

# #11 - Limited knowledge on alternative finance

## Definition

Alternative finance is an economic dynamic characterized by specific procedures, particular actors, different timing and budget structure. Crowdfunding, in particular, is a valid form of compensation to the limits of traditional finance. The combination of the two sources, intermediated by public managing authorities and institutions, gives birth to the so-called “Civic crowdfunding”, that can help smooth the limits inherent to usual forms of financing. Still, the solutions resulting from this mix are poorly diffused or put in practice because of a generally-limited knowledge and experience. Preferring or limiting the sources to traditional finance might result in less development opportunities for promising or necessary activities.

## Mitigation strategy

Mainstream knowledge on crowdfunding, by implementing trainings, workshops and dissemination events that can be delivered to different social groups and economic actors. Increasing and spreading the crowdfunding culture is particularly needed as to unlock the full potential of the participation of public authorities as actor in the scenario of alternative finance scheme – with the role of **sponsor, manager, curator or facilitator**. The activation of any public institution within this method of alternative funding brings about a finance-multiplying effect that is realistically accessible to any citizen, organisation, or enterprise. Public authorities have to be seen as the “trainers to train”, territorial ally that help boost the success of any (civic) crowdfunding campaign. In fact, their presence is perceived as a **trustworthy warranty** for the relevance and, thus, the success of any project.

Close dialogue and synergies have to be launched and implemented, in order to design specific funding schemes, that would thematically fall within the scope of regional or local priorities and be technically viable and admissible.

## Focus on: Digital inequality and illiteracy

Being crowdfunding a financial operation happening via internet-based platforms, supporters who are digitally illiterate or with limited access to the internet, can be deprived of the opportunity to participate, unless assisted by intermediate agents. This potential participant category encompasses a significant segment of middle-age and older citizens, especially in territories where digital literacy has not well developed yet. Interestingly, these areas would be the ones in greater need for successful crowdfunding projects. The public authority can mediate and help:

- Anticipate accreditation processes for established and credible local organizations to act as intermediaries between the platform and digitally-illiterate citizens.
- Engage in a certain project, serving as mitigation to create the adequate level of accountability toward alternative forms of financial.
- Organize local workshops and preliminary training on alternative finance tools and procedures, providing for experienced coaches and training centers, in combination with adequate support of objective financial accountants to set the investment capacity.
- Increase the local or regional digital literacy rate, especially in underdeveloped or smaller communities, combining the effort of different social stakeholders

# #12 - Decline of its institutional role

## Definition

Civic crowdfunding is a very powerful and win-win option for the public authority and the community. In fact, it normally allows for the establishment of local initiatives and activities that would not have occurred otherwise.

Nonetheless, it is still a limitedly-diffused practice and might be opposed or wrongly perceived by citizens. In practical terms, whereas the public authority is not able to get the necessary funding by the state or from traditional forms of financing, the adoption of crowdfunding

might shed a negative light on the authority itself, making the alternative finance initiative be perceived as the “stopgap” whenever and whereas the municipality or the public institution has limited power.

In addition, societal stakeholders might question the adoption of crowdfunding (instead of public budget) in areas where the public institutions have responsibility.

## Mitigation strategy

It is important to build a positive narrative around crowdfunding, depicting it as a mechanism to expand the range of possible public-private partnerships and financial engagements. In this sense, combining public funding with private investments in the form of crowdfunding contributions will **strengthen the relationship** between the government/ public authority and the community of reference. In fact, **civic crowdfunding** is to be seen as a financial synergy and a shared effort in the name of **common objectives**.

In practical terms, it allows for an injection of private capitals into the public economy. This is particularly true in the practice of “match-funding”, which takes shape when the public authority tops up the crowdfunded amount with their own resources at the achievement of a defined sum or at the activation of a certain number of backers/ supporters – resulting in a multiplication or scalability of services and projects, both new or already established. This strategy might also be applied in combination and partnership with the crowdfunding platform itself, that sometimes can allocate its money when they consider the initiative is of particular interest for the public benefit.

All in all, the public authority has the delicate power to practically make the difference and change the economic or social balance of given contexts, simply by choosing to intervene and support for a campaign or another. It is very important, thus, that it makes use of crowdfunding to promote and create incentives for marginalized areas and communities.

### The role of PUBLIC ADMINISTRATIONS

- **Sponsor** – The public authority runs its own campaign for a specific project on an existing civic crowdfunding platform.
- **Manager** – A subnational government creates its own (generic) crowdfunding platform to foster the development of its territory. Via this tool they can promote both entrepreneurial for-profit and non-profit civic initiatives.
- **Curator** – The local authority selects a list of projects that reflect their *political agenda* from an existing crowdfunding platform.
- **Facilitator** – Subnational governments set permission and policies, financial as well as technical expertise support, co-screening and/or co-designing projects, etc. This step represents a new type of public-non-profit private partnership with citizens and civic crowdfunding platforms, whereby authorities co-finance projects alongside the rest of the crowd.

