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# Crowdfunding Platforms as Alternative Source of Funding

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## Authors:

Juliana **Hoxha**

Eriola **Haska**

Maris **Selamaj**

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## Terminology

**Alternative Finance** - Financial instruments and distributive channels that emerge outside of the traditional sources such as banks and stock and bond markets.

**Backers** - Backers are folks who pledge money to join creators in bringing projects to life.

**Business Angels / Angel Investors** - Wealthy entrepreneurial individuals who invests personal capital in start-up companies. They invest in return for an equity stake. In other words, when they invest they obtain a percentage ownership of the start-up business.

**Carry fee** - A share of any profits that the general partners of any investment or equity fund receive as compensation.

**Crowdfunding** - The practice of funding a project or venture by raising many small amounts of money from a large number of people.

**Crowdfunding Platforms** - A website, which facilitates crowdfunding by allowing people or companies seeking money to raise it from members of the public. Platforms list different projects, collect and process the payments between those who give money and those who receive it.

**Crowdfunders** - A person, group, cause or organization that raises money from a lot of people that, on an individual basis, contribute a relatively small amount of money to help achieve the goal.

**Crowdinvesting** - It is equity-based crowdfunding. Many retail investors to invest a relatively small amount of capital in exchange for an equity stake in a startup or small business.

**Cybersecurity** - It refers to the measures taken to keep electronic information private and safe from damage or theft. It is also used to make sure these devices and data are not misused. Cybersecurity applies to software and hardware, as well as information on the Internet, and can be used to protect everything from personal information to complex government systems.

**Donation Crowdfunding** - Money is obtained on a donation basis from several individuals and businesses, but nothing is returned to those who give the money. Often donation crowdfunding is most successful among charities and non-profits.

**Equity** - Ownership of a piece of a company as an investment.

**Equity Crowdfunding** - Funding projects and businesses through investments by people who then receive equity ownership shares in the resulting company or product.

**Key Performance Indicators** - These are the critical (key) indicators of progress toward an intended result. KPIs provide a focus for strategic and operational improvement, create an analytical basis for decision-making, and help focus attention on what matters most.

**Millennials** - Also known as, Generation Y usually considered applying to individuals who reached adulthood around the turn of the 21st century.

**Monetization of assets** - This is a source that businesses or nonprofit organizations use to generate revenues by renting spaces, facilities etc. to different clients.

**Payment processor** - A company, which deals with credit or debit card transactions between donors and nonprofits/individuals.

**Peer to Peer, (P2P) Lending** - A form of debt crowdfunding, peer to peer lending is when individuals, or individual companies offer loans to other individuals or companies. There is a fixed rate of return for such loans.

**Peer to Business Lending** - A form of debt crowdfunding, peer to business lending provides individuals with the opportunity to lend to established businesses. P2B lending appeals to the wider public interested in higher returns on the money they are lending.

**Rate of Return** - The net gain or loss on an investment over a specified time, expressed as a percentage of the investment's initial cost.

**Reward** - Something given to investors in exchange for their funds while crowdfunding, either the first run of an actual product, or a shirt, sticker, or small object related to the project or company being funded, or even just a "thank you" acknowledgement.

**Rewards Crowdfunding** - Crowdfunding in which backers receive a reward in exchange for their financial gift. Reward types are often based on the amount given by investors. Some are offered in various forms that the investors can choose among the options.

**Startup** - A new business, often using a highly scalable new technology or novel process, and often outside investment funding, to grow quickly.

**Seed Funding** - The type of equity-based funding in which an investor invests capital into a business during its early stages in exchange for equity stake.

**Transaction Value** - The price paid or payable for a good or service.

**Tax Exempt** - It refers to income or transactions, which are free from tax at the federal, state, or local level. Tax-exempt may also refer to the status of a business or organization, which has limits on the amount of income or gifts, which are taxable.

**Tax Deduction** - It is a deduction that lowers a person's tax liability by lowering his taxable income. Deductions are typically expenses that the taxpayer incurs during the year that can be applied against or subtracted from his gross income, in order to figure out how much tax is owed.

**Unique Selling Points** - A factor that differentiates a product from its competitors, such as the lowest cost, the highest quality or the first-ever product of its kind.

**Venture Capital** - Equity funding in a startup provided by an investment company.

## Introduction

Financial viability remains to be the most challenging issue for civil society organizations (CSOs) worldwide. CSOs primarily rely on grants, but according to the latest study, 93% of the CSOs representatives said that grant making has become more challenging in the past 18 months (Doane, 2019). Philanthropy, or the donation of money and other resources for a common purpose, has been a fundamental traditional revenue source, which helps the sector to diversify the funding (ECNL, 2017).

The Fundraising Dictionary developed by the Association of Fundraising Professionals defines fundraising as the “*raising of assets and resources from various sources for the support of an organization or a specific project.*”<sup>1</sup> Fundraising ensures the incomes for an organization in order to sustain itself and contribute to its social mission.

The main sources of income available to CSOs are:

- a) *philanthropy or donation of money, in-kind from individuals, corporations, national/international grant-making organizations;*
- b) *government funding including grants and subsidies, as well public procurement;*
- c) *Grants from national/international donors;*
- d) *Revenue-generating activities such as fee for services, membership fees, investments, monetization of assets, etc.*

Fundraising methods can generally be divided into two types: traditional approaches and new approaches specifically, digitally based techniques. Traditional fundraising methods do not use new technologies or digital means of communications. Those include face-to-face fundraising, such as door-to-door collections and street fundraising; solicitations by mail; gaming activities, such as lotteries and bingo; and the solicitation of legacies (ECNL, 2017).

CSOs have started to adapt quickly to innovative methods and digitally means to fundraise their activities. CSOs are using mobile phones, internet websites and specialized fundraising platforms (Mihálik, 2012).

A popular new method of fundraising is through mobile phone services such as donor’s message service (DMS), MyWallet, and Premium SMS (PSMS). DMS allows donors to contribute a fixed amount of money to a registered organization by sending a message.<sup>2</sup>

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<sup>1</sup> The Association of Fundraising Professions was established in 1960 and has now more than 30,000 individual and organizational members worldwide.

<sup>2</sup>Url: [https://www.paysera.com/premium\\_sms\\_payments.html](https://www.paysera.com/premium_sms_payments.html)

Another new method of fundraising is **crowdfunding**, which is quickly growing exponentially among nonprofit organizations and businesses. Crowdfunding raises small contributions from a large number of people for a specific purpose or project via the Internet. Crowdfunding was experimented firstly by entrepreneurs as a way to attract small investments to for-profit ventures, primarily via the internet (National Council of Nonprofits, 2018).

The credit-card donation is another new technology considered very handful method for supporting good causes. The ways of using credit cards encompass direct debit<sup>3</sup>and purchases made with a special charity credit card.<sup>4</sup>

## What is Crowdfunding

Crowdfunding is a collective effort of many individuals who pool their resources to support ideas initiated by individuals, organizations. A large number of individuals finance with small contributions individual projects and businesses giving the opportunity to innovators, entrepreneurs, and business owners utilize crowdfunding to raise capital (Tordera, Irene, 2012).

Among the new methods of fundraising, the use of crowdfunding platforms (CPs) is growing not only among non-profit organizations, in particular, grassroots organizations but also among for-profit startups and individual projects. The location for resource mobilization may be onsite, which is the traditional way of crowdfunding and online, the digitalized version nowadays in the era of the internet.

In crowdfunding, the main actors are initiative owners (entrepreneurs, nonprofit organizations, individuals with a specific goal), sometimes known as beneficiary, crowdfunders (investors, lenders or donors) and the crowdfunding platforms as an intermediary.

## Types of Crowdfunding

There are four main crowdfunding types. Depending on these types, crowdfunding platforms do register either as a company or as a nonprofit organization. The types of these platforms are as below:

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<sup>3</sup> “Direct debit” is an instruction from a donor to his or her bank authorizing an organization to collect a specified amount of money directly from the donor’s account. Url: <https://www.wheel.ie/>

<sup>4</sup> Url: <http://www.moneysupermarket.com/credit-cards/charity/>

- ✓ **Reward Crowdfunding:** This business model is used by venture owners who want to collect donations for a specific project allowing investors to contribute to this venture in return for nonfinancial benefits (Tordera, Irene, 2012). The rewards are of symbolic value and provided by the investee. [Kickstarter](#) and [Indiegogo](#) are the biggest platforms, with more than \$1 billion raised by tens of thousands of entrepreneurs (UNDP, 2017).
  
