European Crowdfunding Network

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

We support our members in carrying initiatives aimed at innovating, representing, promoting and protecting the European crowdfunding industry. We aim to increase the understanding of the key roles that crowdfunding can play in supporting entrepreneurship of all types and its role in funding the creation and protection jobs, the enrichment of European society, culture and economy, and the protection of our environment.

In that capacity we help developing professional standards, providing industry research, as well as, professional networking opportunities in order to facilitate interaction between our members and key industry participants. On behalf of our members, the ECN will maintain a dialogue with public institutions and stakeholders as well as the media at European, international and national levels.
This document has been extracted from Annex II of the study "Identifying market and regulatory obstacles to crossborder development of crowdfunding in the EU", published in November 2017 and funded by the European Commission (DG FISMA).

Contents
Croatia ................................................................................................................................. 4
Overview ................................................................................................................................. 4
A. Role of alternative finance ................................................................................................. 4
B. Regulatory context .............................................................................................................. 5
C. Disclosures & safeguards ................................................................................................. 8
D. Support policies .................................................................................................................. 8
E. Additional insights ............................................................................................................. 9
Croatia

Overview
In Croatia, the use of crowdfunding can be seen as a big challenge. This is due to a minor general awareness of crowdfunding itself, low use of the internet for online purchasing of goods, as well as poor development of and mistrust in the e-business. Despite these facts, there is a clear interest for crowdfunding in Croatia, as the number of campaigns supported, started or successfully funded goes up every year.

A. Role of alternative finance

Market size
Domestic crowdfunding campaigns raised €1.5M in 2015. Funds were mainly collected through reward-based crowdfunding platforms.¹

Trend
There is a slow progress in the amount of campaigns backed each year, started or successfully produced and funded by Croatians. The number of supporters of local campaigns rose to 7.673 (2015) compared to 6.636 in 2014.

Last year (2016) 63 projects were launched on different crowdfunding platforms, and only 23 of them collected the required amount. The conventional wisdom is that it is enough to launch a campaign and that success will come itself, which often leads to failures.²

In previous years, the biggest focus of Croatian crowdfunders was in the field of gaming, music and film, whilst in 2015 there was a significant change, with more than 10% of campaigns coming from the field of community causes. We believe that a significant role here played the Crowdfunding Academy, co-founded by the UNDP Croatia and the social enterprise Brodoto.

Total crowdfunding platforms
In 2016, there were 3 active platforms in Croatia: Croinvest.eu, Croenergy and Čini pravu stvar.

¹ Current State of Crowdfunding in Europe, CrowdfundingHub, 2016 (link)
² www.crowdfunding.hr
Crowdfunding models

<table>
<thead>
<tr>
<th>Equity-based crowdfunding</th>
<th>€0.37M have been raised with equity-based crowdfunding.³</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending crowdfunding</td>
<td>The Croatian Consumer Credit Act (Zakon o potrošačkom kreditiranju) may be applicable to the extent that it can be used as a vehicle for providing consumer credit. The principle stated on the platforms is merely that the investor loans money to the project holder in the form of an interest-free or interest-bearing investment loan, which must be repaid within a set time frame.⁴</td>
</tr>
</tbody>
</table>

B. Regulatory context ⁵

<table>
<thead>
<tr>
<th>Country Summary</th>
<th>Croatia</th>
</tr>
</thead>
</table>
| Recent developments in Crowdfunding regulation | • No legislative or other regulatory developments affecting the regulation of Crowdfunding.  
• No active local Crowdfunding platforms |
| Current / planned Crowdfunding regulation | • No regulatory practice  
• Certain types of Equity Model and Lending Model are potentially subject to a regulated regime under local securities and investment funds laws. |

³ Current State of Crowdfunding in Europe, CrowdfundingHub, 2016 (link)
| **Prospectus requirement** | • Prospectus requirement for offering of securities transferable on capital markets.  
• Threshold: EUR 5 million EU-wide per issuer within 12 months |
| **AIFMD-regulation** | • Legislation only recently implemented and no regulatory practice  
• Typical start-up company seeking funding for regular operations should generally not constitute an AIF  
• Crowdfunding structure could constitute an AIF if it includes profit share arrangements otherwise than in a commercial company  
• Depending on the structure, funding by non-transferable loans or contributions under Donations/Rewards Model should not entail an AIF  
→ Crowdfunding platforms are likely not AIFM |
| **Payment service regulation** | • Transfer of funds through operator may constitute money remittance service  
→ Ministry of Finance / CNB authorisation required  
• Exemption for "commercial agents" likely to apply to operators of Crowdfunding platforms |
| **Consumer credit regulation** | If consumer borrowers are permitted on a platform (Lending Model) a consumer credit licence is generally required  
→ implications for the form and content of the lending agreements |
| **Further possible requirements** | • Croatian Act on Prevention of Money Laundering and Financing of Terrorism  
• Croatian Act on Protection of Personal Data  
• Croatian Companies Act |
| **Regulatory barriers** | **Foreign Crowdfunding platform addressing Croatian investors**  
→ Croatian law generally applicable  
**Crowdfunding platform**  
If the platform has a foreign MiFID licence it can generally conduct business in Croatia without a local licence |
If the platform has no such licence, it must obtain a local one

