# CROWDFUNDMATCH – Unlocking the Crowdfunding Potential for the European Structural and Investment

## NEWSLETTER #3

Welcome to the third edition of the Crowdfundmatch newsletter!

## ***HOW TO PLAN AND LAUNCH A REGIONAL OR LOCAL FUND-MATCHING SCHEME?***

### INTRODUCTION

One of the project's key activities is the development of a "Common Fund-Matching Scheme Methodology." The purpose of the methodology is to provide guidance to regional and local authorities in combining ESIF funding with crowd-based funding methods, such as crowdfunding.

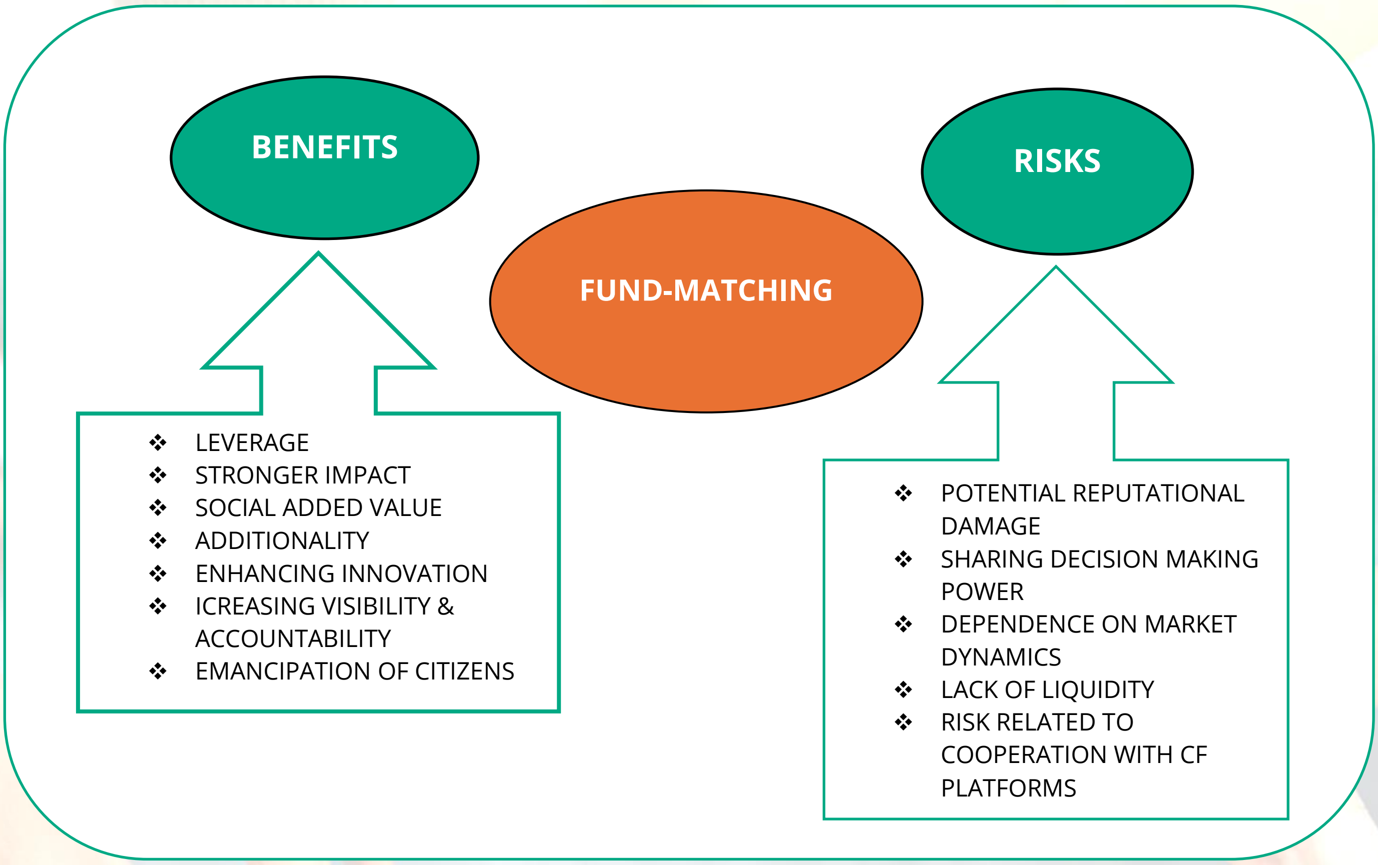
The methodology follows a bottom-up approach and is based on analysing and exchanging knowledge among project partners, stakeholders and crowdfunding experts.

### UNDERSTANDING FUND-MATCHING

Fund-matching occurs when public sector organisations contribute funding alongside other sources such as private companies, financiers, or the crowd. Typically, these public funds are only provided if a matching contribution is secured from other parties. Our methodology focuses specifically on matching ESIF funds with crowdfunding.

