



Crowdfunding and crowdlending: Get funding online!



IDEATION



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Ajuntament de
Barcelona



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01

Crowdfunding: What is it?

Crowdfunding platforms are a meeting place for people to make their business ideas or projects materialise by taking advantage of new technologies (including both personal and business ones) with the help of groups of people who finance their ideas.

The movement began in response to the social need to give financial support to projects and search for this funding collectively. Instead of asking a single entity or person for €10,000, why not ask 10,000 people for €1?

There are currently four types of crowdfunding:

1. **Reward-based (fan support):** The person making a monetary contribution receives a reward in return.
2. **Investment-based (equity crowdfunding):** The investor or micro-investor receives a share in the company or a promise of a share of the profit in return for their contribution.
3. **Loan-based (crowdlending):** The person recovers their contribution, with interest.
4. **Donation.**

TIME/DEADLINE	
	<p>All crowdfunding platforms have a specified amount of time for reaching the funding target. If the target is reached, they obtain the money but, if the desired amount is not raised within that time, they receive nothing.</p>

TYPES OF INVESTORS ON PARTICIPATIVE FINANCING PLATFORMS

In 2015, Act 5/2015, of 27 April, on the Promotion of Business Financing, otherwise known as the Spanish crowdfunding law, came into force in Spain.

This Act 5/2015 refers to digital crowdfunding platforms as “participative financing platforms” (hereinafter, “PFP”) and lays down both the requirements for qualifying as a PFP and the rules for ensuring the protection of investors.

One of the new developments in the law in relation to investor protection is the distinction between accredited and non-accredited investors.

WHAT ARE ACCREDITED AND NON-ACCREDITED INVESTORS?

Accredited investors are (Article 78 bis(a), (b) and (c) of Act 24/1988, of 28 July, on the Equity Market):

- A.** Financial entities, investment service companies, insurance companies and collective investment institutions; states and regional governments, public bodies that manage public debt, central banks or international/supranational bodies; institutional investors or venture capital firms.
- B.** Entrepreneurs who individually fulfil at least two of the following conditions:
 - having total assets of €1 million or more;
 - having an annual business turnover of €2 million or more;
 - having personal resources of €300,000 or more.
- C.** Natural persons who:
 - can prove that they have an annual income of more than €50,000 or financial assets of more than €100,000;
 - apply to be considered accredited investors in advance, expressly waiving the right to be considered non-accredited clients;
 - natural and legal persons who can prove that they have engaged an authorised company to give financial advice on the platform’s financing instruments.

Non-accredited investors, on the other hand, are those not included in the above description. The crowdfunding platforms (PFP) themselves will ensure that these requirements are fulfilled.

LIMITS FOR NON-ACCREDITED INVESTORS

Non-accredited investors can only participate in reward-based (fan support) crowdfunding platforms and not in loan (crowdlending) or capital (equity crowdfunding) ones.

Furthermore, non-accredited investors may not:

- invest more than €3,000 in the same project published on the same PFP;
- invest more than €10,000 on a PFP within twelve months.

02

Crowdfunding: fan support for your project

Crowdfunding platforms are a meeting point where people can take advantage of new technologies in order to make their business idea or project come true.

There are two types of people who can participate in reward-based/fan support crowdfunding:

- **a. The creator:** This is the person who creates the projects and needs contributions to get it up and running.
- **b. Sponsors:** These are all the people who access these platforms, decide that they like the projects and make contributions to them.

How fan support crowdfunding platforms work



1 PERSON WITH A CREATIVE IDEA BUT NO CASH

A person (the creator) has an idea or creative project, such as writing a book, making a full-length or short film or producing an album, or a business vision, but they do not have the money to make it happen. They therefore decide to find the money on a crowdfunding platform.

2 + 3 THE CREATOR REGISTERS WITH THE CROWDFUNDING PLATFORM

The creator registers on the website (by creating a username and password), entering the information they want to appear on the website to finance their idea. What information can be included by the person in search of funding?

- **Description of the idea/project:** The creator explains the project in detail, providing potential visitors with information on what it involves, its purpose and its target audience.
- **Multimedia presentation:** Although this varies depending on the crowdfunding platform used, there is usually a presentation, video or MP3 for each project or idea. This gives it more visibility and helps users find out what the project is about.
- **Investments and rewards table:** Users supporting a project can choose the amount they want to contribute and the associated reward, which is set out in detail in the description for each idea. The user is thus shown a contribution scale with a gift or reward for each amount. The minimum contribution is generally €1.

Creators upload as much multimedia or visual content (such as videos or photographs) as possible to fully describe their project. This space becomes their letter of introduction for potential sponsors visiting the website. Anyone can view the projects on a crowdfunding site, but only registered users can make contributions.


