

Early Impact of CoVid19 on the European Crowdfunding Sector

April 2020

The European Crowdfunding Network conducted a short and indicative survey amongst crowdfunding platforms operating in Europe in order to identify potential impact on and measures by crowdfunding platforms regarding CoVid19.

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1. Introduction

The European Commission is working on potential actions addressing the challenges that follow the CoVid19 pandemic. Some of these actions are already being published, such as the [Digital finance outreach 2020](#), others are likely to come to light in the near future. This comes on top of many national response actions run and prepared by national governments. The European response will likely back Member States' actions and create new and much needed impulses.

We believe that crowdfunding can and should play a key role in supporting relevant attempts aimed at helping European citizens, businesses and the economy at large during and in the aftermath of CoVid19. On national and regional basis this is already true in many places, but we also witness some crowdfunding platforms being subject to the same economic restrictions than other businesses.

In order to capture the market perceptions on the impact of CoVid19, the European Crowdfunding Network conducted a short and indicative survey¹ amongst crowdfunding platforms operating in Europe in order to identify potential impact on and measures by crowdfunding platforms regarding CoVid19. The data presented here captures the sentiment of actors at the end beginning of April 2019.

The long-term economic impact remains still to be seen and we also asked respondents to provide input in this perspective. The data² presented here does not claim to have scientific significance nor to represent the total ecosystem. It is supposed to provide an insight into trends which likely will intensify over time.

Of the respondents we found that some 70% represent ECN membership while the remaining 30% are not ECN members. Platforms involved in financial services transactions in general indicated that they operate under the supervision of the National Competent Authorities (financial market oversight), though two equity and one lending platform indicated they do not fall under relevant supervision.

The data presented in this report reflect all types of crowdfunding³ and cover platforms active in 14 European countries.

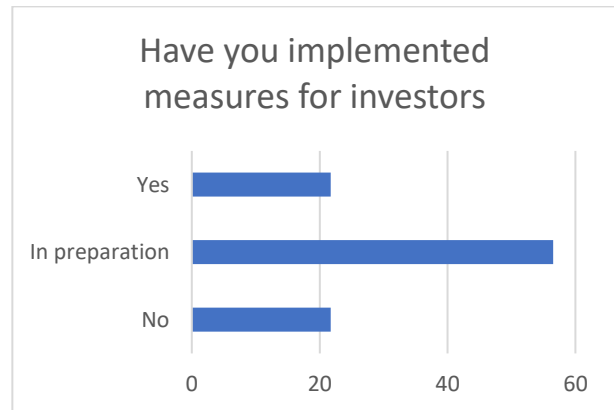
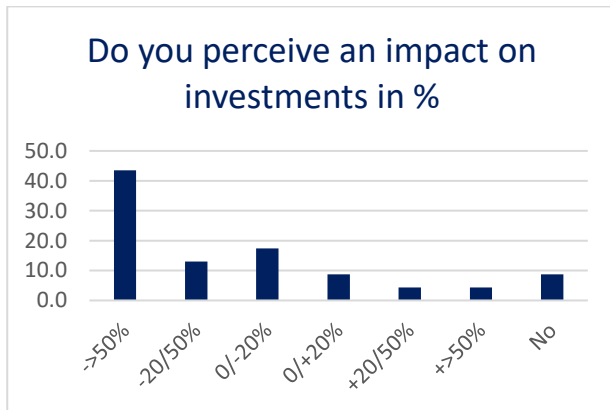
¹ In our survey, which was open for five business days and had been sent to our membership and circulated to a wider public via social media and referrals, we focused on four main areas: the impact on capital availability, businesses seeking crowdfunding, businesses that have been crowdfunded and are currently repaying their investment, the operations of the crowdfunding platforms itself and, finally, the long term impact that respondents anticipated to their sector.

² The survey was directed to crowdfunding platforms, but we also received also answers from beyond that target group. The data shown in the graphs throughout the report are based on the received answers after cleaning quantitative data from non-platform respondents (N=23). The qualitative insides and open answers from non platforms respondents we still valued and added if and where suitable