Combining ESIF funds with crowdfunding offers several benefits, including increased financial leverage, stronger regional impact, additional support for social value-added projects, and greater innovation potential. It also raises awareness of government policies, fosters citizen participation, and enhances accountability. However, challenges exist, such as reputational risks for public authorities, power-sharing in decision-making, dependence on market dynamics, and liquidity concerns. Careful planning and clear communication are necessary to mitigate these risks.

Figure 1: Overview of potential fund-matching benefits and risks for public authorithies




## POTENTIAL BENEFITS

### *Leverage*

A mutually reinforcing element of combining public funding and citizen capital is the leverage created. From a government perspective, leverage is created on the public funds made available. More funds can go to a supported project than in the case where the government would only provide its funds.

Conversely, it is also much more attractive for citizens to support an initiative if they know that a government, e.g., doubles their contribution. Fund-matching increases the success of all forms of crowdfunding. On the one hand, citizens feel that their contribution has a greater impact. On the other hand, public engagement also increases citizens' confidence in the specific project.

### *Stronger regional impact through stakeholder engagement*

An important advantage of combining crowdfunding with public funding is that not only the government supports the initiative but also other local stakeholders. Specifically, a project recruits ambassadors linked to the funding campaign. These ambassadors can help build and make the project sustainable.

### *Support for social value-added projects*

Crowdfunding works particularly well for initiatives with clear social-added value. The combination of public funding and crowdfunding will, therefore, work best when it comes to funding projects with social added value.

### *Additionality*

With both public funding and crowdfunding, it is important to focus on projects that are not (or cannot be) financed through traditional (bank) funding. After all, where possible, such financing is often efficient and cheap. It is important that the government works in a complementary manner and specifically aims to fund these initiatives that would otherwise not get funded. The same applies to crowdfunding.

### *Positive impact on innovation*

In the product development and market validation phase, traditional bank loans are often not accessible. Companies often fall back on subsidies to finance innovation, even if their model is potentially profitable. Creating financing instruments for innovative models, e.g., in the form of loans, enables more innovation. Crowdfunding for innovation is often applied in the form of pre-sales or reward-based crowdfunding. If the combination with government intervention allows innovation to be financed through financial crowdfunding, this is a win-win-win situation. The government is no longer alone in financing innovation; the entrepreneur can attract substantially higher amounts, and both the government and citizens can get a share of the profits if the company becomes successful, partly thanks to this support. By involving citizens, support for proposed innovations can be immediately tested and validated. This gives the government better insight into which innovations are most likely to succeed and thus better select which innovations should be supported.

### *Increasing visibility of government policies*

A key advantage of combining government funding with crowdfunding lies in the visibility it creates for government funding. Fans of a specific project get a clear message that the government also supports their favourite project.

### *Increasing public policy support*

Suppose the government gives citizens a say in determining which projects are supported. In that case, this not only has an emancipating effect on citizens but often also has a positive impact on support for public policies. Citizen budgets are good examples of this. In this way, the not-in-my-backyard-attitude can also be countered. A good example is citizen funding for wind turbines.

### *Emancipation of citizens*

By properly informing and involving citizens in a combination of crowdfunding and government funding, they learn about the role of impact ventures in the local economy and how they can contribute to a thriving local ecosystem. Moreover, they also gain a direct impact on choices made by the government.

### *Increasing accountability*

The interaction between public investment and citizen participation not only makes the government more accountable for its choices but also increases the pressure on the recipients of funding to deal correctly with the funds received, as a group of crowdfunders also help monitor the project and the spending of the funds.

## POTENTIAL RISKS

There are also some other relevant special risk factors when working with a crowd that should be considered.

### *Potential reputational damage for the public authority due to the failure of the project*

As indicated above, government support for a project is often implicitly seen as a recommendation of the project. When a project fails, it can cause reputational damage to the government. It is, therefore, important that risks are communicated transparently, covered as well as possible, and the risk of (financial) loss to citizens is minimized. Competent support and follow-up of funded projects may further reduce the risk of failure. Such support is often relatively expensive in relation to the budget invested but can make a big difference to the final impact realized. It therefore makes sense for a government to invest sufficiently in this

### *Sharing decision-making power*

A combination of crowdfunding and public funding often involves the sharing of decision-making power. Citizens not only have a say in how they offer their contribution, but often, the government's input is also dependent on the success of a crowdfunding campaign. In that case, citizens get a say in government spending. This has advantages in terms of emancipation and citizen support but also has the disadvantage that the government relinquishes part of its decision-making power. It is important to carefully weigh which decisions the government wants to take, and which decisions may be co-determined by citizens.