- ✓ **Lending Crowdfunding:** This type provides investors with the chance to fund the project in exchange for financial interest, and it can offer entrepreneurs/project owners a loan at a lower cost than borrowing from a bank.<sup>5</sup> Some platforms of this type play the role of a matchmaker connecting lenders and borrowers when the deal is closed, while some act as intermediary making repayments to the lenders. There are different types of lending crowdfunding platforms such as a) social platforms, which give the possibility to lend to social projects with no interest being offered; b) peer-to-peer lending, where the main difference is that borrowers and lenders do not know each other, and it is the best model for borrowers who are interested in lower interest rate which implies a higher risk (Tordera, Irene, 2012); c) peer-to-business lending, a platform that provides loans to small and medium business (SMEs) in return for interest, one of the fastest growing types of crowdfunding (UNDP, 2017). Some examples are [Prosper](#), [Lending Club](#), [Zopa](#), [Kiva](#).<sup>6</sup>
  
- ✓ **Equity Crowdfunding:** This is the type of platform when a company wants to attract an investment from a group of people instead of a business angel, so-called crowd investing. The crowdfunder invests money in return for shares or a small stake in a company.<sup>5</sup> Based on the increasing trend, equity-based crowdfunding platforms could reach up to \$36 billion by 2020, even though often the regulatory framework is restrictive (Barnett, 2015). Some examples are [Seedrs](#), [CrowdCube](#), [Fundr](#), and [AngelList](#).<sup>6</sup>
  
- ✓ **Donation Crowdfunding:** This type of crowdfunding is designed for nonprofit organizations or those who raise money for charitable projects such as initiatives with social impact enabling an online community to donate small amounts (Tordera, Irene, 2012). The crowdfunder donates without expecting something in return. [JustGiving](#) and [YouCare](#) are among the largest and most popular donations based platforms (UNDP, 2017). There are some platforms focused on a specific area such as [DonorsChoose](#) concentrated on USA public schools or [Razoo](#), which has created a dedicated platform for causes.<sup>6</sup>

Some platforms are a hybrid of each platform combining for example loans and pre-sales, where a part of the funding will be put into a loan and the other part will be used to pre-

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<sup>5</sup>Url: <https://www.nibusinessinfo.co.uk/content/types-crowdfunding>

<sup>6</sup> Url: <https://www.kauffman.org/microsites/state-of-the-field/topics/finance/crowdfunding>



finance a product or a service. [Kiva](#) is an example, which employs a hybrid crowdfunding platform combining donations based model and peer-to-peer lending.

## Why Crowdfunding

Crowdfunding provides numerous benefits to a broad variety of users. It offers flexibility, community engagement, and plenty of financing forms. The different types of crowdfunding imply both financial return to investment and no return at all serving to different purposes, initiatives, and entities (European Commission, 2014).

Crowdfunding has two key benefits for CSOs because it is an efficient method to carry out, seek donations, and leverage support from a variety of donors. This model supports nonprofit organizations promote and raise awareness of their specific cause worldwide. Donors take care of the visibility by promoting the crowdfunding campaign in cases of reward crowdfunding based platforms, where they receive a tangible reward in return.<sup>7</sup>

One of the main advantages of crowdfunding platforms is access to finance, a permanent need for CSOs, social enterprises, and start-ups. Small and Medium Enterprises (SMEs) have reported accessing finance as the most pressing issue in the previous reports of European Commission (European Commission, 2013), but during the last year the access to finance for SMEs has fallen in importance as a problem (European Commission, 2018). The reason is that the number of financial schemes available and crowdfunding platforms is on the rise in the EU countries, while in Balkan countries the access to finance continues to be a concerning issue.

Crowdfunding is a solution, which indeed fills a financial gap for social enterprises, cultural and creative initiatives that due to their intangible impact and high uncertainty in the market find it difficult to access funds. On the other hand, it gives a potential benefit to initiatives, which are in the entry or growing level of their lifecycle to find financial, expertise and know-how support for a diverse range of areas. Compared to other types of funding opportunities, online crowdfunding diminishes the administrative costs, in particular for enterprises and can be qualified as cost-effective intermediaries (European Commission, 2012).

Crowdfunding can strengthen entrepreneurship in terms of not only accessing funds, but also serving as a strong marketing mechanism guaranteeing great exposure to entrepreneurship ideas. It allows project owners and entrepreneurs to test the market and the ideas before targeting traditional donors or clients (Root & Husain, 2015).

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<sup>7</sup> “Nine Facts Charities Need to Know About Crowdfunding,” Guardian, November 11, 2014, Available at: <http://www.theguardian.com/voluntary-sector-network/2014/nov/11/nine-facts-charities-need-to-know-about-crowdfunding>

From the investors/donors perspective, crowdfunding makes an easy option of investing money through providing to the investors the level of involvement they prefer. A distinctive feature of crowdfunding platforms is the matching of small and bigger contributors directly with the initiatives that seek funds since in the early stages (European Commission, 2014).

Crowdfunding platforms ensure the participatory governance allowing a group of individuals to fund a project or invest in an enterprise. The advantage consists that a wide group of investors can share a high financial risk collectively. On the other hand, crowdfunding serves as a method of capturing remittances (UNDP, 2017).

Eventually, crowdfunding comprises a promising reality, expected to surpass venture capital as a mean of financing reported by Forbes in 2016 (Barnett, 2015).

## Crowdfunding for Nonprofits

Since online crowdfunding is still a relatively new concept, many nonprofits have their doubts before using it for the first time (Gore & DiGiammarino, 2014). However, crowdfunding helps nonprofit organizations communicate their work, find donors, create significant engagement and boost their impact (National Council of Nonprofits, 2018). The crowdfunding industry is foreseen to experience growth to more than \$300 billion by 2025. This trend is a tremendous chance for nonprofit organizations to new sources of funds.<sup>8</sup>

Donation-based crowdfunding and some of the reward-based platforms have similarities with grant giving, wherein both nonprofits and individuals present their ideas in a compelling way to secure funding without any financial return. Likewise, the funders are interested in the social impact and the accomplishment of goals defined by the project. The difference between donation-based crowdfunding and traditional fundraising is that donations are collected for a dedicated project, even though donors tend to donate more if the organization keeps them updated about the continuity of the project (Gajda & Walton, 2013).

There are two ways how crowdfunding for nonprofit organizations function. Firstly, it happens online through displaying specific projects/ideas and carrying out donations; or onsite, arranged in community-building events. Live crowdfunding (on-site crowdfunding) shows live events where representatives of CSOs pitch their cause to those gathered, and the audience members pledge donations in an auction-like setting. On the other hand, online crowdfunding happens via specialized websites, where CSOs can reach out to a much wider audience and can share their campaigns via social media platforms (National Council of

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<sup>8</sup>Url: <https://blog.capterra.com/top-crowdfunding-platforms-for-nonprofits/>

Nonprofits, 2018). Online crowdfunding platforms provide special features for creative projects such as [Causes](#) offers the networking option, [Fundly](#) helps to keep in touch with your donors and [Rally.org](#) allows nonprofit organizations to dive deeper in fundraising data and analytics.<sup>8</sup> Both models produce compelling results allowing nonprofits to create interaction and relations with donors.

Three areas remain as very important to widespread use of crowdfunding among nonprofit organizations, social enterprises: a) raise awareness about crowdfunding through promoting its potential pro-actively; b) create trust through showing transparency and outcomes from the funded projects; c) stimulate skills development to use crowdfunding platforms combined with enhanced entrepreneurial and marketing skills (De Voldere & Zeqo, 2017).

### How crowdfunding platforms work

Most crowdfunding platforms charge a fee to cover the costs related to operations and maintenance of the platform. In general, the fees range from 0-20%, but most of the companies' charge either 0% or 5%. These sites often use a payment processor to facilitate the donation process and money transfer. Therefore, users have to pay a fee for covering this cost. Paypal is one of the largest and most popular payment processors. Some companies apply just a fee per donation, or a fixed fee for using the platform plus the fee per donation (for example 2.9% + \$0.3/donation). Other crowdfunding platforms, which do not profit from these type of fees, get a voluntary tip from the donors.<sup>9</sup>

The majority of crowdfunding platforms apply “all-or-nothing” principle, which means that initiative' owners get the collected money only when they hit the target amount, otherwise the money return to the donors. Some platforms give a second chance to reach the target to these campaigns. Only a few crowdfunding platforms apply the “take it all” principle, which means that the initiative holder collects every cent raised through the campaign even though they have not reached the target.<sup>10</sup>

The process of how an organization or individual can use such platforms explained briefly is broken down in steps as below:

- Individuals or organizations should apply to the platform's website, in order to **register** a campaign or an initiative,

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<sup>9</sup> Url: <https://www.crowdfunding.com/free/>

<sup>10</sup> Financial Conduct Authority, “The Financial Conduct Authority's Regulatory Approach to Crowdfunding over the Internet and the Promotion of Non-Readily Realizable Securities by Other Media,” policy statement 14/4 (March 2014), [www.fca.org.uk/static/documents/policy-statements/ps14-04.pdf](http://www.fca.org.uk/static/documents/policy-statements/ps14-04.pdf)

- **Pre-selection** of the ideas is made in accordance with several criteria, which depend on the crowdfunding platform. The platforms often check the background of the project’s owner and assess the feasibility of the crowdfunding plan. There are other platforms, which publish the ideas automatically without making pre-selection (De Buysere, et al., 2012);
- The project owner has to create a **funding goal** (in general, the minimum goal accepted by crowdfunding platforms is \$500) over a marked period. He has to make a pitch of the idea which mostly is in the form of a video;
- The project owner is responsible for **promoting** the campaign using his social networks largely and retaining the funder updated about the process;
- After the project/campaign reaches the funding goal, the platform will **transfer** the allocated money. If the project does not reach the target funding, most of the platforms will reimburse the money to the funders.
- **Post Campaign:** In most of the cases, funders continue the communication with the project owners through the crowdfunding platform. Some of the donors/investors prefer to remain involved in the decision-making and some not (Gore & DiGiammarino, 2014).

