



INVESTING FOR IMPACT

REPORT

ACCELERATING THE SDGs THE ROLE OF CROWDFUNDING IN INVESTING FOR IMPACT



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ABOUT THIS RESEARCH

This publication explores the current role crowdfunding platforms that embed impact considerations (i.e. impact crowdfunding platforms) are playing in the impact ecosystem, and how their activities can be optimised and scaled by collaborating with other investors *for impact*.

This blueprint is the result of a collaborative project. Between November 2020 and March 2021, EVPA organised four group meetings with practitioners and experts from the impact ecosystem, coupled with separate interviews. The first gathering was dedicated to crowdfunding platforms; the second to foundations and engaged grant-makers; the third to impact funds and financial institutions; and the fourth gathering was organised to convene a combination of all participants and test the main findings included in this publication (Figure 1). In total, 45 practitioners from 11 countries have participated in this research.

The success of this project has been possible thanks to the constant support of Progress2Impact¹ (operating name: Fund4Impact), our partner during this journey, which has been actively involved throughout the process.

Fund4Impact

We have also benefited from the participation of the European Crowdfunding Network (ECN)², which provided valuable inputs, contributed to group calls and shaped the final research output.



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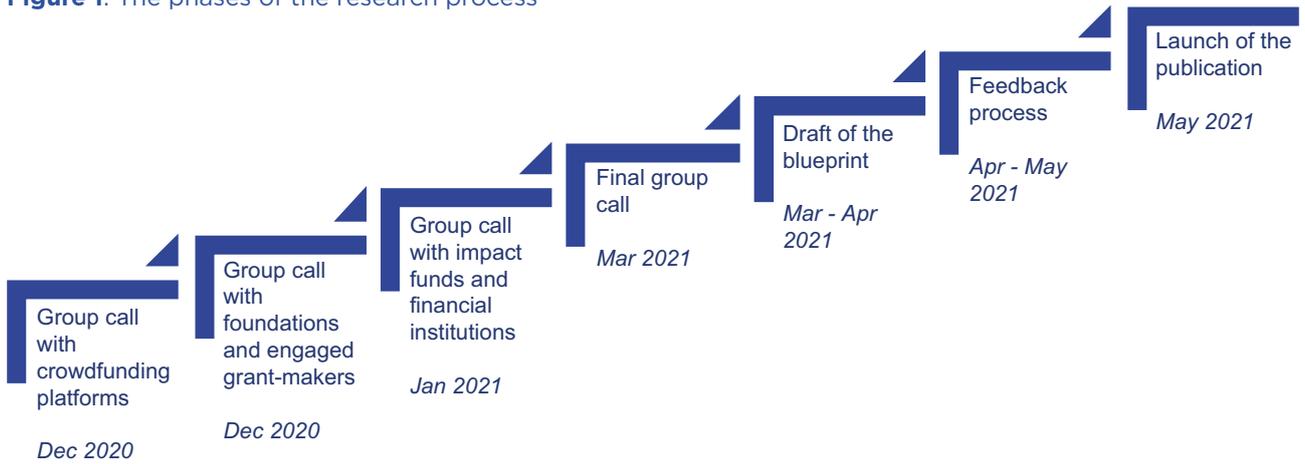
1 To know more about Progress2Impact, visit: <https://www.fund4impact.com>

2 To know more about the European Crowdfunding Network, visit: <https://eurocrowd.org/>

3 For more information: <https://www.ukri.org/councils/innovate-uk/>

4 For more information: <https://apply-for-innovation-funding.service.gov.uk/competition/651/overview>

Figure 1: The phases of the research process



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1. INTRODUCTION

The crisis resulting from the COVID-19 pandemic has widened the financing gap for achieving the Sustainable Development Goals (SDGs)⁵, which could increase from USD 2.5 trillion to USD 4.2 trillion, only considering developing countries⁶. In this context, the need to mobilise resources to finance the SDGs is manifest. **Investors for impact⁷ are playing a pivotal role in bridging this gap** and accelerating the mobilisation of resources by supporting social purpose organisations (SPOs), such as social enterprises, charities, and NGOs.

EVPA estimates that **EUR 6.2 billion** were deployed by investors for impact to support social purpose organisations in 2019. According to the EVPA Investing for Impact Survey 2020, 86% of investors for impact target the SDGs. Support is seen across the goals with “SDG1 - No poverty”, “SDG8 - Decent work and economic growth” and “SDG10 - Reduced inequalities” the most frequently targeted⁸.

Figure 2: Investment focus - SDGs, European Investors for Impact (Source: EVPA Industry Survey 2020)



SDGs targeted, % of investors for impact, multiple choice (n = 114)

⁵ For more information: <https://www.undp.org/content/undp/en/home/sustainable-development-goals.html>

⁶ OECD, (2020), “Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet”, OECD Publishing, Paris.

⁷ To know more about investing for impact and the venture philanthropy approach, you can see the main definitions here: <https://evpa.eu.com/about-us/what-is-venture-philanthropy>. To learn more about terminology, EVPA has developed its own glossary, available here: <https://evpa.eu.com/glossary>.

