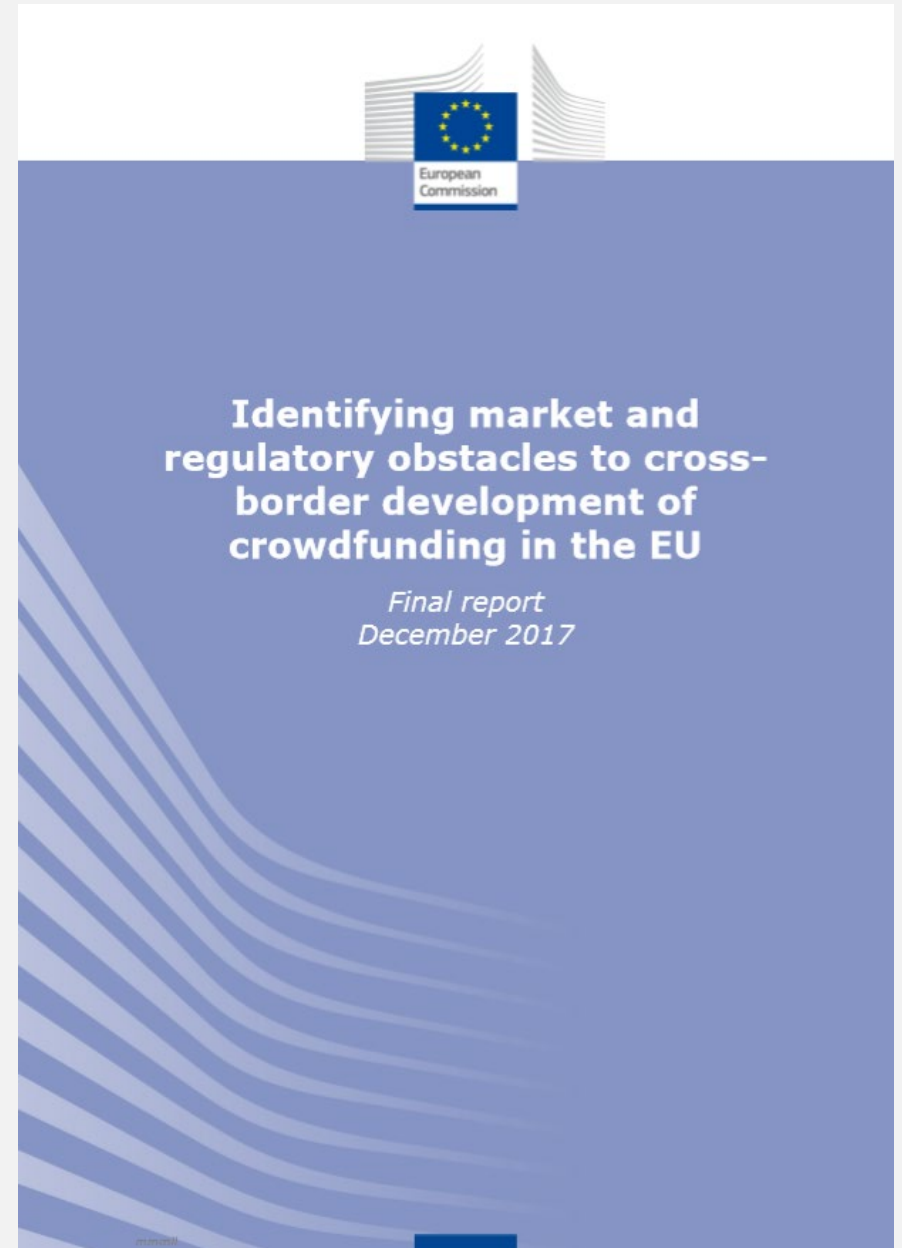
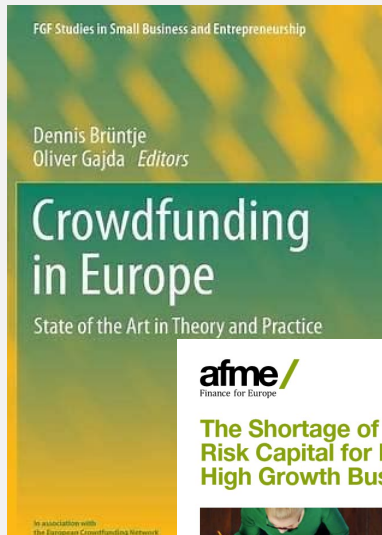
(EIF 2017, Financing patterns of European SMEs revisited, WP40)