## How to raise a campaign

Increasingly, nonprofits use campaigns as proof of their work when pitching to traditional grant-giving foundations for larger donations. Individuals, but also nonprofit organizations report that running a campaign is difficult and time-consuming. The organization should assign a dedicated staff with the proper skills and capacities needed to run a successful campaign and generate funds. Building a campaign upon previous successful initiatives and securing existing donors’ support for the campaign are preconditions to make an effective campaign. Gore & DiGiammarino (2014) provide some tips on how to start a campaign as below:

- **Get to know** to different platforms and choose the right one, which meets the organization’s target and its goal best;
- **Speak** with other nonprofits that have previous experience with crowdfunding campaigns;
- **Create** a campaign team, who is responsible for running the campaign and its success;
- **Draft** a thorough campaign plan and share it with the crowdfunding platform to get feedback before starting the campaign;
- **Prepare** a pitch using a short video explaining what your project is, what you need the money for and what difference you’ll make;<sup>11</sup>
- **Laying** the groundwork: Promote the campaign with your close network for a couple of weeks before launching it;

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<sup>11</sup>Url: <https://knowhow.ncvo.org.uk/how-to/how-to-and-why-set-up-a-crowdfunding-campaign>

- **Set** attainable goals and aim to reach 30% of the goal in the first two days using your existing network;
- **Create** a new audience strategy to achieve the final goal after surpassing the 30% mark;
- **Involve** your network and existing donors to share the campaign in their platforms, because it will create more trust and it is proof of your organizations' value.
- **Follow up** your promises and keep updated your donors about the progress of the project.

Successful campaigns are often supported by well-designed marketing strategies and professional service providers such as professional photography and video-making (UNDP, 2017). The time spent on preparing crowdfunding campaigns is highly dependent on the scale of the project, team's size, outsourcing strategy and the type of the project.<sup>12</sup>

**Figure 1:** Some statistics on crowdfunding campaigns



Source: <https://blog.fundly.com/crowdfunding-statistics/#nonprofit>

Fundly is a crowdfunding platform, which keeps tracks also of the statistics on crowdfunding globally. The above figure shows some facts on the crowdfunding campaigns, which are measured during the time. So far, the majority of campaigns (78%) tend to exceed their fundraising goals, considered as quite encouraging data for all non-profits. Data show that the

<sup>12</sup>Url: <http://www.crowdcru.com/hours-per-week-spent-on-a-kickstarter-project-study/>

majority of donors belong to the young people category, and the amount of each donation tend to be small (figure 1).

## Successful Campaigns

Several crowdfunding campaigns have made a difference to larger communities, as well as have attracted enormous interest in the crowd.

### Save the Children

In 2012, Save the Children used Facebook and [FundRazr](#) crowdfunding platform, sponsored by AtheneLive to raise \$1 million for children at risk in Horn of Africa during a single campaign. Since then, AtheneLive, a gaming community has launched its own crowdfunding platform [GamingforGood](#), which is providing digital, downloads of games in exchange for charitable donations. The site has raised \$20 million for Save the Children on behalf of Ebola Children Relief Fund, which aim is to save lives and protect orphans.<sup>13</sup>

### American Red Cross

American Red Cross tends to seek constantly donations for natural disasters and emergencies, using different crowdfunding sites such as Indiegogo. They raised nearly \$4.7 million through [Crowdrise](#) platform.<sup>13</sup>

### Barack Obama Campaign

There are politicians that have raised money for their election campaign, and one of the most successful has been the campaign of Barack Obama. He utilized a donation-based crowdfunding strategy targeting small donors and managed to raise \$631 million in individual donations, half of which were from small donors. During the presidential race of 2008, Obama raised \$750 million, \$600 million of which came from 3 million donors through [barackobama.com](#).<sup>14</sup>

### The Pebble E-Paper Watch Campaign

The company released a watch that would let people see who is trying to reach them in cases people cannot reach them through the smartphone. This is one of the most successful equity crowdfunding campaigns raising \$10.3 million in 37 days during the initial campaign (Schroter,

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<sup>13</sup> Url: <https://www.cncb.com/2014/10/27/10-big-crowdfunding-campaigns-making-a-difference.html?slide=2>

<sup>14</sup> Url: <https://crowdsourcingweek.com/blog/a-framework-for-political-crowdfunding-lessons-from-president-obama/>

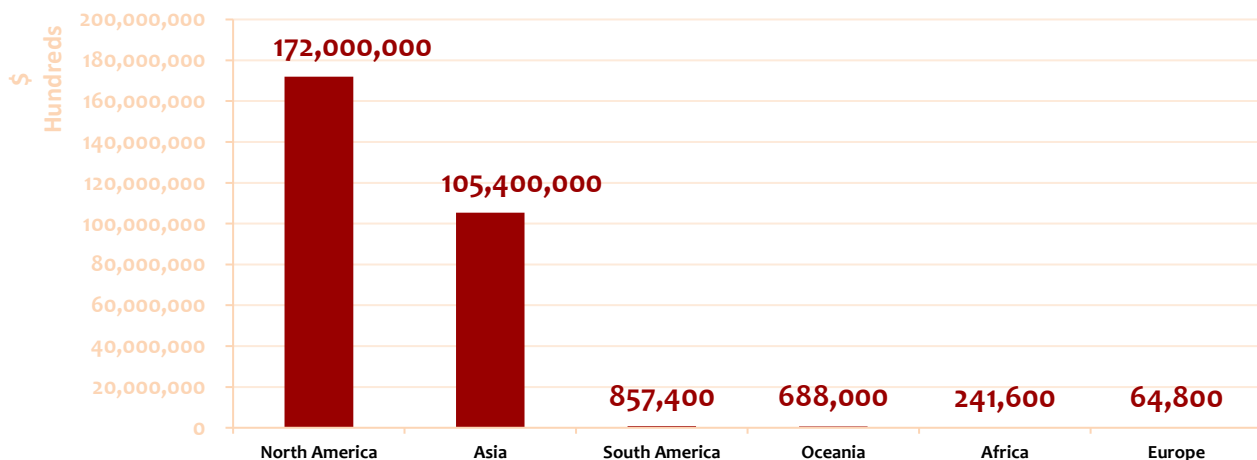
2014). In total, the company raised \$43.4 million in crowdfunding and more than \$15 million in venture capital.<sup>15</sup>

## Global Statistics on Crowdfunding

In 2015, there were 1250 crowdfunding platforms in the world (Massolution, 2015). Many reports foresaw a growing number of crowdfunding platforms in the future due to the following reasons: a) *Growth Rate of Crowdfunding Platforms* - In 2012, there were more than 700 crowdfunding platforms in the world. During 3 years, the number has almost tripled; b) *Easing of Regulatory Environment* - More investors are now able to make private investments across the globe as the regulatory environment becomes favorable; c) *Technological Innovations* - Technological innovations are affecting rapidly in alternative finance. Even though crowdfunding started as a donation based and reward based fundraising options, nowadays it has expanded into debt and equity funding option. d) *Changes in investor behavior* - The millennials prefer more mobile and online solutions rather than traditional methods (Drake, 2015).

