

# Crowd funding

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*Crowd funding (sometimes called crowd financing or crowd sourced capital) describes the collective cooperation, attention and trust by people who network and pool their money together, usually via the Internet, in order to support efforts initiated by other people or organisations. Crowd funding occurs for any variety of purposes, from disaster relief to citizen journalism to artists seeking support from fans, to political campaigns.*

*Wikipedia definition*

## What is it?

Crowd funding happens when a group of individuals each contribute small sums of money (which could be in the form of loans, purchase of shares or donations) to enable something to take place. Traditional charity fundraising techniques such as “buy a brick” schemes could be seen as a form of crowd funding, as could fundraising website JustGiving.org.

Crowd funding is rapidly developing on the internet as a method for businesses, entrepreneurs and charities to raise vital funds for their start up, development and for projects. It is already well established as an alternative source of finance for e.g. films, music, arts etc.

Crowd funding seems to be better suited to sums up to around £30k - £50k, although there have been examples of projects raising greater sums. It also relies on good use of social networking including e.g. facebook and twitter.

## How does it work?

Obviously, you could simply ask all your organisation’s members and supporters to contribute small amounts towards a larger cost. But crowd funding is particularly suited to the internet and online communities.

You could use your own website and online communities to crowdfund your organisation or project. For example, the BAFTA Award winning film *The Age Of Stupid* was financed through crowd funding, as was Barak Obama’s presidential campaign. Ebbsfleet United claims to be the world’s first web community owned football club, set up as an Industrial and Provident society with a global membership who contribute both financially and in a variety of other ways to their club. For this model to work, you need to have a very good online community of supporters.

Alternatively, there are a number of special online crowd funding platforms, where organisations and individuals can float their ideas. These may have a geographical focus or

focus on a particular type of project e.g. arts or business or community. Do check the guidelines and conditions of any sites you look at as charity fundraising is explicitly barred from some sites. Commonly, a target is set, and a deadline is in place, and if the target is successfully reached by the deadline, it goes ahead, if not, the money is returned to the individuals. A list of some of the many crowd funding websites is given at the end of this sheet.

## **What are the risks?**

Crowd funding is a new phenomenon, so as yet legal issues are still not entirely clear. Lending through crowd funding falls outside financial institutions, and so is not regulated. Usual legal issues such as fraud and money laundering and Charity fundraising rules apply, but until there are a few test cases, there is no specific law or regulation that applies to crowd funding. Most of the UK sites are members of CIFAS, the UK's fraud prevention service.

## **What are the advantages?**

For some, a big advantage of crowd funding is that it means your project is not going to have to be answerable to a major investor or funder – you don't have to focus on their priorities, leaving greater freedom to determine the direction of your project. But you will still of course have to feed back to your backers.

Another advantage is that because the financial support comes from a crowd of people, so do other forms of support including ideas and help, promotion, and other contributions.

Some consider too that an advantage of the crowd funding model means that only those ideas that interest sufficient numbers of people will succeed. If your project doesn't attract support, you're forced to go and have another think, and maybe make a better proposal. So there is an element of sifting the wheat from the chaff!

For small enterprises especially in developing countries, crowd funding can be a vital lifeline supporting local entrepreneurs.

For investors, rates of return can be more attractive since there are no banks involved, as well as bringing the satisfaction of supporting community projects and small entrepreneurs who need it.

## **Where can we find out more?**

For a basic introduction to the potential of crowd funding, read the written evidence submitted by Michael Ohajuru to a Parliamentary enquiry into the funding of Arts and Culture on the Parliamentary website at [www.parliament.uk](http://www.parliament.uk) – or go to <http://tinyurl.com/5tumnh3>.

For a practical case study, look at the tips from Spanner Films on the making of The Age of Stupid [www.spannerfilms.net/crowd\\_funding](http://www.spannerfilms.net/crowd_funding), or look at Ebbsfleet United's crowd funding website at [www.myfootballclub.co.uk/](http://www.myfootballclub.co.uk/).