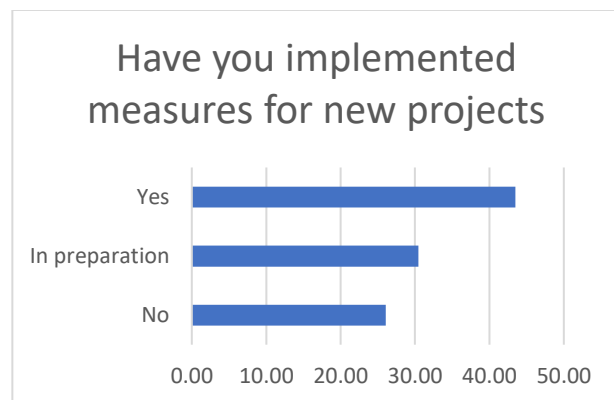
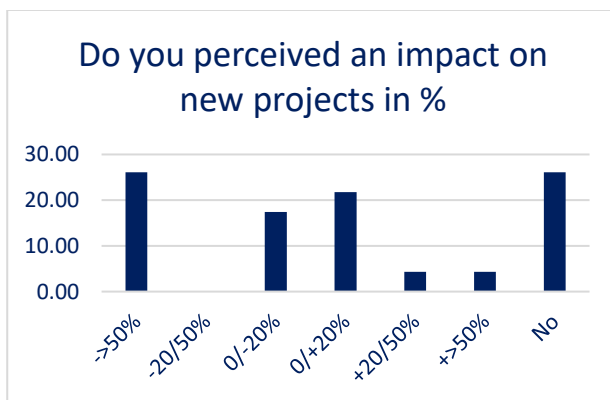
³ We follow generally accepted classifications of crowdfunding: Donations, Reward, Lending, Equity. For the purpose of the data presentation we have banded Donations and Rewards into one category, as both types are frequently offered on the same type of platform.

2. General Impact Perceptions

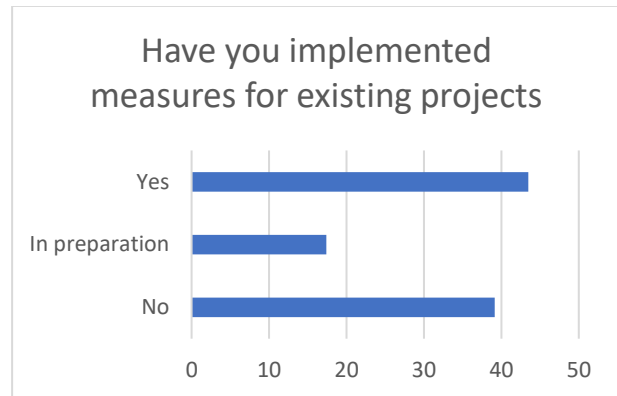
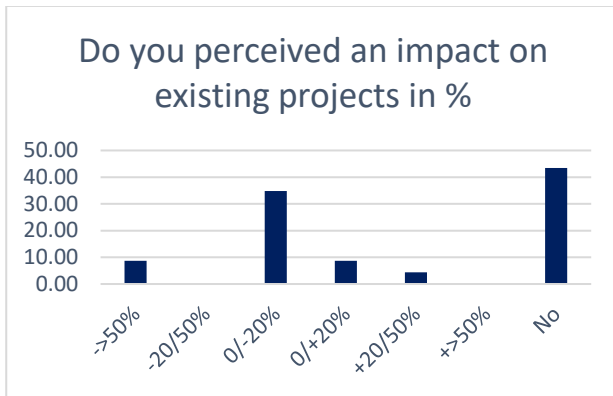
- 1) We find high negative impact on capital inflow from investors and note that some platforms have already taken measures to incentivize new investments, while similar relevant actions are still in preparation for the majority of respondents.



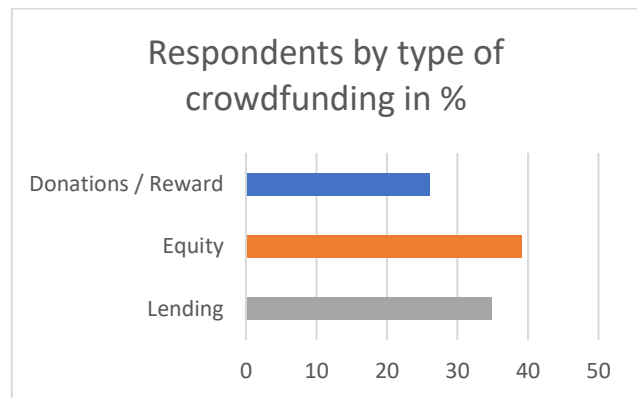
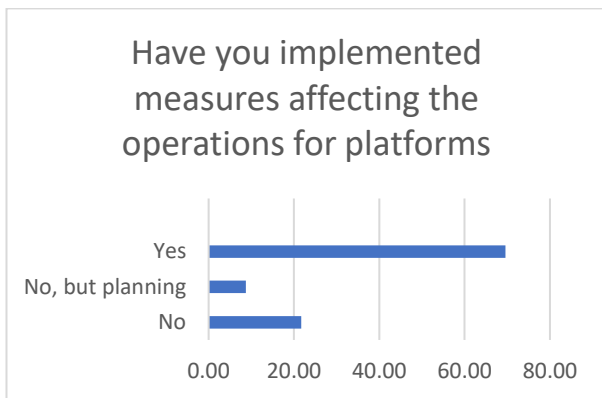
- 2) We find high negative impact on deal flow, with a reduced number of new projects being registered on crowdfunding platforms. Platforms have largely taken measures to counter act this trend, or are at least planning to do so. Still, a quarter of respondents does not yet feel the need to take counter measures.