# Role of Crowdfunding in SME Finance

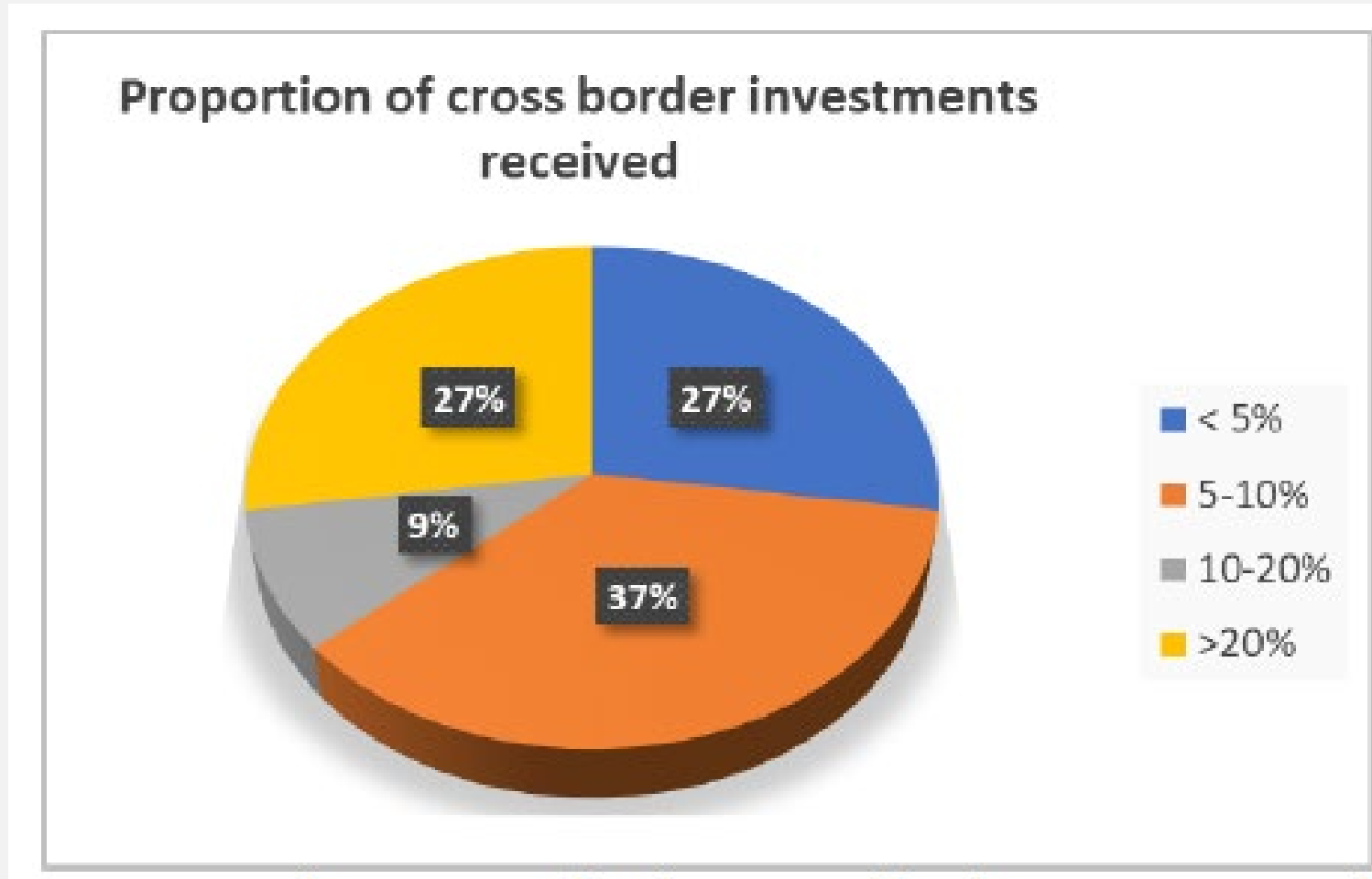


(SMEs using CF)