For a list of some crowd funding sites, both UK and international, visit [www.crunchbase.com/tag/crowd\\_funding](http://www.crunchbase.com/tag/crowd_funding)

### **A selection of crowd funding websites in the UK:**

#### **[www.buzzbnk.org](http://www.buzzbnk.org)**

Buzzbnk is a crowd funding website which enables social entrepreneurs and social ventures to raise funds and build a crowd of supporters. It was founded by Michael Norton, founder of the Directory of Social Change. It is 63% owned by charities, and is backed by among others the law firm Bates Wells and Braithwaite, specialist charity and voluntary sector solicitors, and Charitable Trusts Esmée Fairbairn, Tudor Trust and Wates Foundation as well as CIVA, so it boasts impressive credentials. To raise funds for your project, there is an application process, and a social benefit test, and projects go live for 3 – 6 months. There is a £25 registration fee to set up your project on the site, and a 5% administration charge on money secured.

#### **[www.fundingcircle.com](http://www.fundingcircle.com)**

Funding Circle is a business loan crowd funding site, designed to support small businesses. Registration is free but 2% is charged on any loan accepted. Funding Circle is a member of CIFAS.

#### **<http://uk.zopa.com/ZopaWeb/>**

Zopa is a small loan provider, linking individuals with others who will lend.

#### **[www.globalgiving.org](http://www.globalgiving.org)**

Global Giving is an online fundraising platform that works with registered organisations to raise money and organise donors for their work in communities all over the world. There is an application process, due diligence check and then 4 week Open Challenge. You have to successfully raise \$4k from 50 donors to show that your project is going to be supported, then you can become a permanent member of the site. Donors register as well, and Global Giving charges 10% on their donations to cover costs. They collect GiftAid too. Global Giving is also registered in the UK as a charity, and runs a UK site at [www.globalgiving.co.uk](http://www.globalgiving.co.uk).

#### **[www.sponsume.com](http://www.sponsume.com)**

crowd funding for artistic and entrepreneurial projects – mostly things like films/music etc, but also has a “social enterprise” category. The site charges a 4% fee on money raised. Backers buy vouchers to support your project and get rewards rather than financial returns.

#### **[www.soloco.co.uk](http://www.soloco.co.uk)**

Soloco is a brand new UK crowd funding website that is about to be launched (summer

2011). It is specifically set up for charities, voluntary groups and not-for-profits initially based in Scotland, but ultimately anywhere in the UK – so keep an eye on it. There is a project set up fee of £39 and SoLoCo receives a commission of 6% for all successful projects and 9.5% fee for all projects who raise 99% and less of their targets.

[www.pledgebank.com](http://www.pledgebank.com)

Pledge Bank is a global site (you can select your part of the world when you set up your pledge). It enables individuals to submit a pledge – either to do something or to give money – and invites a specified number of other people to do likewise. So it might be a useful site for your members and supporters to use to help build more support for your group. The site is free.

## **A selection of US and international crowd funding websites**

[www.kickstarter.com](http://www.kickstarter.com)

Kickstarter claims to be the largest funding platform for creative projects in the world. Kickstarter is only for US residents, but it is another example of crowd funding in action.

[www.kiva.org](http://www.kiva.org)

Kiva works with microfinance institutions on five continents to provide loans to people without access to traditional banking systems.

[www.newjelly.com](http://www.newjelly.com)

New Jelly is another crowd funding site for creative projects, but doesn't accept charity projects. However it might be an option for social enterprises or for any clients you support who might want to start up in business or launch their career.

[www.kapipal.com](http://www.kapipal.com)

Kapipal is a global personal crowd funding site. Individuals can register to raise funds for all kinds of purposes, including to raise money for charities. It might also be a useful site to help individuals your group supports, who could do with a bit of financial help for something.

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