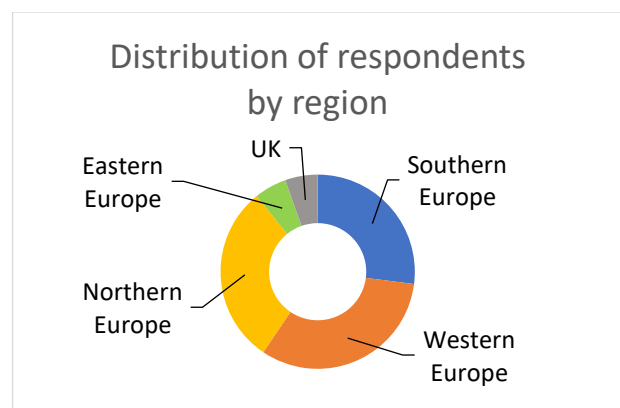
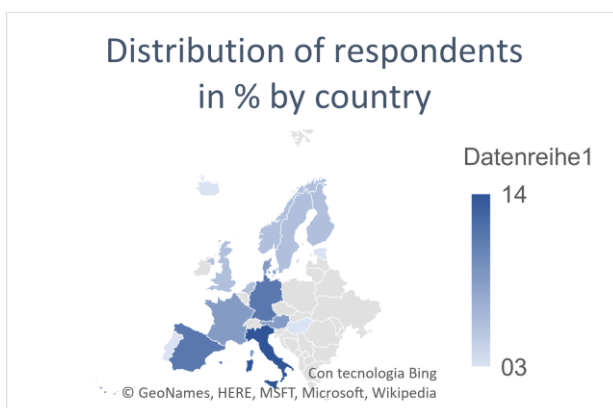
- 3) We find a moderate impact on existing projects, if compared to the previous two questions. However, crowdfunding platforms are still largely implementing mitigation measures to support and help the small and medium sized companies and projects they have helped get funded in the past.



4) The crowdfunding industry is also experiencing impact on their own business operations, with a majority already having implemented relevant measures. The responses we were able to collect are grouped along three sections of the crowdfunding sector: Donation- or Reward-based crowdfunding platforms, Equity and Lending.



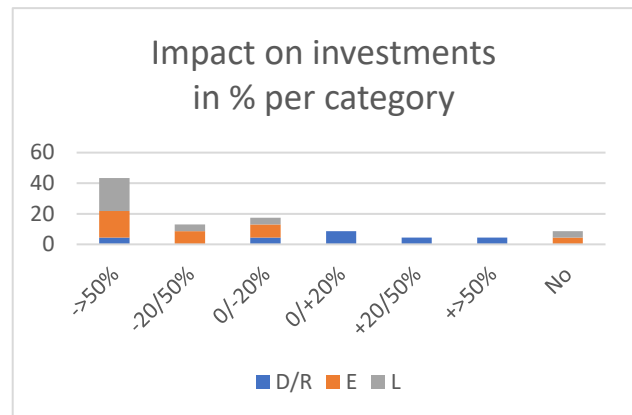
5) We sought to cover a wide range of geographies covered by the surveyed crowdfunding platforms in order to identify potentially significant discrepancies between Member States and other European countries. We however did not find any such indications in our sample. Overall, the responses were, while different in detail, largely aligned in their overall assessment of the situation of business activity.⁴



⁴ Countries of business activities are here defined where crowdfunding platforms actively seek and market transactions, rather than where they may have an office.

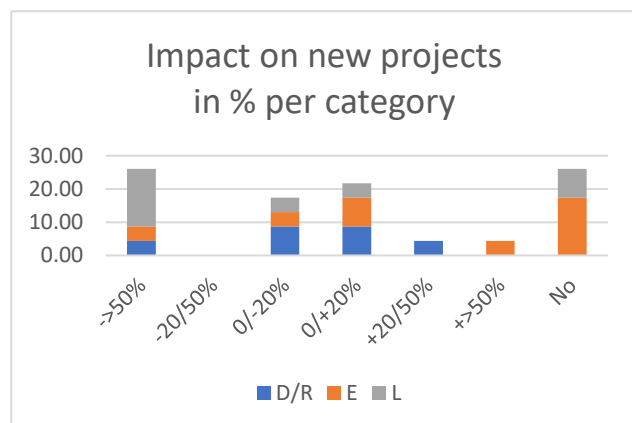
3. Specific Impact Perceptions

Investments: When looking at the perceived impact on incoming capital flows we find a high negative impact especially on lending, with most respondents indicating a high decline in capital inflows of more than 50%. Equity platforms are also perceiving a high negative impact. On the other hand, donation and reward platforms perceive the whole bandwidth, from high negative to high positive impact on capital inflows. The majority of donation and reward platforms perceives no or positive impact.