⁸ Gaggiotti, G., Gianoncelli, A., and Piergiovanni, L., (2020), “Venturing Societal Solutions - The 2020 Investing for Impact Survey”. EVPA.

Investors *for impact* can be highly-engaged grant-makers or social investors (e.g. foundations, social impact funds). These capital providers are willing to take risks that most other investors are not prepared to take. They accept disproportionate risk adjusted returns if they see a high impact potential in the SPO's innovative solution. They adopt the venture philanthropy approach to support SPOs to maximise their social impact, providing patient and tailor-made capital coupled with non-financial support and aiming at measuring and managing impact.

Nowadays, there are diverse actors that can be considered investors *for impact*. The strategies adopted by certain capital providers reflect the characteristics of investing *for impact*. Crowdfunding platforms are definitely an example of this trend.

There are various definitions of crowdfunding. A Working Paper from Consultative Group to Assist the Poor (CGAP) describes crowdfunding as a “*mechanism of sourcing capital by soliciting to a pool of individuals or organisations through an online platform or mobile phone*”, done through **crowdfunding platforms**, “*where projects are presented and where each individual in the “crowd” of funders chooses which fundraiser to finance*”⁹. Similarly, a report from Fi-compass¹⁰ endorses the definition of the Joint Research Centre (JRC) of the European Commission¹¹, which defines crowdfunding as “*an open call for the collecting of resources (funds, money, tangible goods, time) from the population at large through an Internet platform. In return for their contributions, the crowd can receive a number of tangible or intangible benefits, which depend on the type of crowdfunding*”.

Complementarities between crowdfunding platforms and the impact sector have been previously explored, most notably in 2013 by the European Crowdfunding Network and Toniic¹². However in more recent years crowdfunding's role in the impact sector has grown thanks to its unique way to raise funds to support SPOs, given by its capacity to attract retail investors to social innovation and enable them to participate as funders of societal solutions.

Crowdfunding platforms can be divided according to the type of returns the funders receive in exchange for their financial support. A report by the University of Oxford Said Business School distinguishes four types of crowdfunding: donation-based, reward-based, lending-based and equity-based¹³. For the sake of simplicity, we can refer to both reward-based and donation-based as **grant-based crowdfunding**, and to both lending-based and equity-based as **investment crowdfunding**. Even if reward-based crowdfunding is tied to receiving a return in form of a product or service, we define grant-based crowdfunding platforms as those that support projects through grant related instruments, and therefore rely on investors who do not expect any meaningful financial return for their support. On the other hand, investment crowdfunding platforms support projects primarily through equity or loan related instruments, relying on investors that expect some financial returns or the preservation of capital.

Based on the definitions above and considering EVPA's focus on societal impact¹⁴, in this publication, we will look into those crowdfunding platforms that can act as investors *for impact*: *high-engaged* grant-based and *social* investment crowdfunding platforms. We refer to both typologies using the term **impact**

9 Jenyk, I., Liman, T., and Nava, A., (2017), “*Crowdfunding and Financial Inclusion*”. CGAP.

10 **Fi-Compass**, (2020), “*Crowdfunding and ESF opportunities: future perspectives for managing authorities*”. European Commission, European Investment Bank.

11 **Gabison, G.**, (2015), “*Understanding Crowdfunding and its Regulations. How can Crowdfunding help ICT Innovation?*”. Joint Research Centre, Luxembourg: Publications Office of the European Union.

12 **Gajda, O.**, and **Mason, N.**, (2013), “*Crowdfunding for impact in Europe and the USA*”. Toniic, European Crowdfunding Network.

13 **Scataglini, M.**, and **Ventresca, M.**, (2019), “*Funding the UN Sustainable Development Goals: Lessons from donation-based crowdfunding platforms*”. University of Oxford, Said Business School.

14 With the term “societal” we indicate solutions addressing social, environmental, medical or cultural issues. Throughout the report, for the sake of simplicity, EVPA purposely uses the term “social” when it refers to impact, but it means societal.

crowdfunding platforms¹⁵, which can be defined as investors *for* impact pooling and managing resources from the crowd¹⁶ to enable social purpose organisations to maximise their social impact. Impact crowdfunding platforms take a highly engaged approach to support their investees, tailoring their financial support, offering non-financial support and aiming at measuring and managing social impact.