4 PUBLICITY AND CROWDFUNDING CAMPAIGN FOR REWARD-BASED/FAN SUPPORT PROJECTS

The project creator is responsible for all the publicity and promotion relating to their project. Reward-based crowdfunding platforms will keep the project posted on their site and carry out basic communication tasks, but the creator is the one who has to do most of the work to get the project out there using any channels they may deem appropriate.

5 SPONSORS MAKE THEIR CONTRIBUTIONS




Once the project information and table of rewards have been set, sponsors can make contributions to any projects they like. Sponsors must be registered on the platform.

- **How can you support an idea?:** If a user likes a project, they decide how much they want to contribute and confirm their investment on PayPal. This investment is not charged to the investor’s account until the idea has reached its full funding target.
- **What happens if the project does not reach its funding target?:** Users’ individual contributions are not charged to their account until the project reaches 100% of the funding requested. Therefore, if a project does not reach its initial funding target on the website, the creator cannot receive the money pledged by the people who wanted to invest in the idea.

TIME/DEADLINE	
	<p>All reward-based crowdfunding platforms have a certain amount of time during which the funding target must be reached. If the target is reached, they obtain the money but, if the desired amount is not raised within that time, they receive nothing.</p>

CROWDFUNDING WEBSITES FOR PROJECTS

Under no circumstances does Barcelona Activa recommend these websites. It is merely providing information about them.

Name	Description	Website
<p>Verkami</p>	<p>This website defines itself as a crowdfunding website for creative projects.</p>	 www.verkami.com
<p>Ulule</p>	<p>This platform operates in several European countries. In Spain, it has projects by entrepreneurs and inventors, as well as more cultural ideas.</p>	 https://es.ulule.com/
<p>Goteo</p>	<p>This crowdfunding platform specialises in open-source projects.</p>	 www.goteo.org
<p>Kickstarter</p>	<p>This crowdfunding platform is for creative projects. All sorts of projects ranging from independent films, music, comics, journalism, video games, and gastronomic projects have sought funding through this website.</p>	 www.kickstarter.com/

CROWDFUNDING SUCCESS STORIES



New Rubik's-style cube

An inventor secured more than €60,000 to start marketing his latest work: a new toy inspired by the Rubik's cube.


Platform: Ulule



Smart Crowd open-source hardware

A device for measuring temperature and noise level that raised over €13,000.

Platform: Goteo.org



Eureka Launch

The entrepreneurship blog Eureka Startups raised over €5,000 to make Eureka Launch happen. The aim of Eureka Launch is to provide services to start-ups, helping them plan their marketing strategy and contents.

Platform: Projeggt



Ictineu

This project raised over €60,000 to launch the first scientific submarine in the world.

Platform: Verkami

03

Crowdlending:

Crowdlending platforms enable companies that are already operating to get funding through loans on crowdlending websites.

The parties involved in crowdlending are:

- **Companies that are already in operation and need funding:** These are companies that are already operating and doing well but need funding for a specific reason (e.g. to acquire new fixed assets).
- **Individuals who want to invest:** These are people with money who want to get a return by investing in projects.

HOW CROWDLENDING PLATFORMS WORK

Below is a graphic visualisation of the process of getting funding through crowdlending platforms:



It is a bidding process in which, if the company is offered more money than it needs, it will select the loans it deems most advantageous to it.

1 A COMPANY NEEDS FINANCE

Companies that are already in operation and need funding for a particular project. The reason for seeking funding cannot be that the company is not financially viable: it must be for a new project.

2 THE COMPANY CHOOSES A CROWDLENDING PLATFORM

The company contacts a crowdlending platform, which then performs an economic analysis of its situation to confirm that it is financially viable. What information must appear on the platform?

Information on the project (by the company)

- **Company presentation:** General information about the company, such as its business activity, the date on which it started operating, its employees, etc.
- **Purpose of the project:** The reason for raising the money.

Other information for users

- **Basic information on how the platform works and how projects are chosen.**
- **Information on the types of loans, AER and late interest rate, among others.**
- **Warnings such as the risk to investors and the fact that the platform is not a credit institution.**

All projects published on crowdlending platforms are vetted by the platforms themselves.

3 THE PROJECT IS PROMOTED

Companies that publish their projects must also make an effort to get the word out and reach their funding target. Unlike the case with fan support platforms, crowdlending platforms send information on new projects to all registered users (private investors).

4 THE POTENTIAL INVESTORS MAKE LOAN OFFERS: BIDDING BEGINS


Crowdlending projects have a deadline for raising the amount of money specified by the company that posted them. The countdown starts as soon as the project opens for bidding.