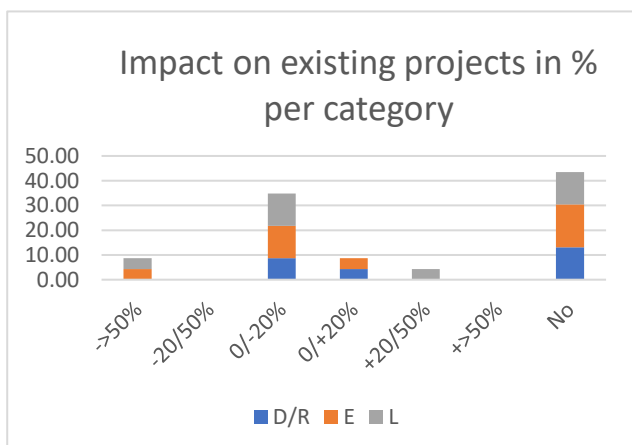
Platforms suggested that investors were cautious and waiting to evaluate the impact on their own capital base before making further commitments. However, there has been an increased interest by investors to CoVid19 related funding opportunities, which for now seem largely driven by the donation and reward side. Projects specific to CoVid19 have continued to capture investors interest.

New Projects: Regarding the perceived impact on new projects, we again find a significant negative perception by lending platforms, with most respondents indicating a decline of more than 50%. Equity platforms overall perceive no or only a moderate impact, both negative and positive. Only a minority of equity respondents indicated a high negative impact of above 50%. Donation and reward platforms perceive the impact on new project offerings similarly to equity platforms, mostly with a moderate negative or positive impact.



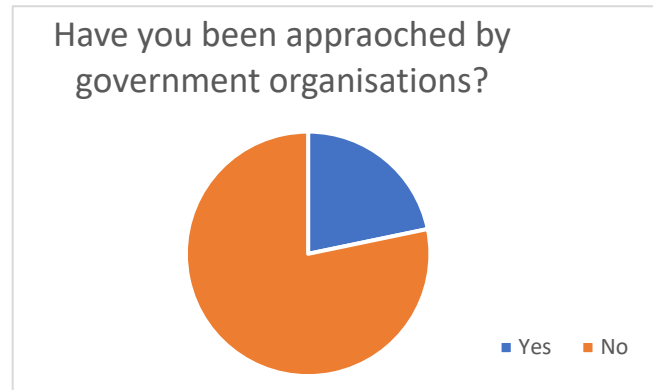
Lending and equity platforms experienced that potential projects showed signs of uncertainty about raising funding as they fear about their own financial stability and ability to repay loans or expand their business. At the same time, and as time passes, the need for capital is increasing and those businesses seeking crowdfunding show increased need for short term finance.

Existing Projects: Regarding existing projects, those that have already finalized their funding are in the process of repaying or delivering their promised pledges, all types of platforms overall report no impact or a moderate decline. Only a minority of lending and equity platforms report a high negative impact already, while similarly some donation and reward, lending and equity report a moderate positive impact. Platforms report impact on different levels, partly of course linked to the general limitations that every business currently is undergoing, with



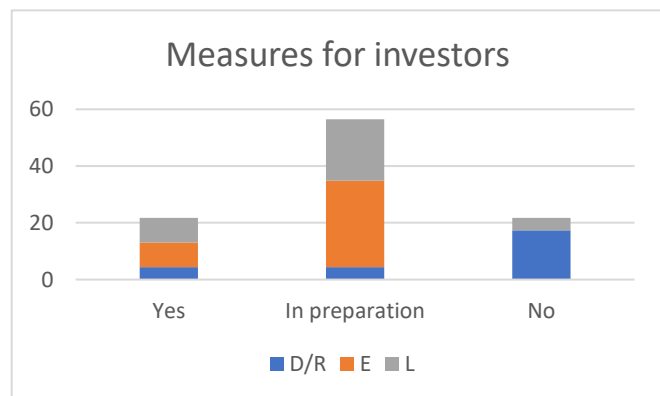
direct results on operations in line with larger business sectors, such as the travel or hospitality sectors. The real estate sector notes investment delays while, for example, social and solidarity initiatives remain largely better off. However, cash flow problems are increasing the risk of default for lending platforms in general and other platforms report impact and more difficult communication with existing projects.

Government Support: We asked crowdfunding platforms if they had been approached by government organisations regarding the CoVid19 crisis. Some 78% responded with “No” while only 22% with “Yes”. Platforms that had been approached were offered to apply for operational support, loan guarantee measures (lending only), offered increased investment tax deductions or asked to submit proposal to anti-crisis programmes. Overall, there is no dedicated support for neither crowdfunding platforms nor the businesses funded by crowdfunding. There is also little evidence that governments have reached out to crowdfunding in order to participate in the distribution of capital. However, in some instances there has been an easing of rules regarding loan guarantees for crowdfunding platforms.