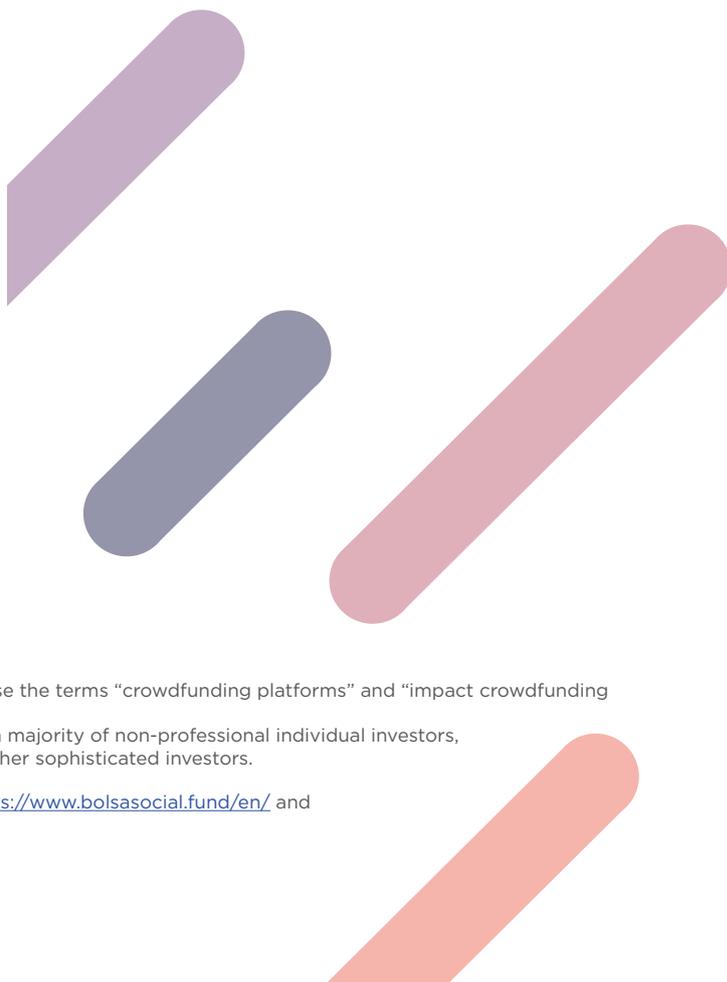
Crowdfunding platforms can be complemented by other types of capital providers in different ways. In some cases, an organisation investing *for* impact (e.g. an impact fund) can set up its own crowdfunding platform to raise additional funding and/or to generate a pipeline of investments. This allows the investor *for* impact to manage vehicles that have aligned impact objectives and exploit their complementarities. However, the process of creating an initial critical mass can be burdensome and needs expertise outside of the investor's initial skill set. An example of an investor *for* impact that has set up a crowdfunding platform is **Seed Capital Bizkaia**, which manages an impact fund, a microfinance institution and a social investment crowdfunding platform that provides equity. Seed Capital Bizkaia leverages its crowdfunding platform to support SPOs in their early stage, to boost their investment readiness and sometimes to bring them to the impact fund, thus covering a gap in the market¹⁷.

The other way round, there are social investment crowdfunding platforms that have pushed for the creation of an impact fund, which could act as a natural follow-on investor for some SPOs supported through the platform. This can also bring costs in terms of human resources and expertise, and implies pooling a larger amount of capital from different types of investors. An example is **Bolsa Social**, a social investment crowdfunding platform that collaborated with a fund manager called Afi to set up a EUR 20 million

impact fund called **Fondo Bolsa Social**, to further support early-stage social enterprises¹⁸.

Overall, the most common way to bring together diverse types of capital providers is through collaboration between different organisations. By partnering with other investors *for* impact, such as foundations, impact funds and financial institutions, crowdfunding platforms can extend the impact they create. At the same time, the other investors *for* impact also take advantage of the collaboration with crowdfunding platforms.

In this blueprint, we examine the roles crowdfunding platforms can play in the impact ecosystem (part 2), exploring some types of collaboration these actors can engage in, as well as the different challenges and opportunities these partnerships entail (part 3). We then look at future trends and opportunities to strengthening the impact crowdfunding sector (part 4).



15 From now on, throughout this publication, we will indistinctively use the terms “crowdfunding platforms” and “impact crowdfunding platforms” for the sake of simplicity.

16 By crowd we refer a variety of actors that encompasses normally a majority of non-professional individual investors, but can also include public authorities, private corporations and other sophisticated investors.

17 For more information: <https://www.seedcapitalbizkaia.eus/en/>

18 For more information: <https://www.bolsasocial.com/?lang=en>, <https://www.bolsasocial.fund/en/> and <http://www.afi-inversiones.es/fondoBS.html> (in Spanish)

