

Policy recommendations

On improving the framework conditions for alternative finance
for start-ups and social enterprises

Danube Region



Symbolic map

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Danube Region

Policy recommendations

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1. Introduction

This compilation of transnational strategic recommendations for the improvement of access to crowdfunding for innovative SMEs, start-ups and social enterprises is based on the analyses performed by the CrowdStream project partners in the course of project implementation in a series of strategic project outputs, such as regional profiles, regional market analyses, pilot actions and regional action plans for each of the partner regions. The mentioned documents are available on the Interreg website of the CrowdStream project under <http://www.interreg-danube.eu/approved-projects/crowdstream>.

To develop a joint picture of the strategic development demand which is common for all countries of the Danube area, the challenges, goals and plans as elaborated during project lifetime at partner region level were revisited and further aggregated in an additional analytical step. Further inputs came from representatives of crowdfunding platforms and service providers as well as other external experts which were involved by the project partners at various stages of project implementation. It became clear that the term of transnationality has to be addressed in a double meaning when talking about transnational challenges of crowdfunding:

- The partnership identified a few strategic challenges that need to be resolved at a transnational level in order to create harmonized framework conditions and regulatories for the deployment of crowdfunding markets across the Danube region. In this context, transnational institutional cooperation among Danube countries and at EU level will be required, mainly to establish of joint regulatories allowing for transnational crowdfunding campaigns.
- Regarding several other strategic recommendations, the underlying challenges can be considered as a transnational or rather as a macro-regional ones as they are prevailing in most of the (partner) countries in the Danube area - mainly those related to advancing the level of crowdfunding market readiness of target groups and improvement of support structures. However, although this type of strategic recommendations will require action at the national or regional governance level, a majority of Danube countries will need to follow the recommended strategies in order to change the positioning of the Danube area as a whole within the EU-wide and international crowdfunding markets.

As a results of project pilot activities and ongoing networking with relevant local and regional stakeholders, CrowdStream partner were able to start already a number of activities that will continue beyond project lifetime. Also letters of intent obtained from relevant institutions from all participating regions represent a stock of committed actors that will continue transferring the CrowdStream results to local eco-systems.

With regard to overarching innovation policy issues the strategic recommendations presented below will be referred to as guidelines to integrate crowdfunding as an innovative instrument of innovation support and finance into regional strategies and macro-regional innovation policies.

2. Transnational Policy Recommendations for strengthening the access of SMEs, start-ups and social enterprises to Crowdfunding in the Danube area

This chapter summarizes the main strategic findings of the CrowdStream partnership and presents for each topic several concrete recommendations for their practical implementation.

Recommendations #1 and #4 include strong elements of transnational institutional cooperation, while all other recommendations point at the improvement of national and regional innovation eco-systems which – in case of implementation in a majority of Danube area countries – will boost the development of crowdfunding markets for the benefit of local project owners in the whole Danube macro-region.

Recommendation #1: To establish a dedicated regulatory framework for the implementation of crowdfunding mechanisms

In most countries of the Danube area (except Austria and Germany), a dedicated regulatory for the implementation of crowdfunding mechanisms does not yet fully exist. While in some Danube countries first binding rules have been issued by the relevant authorities recently discussions about adopting dedicated regulatories are still ongoing in other parts of the macro-region, specifically with regard to crowdfunding models that provide investors with financial returns, like crowd-lending or equity-based crowd-investments. The case of Austria as a forerunner country where a dedicated law on alternative finance was already adopted in autumn 2015 shows the strong effect on market deployment as soon as a legal basis has been in place defining clear rules for the issuers of crowd-investment campaigns as well as for crowd-investors.

Also for so-called non-financial models, like the reward-based crowdfunding model in which perks or small presents are offers to campaign backers, reliable rules that clearly define the responsibilities of all involved actors, e.g. regarding taxation, are required to build up confidence in crowdfunding as a new way of promoting and financing innovative projects in the Danube area. This is even more necessary as well-known international crowdfunding platforms that operate on the bases of reward-based models are partly not directly accessible from some of the Danube regions and experience with this type of crowdfunding is rather limited.

Therefore, establishing a legally binding framework and improving accompanying administrative rules to regulate the operation of crowdfunding platforms and all parties involved in a crowdfunding campaign represents a key prerequisite for the development of crowdfunding markets in the Danube area.

As already existing national crowdfunding regulations in different European countries nowadays show significant differences and the discussion of joint rules for the implementation of transnational crowdfunding mechanisms is still ongoing at the European level, it would be highly recommendable to harmonize the regulatory approaches taken by the single Danube area countries to strengthen the position of Danube area countries the crowdfunding sector as a whole and prepare the Danube macro-region for participating in the European alternative finance and crowdfunding market at peer level in a longer perspective.