4. Specific Measures taken by Crowdfunding Platforms

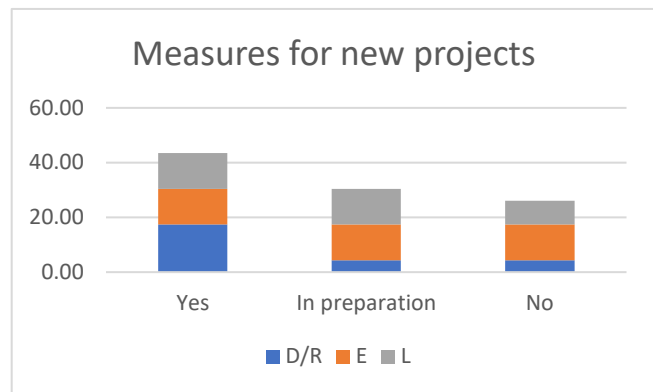
Investments: Platforms overall are already implementing measures to support investors to continue to provide capital to new funding opportunities. Most platforms are still in preparations, while a fifth of responding platforms has already implemented relevant measures. Most donation platforms, however, are not currently seeing this as an issue and are not planning or actively implementing any measures aimed at donors.



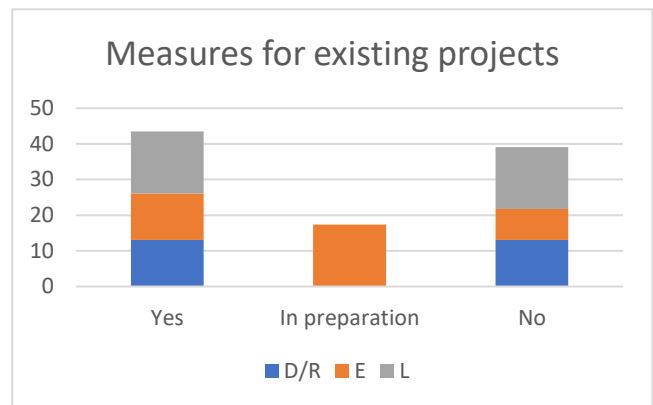
Platforms seek close and sometimes personal communication with their investor base in order to retain their confidence by providing more information on existing portfolio but also on CoVid19 developments and measures. Some proactively seek to reach out to new investors, others have implemented moratoria on capital repayments, where investors will only receive interest payments for the time being, while yet other platforms have waived their fees.

New Projects: Regarding new projects, slightly under 50% of platforms across the spectrum of models are implementing measures aimed at helping to onboard new projects. Most donation

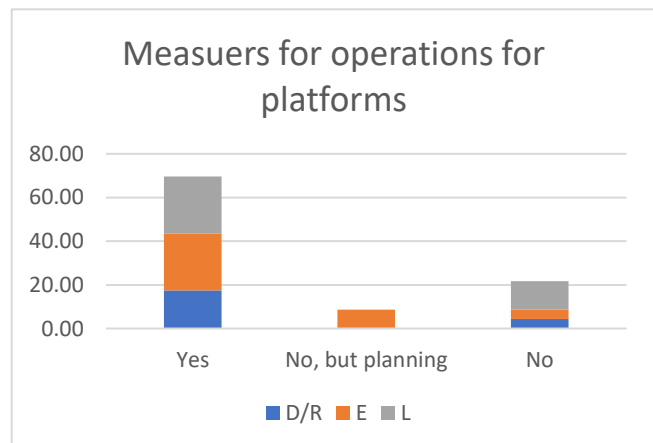
platforms are already implementing measures, while both lending and equity platforms are either currently preparing relevant measures or are not planning to do so at all. All platforms report about a variety of measures taken to attract new projects. These range from training and providing information on government support to stricter screening of projects in order to identify the businesses with the best survival chances in the current situation. Other implemented measures foresee reduced or cancelled fees for the use of the platform for specific CoVid19 related funding calls and channels. Some financial services platforms have also introduced the possibility for donations.



Existing projects: Regarding existing projects, respondents from both lending and donation platforms are either implementing supporting measures or currently not intending to do so. Most equity platforms are planning or already implementing such measures. However, some 10% of equity platforms still do not see the need to act for now in this regard. Platforms offer a variety of support measures to their existing portfolio of projects. Lending platforms have partly waived late repayment fees and delayed capital repayment for loans. Other platforms help with operational support, preparations of contingency plans and the provision of information on government subsidies.