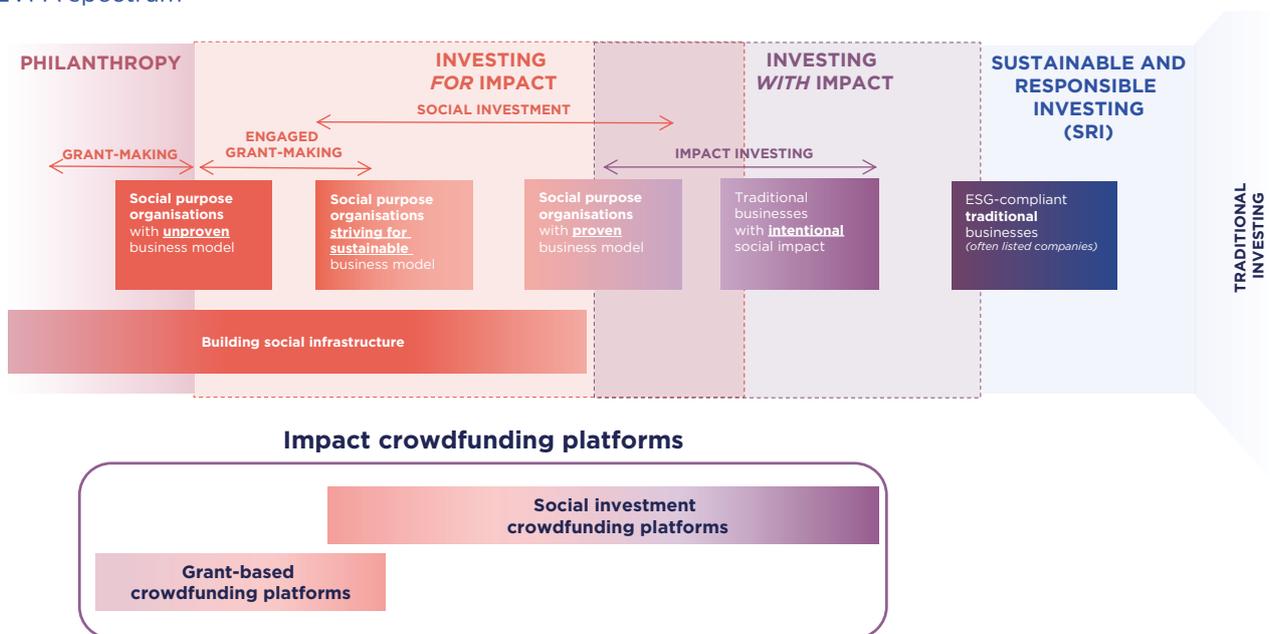
2. IMPACT CROWDFUNDING PLATFORMS: HOW DO THEY FIT INTO THE IMPACT ECOSYSTEM?

Whilst mainstream crowdfunding platforms have become very widespread in the last ten years thanks to low-cost technology, there is still room for growth amongst impact crowdfunding platforms in Europe.¹⁹

Impact crowdfunding platforms are part of the impact ecosystem as shown in the EVPA spectrum below (Figure 2) and they support diverse social purpose organisations (SPOs). **SPOs with unproven business model** can be financed by grant-based crowdfunding

platforms. **SPOs striving for sustainable business model** can be backed by both grant-based and social investment crowdfunding platforms. Finally, social investment crowdfunding platforms can also support **SPOs with a proven business model** and **traditional businesses with intentional social impact**.

Figure 3: Impact crowdfunding platforms along the EVPA spectrum²⁰



¹⁹ Gianoncelli, A., Gaggiotti, G., Boiardi, P., and Picón Martínez A., (2019), "15 Years of Impact – Taking Stock and Looking Ahead". EVPA.

²⁰ Even if reward-based crowdfunding platforms, which are part of grant-based crowdfunding platforms, are placed on the left-side of the EVPA spectrum, in some cases, they can also be used by SPOs with a proven financially sustainable business model as a marketing tool to introduce new product lines and test the market.

The amount of **financial support** provided varies across types of crowdfunding platforms. Social investment crowdfunding platforms typically provide support to a single SPO between EUR 50,000 and EUR 400,000, thanks to contributions from individual investors ranging from EUR 100 to EUR 10,000. In some cases, these are also coupled with financial support from professional investors²¹. Grant-based crowdfunding platforms tend to provide smaller amounts, of less than EUR 15,000, with crowd donors granting support that usually does not exceed EUR 500²².

Impact crowdfunding platforms also differentiate themselves from mainstream ones with their approach to **due diligence**. Mainstream crowdfunding platforms tend to be very open to launching campaigns for any type of project, running a very light due diligence, with the ongoing screening being based on the fundraising success of projects²³. Whilst removing barriers to entry for projects, this approach can reward effective fundraising ahead of other project qualities. This might drive behaviours that are not always compatible with maximising social impact or delivering project success.

On the other side, impact crowdfunding platforms act in a more engaged way. These platforms prioritise those SPOs that are most likely to achieve the expected impact and financial return – if any, rather than showcasing a high volume of project campaigns on their websites. This leads to a more intensive due diligence process, including questions looking beyond the ability of the investee to raise funds from the crowd. During the investment appraisal, impact crowdfunding platforms ensure that social impact is at the forefront of the SPO's business model, and include requirements related to impact measurement and management.

One of the key strengths of crowdfunding platforms is their provision of **non-financial support (NFS)**. Once the deal has been selected, structured and published on the website, they maintain a high degree of engagement with the investee, structuring the relationship between the SPO and a wide and diverse network of investors. Crowdfunding platforms are also very well placed to provide promotion and marketing support, as they can motivate the crowd investors to become allies of the SPO, by finding other investors, promoting the SPO to potential clients, or raising awareness about the societal problem the SPO aims to mitigate. From the SPOs point of view, crowdfunding allows them to reach to a wider network of investors which, especially during their early stage, might otherwise be limited to a narrower circle and geography. In some cases, impact crowdfunding platforms also start providing non-financial support before launching the campaign. Although the lack of human resources and expertise is still a boundary for providing some types of NFS, crowdfunding platforms can reach out to committed crowd investors who can provide advice in their area of expertise.

Lastly, impact crowdfunding platforms also focus on **managing impactful exits**, sometimes identifying follow-on investment, and are increasingly measuring the impact of their investees after they exit the investment.