This means that all users registered on the crowdlending platform can start to make loan offers. The crowdlending platform will always make the other loan offers visible and provide information on the average interest rate offers received from users by the company.




Private investors must choose the amount they want to lend, the term of the loan and its interest rate.

5 + 6 THE COMPANY GETS THE PROJECT GOING

Once bidding has ended, the money is made available to the company so it can get its project up and running. From that moment, the company must pay back the money at the interest rate offered by the investor and in accordance with the proposed terms.

TIME/DEADLINE	
	<p>All crowdlending platforms have a certain amount of time during which the funding target must be reached. If the target is reached, the company will receive the money but, if the desired amount is not raised within that time, it will receive nothing and no loans will be concluded.</p>

Crowdlending platforms in Spain

Name	Description	Website
<p>Ecrowd</p>	<p>Aimed at high profit and high social impact projects.</p>	 www.ecrowdinvest.com
<p>Loan Book Capital</p>	<p>A crowdlending platform featuring professionals with extensive experience in business banking.</p>	 www.loanbook.es/
<p>Novicap</p>	<p>A platform specialising in current financing for start-ups and SMEs.</p>	 https://novicap.com/

CROWDLENDING SUCCESS STORIES IN SPAIN	
	<p>Energy efficiency at a school</p> <p>A project to install an energy efficiency system raised €75,000 on the crowdlending platform E-crowd!</p>
	<p>Fixed asset investments</p> <p>An industrial manufacturing company secured €40,000 on the platform Arboribus.</p>

04

Equity crowdfunding

Equity crowdfunding websites enable companies that are already in operation and require funding to achieve this through a capital increase.

The parties involved in equity crowdfunding are:

- **Companies that are already in operation and need funding/want to expand.** These are companies that are already in operation and doing well but need funding for a specific reason (e.g. to expand their business).
- **Private investors;** i.e. people with money who want to get a return by investing in projects.

HOW EQUITY CROWDFUNDING PLATFORMS WORK

Below is a graphic visualisation showing how equity crowdfunding platforms work:



1 AN ACTIVE COMPANY HAS FINANCING NEEDS

Businesses wishing to participate in an equity crowdfunding platform must be incorporated and have been in operation for a minimum number of years. The need for funding is usually in order to expand the company’s business model rather than to acquire assets.

2 PROJECTS ARE VETTED BY THE EQUITY CROWDFUNDING PLATFORM

Companies must present their business plan showing the viability of their project. In addition, the equity crowdfunding platform analyses the company to check its financial viability and solvency.


3 + 4 THE PROJECT IS PUBLISHED ON THE EQUITY CROWDFUNDING PLATFORM AND PUBLICISED

Once the company has successfully passed the analysis stage, the project details are published on the platform. These details can only be seen by investors registered on the platform.



At the same time, the platform publicises the new project among its registered investors. The company can also launch its own publicity campaign and use the platform as a more direct tool for increasing its capital.

5 STANDARD BUSINESS PARTNERSHIP AGREEMENT



If the money is raised within the set time, the capital increase must be carried out. Equity crowdfunding platforms have a standard business partnership agreement that is formalised before a notary public.

TIME/DEADLINE	
	<p>All equity crowdfunding campaigns have a set period during which the funding target must be reached. If the target is reached, the company will receive the money but, if the desired amount is not raised within the set time, it will receive nothing and the capital increase will not take place.</p>

PLATAFORMES CROWDLENDING EN ESPANYA

Name	Description	Website
Dozen	An equity crowdfunding platform that manages financing rounds for start-ups and growing businesses.	 DOZEN <small>INVESTMENTS</small> https://dozeninvestments.com
Crowd cube	Investment platform in Europe. This platform is approved and supervised by the Spanish National Securities Market Commission (CNMV).	 <small>Inspiring Investment</small> www.crowdcube.es/
Sego Venture	An equity crowdfunding platform that also operates in Latin America.	 <small>líderes en inversión colectiva</small> www.sociosinversores.com/
Capital Cell	Europe's first online investment platform specialising in health and biotechnology.	 Capital Cell https://capitalcell.es/

CROWDLENDING SUCCESS STORIES IN SPAIN

	<p>A University of Barcelona spin-off that secured a €100,000 loan to develop treatments against nervous system diseases.</p>
	<p>An application for easier communication between owners of vessels and ports. It secured €55,000 on the platform Mynbest.</p>

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Information sources

Produced by the Barcelona Activa team based on the following sources of information:

- Spanish Crowdfunding Association: spaincrowdfunding.org
- Act 5/2015, of 27 April, on the Promotion of Business Financing.

Produced by the Barcelona Activa team
<https://emprenedoria.barcelonactiva.cat/>

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