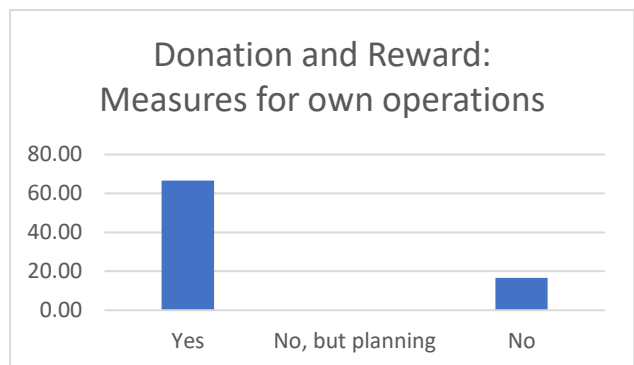
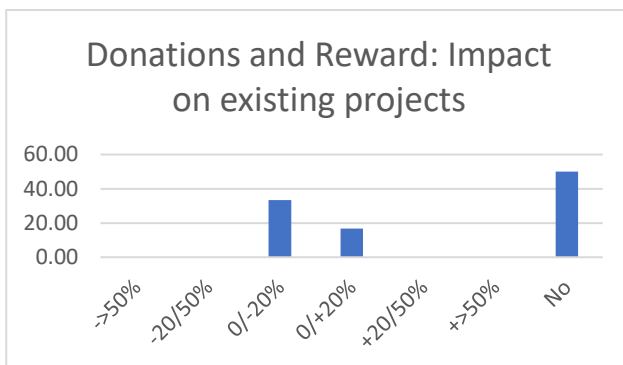
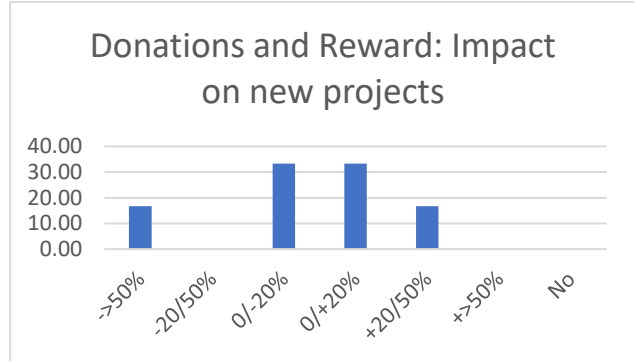
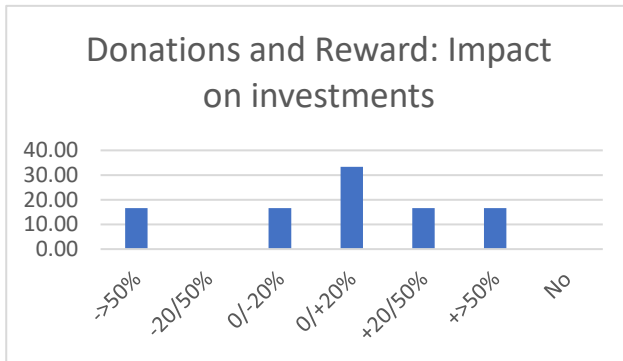
Platform operations: Crowdfunding platforms themselves are, of course, also subject to adjustments of their day-to-day operations. Around 70% of respondents indicated that they have already implemented measures to adjust their business operations. Some equity platforms are planning to do so, while around 20% of respondents indicates that they do not plan any measures yet, with the majority of these being lending platforms.