A recognised strength of crowdfunding platforms is their ability to **democratise impact** by using technology to reach retail investors that want to support societal solutions. Crowdfunding platforms give middle-income individuals, who traditionally rely on banks to manage their savings, the opportunity to invest and engage in the impact ecosystem in a more direct way.

21 Gianoncelli, A., Gaggiotti, G., Boiardi, P., and Picón Martínez A., (2019), "15 Years of Impact – Taking Stock and Looking Ahead". EVPA.

22 Scataglini, M., and Ventresca, M., (2019), "Funding the UN Sustainable Development Goals: Lessons from donation-based crowdfunding platforms". University of Oxford, Saïd Business School.

23 Banerjee, S., (2020), "Intimate technologies for development: micro-philanthropy, crowdfunding platforms, and NGO fundraising in India". Doctoral thesis (PhD), University of Sussex.

The ability of crowdfunding platforms to involve the community in which the SPO is active well relates with Principle 2 of the EVPA Charter of Investors *for Impact*: **putting the final beneficiaries at the centre of the solutions**²⁴. In some cases, communities close to the societal issue that the SPO is solving might be actively involved in promoting the campaign, or even providing financial and non-financial support.

However, crowdfunding platforms also face some barriers to generating greater social impact. For social investment crowdfunding platforms, an important issue that needs to be well addressed upfront is the **risk appetite** of retail investors and the **ability to find deals** that will generate high social impact and positive financial returns. Due to the nature of the crowd investors, if a social purpose organisation is unable to provide adequate financial returns, the reputational risk of the platform might be affected. The platform itself can hold a fiduciary duty towards the investors, acting not only as a technology provider but also as a financial intermediary. This condition might have consequences on the degree of risk that social investment crowdfunding platforms are prepared or willing to take. In practice, as for all other investors *for impact*, finding early-stage social enterprises ready for a crowdfunding campaign that can foresee certain financial returns constitutes a challenge. The lack of investable opportunities for social investment crowdfunding platforms could increase competition among platforms to support the same SPOs. For this reason, being able to collaborate with other actors to mitigate financial and impact risk and/or to share deal flow is crucial for such platforms.

Other barriers preventing crowdfunding platforms from reaching more investors lie in the current legislative environments in which they operate. They face **many compliance issues and complicated procedures**, which can prevent non-professional investors from joining a campaign. In terms of regulation, a mixed approach across European governments

has led to crowdfunding platforms often missing a favourable legislative environment to mitigate the financial risk they take, e.g. by not being able to offer retail investors to detract losses or the lack of access to guarantee schemes. The premise is that these investments in their nature are high(er) risk. If they can be “de-risked”, for example through the use of partial credit guarantees, then this might mobilise additional (and perhaps significant) investors’ interest and participation in the industry.

24 To know more, you can see the EVPA Charter of Investors *for Impact* here: <https://evpa.eu.com/knowledge-centre/publications/charter-of-investors-for-impact>

3. COLLABORATION FOR IMPACT

Investors *for impact* endorse the value of collaborating with other organisations when it creates value for the societal solution, to maximise the impact generated by social purpose organisations. As stated in the EVPA Charter, investors *for impact* **proactively enhance collaboration with others** (Principle 8) and **work to foster the mobilisation of resources in the social impact ecosystem** (Principle 9).

Crowdfunding platforms can remarkably amplify the impact they generate if they find suitable ways to cooperate with other crowdfunding platforms, and also with other types of investors *for impact*, such as foundations, impact funds or financial institutions. At the same time, these organisations can also benefit from building partnerships with crowdfunding platforms and leveraging their capacities and skills.

3.1. IDENTIFYING WHICH ACTORS TO COLLABORATE WITH

Since grant-based and social investment crowdfunding platforms target SPOs with different business models at different stages of development, they have the opportunity to partner up to exchange knowledge of the market and potential deals. Concretely, if an SPO is not ready for repayable financial instruments, a social investment crowdfunding platform may redirect it towards a grant-based crowdfunding platform. On the other hand, if a grant-based platform detects that a supported SPO is ready for another type of investment, a strategic follow-on investor might be a social investment crowdfunding platform. An example of a platform adopting this approach to boost collaboration is **Fund4Impact**²⁵, a grant-based

platform connecting impact capital to early-stage impact ventures. Such type of collaboration provides a step-free and seamless financing stream for the SPOs.

Opportunities for collaboration **between different types of impact crowdfunding platforms** are still underexplored, although some European best practices have proven that such collaborations have great potential. A successful partnership is the one between the social investment crowdfunding platform **Lendahand** with the grant-based crowdfunding platform **Solidaridad**. Together with other investors *for impact* such as **Cordaid** and **Truvalu**, they have created the crowdfunding platform **PlusPlus**, which provides high risk debt to smallholder farmers in Asia, Africa and Latin America²⁶. Lendahand also partnered with the UK-based social investment crowdfunding platform **Ethex** to create **Energise Africa**, a loan-based crowdfunding platform that supports social entrepreneurs who sell solar home systems in sub-Saharan Africa. This partnership combines Lendahand's experience in providing loans to SPOs in developing countries with Ethex's expertise in managing the crowd of retail investors²⁷.