### *Dependence on market dynamics*

As indicated in the previous point, investing in public funding, dependent on the raised funds through crowdfunding, can have several drawbacks. For example, the success of crowdfunding depends on the financial resources of investors, where an online platform is used, and the digital literacy of the population. So, there is a risk of supporting mainly projects that digitally literate and wealthy citizens consider important, thus creating a Matthew effect. In other areas, too, the size of the constituency or the popularity of a particular topic or product can have a major impact on the success of a crowdfunding campaign. The government must ensure that the distribution of funds is in line with its policy decisions. This will have to be safeguarded by the design of the instrument

### *Lack of liquidity*

The lack of liquidity is not peculiar to a combination of citizen capital and public funding, but it is a major concern in case of using equity-based crowdfunding[1]. After all, the investor is buying a share of a company that is not listed on a stock exchange or other market. They are dependent on the interest of new investors to take over these shares or the company's ability to buy back the shares to recover their investment. With loans, a fixed term is usually agreed upon, and there is usually no possibility to monetize the loan in the interim. However, a government, as often the largest financier involved, can provide liquidity by taking over financing from citizens under certain conditions. It may even make sense in a model with both crowdfunding and public funding to deliberately keep some of the public funds available to take over investments from citizens who want to exit.

### *Evaluation processes by crowdfunding platforms are not standardized*

If a government wants to work with different crowdfunding platforms, the approach of the different players must be well aligned with the government's policy priorities. The government needs to make conscious choices about the evaluation process and evaluation criteria to monitor that all supported projects meet the government's

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[1] Equity crowdfunding (also known as crowd-investing or investment crowdfunding) is a method of raising capital used by startups and early-stage companies. Essentially, equity crowdfunding offers the company's securities to several potential investors in exchange for financing. Each investor is entitled to a stake in the company proportional to their investment. The crowdfunding process is carried out on specialized online platforms. The digital nature of the crowdfunding platform fosters a more liberal and open way of financing. Source: https://corporatefinanceinstitute.com/resources/valuation/equity-crowdfunding/

expectations. Agreements should also be made on what results should be reported per project to ensure that the government can monitor the impact achieved.

**KEY STEPS IN PLANNING AND LAUNCHING A FUND-MATCHING SCHEME**

Planning a fund-matching scheme involves several structured steps, beginning with policy considerations and progressing through development and implementation. Policymakers must assess existing policy instruments to identify where fund-matching can be integrated. The goal is to facilitate business and entrepreneurship support while ensuring the initiative complements the existing funding landscape.

***Developing a policy instrument***

A step-by-step approach is recommended:

- Analyse existing policies to identify benefits, gaps, and opportunities for fund-matching.
- Identify potential stakeholders, including institutions and experts, who should be involved in implementation.
- Develop a structured process for launching the fund-matching scheme.

***Key planning steps***

- **Step 1: Research & reflection**
  - Define the impact goals of the policy instrument and determine the role of community involvement.
  - Analyse the regional crowdfunding market and assess readiness for fund-matching.
  - Review state aid and ESIF regulations to ensure compliance.
- **Step 2: Checking feasibility & identifying key elements**
  - Define and select the target community for fund-matching.
  - Assess the community's risk profile, including risk appetite and ability to absorb potential losses.
  - Determine appropriate risk levels for the financial instrument.
  - Develop finance and risk mitigation options.
  - Identify the key roles needed to implement the scheme.
  - Establish the financial structure and decide on the level of citizen participation.
- **Step 3: Designing the launch of the scheme**
  - Identify the implementing body and technological tools required.
  - Ensure compliance with ESIF funding requirements, if applicable.
- **Step 4: Develop a crowdfunding campaign**
  - Analyse networks to determine the best approach for engaging investors and citizens.

- Set clear fund-matching targets and determine incentives for contributors.
- Plan a detailed timeline for implementation.
- Provide support to entrepreneurs to help them run successful crowdfunding campaigns.
- Establish mechanisms for citizen involvement, ensuring they actively participate.

***Conclusion***

Fund-matching presents a significant opportunity for regional and local authorities to maximise the impact of public funding by leveraging private and community contributions. The methodology outlined in this report provides a structured approach to designing and implementing fund-matching schemes. Public authorities can increase transparency, accountability, and community support by engaging citizens in funding decisions and project oversight. While challenges such as reputational risk and decision-making complexity exist, proper planning and risk management can mitigate these concerns, making fund-matching a powerful tool for regional development. More detailed information are available in the full document: **HERE**

## ***FORTHCOMING ACTIVITIES***

- **NEXT PROJECT GROUP MEETING AND 4th TRANSNATIONAL WORKSHOP THESSALONIKI, GREECE**

On the 19th and 20th of March 2025, project partners and stakeholders will meet in Greece. On the first day we will evaluate the pilot project work to ensure transnational exchange of experience between pilot projects and evaluate the first peer-to-peer mentoring study visits. Discussion on the second day will be dedicated to examples of crowdfunding training & mentoring programmes, awareness and promotional campaigns and also to the equity crowdfunding.

***Photo source: Free photos on Unsplash, by Nafsika G.***

## ***WELCOME TO JOIN US ON PROJECT SOCIAL MEDIA***

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