**Foreign company / project**

→ Croatian law generally applicable

**Foreign Crowdfunding platform addressing Croatian companies**

→ Croatian law generally does not apply

**Crowdfunding platform**

Croatian licencing requirements not applicable

other Croatian regulations may be applicable, but only in relation to transferrable securities

**Company / project**

→ Croatian prospectus and other requirements apply

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**Outbound**

**Croatian Crowdfunding platform addresses foreign (EU) investor**

**Crowdfunding platform**

Croatian financial regulatory law does not apply

**Company / project**

company or project not subject to Croatian prospectus and other regulatory requirements

**Croatian Crowdfunding platform addresses foreign companies / projects**

**Crowdfunding platform**

Croatian licencing and other requirements concerning the platform apply

**Company / project**

Croatian law does not apply

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**Impact of EU Regulation**

<table>
<thead>
<tr>
<th>Regulation</th>
<th>Impact on Crowdfunding in Croatia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prospectus regulation</td>
<td>No or almost no impact</td>
</tr>
<tr>
<td>AIFM-Directive</td>
<td>No or almost no impact</td>
</tr>
<tr>
<td>MiFID/MiFID I</td>
<td>No or almost no impact</td>
</tr>
<tr>
<td>PSD/PSD II</td>
<td>May be applicable to platform operators</td>
</tr>
</tbody>
</table>

www.eurocrowd.org
C. Disclosures & safeguards

No professional industry association exists. To foster the professional and transparent development of the local market, the establishment of a Code of Conduct by a national crowdfunding association, with which platforms should be obliged to comply, might be advisable. Examples exist in a number of countries, such as the UK, France, Germany or the Netherlands. Alternatively, the open adoption of the European Crowdfunding Network Code of Conduct and its Charter of Crowdfunders Rights by market players could help in markets without critical mass of platforms.

Platforms themselves, to the extent that they can serve as marketplaces, have the potential of aiding regulatory developments through early self-regulation and transparency. But this will require credible and enforceable quality and transparency standards as well as level playing fields. Any such initiative should aim to cover key performance indicators for the industry, conflict of interest rules and platforms remuneration. However, regulation will always play the main role in establishing and ensuring a functioning market with an adequate level of safeguards and disclosures.

D. Support policies

Overview

Concerning Croatia, attention should be paid to the increasing interest in crowdfunding as a potential tool to finance innovative projects. However, there are currently mixed results. There are no strategic or programmatic initiatives that directly tackle crowdfunding.\textsuperscript{6,7}

Market Supervision

The best fit in the future development of specific regulation for crowdfunding practices is likely to be the Croatian Financial Services Supervisory Agency (HANFA).

\textsuperscript{6} Tregn-Mlinaric, Anita, Petteri Repo and Kaisa Matschoss (2015), Crowdfunding in sustainable innovation.

\textsuperscript{7} CASI Policy Briefs. CASI-PB-6.2015 EUROPE (\url{link})
E. Additional insights

Best practice initiatives

Best Practice 1 - Crowdfunding Academy:

It is a non-formal educational programme on developing crowdfunding campaigns aimed at training cooperatives, municipalities and cities, start-up companies, entrepreneurs, craftsmen and all citizens with interesting and innovative projects. It is organised by the United Nations Development Programme (UNDP) in Croatia, social enterprise BRODOTO and Green Energy Cooperative (ZEZ).

Policy measures

Legislation should recognise crowdfunding as a specific mode of financing and should provide basic regulation of crowdfunding activities, which would be compatible with major markets where Croatian projects seek funding or are likely to do so in the future (i.e. the EU and the US). Legislators should recognise the fast development of crowdfunding in Croatia and abroad, and should not overburden it with administrative or legislative requirements. The focus should be on the regulation of equity crowdfunding and lending, as donations and sponsorship, which are provided in exchange for specific perks, often fall outside of the scope of business transactions. The development of programmes which could support crowdfunding (e.g. through education) should also be explored, as well as the potential of crowdfunding to provide additional resources to projects in R&D, culture, sustainability etc.