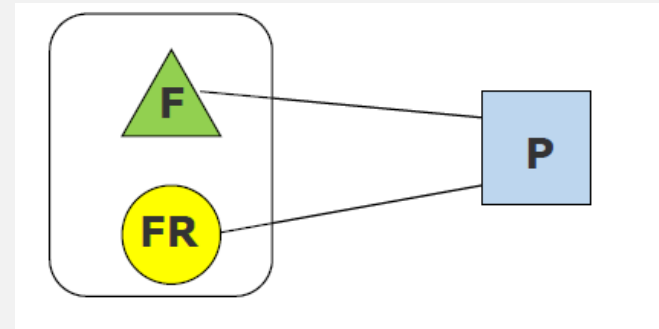
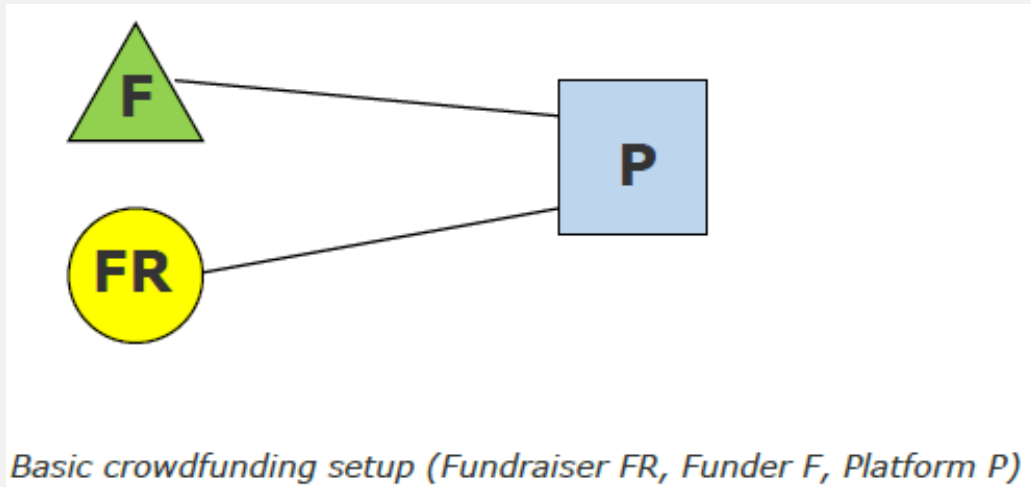
# Cross-border Crowdfunding



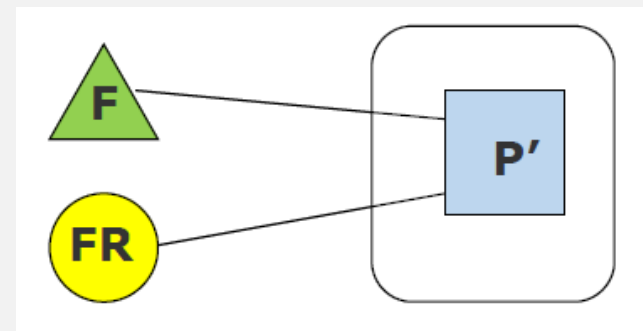
# European Cross-border Crowdfunding: Snapshot



# Examples of Cross-border Crowdfunding set-up



Inbound, non-domestic P



Outbound, domestic P'

# Cross-border: Market barriers

<b>MARKET BARRIERS</b>	DIGITALISATION	TRANSACTION COSTS
	Lack of trust Data privacy Electronic identity User readiness	Information Measurement Market making

# Cross-border: Regulatory barriers

<b>REGULATORY BARRIERS</b>	COMPLEXITY	UNCERTAINTY
	Fragmentation Divergence Applicability Practicality	National CF regulation EU legislation National applicable laws

# Dominant Cross-border Models

- Distinct business in each member state (1)
- Operation via partner platform (2)
- Operation via EU license (3)



# Transaction Costs of Current EU License Regime

## Operation via EU license for the platform as a financial service provider

Business Model	Approach	Pro	Contra
Operation via EU license for the platform as a financial service provider	Platforms are MiFID compliant and passport their national license into other EU member states in order to offer their service cross border, MTF structures also possible	<ul style="list-style-type: none"><li>a. Added value of increased professional management</li><li>b. Recognition with national regulators and related marketing</li></ul>	<ul style="list-style-type: none"><li>a. Costly and time consuming to set up, plus ongoing compliance cost</li><li>b. Unclear benefits as some aspects of the platforms operations may remain under national rules and the replication of the home market business model is in most cases not possible across border</li></ul>

# Takeaways for ECSP Proposal

- EU Crowdfunding Sector has fallen behind
- Evidence of EU SME crowdfunding uptake to close funding gap
- Scale is key
- Harmonisation to minimum denominator will not be sufficient

# Thank you

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