Recommendation #2: To integrate crowdfunding in innovation strategies as a new instrument to support and finance innovative projects from local SMEs, start-ups and social enterprises at the regional level

During the development of regional action plans and subsequent peer review sessions the issue of considering crowdfunding mechanisms as an instrument for promoting and financing innovation was highlighted by the CrowdStream project consortium. A number of innovation support instruments, such as pitches and competitions of innovative ideas, expert coaching for potential crowd-campaigners, involvement of creative industries in the development of campaigns, etc., was successfully tested by the project partners (see also Lessons Learnt Report on the Interreg project website). The suggestions made in the Regional Action Plans for each project region are based on this piloting experience which was further elaborated at the transnational partnership level. Practically proven CrowdStream suggestions for improving innovation support measures thereby are made available for other interested regions in the Danube area and across Europe.

Against this background, it is the partnership's recommendation to address crowdfunding approaches as a part of the regional and national innovation strategies in all Danube area countries. This approach will allow to further develop (non-financial and financial) support measures and incentives for the transformation of local target groups into crowd-communities (campaigners and backers) and foster the development of crowdfunding markets for the benefit of local technological and social innovators and entrepreneurs. Further, a strategic focus on crowdfunding will strengthen the cooperation between authorities and society to enable small-scale investments at the level of local innovation eco-systems.

With view to the upcoming operational period beyond 2020, the ongoing process of updating innovation policies and smart specialization strategies offers a good opportunity to introduce and integrate crowdfunding instruments to widen the access to finance for local target groups based on the CrowdStream project results.

Recommendation #3: To develop and implement measures for awareness raising and education of wide regional target groups to trigger the emergence of local “crowdfunding communities”

It is a fact that even in those partner regions with well-developed alternative finance markets in which success stories about successful crowdfunding projects are regularly disseminated in media the knowledge of ordinary people about the functioning of crowdfunding mechanisms is very limited. Even more, wrong assumptions and misperceptions about the potential and risks of this finance instrument hinder the proliferation of crowdfunding practice.

Therefore, the CrowdStream consortium recommends integrating awareness raising and training measures into already existing educational programmes and curricula, but also to establish specialised crowdfunding trainings at local hubs (see Recommendation #4) to disseminate basic knowledge in wide audiences.

The recommended activities should not be limited to potential innovators and project-owners but cover wide public audience groups to trigger the emergence of local “crowd-communities” of citizens willing to become backers of or investors in local projects. Such an approach would help raising local innovation potential in relevant fields of technology as well as in social innovation and make crowdfunding a known and accessible source of funding for SMEs, start-ups and social enterprises across the Danube area.

Recommendation #4: BSO capacity building and establishment of a network of local crowdfunding knowledge hubs across the Danube countries

Regional innovation and business support organisations (BSOs), such as innovation agencies, technology centers, technology transfer offices etc., already today operate as contact points and one-stop shops for their local target groups and project owners to provide them with first information and guide them through the early phases of innovative project ideas. Therefore and based on the piloting results achieved during CrowdStream implementation, it is recommended to continue building up the capacities of local BSOs across Danube regions in order to transform at least one BSO per regional eco-system into a crowdfunding knowledge hub. The CrowdStream partnership itself which represents different types of local BSOs has already started this activity during the piloting phase of project implementation. A range of enhanced services was successfully tested, such as training sessions for local target groups implemented by the BSOs, project competitions, individual coaching for promising crowd-campaigning teams with a technological and/or social innovation background, provision of support services from creatives for the implementation of promotional videos, etc.

Within the CrowdStream training material, a special training module addresses the requirements of BSO capacity building in this context as well as the phases of BSO support for raising local crowd communities in a multi-level approach. Interested BSOs from other regions are welcome to transfer these CrowdStream results to their local environments. Further, trained BSOs in the Danube regions are invited to use the CrowdStream modules together with the strategic project outputs in order to inform and involve local, regional and/or national authorities in their countries, create trust in the application of new crowdfunding instruments and initiate the development of incentive schemes for the benefit of local target groups.

For the future, it will be important to integrate innovation support instruments with focus on crowdfunding and other alternative mechanisms into the already existing range of BSO services: in order to 1) to introduce the potential of crowdfunding mechanisms to potential owners in the right intervention phase and 2) to support realistic planning of innovators' projects in terms of finance mix and promotional channels under consideration of suitable crowdfunding approaches. Further suggested support measures and instruments, e.g. the introduction of voucher schemes for specialised services needed for the preparation of crowdfunding campaigns or the establishment of a specialised crowdfunding incubation/acceleration programme, can be found in the action plans for the partner regions and may serve as an inspiration for further innovation actors.

On top of that, the project partnership recommends establishing a sustainable network of BSOs operating as crowdfunding knowledge hubs in the Danube macro-region to enhance knowledge exchange and the adaptation of crowdfunding-related support instruments to local conditions of the Danube countries. At the same time, the Danube Network of BSO crowdfunding hubs would be able to represent the "Danube agenda in crowdfunding" at the European level and in transnational networks of alternative finance professionals.

A first step in this direction has already been done through the exchange of experience and cooperation of the CrowdStream partnership during project implementation. Further bi-lateral and multi-lateral follow-up activities beyond project lifetime are under discussion and partly agreed. Other interested BSOs from the Danube countries are invited to contact the CrowdStream partners for joining future activities.