Crowdfunding has raised a total of \$34 billion worldwide, a figure already predicted by Massolution (2015). Crowdfunding of rewards and donations raised \$5.5 billion, while equity crowdfunding raised \$2.5 billion. Crowdfunding has grown rapidly from financing charities into enterprise financing. In the meantime, the crowdfunding industry has created 270,000 jobs.<sup>16</sup>

**Chart 1:** Crowdfunding Statistics by Region



<sup>15</sup> Url: <https://www.wsj.com/articles/the-10-biggest-crowdfunding-campaigns-where-are-they-now-1525140660>

<sup>16</sup>Url: <https://blog.fundly.com/crowdfunding-statistics/>



Source: Adapted from “Crowdfunding Industry Report 2015”, Massolution, 2015. Retrieved from: <http://www.smv.gob.pe/Biblioteca/temp/catalogacion/C8789.pdf>

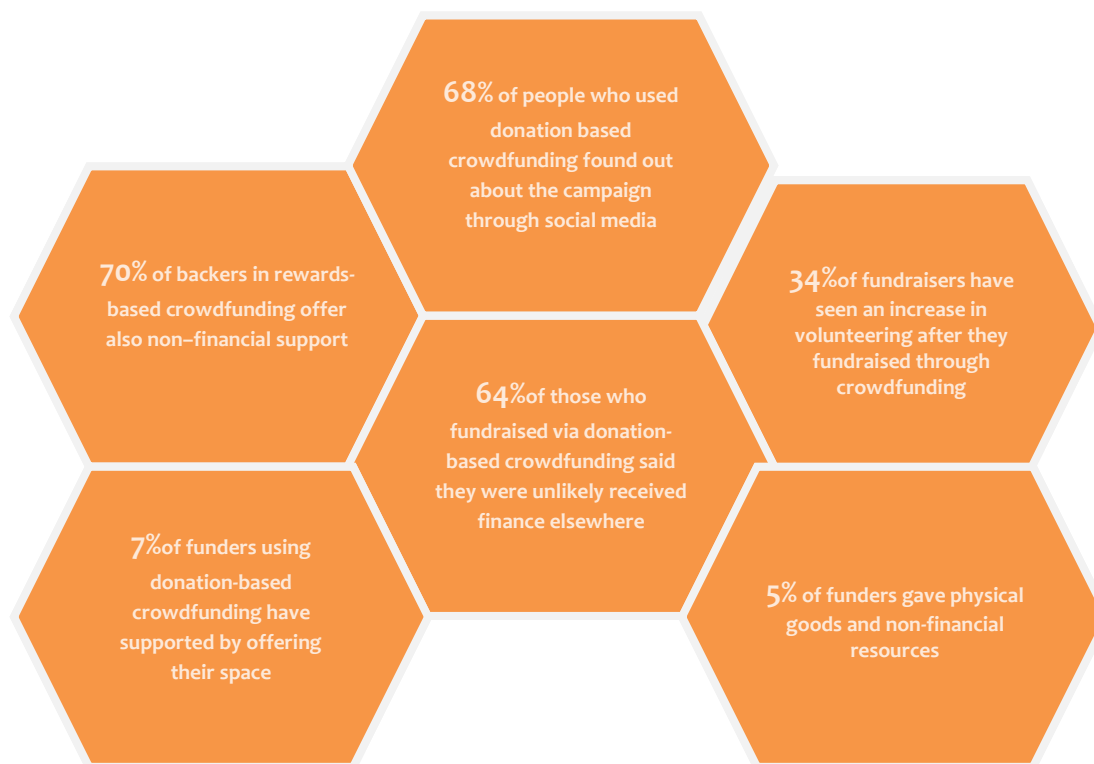
Based on the above chart, North America holds the first place for revenues carried out through crowdfunding platforms (\$17.2 billion), followed by Asia (\$10.5 billion), South America (\$85.75 million), Oceania (\$68.8 million), Africa (\$24.16 million), Europe (\$6.48 million) (chart 1) (Massolution, 2015). Business & entrepreneurship accounted for nearly half of all money raised globally through crowdfunding platforms (Hogue, 2017).

In North America, the market is increasingly dominated by a small number of very large players, while in Europe there is a dilution of the market share held by the largest players. Growth in Asia is primarily being driven by substantial growth in lending-based crowdfunding (peer to peer and peer to business) in China (Massolution, 2015).

In Europe, the largest market for alternative finance by far is the UK, accounting for more than 80% of the market volume in Europe. Other top five countries following the UK are France, Germany, the Netherlands, and Finland. The UK has substantially larger platforms than the other European countries, followed by Germany, Spain, and Poland. There is also a difference between peer-to-peer lending and equity crowdfunding in all the countries because peer-to-peer lending platforms are much larger in terms of volume of funding than equity crowdfunding based platforms (Oxera, 2015).



**Figure 2: Some facts on Crowdfunding<sup>7</sup>**



Source: Adapted from “Nine facts charities need to know about crowdfunding”, Guardian, 2014. Retrieved from: <http://www.smv.gob.pe/Biblioteca/temp/catalogacion/C8789.pdf>

The data from the above figure point out that backers also provide non-financial support. Social media is a popular intermediary channel to promote crowdfunding campaigns. On the other hand, these data strongly sustain the fact that the exposure towards crowdfunding platforms helps crowdfunders to find other funds (figure 2).

### Putting Western Balkans in perspective

The crowdfunding sector in the region is still in its early stages. Besides Croatia and Serbia, other western Balkan countries lack crowdfunding-related infrastructure. The Crowdfunding Academy, is co-founded by the UNDP Croatia, and the social enterprise Brodoto. In previous years, the biggest focus of Croatian crowdfunders was in the field of gaming, music and film, while in 2015 there was a significant change, with more than 10% of campaigns coming from the field of community causes (Crowdfunding Hub, 2016).

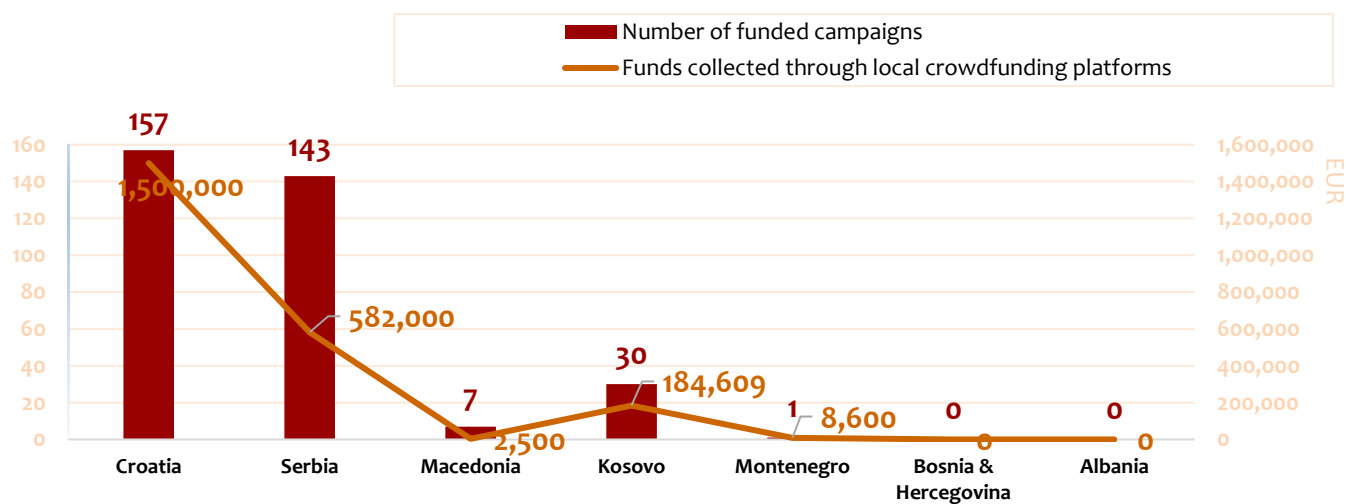
The two most common international crowdfunding platform used from Western Balkan countries are Indiegogo and Kickstarter. Croatia has created three CPs, respectively one

donation-based crowdfunding platform ([Činipravustvar](#)), one reward based crowdfunding platform ([Croenergy.eu](#)), and one multifunctional crowdfunding platform ([Croinvest.eu](#)) incorporating equity, lending, reward, and donation options.

In the meantime, both crowdfunding platforms in Serbia focus on equity and crowd investing ([Investing in Idea](#), [Crowdfunding.Rs](#)), while Macedonia ([Let's Fund It](#)), Kosovo ([KosovoIdeas](#)), and Montenegro ([Slobodatrakiljude](#)) have created one donation and reward-based crowdfunding platform. The crowdfunding platform of Kosovo is registered in Switzerland as an NGO because it benefits from tax-exempt, and donations are tax-deductible according to the laws and regulations.

So far, there is no specific legal framework on crowdfunding in all the countries of Western Balkan. In Croatia, the crowdfunding is regulated through the Law on Capital Markets (European Crowdfunding Network, 2018); while in Serbia, it is regulated through the Law on Capital Markets and the Law on Venture Capital (University of Belgrade, 2017).