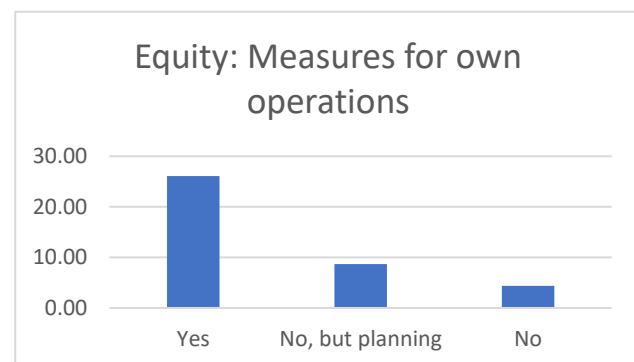
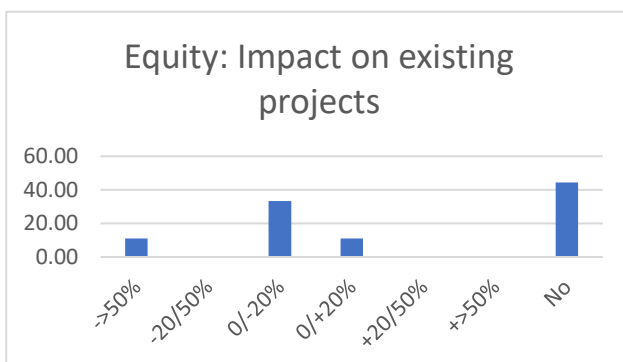
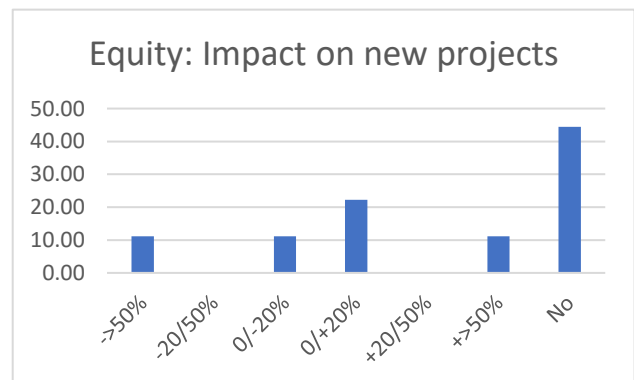
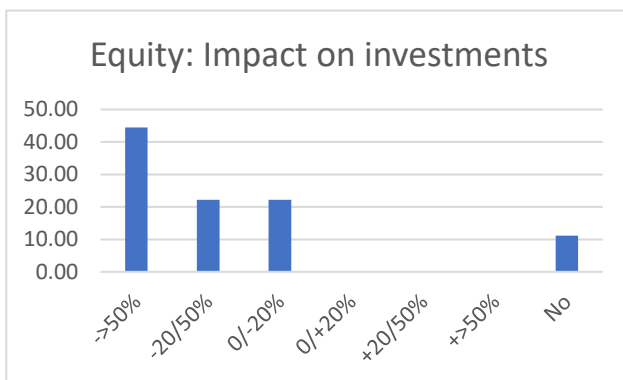
Platforms have introduced a variety of measures, and as in many other companies, remote and sometimes part-time work has been widely introduced. In some cases, staff have been furloughed or laid off. Operational impact also comes from some of the measures created to incentivise investors and projects, namely the waiving of fees and commissions. The introduction of new activities to motivate customers is requiring additional efforts.

5. Specific impact perceptions by type of crowdfunding platforms

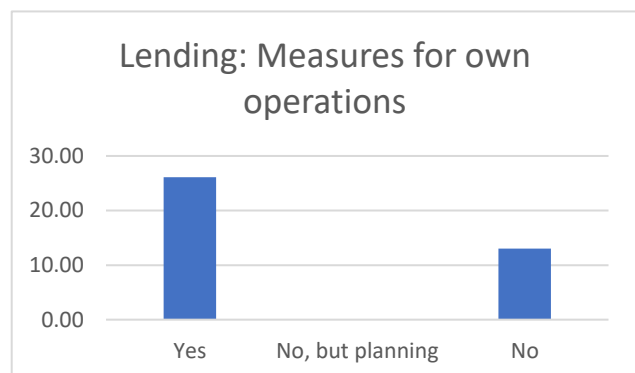
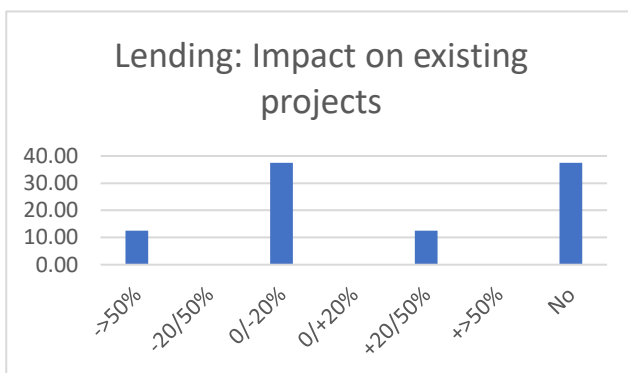
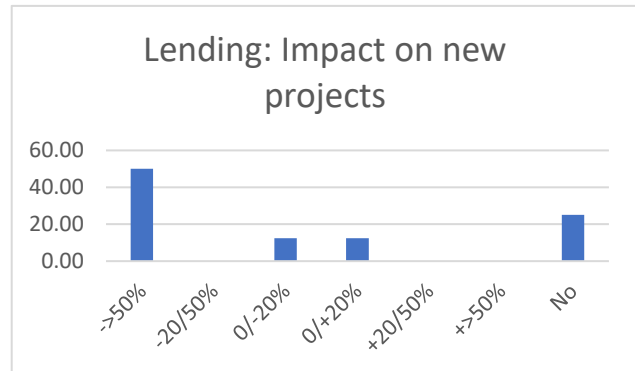
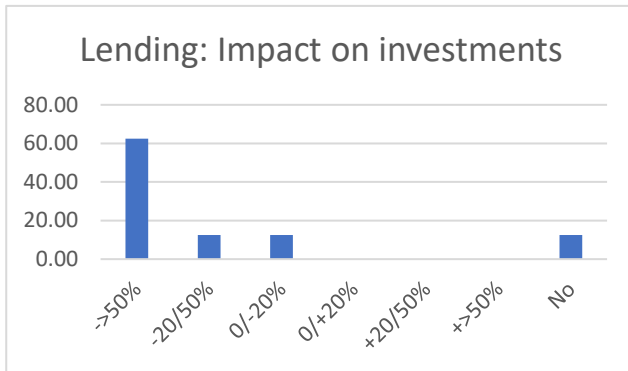
5.1 Donations and reward Crowdfunding



