

# recommendation

Austrian Council for Research and Technology Development

7 May 2015



## **Recommendation of the Austrian Council for Supporting an Improved Crowdfunding Culture in Austria**

### **Background**

The cornerstones of a legal framework for alternative financing models such as crowdfunding or crowdfinancing have been defined since the Austrian Federal Government's advisory session on 24 March 2015. A differentiated draft of an Alternative Financing Act (German abbreviation: AltFG) is now also a given. The Austrian Council for Research and Technology Development initiated this positive development to deal with the additional framework conditions, supporting measures and mechanisms to utilise the full potential of these new possibilities for the innovation location Austria.

Crowdfunding is a special form of crowdsourcing and designates a form of financing with which private investors, i.e. the crowd, finance big ideas, products or services via small amounts. Crowdfunding is an early-phase financing mechanism and provides risk capital for setting up new companies or the (partial) financing of innovation projects of small and medium-sized companies. Crowd-based innovation models can also be applied with a wide range of research and technology development. The processing is mostly via crowdfunding platforms that provide contracts as digital marketplaces and support the performance of standardised processes. Crowdfunding as a phenomenon is currently not subject to any standardised systematisation, however the following crowdfunding models are differentiated: "Donations", "Rewards", "Pre-Sales", "Lending" and "Investing":

- Crowdfunding projects, which are subject to the "donation-based" model, collect donations or endowments. This form of financing is generally based on altruism. Investors do not receive any direct return. This form of crowdfunding is used in many cases to finance creative or social projects (e.g. Betterplace<sup>1</sup>) and is also frequently applied in the area of regional crowdfunding (e.g. Nordstarter<sup>2</sup>), for

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<sup>1</sup> <https://www.betterplace.org/de>

<sup>2</sup> <https://www.nordstarter.org/>



financing art projects (e.g. Art Basel cooperates with the Kickstarter platform) or less often for science financing (e.g. ScienceStarter<sup>3</sup>).

- With the “Rewards” model the crowd receives material or ideational appreciation from the project implementer. This can be the early usage possibility of the result with a product development. No money, however, is returned to the backer.
- In the “pre-sales” model, the financing of the project or company is performed via advance orders of new products or services. A pre-financing of the production costs is consequently enabled via crowdfunding. At the same time, this variant can also be used as a market research method, as pre-sales provides first insights into demand, and market and price models can be determined.
- Projects with the “lending” model cover the area of private micro-credits (crowdlending) for projects. The private funder awards their money via a platform operator or directly to a person or a company of their choice. Interest on the amount given in a defined period is expected as return flow. The interest rate is agreed variably on the basis of supply and demand per project.
- The “investing” model is also referred to as “crowdinvesting” and enables participation in the early phase financing of start-ups or innovation projects in small and medium-sized companies, mostly already from approx. EUR 100. The crowd investors participate in the company with dividend certificates or as typical silent partners. They can reduce the investment risk by distributing their risk capital over several projects. Better-known platforms in Germany include Seedmatch<sup>4</sup>, Companisto<sup>5</sup> or Bankless24<sup>6</sup>, among others. In Austria, there are currently six platforms that operate in this mode: CONDA<sup>7</sup>, 1000x1000<sup>8</sup>, Crowdcapital<sup>9</sup>, dasErtragReich<sup>10</sup>, GREEN ROCKET<sup>11</sup> and Regional Funding<sup>12</sup>.

This wide range of crowdfunding is still insufficiently spread in Austria, especially compared with the Anglo-American area of influence. Knowledge about crowdfunding in Austria is restricted to knowledge about individual projects, which are mostly dominated by “donations” or “rewards-based” models, and can therefore be described as superficial. Furthermore, the few Austrian projects involving the funding of innovation and science projects via crowdfunding are still in their infancy.