**Chart 2:** Funded Campaigns through Local CPs vs Funds collected through Local CPs<sup>17</sup>



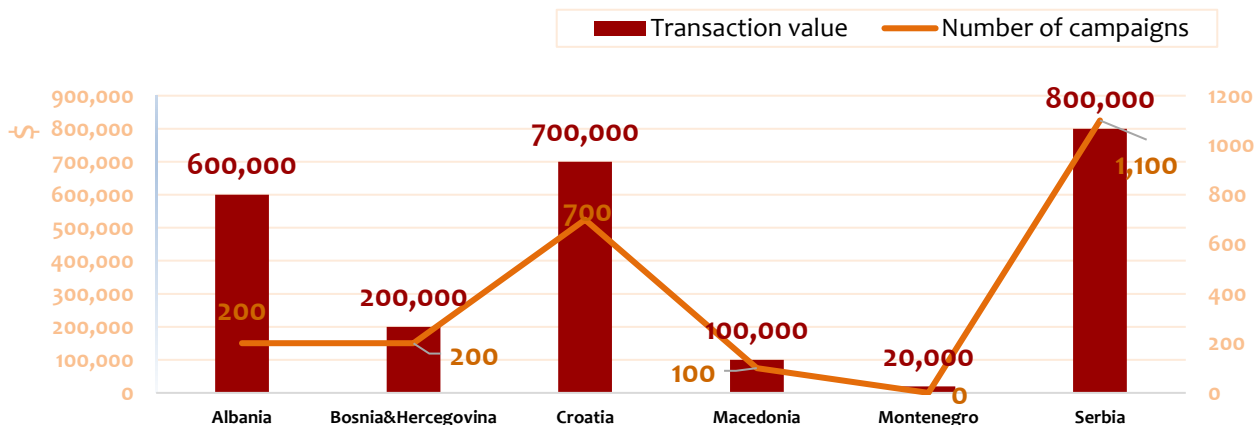
Since only Croatia and Serbia possess a more developed crowdfunding infrastructure, they hold the first places in terms of the number of funded campaigns, and amount of funds collected through local CPs compared to other countries of Western Balkan (Chart 2). The fact

<sup>17</sup> The Chart 3 contains compound data retrieved from several sources: Data on Serbia and Croatia retrieved from [http://www.ctt.bg.ac.rs/wp-content/uploads/2017/12/Regional\\_Profile\\_Serbia.pdf?x20545](http://www.ctt.bg.ac.rs/wp-content/uploads/2017/12/Regional_Profile_Serbia.pdf?x20545); [http://eurocrowd.org/wp-content/blogs.dir/sites/85/2018/06/CF\\_FactSheet\\_Croatia\\_June2018.pdf](http://eurocrowd.org/wp-content/blogs.dir/sites/85/2018/06/CF_FactSheet_Croatia_June2018.pdf); Data on Montenegro, Bosnia&Hercegovina, Macedonia and Albania retrieved from <http://crowdfunding4innovation.eu/country-fiches>; Data on Kosova retrieved from <https://kosovaideas.com/>

that Albania and Bosnia are the only countries, which do not have established any crowdfunding platform; it is reflected in the above chart.

Studies show that the uptake of crowdfunding for Bosnia & Hercegovina<sup>18</sup>, Montenegro<sup>19</sup> and Albania,<sup>20</sup> still might take a few years due to the difficult political circumstances.

**Chart 3:** Transaction Value and Number of Crowdfunding Campaigns in Western Balkans



Source: Adapted from “Crowdfunding”, Statista, 2019. Retrieved from:

<https://www.statista.com/outlook/335/crowdfunding>

The above chart indicates the money raised through international crowdfunding platforms and the number of crowdfunding campaigns in Western Balkan Countries until 2019. Serbia holds the first place in terms of both the number of campaigns and money raised followed by Croatia. Montenegro holds the lowest position compared to other Western Balkan countries, where money raised through campaigns do not exceed \$20,000 (chart 3).

Albania shows some controversial data indicating a relatively small number of crowdfunding campaigns and a higher amount of money raised. This fact is pointing out that the value of one donation is higher than in other countries. Even though Albania lacks local crowdfunding platforms and is not an eligible country in most of the international platforms, the above campaigns are mostly organized by Albanian residing in foreign countries.

<sup>18</sup> <http://crowdfunding4innovation.eu/country-fiches/country-fiche-bosnia-and-herzegovina>

<sup>19</sup> <http://crowdfunding4innovation.eu/country-fiches/country-fiche-montenegro>

<sup>20</sup> <http://crowdfunding4innovation.eu/country-fiches/country-fiche-albania>

## Legal Framework in Europe

The European Commission (EC) has recently been concentrated on crowdfunding as an alternative source of CSO financing, which is in line with its objectives of the European Commission for Innovation Union, Capital Markets Union, the Green paper on long-term financing of the European economy, the Entrepreneurship 2020 Action Plan, and the overall Europe 2020 strategy for smart, sustainable and inclusive growth (De Voldere & Zeqo, 2017). In 2014, the EC adopted a communication on crowdfunding and established an expert group called the European Crowdfunding Stakeholders Forum (ECSF) to provide advice and expertise on the issue.

According to the Cambridge Centre for Alternative Finance, there are four main regulatory regimes (UNDP, 2017):

- Lack of legislation: Most of the European countries do not have legislation in place;
- Intermediary platforms regulation: Some types of crowdfunding platforms such as lending and equity crowdfunding based platforms are controlled regarding their registration, reporting requirement;
- Banking regulation - Some lending and equity platforms are considered banks, which require a banking license for some operation;
- Two-tiered regulation: In the USA, some crowdfunding platforms are monitored at the federal level. For example, equity crowdfunding based platforms impose certain restrictions; while donation based platforms have exemptions.

Crowdfunding is becoming popular across Europe, where some countries including France, Finland, and Spain have been recently introduced. The owners of crowdfunding platforms must abide by respective national data protection laws.

Some regulations are not applicable to charitable donations such as in France, which adopted the latest decree in 2014. The decree allows individuals to make donations and lend money to CSOs at no interest or at lower interest rates than banks generally offer. The new regulation introduced the legal status of “crowdfunding intermediary” to facilitate donations, loans, investment of start-ups. An independent administrative body attached to the Bank of France supervises all crowdfunding intermediaries.

The Law 5/2015 “On the Promotion of Business Financing” regulates crowdfunding in Spain, but does not apply to crowdfunding by CSOs.<sup>21</sup> Some of the users’ complain about the limitations of the law regarding the amounts raised through crowdfunding. For example, non-qualified investors may not invest more than €3,000 per project or more than €10,000 within any twelve-month period in projects published through a single crowdfunding platform (ECNL, 2017).

Taking into consideration that crowdfunding is advancing exponentially; some countries such as the UK, the Netherlands, Germany, and the USA have introduced more enabling legislation (UNDP, 2017). Italy was the first country to enact Law 221/2012, the law on equity crowdfunding in 2012 that allows innovative startup companies to raise funds online. This law covers the creation of platforms, requirements for their registration, rules of conduct and offerings and more (Drake, 2015).

In Albania, there is no legislation in place to regulate the crowdfunding practice, as well as there is no crowdfunding platform registered. Partners Albania has conducted some interviews with bank representatives and nonprofit organizations regarding the use of crowdfunding platforms from NGOs. The situation appears unclear implying lack of knowledge and no accepted meaning among the actors. The representatives of banks explained that there is no regulation ordered by the Bank of Albania, which impedes donations through crowdfunding platforms. The reason for this barrier is due to restrictive internal regulations and lack of infrastructure of commercial banks, which prevent these types of operations for nonprofit organizations. Only three banks possess the proper infrastructure related to e-commerce in Albania, out of which one has collaborated with some NGOs applying the donation option incorporated in the website.

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<sup>21</sup> Uria Menendez (2015) “Newsletter on Corporate and Commercial Law”, Available at: [http://www.uria.com/documentos/circulares/730/documento/5685/053\\_April\\_2015\\_ENG\\_Crowdfunding\\_.htm](http://www.uria.com/documentos/circulares/730/documento/5685/053_April_2015_ENG_Crowdfunding_.htm)

## Challenges of Crowdfunding

In terms of the challenges hindering online crowdfunding platforms, some campaigns result less successful compared to the efforts and time invested. Equity and lending crowdfunding-based platforms, which imply financial return, are considered to carry higher risks for the investors/contributors. The main issues addressed by the EU legislation are anti-money laundering, advertising, consumer protection and intellectual property protection (UNDP, 2017).

- Fraud is one of the most critical concerns regarding crowdfunding because these platforms could be a solution to fund frauds more than other funding schemes because there is no personal contact between the investor and the project owner. Therefore, 64% of platform users perceive a level of risk from medium to very high.
- It is needed a communication strategy to ensure that a campaign could reach the goal, which means you have to allocate time, human resources and knowledge. Mostly, the lack of these resources becomes a barrier for the failure of the project/campaign, reported by 66% of social enterprises.
- Project owners have to disclose innovative and unique ideas and precious information which hurdles the intellectual property rights;
- Everyone can donate and invest in a campaign through a crowdfunding platform, but not all the funders have the capacities to assess the financial risk of the project or investment. On the other hand, investors have difficulties in monitoring the project status, the results, and the impact after the campaign has reached the goal.
- Lack of favorable regulatory frameworks is another barrier, which is reported by most of the social enterprises;
- Cybersecurity is assessed from medium to very high risk by most of the platform users;
- Building interest and creating the trust of the funders is also a common fail point in the crowdfunding experience;<sup>22</sup>
- Besides the traditional competitors, crowdfunding platforms now have an increasing competition with social media network such as Facebook. Nowadays, Facebook allows not only nonprofits, but also everybody to raise funds and it is more comfortable using it for emergencies. In addition, friends, and people that care about could easily see the campaign and contribute directly to it.<sup>23</sup>

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<sup>22</sup>Url: <https://www.floship.com/7-potential-problems-with-crowdfunding/>

<sup>23</sup> Url: <https://www.ideaplotting.com/facebook-vs-gofundme-crowdfunding/>

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## Annexes

### Annex 1: The most popular Crowdfunding Platforms

#### #DonationBasedCrowdfundingPlatforms

##### GLOBALGIVING

GlobalGiving is the largest global crowdfunding community connecting nonprofits, donors, and companies in nearly every country. GlobalGiving is a nonprofit that makes it easy and safe to give to projects anywhere in the world while providing nonprofits the tools, training, and support they need to become more efficient. The platform has supported 22,178 projects with \$178 million in total.