# #13 - Low engagement of stakeholders & community

## Definition

When running a civic crowdfunding campaign, the level of involvement of the community is fundamental in order to increase the perceived feeling of ownership, responsibility and overall civic participation towards, for and in the initiative. The result of the project, in fact, is specifically defined as common good for the whole Community of reference.

Nonetheless, a limited culture on crowdfunding, wrong communication strategies and timing, other managerial mistakes can lead to a low engagement of organizations, citizens and other stakeholders – making the public authority the sole or main project's supporter. This situation on the one hand represents an inconsistent and unbalanced investment for the municipality, while, on the other hand, embodies more limited chances for the project or the initiative to survive in the longer run.

## Mitigation strategy

It is important that the Public Authority builds a strong Consortium of various actors around the initiative, engaging in external partnerships with local enterprises and organizations.

External business stakeholders can be convinced showing the benefits of such partnership:

- playing a prominent role in the crowdfunding campaign, they can not only have a decision-making power within the project itself, but also increase their social impact, being perceived as change-makers and pioneers in the care and proactive socio-economic effort for the sake of the Community;
- offering side support to the campaign, they can boost their social added value and corporate social responsibility (CSR), promoting their activities to the crowd, understanding and meeting the needs of the local community and eventually result in an opportunity to increase sales by attracting customers.

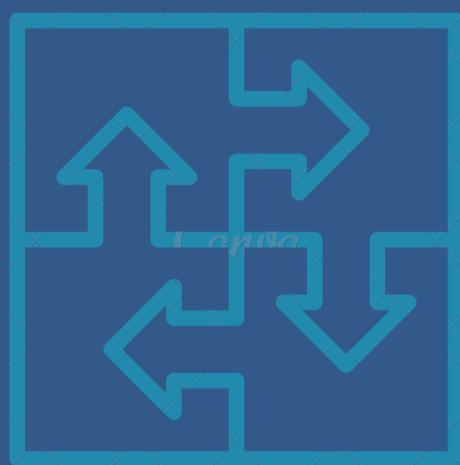
These partnerships might lead to the introduction of reward-based participation systems, made up -for example- of shopping bonuses, reductions and facilitations or free services for those citizens who take part in the venture.

As far as the community is concerned, it is always good practice to involve them since the inception of the initiative, starting from the analysis of their needs and wishes, defining with them the campaign phases and objectives, in order to increase the sense of ownership towards the process.

In the same way, the public authority, in partnership with the crowdfunding platform, can organize **calls for tenders** and **contests** in order to collect ideas and bottom-up projects to be supported. In this way, the community of reference will not only feel a stronger linkage and ownership vis-à-vis the initiative, but will also be more likely to support it.

# #14 - Regional / National diversified legislation

## Definition



Alternative finance lacks of a unique and robust set of laws and rulings of reference. For instance, national or regional legislation may not allow public bodies (such as Regions/ municipalities) to manage private funding – including those resources deriving from crowdfunding. Alternatively, in some countries these private funding may be considered as donation to the public sector. Consequently, these may be regulated by restrictive legal ruling and in some cases cumbersome provisions to ensure transparency of the actions.

Such a fragmented and local-specific regulation makes it very difficult and even risky to embrace crowdfunding, as it might be perceived and defined as contrary to the law.

The introduction of financial models of crowdfunding in the partnership might prove more challenging for public authorities, as procedures and timing highly different between traditional institutional finance and the alternative one. Public administrations face stringent limitations to the way public budget is managed, allocated, and reported, and even more so when innovative ways of combining own and private resources must phase-out of the pilot action and move towards a full integration into public budgets.

## Mitigation strategy

Crowdfunding platforms and public/managing authorities have to strengthen their collaboration, working together in order to identify areas in which a pilot program can be carried out, as to implement innovative matching schemes that can reach a higher investment impact, and to design specific funding scheme, that would thematically fall within the scope of regional or local priorities and be technically viable and admissible.

Priority areas as those addressed in regional Smart Specialization Strategies might be a solid starting point for the design of the matching scheme, since the listed sectors have already been identified as key in the economic territorial development to provide a long-term framework in which pilots can be tested.

In other words, it is to expand the scope of public partnerships with crowdfunding – designing secure and transparent ways in which to scale up the match-funding mechanism as to also include lending and equity crowdfunding synergies.

In addition, combinations have to be explored with European Structural Investment Funds (ESIF) and the specific thematic priorities and resources, in order to find common strategies and application fields. This process would also enlarge the number of projects that could receive funding without increasing the amount allocated from public budget. Such partnership would also grant increased visibility to the EU and cohesion policy, while allowing managing authorities to be more responsive, better equipped and efficient when investing in territorial and citizens' needs.

The knowledge and narrative of crowdfunding cannot set legal authorities and regulations aside. Civic crowdfunding must be seen as a tool to combine different sources of funding in the name of a common goal. This is particularly true in case of limited budget availability and if the aim is at increasing civic engagement, channeling funds into initiatives that are perceived as priorities by stakeholders in their territories.