Another type of investors *for impact* that crowdfunding platforms can collaborate with are **foundations**. Through grant-making, foundations can take high risks and invest in innovative solutions by providing patient and non repayable capital, impact expertise and connections with a wide range of stakeholders²⁸.

Foundations can help crowdfunding platforms reduce the risk of campaign failure by providing **anchor investments** – e.g. by providing the first 20/30%

²⁵ For more information look at <https://www.fund4impact.com>

²⁶ For more information look at <https://www.plusplus.nl/en-EU>.

²⁷ For more information, look at <https://www.lendahand.com/en-NL>, <https://www.ethex.org.uk/>, and <https://www.energiseafrica.com/>.

²⁸ See chapter 2.2.3 of Foundations on: **Gianoncelli, A., Gaggiotti, G., Boiardi, P., and Picón Martínez A.**, (2019), "15 Years of Impact - Taking Stock and Looking Ahead". EVPA.

of the investment to trigger a campaign. Another mechanism through which foundations collaborate with crowdfunding platforms is through **match-funding instruments** – i.e. instruments through which the foundation can match the contribution of the crowd. It is important to highlight that match-funding instruments are not limited to foundations. They can also be used by other capital providers, such as the public sector or corporations. Examples include the reward-based crowdfunding platform **Startnext** partnering with the company **Krombacher** for their “**Krombacher Naturstarter**” campaign, to distribute an extra EUR 650,000 for supporting environmental projects through a match-funding instrument and thereby leverage to a total funding sum of EUR 4.5 million²⁹.

The **brand power and reputation** of foundations can also provide a great added value: when crowd investors see a foundation with a track record in social impact involved in a campaign, their confidence in the SPO’s ability to deliver the promised social impact is liable to increase. Thus by the use or sharing of their own hard earned credibility, foundations can help SPOs attract new supporters in a competitive marketplace.

Foundations can in turn also benefit from partnering with crowdfunding platforms by leveraging their **ability to engage with the communities** close to the societal solution financed. Crowdfunding can become a tool for foundations not only to reach new donors, but also to develop projects in which communities feel empowered and take active action in supporting the societal solution. As crowd donors can become allies, they can support the foundation when activities also involve awareness raising or advocacy. This can also help foundations enhance their own visibil-

ity. Finally, if the foundations are formally related to a company (i.e. corporate foundations), they can tap into the pool of employees of the company, allowing them to participate in the activities of the foundation and become crowd donors and/or allies of the societal solution.

Crowdfunding platforms can also cooperate with impact funds or banks / financial institutions that support SPOs with a variety of repayable instruments, such as debt, equity or hybrid financial instruments. On the one hand, **impact funds** are the pioneers of investing for impact in Europe and they have a long experience in supporting innovative SPOs with the potential to grow and scale their social impact. On the other hand, **banks and financial institutions** are becoming increasingly relevant in the impact ecosystem, and they have the capacity to run a broad range of activities³⁰. **Lita.co** is a social investment crowdfunding platform that has effectively built partnerships to co-invest with a range of investors for impact, including impact funds such as **Phitrust**, **INCO** and **Aviva impact investing fund** as well as financial institutions such as **BNP Paribas**³¹.

One type of collaboration between impact funds and crowdfunding platforms consists in sharing **deal flow**, which can go in both directions – although impact funds are more likely to take the role of follow-on investors. **Fund4Impact**, for example, connects impact ventures that are developed out of universities and innovation accelerators, diversifying deal flow from sources previously absent from pipelines. Crowdfunding is often instrumental to increase the SPOs’ readiness at their early stages of development, thus supporting them to go through the so-called “valley of death”³². After generating some track records, the investment can subsequently be taken

29 For more information, look at <https://www.startnext.com/pages/krombacher-naturstarter>

30 See chapter 2.2.1 on Impact Funds and chapter 2.2.5 on Banks on: **Gianoncelli, A., Gaggiotti, G., Boiardi, P., and Picón Martínez A.,** (2019), “15 Years of Impact – Taking Stock and Looking Ahead”. EVPA.

31 For more information: <https://be.lita.co/>

32 The “Valley of Death” – also called the “Missing middle” – refers to the expansion stage in which small social enterprises are often too big for microfinance and informal sources of finance, but too small or risky for commercial banks and private equity investors. For more information: **Gianoncelli, A., and Boiardi, P.,** (2017), “Financing for Social Impact | The Key Role of Tailored Financing and Hybrid Finance”, EVPA (pages 56-57). **Varga, E., and Hayday, M.,** (2019), “A Recipe Book for Social Finance. Second Edition: A Practical Guide on Designing and Implementing Initiatives to Develop Social Finance Instruments and Markets”, European Commission (pages 38-41, 82). **GECES (Commission Expert Group on Social Entrepreneurship),** (2016), “Subject Paper of GECES Working Group 1: Improving access to funding”, European Commission (pages 19 and 46).

over by an impact fund. These SPOs will already have a mass of people committed to the project (e.g. the previous crowd investors), which can act as ambassadors and/or customers, in case the SPO is engaged in B2C activities.