##### → **How Platform Works**

Any nonprofit, anywhere in the world can join GlobalGiving to create fundraising pages and access tools, training, one-on-one support, matching money, and bonus prizes. Individuals, companies, and foundations can donate to nonprofits registered in the platform. It is easy and safe for them because GlobalGiving vets each organization registered in the platform. The platform evaluates the organization's capacity to implement activities and communicate its work, the organization's relationship with previous funders and its accountability, the compliance with anti-terror guidelines and international guidelines for philanthropy. The platform has a robust fellow program, which helps young professionals develop skills, connections, and empathy needed to become successful drivers of social change. The nonprofits submit quarterly reports to update the supporters on the activities accomplished and the results. The platform ensures that each organization is personally visited by a GlobalGiving representative once every two years. Projects that raise at least \$5,000 USD from at least 40 unique donors during the Accelerator and complete the due diligence approval process could be considered a graduate and permanent partner with GlobalGiving.

##### → **Categories of support**

Education, Children, Health, Women and Girls, Economic Development, Human Rights, Environment, Disaster Recovery, Hunger, Animals, Arts and Culture, Technology, Climate Change, Sport, Microfinance, Democracy and Governance, LGBTQAI, Humanitarian Assistance.

### → Pricing & Fees

There's no cost for nonprofits to join GlobalGiving community. Meanwhile, there is a 12% nonprofit support fee and a 3% processing fee for third parties on the organization's first \$5,000 raised on the platform. After organizations raise \$5,000 on GlobalGiving, the nonprofit support fees reduce to 5% for the organizations registered in the USA and the UK, and 7% for organizations registered outside the US and UK, while the 3% processing fee remains fixed.

### → Deadlines or time limits

The campaign during the accelerator program usually lasts one month, while organizations that become permanent partners can last one, three or more years.

## YOUCARING

YouCaring is a dedicated platform registered as a business that pioneered compassionate crowdfunding providing free and easy online fundraising and support for humanitarian causes. Up to date, the YouCaring community is 8 million strong and has raised more than \$1 Billion for humanitarian causes.

### → How Platform Works

There are three main phases to start a campaign through YouCaring: a) **Create** – The fundraiser template of YouCaring allows to create an effective home page for the crowdfunding campaign, through telling a compelling story, uploading several pictures and videos, and posting updates; b) **Share** – Activate the social network through sharing the campaign via various channels; c) **Collect** – YouCaring does not collect your donations directly. All fundraiser donation transactions are processed and distributed by third-party payment processor accounts. These accounts are set up by the fundraiser organizers or beneficiaries and tied directly to the YouCaring fundraiser. YouCaring does not have direct access to money raised from the fundraiser, nor do have the ability to transfer funds between different payment processors or bank accounts. When you create a YouCaring campaign, you will connect the fundraiser to a WePay or PayPal account. WePay is the default payment processor for fundraisers based in the U.S., while fundraisers based internationally must use PayPal. All donations received will be directly deposited into the WePay or PayPal account connected to your fundraiser.

### → Categories of Support

Medical, Cancer, Memorial, School, Charity, Nonprofit, Pets, Breast Cancer, Tuition, Faith, Adoption, Neighbors, Mission Trips, Community, ALS, Groups, Emergencies, Family, Sports, Volunteer, Veterans.

### → Pricing & Fees

YouCaring provides free fundraising, which means they do not charge a thing, however they usually acquire tips from the donors. The donation processor does take 2.9%, plus \$0.30 per transaction. The amount of money disbursed will equal the amount raised, less payment processor fees.

### → Deadline or time limits

YouCaring campaigns do not have a default expiration or deadline date. If the fundraisers choose to add a deadline, they can adjust at any time as it fits to meet their fundraising needs. While there is no specific time limit for funding, the most successful fundraisers run for a period of 2 to 6 weeks.

## GOFUNDME

GoFundMe is an online platform registered as a business, which provides its services through its website and mobile applications. GoFundMe makes it incredibly easy to raise money online for the things that matter to people most. In just a few minutes, people and nonprofits might be able to personalize their fundraising campaign and share it with the people in their life. GoFundMe is the world's largest crowdfunding platform, with over \$5 billion raised so far. With a community of more than 50 million donors, GoFundMe is changing the way the world gives.

### → How Platform Works

The first step to start a campaign is by signing up using an email address and then create the campaign. After uploading an image and video, the fundraiser has to write the story. Then, they can share the campaign with their social media network and start receiving money. When the campaign goes online, the creator has access to edit the story, share consistently the campaign, post updates, set up the withdrawals and add contacts. With GoFundMe, the fundraiser can keep each donation received. Once GoFundMe starts receiving online donations, the fundraiser can easily request a withdrawal at any time. Withdrawing money does not affect the progress meter displayed in the campaign. Bank transfers take 2-5 business days to arrive. *Reaching the targeted goal is not required.* The campaign will be able to accept donations even after reaching the goal. Once the campaign reaches the goal, the progress meter will show that the fundraiser has received more than the goal amount.

### → Categories of Support

Education, Medical, Charity, Emergencies, Animals, Memorials, Volunteer, Sports, Wishes, Competitions, Newlyweds, Faith, Travel, Creative, Community, Events, Business, Family.

### → Pricing & Fees

GoFundMe takes 5 % of donations raised on its platform. There is also a 2.9 % payment-processing fee collected on each donation, along with 30 cents for every donation. GoFundMe does receive only the processing fees for some countries.<sup>24</sup>

### → Deadlines or time limits

With GoFundMe, there are no deadlines or time limits. The campaign will remain in the platform until the fundraiser chooses to turn off donations or remove the campaign altogether. Most organizers leave their campaigns active permanently to refer back to the kind comments and support they received.

## #RewardBasedCrowdfundingPlatforms

### KICKSTARTER

Kickstarter is an independent, founder-controlled company of 115 people working together in an old pencil factory in New York City. They spend their time connecting people around inspiring creative projects. They have backed more than 34,000 projects (and launched plenty of their own).

### → How platform works

While nonprofits are welcome to launch projects on Kickstarter, projects cannot promise to raise funds to a charity or cause. Funds raised on Kickstarter must go towards facilitating the project outlined by the creator on the project page. Kickstarter does not permit investments. Nevertheless, every project needs a plan for creating something and sharing it with the world. Rewards are a creator's chance to share a piece of their project with their backer community. Typically, these are one-of-a-kind experiences, limited editions, or copies of the creative work being produced. Backers that support a project on Kickstarter get an inside look at the creative process and help that project come to life.

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<sup>24</sup> <https://www.gofundme.com/pricing>

### → Categories of Support

Art, Comics, Crafts, Dance, Design, Fashion, Film & Video, Food, Games, Journalism, Music, Photography, Publishing, Technology, Theater.

### → Pricing and Fees

Funding on Kickstarter is *all-or-nothing*. The creators<sup>25</sup> get charged if the project reaches its fundraising goal. The backers will provide the payment information when they pledge, but they will not be charged. The fundraiser will get the payment only if the project has reached its fundraising goal at the time of the project's deadline. The exact amount pledged by the backers is the amount Kickstarter will collect. If the campaign has not reached its fundraising goal, the creators will not be charged, and no funds will be collected.

Kickstarter charges 5%, in addition to any fees for their payments partners.

### → Deadlines or time limits

Once the project is launched, the funding goal and the deadline cannot be changed. Projects on Kickstarter can last anywhere from 1 - 60 days.

## INDIEGOGO

The founders were inspired to create Indiegogo based on their own experiences trying to make ideas come to life and empower innovation. The Indiegogo community has helped bring more than 800,000 innovative ideas to life since 2008. Today, the group of backers is more than 9 million representing 235 countries and territories. Indiegogo has created a partnership with the donation-based platform for NGOs, called YouCaring.

