Crowdfunding has created new opportunities for raising funds from the public. The equity category involves investors purchasing shares in early stage businesses. These are transferable (can be bought and sold in secondary markets), and will fluctuate in value according to the business’s performance. Crowdcube and Seedrs are two of the most widely-known equity crowdfunding platforms.

The debt security category involves a group of investors buying a piece of debt issued by a business (often called a bond), which, like a loan, is repayable after an agreed period of time, along with interest. The debt security will often be transferable, and may fluctuate in value (although to a much smaller degree than with equity, as above). Abundance is a widely-known debt security platform and we feature another platform, TRINE, on page 9.

Community shares are a unique form of share capital issued by co-operatives and community benefit societies. Community shares are a hybrid between company shares and debt, in that they can pay interest on each issued share, but the interest payment can fluctuate according to the society’s financial performance. They are not transferable, but they can be ‘withdrawn’, meaning the society can buy them back from the investor. Popular community share platforms include Ethex (which specialises in ‘positive investments’) and CrowdFunder.

‘The choice to raise investment may be more appropriate for some organisations than others, and should be based primarily on the ability to satisfy the financial commitments made in any offer to investors’

Crowdfunding in the UK accounted for around 12% of all business investment in 2015 (£3.2bn). P2P takes up the largest slice of the pie, lending £1.49bn to UK SMEs (excluding almost another £1bn lent to individuals). Equity-based crowdfunding facilitated £332m of share acquisitions over the same period, representing more than 15.6% of UK seed and venture-stage equity investment. Debt securities investments amounted to £6.2m. Community shares raised £61m for 97 organisations in 2015. Donations
Crowdfunding focus

and rewards is the fastest growing area, with £12m pledged in 2015. More than a quarter of a million businesses and individuals raised funds via some form of crowdfunding in 2015.

How could crowdfunding work for charities and social enterprises?

The crowdfunding sector is largely focused on commercial businesses, but crowdfunding can also work for charities and social enterprises.

Many charities already partner with donations-based sites such as JustGiving to encourage fundraising for specific projects, and these donations can benefit from gift aid. Social enterprises can do the same, although they will not qualify for gift aid without charitable status.

Charities and social enterprises could also benefit from P2P loans, but the rates required on P2P loans are often more appropriate for commercial businesses.

In many cases, charities and social enterprises will get the funds they need without needing to consider raising investment, including via crowdfunding. For those that do consider it, perhaps the most useful form of investment crowdfunding for charities and social enterprises would be investment via debt securities. Charities and social enterprises structured as companies limited by guarantee can issue debt securities in the same way as other commercial businesses, and the terms of the debt can be flexible, depending on the needs of the organisation and the appetite of investors.

For those organisations structured as co-operatives or social enterprises, the community shares model is also very popular. Community shares have the advantage of being outside the scope of most investment regulation, which can significantly reduce transaction costs and simplify the offer process. You can read about Community Channel’s use of community shares on page 9.

The choice to raise investment may be more appropriate for some organisations than others, and should be based primarily on the ability to satisfy the financial commitments made in any offer to investors. A regular, reliable income stream from an asset or trading activity will often be a key prerequisite for a charity or social enterprise seeking investment.

Sourcing investment through ‘crowdfunders’ could provide a useful additional funding stream for charities and social enterprises. Crowdfunders may often be partly motivated by support for the organisation’s mission (and so willing to accept a lower financial return), and may also provide more funding than if they were donating because they expect their capital to be returned. Investments into charities, CICs and community benefit societies can also benefit from Social Investment Tax Relief, which will be an added incentive for high-net-worth supporters.
Crowdfunding in practice

BWB acts for a large number of crowdfunding platforms in the commercial and charity and social enterprise sectors. Below, three BWB clients with a variety of models demonstrate how crowdfunding can be used to attract support for a range of causes.

CrowdJustice
CrowdJustice is a platform for raising funds and organising support for legal cases. Its mission is to increase access to justice by using technology to harness the power of communities to come together around legal issues that have an impact on them. It gives people the tools to raise funds for a legal action, whilst simultaneously increasing awareness of an issue and amplifying communities’ voices. CrowdJustice has raised over £2.5 million to support over 150 cases, three of which have crowdfunded all the way to the Supreme Court.

BWB advised CrowdJustice during its establishment, particularly regarding how charities can use judicial reviews and on the eligibility of donations made via CrowdJustice for Gift Aid. CrowdJustice is an example of a donations-based crowdfunding platform.

www.crowdjustice.com

Community Channel
In 2016 the community television station Community Channel raised over £360,000 in crowdfunding via Crowdfunder. The process involved converting the Channel from a company limited by guarantee into a community benefit society, under a process permitted by the Cooperative and Community Benefit Societies Act 2014. This allowed the Channel to offer ‘community shares’ to the public in its crowdfunding campaign, giving its large supporter base the opportunity not only to make a financial contribution to the Channel, but also to hold shares in the organisation, and to be engaged in its running. The Channel also registered as a charitable community benefit society with HMRC, allowing shareholders to receive Social Investment Tax Relief on their investment amount.

BWB advised Community Channel on its change in legal structure from a company limited by guarantee into a community benefit society.

www.community-channel.org.uk

TRINE
With 1.2 billion people around the world currently lacking access to electricity, TRINE seeks to solve this problem by offering a crowdinvesting platform that connects disposable income from private individuals with local solar companies in emerging markets which are in need of financing. By doing so, TRINE enables its crowdinvestors to earn a return on impact investments, while simultaneously providing people access to clean energy and reducing tons of CO2 emissions.

BWB worked with TRINE to establish its current model, an example of debt security based crowdfunding.

www.jointrine.com