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<sup>3</sup> <https://www.sciencestarter.de>

<sup>4</sup> <https://www.seedmatch.de/>

<sup>5</sup> <https://www.companisto.com/de/>

<sup>6</sup> <http://www.bankless24.de>

<sup>7</sup> <http://www.conda.at>

<sup>8</sup> <https://1000x1000.at/>

<sup>9</sup> <https://www.crowdcapital.at>

<sup>10</sup> <https://www.dasertragreich.at>

<sup>11</sup> <https://www.greenrocket.com/>

<sup>12</sup> <https://regionalfunding.at>

## **Recommendation**

The following recommendations for action are based on the survey results of a broad-based study on the potential of crowdfunding of all five above-mentioned concepts for innovation location Austria<sup>29</sup> and on the regulatory efforts of the Austrian Federal Government (draft: Alternative Financing Act, German abbreviation: AltFG):

### **(1) Anchor Crowd Innovation in the Minds of Austrians**

A well-informed handling of crowdfunding requires wide-ranging knowledge of financial issues, communication, technology and social media, psychology, legal issues and economy in particular.

The Austrian Council recommends a broadly applied, by the public sector organised information and education campaign to establish more knowledge of crowdfunding in the general public.

### **(2) Start-Up Funding for Crowdfunding Projects**

The first preparation and implementation of crowdfunding projects is costly. The Austrian Council therefore recommends start-up funding for the individual campaign planning and performance for innovative individual people, start-ups, SMEs or university and research institutions.

Projects that reinforce the governance structures of Austrian university and research institutions with crowdfunding initiatives, e.g. crowdfunding initiatives of innovative alumni associations of Austrian university institutions. The full potential of diaspora projects will also be utilised. Start-up funding of innovation projects will be supported by dedicated people with migration backgrounds, who set up companies in Austria or further develop research networks and want to use their international networks to do this. The Austrian Council recommends the development of an own funding programme for this.

### **(3) Introduction of a Transparency Label**

To establish trust and transparency, the Austrian Council recommends the introduction of a transparency label for crowdfunding offers. This is to be coordinated with current developments at European level.

### **(4) Opening Up the Innovation Policy:**

Increased Integration of Crowd Intelligence As is already the norm with innovative companies, the Austrian innovation policy should also serve crowd intelligence more and more in its work. The “Test Tube Governance” concept can be used to identify interesting contributions and innovative ideas of existing development departments, fora, committees and think tanks with online participation of the crowd and integrate these into current policy decision processes. Projects of this kind will be prepared in cooperation with classic media (media mix). The Austrian Council recommends the design and development of a transparent “Test Tube Governance” platform for better integration of

crowd intelligence into innovation policy issues in cooperation with a recognised media partner, such as an online daily newspaper or weekly magazine.

### **(5) Supporting Regions via Crowdfunding**

Regional networks strengthen the economic power of a region and prevent emigration. Regional crowdfunding promotes the creation of jobs and provides new key responsibilities and perspectives for regional interest groups. The rapid implementation of regional showcase or lighthouse projects provides the required application knowledge and supports distribution. The Austrian Council recommends the development and implementation of regional crowdfunding showcase or lighthouse projects. These must be optimally prepared with the respective administrators, policy responsible people and media (media cooperation), in order to be able to ensure swift successes (quick wins).

### **(6) Intensification of Crowdfunding Research**

Science has only recently begun to explore the possibilities of crowdfunding. The Austrian Council recommends funding more research via Open Innovation in general and via crowdsourcing and crowdfunding in particular, as well as making the crowdfunding phenomena available to a wide-ranging general public with the financing of know-how transfer projects, especially from the Anglo-American area of influence. The Austrian Council also recommends the sustainable establishment of a centre for research via alternative financing forms in Austria in line with the Cambridge Centre for Alternative Finance model at Cambridge University in the UK.

### **(7) Creation and Implementation of a Crowdfunding Roadmap**

The Austrian Council recommends the use of a work group to prepare and implement a crowdfunding roadmap for Austria with the inclusion of administrators and innovation stakeholders (ministries, innovation and funding agencies, etc.). In addition to other important topics, the following factors should also be part of the roadmap:

- Further development of existing funding mechanisms
- Development of lighthouse projects at national level
- Improvement of the legal framework conditions and creation of tax incentives for crowd investors
- Development of a crowdfunding transparency label
- Development of information, continuing education and monitoring measures for the sustainable anchoring and preparation of knowledge-based decisions on crowdfunding and crowdinvesting