### → How platform works

First, Indiegogo claims it does not curate the projects that it hosts. Indiegogo is positioned as an inclusive community that does not decide which projects merit funding. Indiegogo allows for many more categories than Kickstarter does, and whether a project gets funded is up to potential supporters. Furthermore, Indiegogo does not pick which projects to promote on its site. It has developed its own algorithm called the "Gogofactor" to determine that. The steps from the concept to the market Indiegogo uses are a) **Crowdfunding** - Raise funds with a crowdfunding campaign! Acquire starter capital and validate your idea by tapping into

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<sup>25</sup> A **creator** is the person or team behind the project idea, working to bring it to life.

Indiegogo's global network of early adopters. b) **Indemand** - Extend your campaign with InDemand! After your crowdfunding campaign, continue raising money and building your community with InDemand. No fundraising target, no deadline limits. c) **Marketplace** - Generate early sales in the Indiegogo Marketplace! Sell your product directly to an audience of tech consumers.

#### → **Categories of Support**

There are three main areas: a) **Tech & Innovation** – Audio, Camera, Gear, Education, Energy & Green Tech, Fashion & Wearables, Food & Beverages, Health & Fitness, Home, Phones & Accessories, Productivity, Transportation, Travel & Outdoors; b) **Creative Works** – Art, Comics, Dance & Theater, Film, Music, Photography, Podcasts, Blogs & Vlogs, Tabletop Games, Video Games, Web Series & TV Shows, Writing & Publishing; c) **Community Projects** – Culture, Environment, Human Rights, Local Businesses, Wellness

#### → **Pricing and Fees**

Indiegogo applies two ways of funding. a) **Fixed Funding** - All pledges are returned if the project does not meet the goal; b) **Flexible Funding** – If the initiators of the campaign choose this way of funding, they will keep all the contributions even if they don't meet the campaign goal. Flexible Funding is a great fit if the project does not have a strict go/no-go funding minimum.

Starting a campaign with Indiegogo is free. In general, the fee on all the funds raised is 5%. In addition, the credit/debit card processors charge a processing fee of 3% + 0.3 per transaction.

#### → **Deadlines or time limits**

Indiegogo campaigns can run for a maximum of 60 days. However, the sweet spot for campaigns is around 30-40 days.

### Angellist

Angellist is an online platform for startups, angel investors, and job seekers looking to work at startups registered in 2010 as a company in San Francisco. The platform has a mission to democratize the investment process and to help startups with their challenges in fundraising and talent. It started as an online introduction board for tech startups that needed seed funding. Since 2015, the site allows startups to raise money from angel investors free of charge. Globally, Angellist moves about \$175 million every year into startups, which is about 600-700 startups annually. More than half of them use Angellist for their hiring too.

### → **How platform works**

The platform serves to several issues such as a) **Invest in Start-ups** - Build a diverse portfolio of early-stage startup investments, private and oversubscribed deals; b) **Deal-by-deal Investments** - Invest alongside notable lead investors to access top deals; c) **Invest in a Startup Fund** -One investment gets you exposure to 100+ startups; d) **Get a job at a start-up** – Jobseekers may apply privately to 102,612 startup jobs with one application. However, the main service of the platform is the match between startups and investors. Firstly, an entrepreneur should create a startup profile and pick up which investors can see the startup. He can update the profile and investors anytime. If the entrepreneur is not ready to share the profile with the investors, he can pick zero investors. Every investor on AngelList sees 10-20 new startups in their feed every day. The admins will get in touch and suggest some improvements to the startup profile. In addition, the AngelList admins with the help of some investors and scouts review every single startup registered and if they like it, they can email it to other investors.

### → **Fees and Pricing**

It is free for startups to use AngelList to raise capital. Generally, investors pay a 15%-20% fee to the creator of the syndicate. That means that the investors will pay the manager of the syndicate 15-20% of their profits. AngelList network will charge 5% fee for the capital raised through the platform.

### → **Deadlines or time limits**

There is no deadline, or time limits for startups or investors registered in AngelList.

## FUNDERSCLUB

FundersClub became the first online venture capital (VC) firm in March 2012. FundersClub sources the world's best startups. The FundersClub creates early-stage investment opportunities through direct relationships, referrals from their investor members and founders, as well as connections to top startup incubators including Y Combinator, a top seed stage VC firms such as First Round Capital, and top super angels. They first invest at the Seed and Series A stage and seek to follow on in later rounds. FundersClub has funded over 290 startups with a total investment of \$115 million.

### → **How Platform works**

FundersClub reviews all startups through a rigorous process, evaluating the product, team, market, competition, and other parameters before their Investment Committee decides



whether to move forward. A selected panel of 270+ experienced startup professional further gives feedback on each startup. This third-party opinion provides an additional data point to determine whether the company has what it takes to be a VC - funded company. The platform helps startups benefit financial resources and access advice to grow their business. The investors' network is composed of 21,000+ angel investors, 79% of whom are C-level executives, directors, managers, and business owners in a position to help with advice and connections. The FundersClub team includes startup veterans who have launched, grown, funded, and exited their own startups. They guide their founders with hands-on mentorship.

#### → Fees and Pricing

There is no membership fee for being part of FundersClub. Reviewing prospective investment opportunities is free. FundersClub receives carried interest on its investments, which is a percentage of the profits from an investment. Fees for investing in *Single Company Funds*: Single company funds are assessed on a performance-based carry<sup>26</sup> ranging from 1-30% and an average annual management fee of 0.25%-3%. Fees for investing in *Multi-Company Funds*: Multi-Company funds are assessed a performance-based carry ranging from 1-30% and an average annual management fee of 0.25%-3%.

#### → Deadline or time limits

There is no deadline, or time limits for startups or investors registered in FundersClub.

## COMPANISTO

Companisto is a Berlin-based equity crowdfunding platform with several renowned business angels, corporate finance specialists, and venture capital companies in its network. Founded in 2012, Companisto differentiates itself by offering various forms of payment, ranging from payments directly through one's credit card to instant money transfers to bank transfers, allowing investors to be located anywhere in the world. Business angels and investors participate in groundbreaking innovations, promising companies, and ideas that write history through venture capital. In total, the platform has 94,674 investors, while €60,564,046 is invested in startups.

#### → How Platform works

On this platform, investors choose which startup or growth company they want to invest. They can invest an amount of their choice in the selected company. The entire investment process takes place online, and only takes a few minutes. Investors receive equity

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<sup>26</sup> Carry is a percent of any profits from a fund.



participation, profit participation, or a fixed interest rate. The minimum investment sum for an investment with participatory loans is EUR 250. Regarding startups, Companisto requires a brief STARTUP presentation, which must include the following points: a) **The Business Concept** - Information about the startup operation, how will the startup solve certain problems of its market, potential customer base; b) **The Team** - Information about the team such as education, experience, full-time personnel; c) **Current Status** of the Startup; d) What is the **current stage** of the startup - which milestones have been reached and which ones will come next; d) The **Unique Selling Points** (USPs) - Defining the startup's USPs, explaining the business model and how will the startup be able to generate revenue in the future; e) **The Industry** (Competition) - Defining the market, the business sector, the target group, competitors, positioning in the market; f) **Key Performance Indicators**(KPIs) - Important KPIs, already generated revenue, preorders, visitors, partners, patents.

#### → Fees and Pricing

The registration at Companisto and the use of the platform are free of charge. Companists<sup>27</sup> also pay no fee for their participation. Companisto is financed by a purely performance-related commission of 15% of the collected investment sum. This commission is paid by the startup - not the Companists. All costs incurred by Companisto are financed by the commission. The startup only has to pay the commission if the financing round is successful. Companisto also receives a solely performance-related commission ("carry fee") of 10% of the profits from the company participation.

#### → Deadline or time limits

There is no deadline, or time limits for startups or investors registered in Companisto.

## #LendingBasedCrowdfundingPlatforms

### ZOPA

Zopa is the first ever peer-to-peer (P2P) lending company to give people access to simpler, better-value loans and investments. They have approved £3.92 billion in loans with an annual percentage rate from 3.1% to 34.9%. The Zopa model was the first of its kind in the world, directly matching people looking for a low rate loan with investors looking for a higher rate of return. It is online and efficient, because it lowers the overheads and allows the platform

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<sup>27</sup> Companists refers to investors.

to pass on the rewards to the customers. A number of financial institutions also invest through this platform.

#### → **How Platforms Works**

The investors invest their money in loan contracts for the lifetime of the loan (the length of time it takes the borrower to pay back the entire loan); however, borrowers make repayments on a monthly basis. Investors usually use these repayments to re-invest in new loans, in order to compound their interest. Alternatively, if an investor wants to access their money, they could choose to receive these repayments directly rather than investing in new loans, or they could sell their existing loans to other investors. There are two types of investments a) Zopa core - Invest in loans with 4.5% annualized projected return across the core risk markets; b) Zopa Plus - Invest in higher risk markets for a higher return (5.2%). When borrowing a loan, the process has three steps: a) the applicant has to choose how much to borrow from £1,000 to £25,000 and for how long (from 1 to 5 years); b) the applicant has to fill in a simple form about them and their circumstances; c) The platform may need to require proof of identity, income or bank account; d) If approved, the money will be transferred within 3 working days.