5.2 Equity Crowdfunding



5.3 Lending



6. Mid-term impact expectations

Respondents answered that following the CoVid19 crisis, crowdfunding may be able to support companies in accessing funding even more than before, as businesses will be financially less prepared for bank finance, and because there will be an increase in business creation from those that have lost jobs or had to stop their previous business. Some sectors, such as real estate, might see increased liquidity if capital markets are slow to recover, with investors seeking out long-term investment with perceived security. Also, social, impact and sustainability investments are expected to increase for crowdfunding platforms in the mid-term as a result of the CoVid19 crisis, as they may be able to benefit from having stronger links to regional needs.

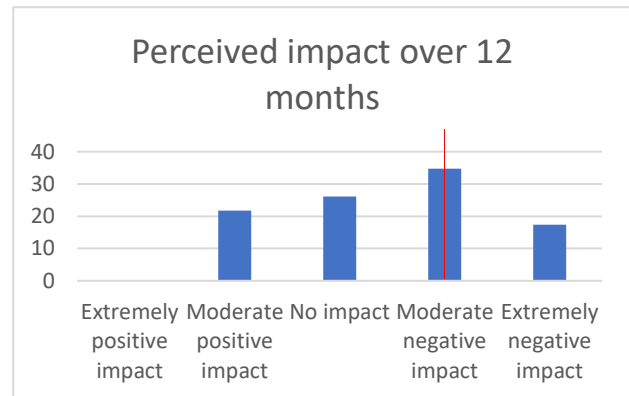
On the other hand, crowdfunding platforms are also expecting negative impacts, such as losing key staff members, experiencing high levels of defaults and consequently a potential lack of general interest in crowdfunding. A decrease in disposable income amongst European citizens may also directly impact the willingness to invest in projects with perceived higher risk or uncertain return. As most if not all crowdfunding platforms themselves count as start-ups too, they also face potential cash-flow problems, especially where fees and commissions are capped.

Platforms overall hope for increased inclusion of crowdfunding in government led initiatives, especially via match funding concepts that sees institutional or government funds allocated next to capital of citizens. The European Commission has started to investigate this and there are some national examples, this should be significantly sped up in order to help distribute capital to the many European small- and medium-sized enterprises quickly. The digital footprint of the

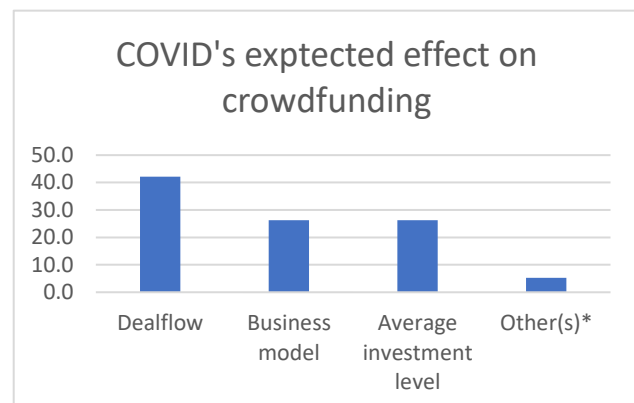
crowdfunding sector is hereby also a relevant factor that would enable a quick implementation and roll out.

For crowdfunding platforms specifically, government grants and support should also be made available, enabling those platforms to continue facilitating investments and funding without or with low fees being charged.

Regarding the expectations for the next 12 months and the economic impact on the sectors, respondents were overall suggesting a moderate negative impact. The number of respondents expecting an extremely negative impact was below 20%. Another 20% expects a moderate positive impact, with new opportunities making way for growth within the next year. One quarter of respondents believes that the mid-term impact will balance out and leave no real changes to the sector.



We also asked respondents where, if they saw an impact on their business, the impact would be most felt. Overall, over 40% of respondents that expect changes to the market believe that deal flow, that is new projects, will be most affected. The average investment levels are also expected to be affected, as well as the business model of crowdfunding platforms itself.



7. About the European Crowdfunding Network

The European Crowdfunding Network AISBL (ECN) is a 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.

We execute initiatives aimed at innovating, representing, promoting and protecting the European crowdfunding industry as a key aspect of innovation within alternative finance and financial technology, including crypto assets and distributed ledger technologies. 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. ECN maintains a dialogue with public institutions and stakeholders as well as the media at European, international and national levels.



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