Finally, the **public sector** also has an important role to play in the development of the crowdfunding space. The Fi-Compass report³³ outlines the roles that *managing authorities*³⁴ can adopt to support crowdfunding activities, which are those of **sponsor, manager, curator, and facilitator**. By acting as a *sponsor*, managing authorities can launch a crowdfunding campaign to seek financial support from citizens to address a societal issue. Acting as *managers* implies setting up and managing public-owned crowdfunding platforms. Managing authorities can also take the role of *curator* by engaging as a follow-on investor, financing projects that have already been backed by an existing crowdfunding platform. Finally, by participating as *facilitators*, managing authorities can co-invest with crowdfunding platforms, e.g. by matching the financial resources crowdfunded. The Fi-Compass report also includes case studies which summarise successful collaborations between crowdfunding platforms and public authorities by using European Social Fund (ESF) financial instruments³⁵.

3.2 OPPORTUNITIES AND CHALLENGES OF COLLABORATION

Impact crowdfunding platforms have the opportunity to identify how they can collaborate with other investors *for impact* and generate solutions tailored to the needs of the different types of SPOs. In the long term, the evolution of the impact crowdfunding market will be tied to the ability of platforms and their

partners to generate protocols to support SPOs with different business models and at different stages of development. Therefore, crowdfunding platforms need to **be proactive in connecting with investors for impact** that have different types of knowledge and roles in the ecosystem.

A key aspect for creating such a scenario relates to **collecting and leveraging data**. Given that crowdfunding platforms support SPOs at many differing stages of development, there are some mechanisms that can be shared systematically to avoid duplicating efforts and overburdening the investees. Disclosure of due diligence reports, KPIs of the campaigns or impact measurement and management strategies developed can facilitate the development of such partnerships.

With regards to the **due diligence approaches**, players such as impact funds tend to have more detailed processes. To facilitate potential follow-on investments, crowdfunding platforms could, after agreeing ex-ante, communicate about the parts they already covered during their due diligence, and what track records they have generated. They also could perform additional due diligence tasks on behalf of the impact funds under their precise instructions thereby outsourcing this process entirely to the platform operators to develop a more efficient and effective process.

Taking a longer-term view, crowdfunding platforms can also **detect and track trends** that may be relevant for SPOs or follow-on investors, such as what type of crowd investors each SPO has been able to attract during the campaign, or how crowd investors respond and react to single SDGs.

33 **Fi-Compass**, (2020), “Crowdfunding and ESF opportunities: future perspectives for managing authorities”. European Commission, European Investment Bank.

34 A managing authority may be a national ministry, a regional authority, a local council, or another public or private body that has been nominated and approved by a Member State. Managing authorities are responsible for implementing European Commission Programmes in line with the principle of sound financial management (Sources: https://ec.europa.eu/regional_policy/en/policy/what/glossary/m/managing-authority)

35 **Fi-Compass**, (2020), “Crowdfunding and ESF opportunities: future perspectives for managing authorities”. European Commission, European Investment Bank.

Furthermore, crowdfunding campaigns can serve **to generate indicators** such as the level of engagement reached, or how well the SPO communicates with the crowd. These might be useful indicators for forecasting the potential market traction of an SPO's idea and/or product or service. However, it needs to be accurately measured and communicated, since it should take into account how much the brand of the specific crowdfunding platform has contributed to the success of the campaign, and to what extent this success can be attributed to the SPO.

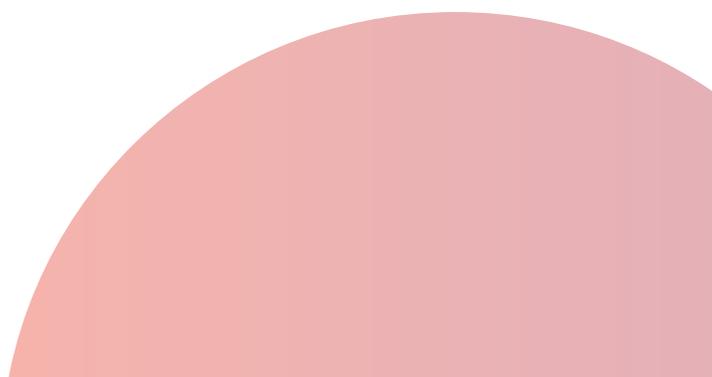
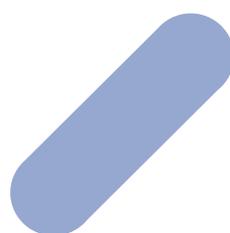
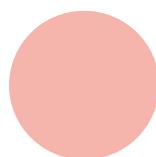
It is difficult for investors *for impact* to share projects or co-invest if they do not have aligned strategies. Moreover, all these processes require time and certain trust between the actors, as well as a significant commitment in terms of human resources. For these reasons, establishing **long-term partnerships** is crucial to enable collaboration. A long-term horizon prevents partnerships from being determined by the success or failure of a single campaign. Long-term alignment and trust also facilitate the disclosure of data, which is crucial for maximising transparency and the success of the collaboration.