#### → **Fees and Pricing**

There are two types of fees at Zopa: a) *Loan customers* – Zopa charges an **origination fee** to help cover the cost of setting up the loan. The platform applies a **loan-servicing fee** to each loan contract, which is deducted directly from each borrower repayment before the principal and interest pass on to investors. Both fees are included in the loan's APR; b) *Investors* – Zopa charges a **1% fee** if an investor wants to sell his/her loans to access their money quickly. It is free to withdraw money in other ways.

### **KIVA**

Kiva is an international nonprofit, founded in 2005 in San Francisco, with a mission to expand financial access and help underserved communities thrive. Kiva does this by crowdfunding loans and unlocking capital for the underserved, improving the quality and cost of financial services, and addressing the underlying barriers to financial access around the world. Through Kiva's work, students can pay for tuition, women can start businesses, farmers are able to invest in equipment, and families can afford needed emergency care. Kiva has invested \$1.3 billion in loans with a 96.9% repayment rate. Whether lending to friends in your community, or people halfway around the world (and for many, it is both), Kiva creates the opportunity to play a special part in someone else's story. Kiva reinvented microfinance with more flexible terms, supporting community-wide projects or lowering costs to borrowers.

### → How Platform Works

The phase of borrowing a loan are: a) *A borrower applies for a loan* -Kiva loans are facilitated through two models, partner loans and direct loans, that enable them to reach the greatest number of people around the world. For partner loans, borrowers apply to a local Field Partner, which manages the loan on the ground. For direct loans, borrowers apply through the Kiva website; b) *The loan goes through the underwriting and approval process* - Partner loans are facilitated by local nonprofits or lending institutions, which approve the borrower's loan request. Kiva does due diligence and ongoing monitoring for each of these Field Partners. Direct loans are approved through "social underwriting", where trustworthiness is determined by friends and family lending a portion of the loan request, or by a Kiva approved Trustee vouching for the borrower; c) *The loan is posted to Kiva for lenders to support* - Depending on the type of loan, a Field Partner or borrower uploads the loan details into the system. Then, the worldwide network of volunteers helps to edit and translate loans, before they go live on the website for lenders to crowdfund; d) *Fundraising period*: Lenders crowdfund the loan in increments of \$25 or more; e) *Fundraising is complete*; f) *Borrower repay the loan*- Lenders receive repayments over time, based on the given repayment schedule and the borrower's ability to repay. The repayments go into the lenders' Kiva accounts. Lenders use repayments to fund new loans, donate or withdraw the money.

### → Categories of support

Women, Agriculture, Education, Refugees and IDPs, Eco-friendly, Livestock, Arts, Expiring soon, Single parents, Health, Food, Water and sanitation, Conflict zones.

### → Fees and Pricing

Kiva covers two-thirds of its operating costs through voluntary donations made by Kiva lenders. Grants and donation from foundations and supporters cover the remainder of the costs. Kiva never charges interest on loans, and never takes a fee from lenders. All the funds lent to Kiva go to fund the loans.

## Annex 2: Albanian Examples

### Down Syndrome Albania<sup>28</sup>

Down Syndrome Albania (DSA) is a non-profit organization, which provides services for children with Down Syndrome for 7 years in Albania. DSA has experimented online crowdfunding by creating two crowdfunding campaigns. The first campaign was with

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<sup>28</sup> Interview with Ms. Emanuela Zaimi Director and Founder of Down Syndrome Albania Foundation

MaasBesa, an American-based foundation that created a fundraising campaign specifically for DSA, through Facebook targeting \$5,000 for 1 month. The campaign reached the target within the time limit, and the donors were almost individuals from the USA.

The second campaign conducted was “Adopt one therapy for EUR 21 per month”. In cooperation with Raiffeisen Bank, DSA managed to use the donate option for this campaign. The fact that Raiffeisen was a regular donor of DSA was a guarantee for the bank. Thus, they helped DSA to create the donation option at DSA’ website. The amount of donation for this campaign could vary from EUR 8 to EUR 21 per month. The therapy did not cost EUR 21 per month, but this was a symbolic amount, that also matched with the International Day of Down Syndrome on March 21. This campaign managed to collect about EUR 3000- 4000. Regarding the type of donors, 90% of were individuals from Albania and the other part from abroad.

In both campaigns, the donors were individuals because businesses have many procedures and need a donation agreement, so it is difficult for them to donate on the spot.

Since another organization hosted the first campaign, there were no challenges for the foundation even for the funds’ transfer. Regarding the second campaign, DSA tried to contact other banks in the beginning, but none of them besides Raiffeisen accepted to cooperate because they claimed the Law No. 9917/2008 “On the Prevention of Money Laundering and Financing Terrorism”<sup>29</sup> was a barrier. In the meantime, DSA has tried to use other crowdfunding platforms, but in many of those platforms, Albania is not eligible. They had an experience with Generosity platform, but it did not turn out successful. They defined very high targets, which along with other mistakes such as lack of strategic marketing, lack of knowledge on the platforms contributed to an unsuccessful campaign.

DSA claims that there is a lack of credibility in such initiatives in Albania, but on the other hand, it is needed a dedicated staff to maintain a continuous communication informing donors about the project’ progress, as well as higher transparency in terms of campaigns’ results. Despite these challenges, they admit that crowdfunding platforms have proved to be effective in fundraising.

Based on their experience, DSA suggests that a nonprofit organization should define realistic goals within the time limit, recruit dedicated and skillful staff to conduct pro-active promotion, in order to have good results. DSA explains that the legal and fiscal environment regarding

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<sup>29</sup> Law No. 9917 “On The Prevention of Money-Laundering and Financing Terrorism” amended, dated 19.05.2008. Available at: [http://www1.fint.gov.al/images/Ligji\\_9917\\_date\\_19\\_05\\_2008\\_Per\\_Parandalimin\\_e\\_Pastrimit\\_te\\_Parave\\_dhe\\_Financimin\\_e\\_Terrorizmit\\_i\\_ndryshuar.doc](http://www1.fint.gov.al/images/Ligji_9917_date_19_05_2008_Per_Parandalimin_e_Pastrimit_te_Parave_dhe_Financimin_e_Terrorizmit_i_ndryshuar.doc)

philanthropy should be improved in order not to create hurdles and facilitate the burden to the donors.

### **Diakonia Agapes<sup>30</sup>**

The Foundation Spirit of Love - Diakonia Agapes is the development, social and emergency office of the Autocephalous Orthodox Church of Albania. Since 1992, Diakonia Agapes deals with emergencies and supports people in need, as well as work with disadvantaged women in rural areas in terms of education, health, and strengthening of capacities in agriculture.

Diakonia Agapes created the campaign “Healthy Women, Healthy Families” using the Global Giving crowdfunding platform. During November and December 2017, Diakonia Agapes managed to raise for this campaign about \$6,000 from 40 different donors. In order to gain a place on the platform, the organization had to meet these criteria and to raise \$5,000. In terms of statistics, 95% of the donations were from individuals, most of them from other countries outside Albania. The individuals from Albania were mainly part of Diakonia Agapes’ network. Through the campaign, the organization managed to offer health visits for 80 women in rural areas, but they did not fully achieve its goal yet.

The organization had to undergo the vetting process from the Global Giving platform, conducted rigorous due diligence on every organization. The platform collected and reviewed documentation such as legal documents, financial records, program materials, and lists of senior staff and board members, in order to validate that the organization was able to run the campaign. After the organization became part of the platform, it reports to Global Giving quarterly about the results, the functionality of the campaign, etc.

The organization explained that it was necessary to assign a dedicated staff for this process to participate in trainings, webinars organized by the platform, to promote the campaign and increase its visibility, to report to the platform, and maintain the communication with them. The lack of a dedicated staff along with a lack of a detailed plan for the campaign, and poor knowledge on the platform’s operations complicated the management of the whole process. On the other hand, the organization did not encounter any problem with tax authorities, and the platform transferred the funds easily.

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<sup>30</sup> Interview with Ms. Garentina Gramo, Director of Diakonea Agapes (Service of Love) Foundation, part of the Autocephalous Orthodox Church of Albania

Diakonia Agapes learned a lot from the process, and they will definitely use crowdfunding platforms for other short-term and concrete projects. The lesson-learned will come in use for more effective results in future campaigns.

Some of the barriers impeding NGOs to use these platforms according to Diakonia Agapes' experience are:

a) the lack of trust in grassroots initiatives, which mostly is created due to the lack of transparency in the use of funds; b) the lack of culture NGOs have in terms of selling, promoting products/services and reaching people; c) the lack of philanthropy culture in Albania; d) the lack of human resources and capable staff dealing with technology.