Long-term partnerships can also solve an additional challenge related to collaboration that relates to the **size of investment**. For instance, some foundations prefer to provide larger grants while crowdfunding platforms provide rather small tickets, which may handicap deal-by-deal agreements even if both organisations are aligned on their impact objectives.

Long-term partnerships enable **learning from each other** and **sharing tools and expertise**, as crowdfunding platforms share some challenges with other investors *for impact*. For example, when investing in developing countries, common obstacles can include cross-currency volatility and high transaction costs.

Partnerships between crowdfunding platforms, local actors, and other investors *for impact* could help mitigate these and other practical challenges to unlock additional investable projects with high social impact.

Moreover, if partners know each other well and become a reliable source, going beyond the deal-by-deal mindset, they can bring value that goes beyond short term financial arrangements. In some cases, foundations may for example support the crowdfunding platforms through **providing grants to the platform** itself, whereas an impact fund may **become an investor / shareholder of the platform** itself, sometimes even holding a seat on the board or other leadership positions.



4. STRENGTHENING THE CROWDFUNDING SECTOR

Even if the crisis resulting from the Covid-19 pandemic is posing additional challenges to the impact ecosystem, crowdfunding platforms might see a new scenario in which the demand for crowdfunding grows as SPOs will see it as an alternative way to access to financial resources. The current economic crisis might also lead to an increasing interest on crowdfunding by national governments³⁶.

4.1. THE EMERGING LEGAL CONTEXT

In the EU, the lack of a unified regulatory system has imposed some added burdens on cross-border investment. However, the recently adopted regulation for **European Crowdfunding Service Providers (ECSP)** might represent a very positive step towards harmonising rules within the EU market. It is therefore expected to result in a boost in cross-border investments via crowdfunding platforms across the European Union, and a scaling up of their activities and their impact, as explained by the European Crowdfunding Network (ECN).³⁷

However, scaling up crowdfunding platforms towards a pan-European level will take time. This process would require access to further resources and acquiring in-depth knowledge of the different local markets in which crowdfunding platforms would like to access or expand into. One crowdfunding platform that has started expanding beyond one country is **Lita.co**, which started operating in France, then replicated in Belgium and Italy, and recently also under development in Luxembourg.

4.2. MAIN DEVELOPMENTS OF THE SECTOR

In order to succeed in the longer term, impact crowdfunding platforms will be required to develop even more sophisticated ecosystem strategies, building interfaces across different sectors and experimenting new forms of collaborations with different stakeholders.

Impact crowdfunding platforms have different opportunities to create value within such ecosystems, by owning or orchestrating a variety of value creation activities. These can include the **identification of early stage ventures**, their curation and due diligence, the **channeling of donations or investments**, whether from the crowd or institutional stakeholders, and finally the **creation of data insights**, relevant for both policy makers and private stakeholders.

In fact, as the crowdfunding space grows over time, the increased maturity of the market should lead to the production of more sophisticated, robust and significant data that could be leveraged by other actors for developing a stronger ecosystem and minimising duplicated efforts across (potential) partners. Crowdfunding platforms should work in automating the processes mentioned in the previous section to enable a more fluid communication and stable partnerships. Other investors *for* impact should also be part of this process, as in the long term they will benefit from leveraging the opportunities that crowdfunding platforms bring to the impact ecosystem.

³⁶ European Crowdfunding Network, (2020), "Early Impact of CoVid19 on the European Crowdfunding Sector"

³⁷ European Crowdfunding Network, (2020), "European Parliament adopts EU rules for crowdfunding platforms under ECSP", October 2020.

Finally, the space also needs to continue **building knowledge by sharing best practices and case studies** and being able to prove that engaging with crowdfunding activities pays off. A well-designed focus on sharing and communicating the impact achieved by crowdfunding platforms will encourage foundations, impact funds, financial institutions and the public sector to engage with them and support their growth.

This plan should be catalysed and backed by networks and membership organisations, such as the European Crowdfunding Network (ECN) and EVPA - Investing *for Impact*, which have the pivotal role in strengthening the crowdfunding and investing *for impact* sectors, by connecting organisations and building collective knowledge. At EVPA, we are excited to continue collecting and analysing data from impact crowdfunding platforms through our Industry Survey³⁸ and we are committed to gathering and showcasing case studies and success stories.

38 To know more about the bi-annual EVPA Industry Survey, please visit: <https://evpa.eu.com/knowledge-centre/the-evpa-industry-survey>

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ABOUT EVPA

EVPA is a strong community of around 300 member organisations from 30+ countries sharing the same vision and a common goal: creating positive societal impact through the practice of investing *for* impact.

Established in 2004, EVPA is proud to have initiated this movement in Europe. Over the years, we have been contributing to a thriving impact ecosystem and a growing market engaging social investors, foundations, corporations and policy makers in supporting social innovators and maximising their impact.

We enable our members to connect and learn from each other to achieve deeper societal impact through investments. We build the impact ecosystem at international, European, national and local levels. As a strategic partner of the European Commission in advancing this sector, we share insights, develop knowledge and training, and shape public policies to make the investing *for* impact movement in Europe stronger.

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INVESTING FOR IMPACT
