

Crowdfunding in E-Estonia: **Hooandja & Fundwise**

Name of platform	Hooandja	Fundwise
Geographical focus	Estonia	Estonia
Active since	2012	2015
Crowdfunding model	Reward based	Equity
Platform website	www.hooandja.ee	www.fundwise.me



About Estonia and crowdfunding

Estonia is one of the three Baltic countries, together with Latvia and Lithuania. Estonia is well known for having introduced a government system based on internal e-Residency: e-voting, e-taxing. Recently Estonia established e-Residency for all nationalities: a digital identity with the possibility of running a company online from anywhere in the world. So one would expect that online funding would be booming. But not in the beginning. Henri Laupmaa, the founder of Hooandja (www.hooandja.ee), first tested his idea for a crowdfunding platform on his friends 5 years ago, and most of them thought that Estonians were too reserved to put their backing of a project online. There was no word for crowdfunding yet in the Estonian language. He started with Hooandja in 2012 anyway, as a donation/reward based crowdfunding site for the creative sector. In 2015 he founded a second crowdfunding platform, now for equity crowdfunding: Fundwise (www.fundwise.me), because some of the companies which first raised money on Hooandja now needed more investment funding. Fundwise does not restrict itself to the creative sector, but it offers crowdfunding possibilities for gaming and artisan products. Estonia has only 1.3 million inhabitants which immediately raises the question of the financial sustainability of crowdfunding platforms.

On the other hand, Estonia has the second highest amount of crowdfunding per inhabitant of Europe (p.29 of Sustaining momentum, the 2nd European alternative finance industry report, Cambridge Centre for Alternative Finance, September 2016).

On Hooandja €1,990,210 has been raised for 629 projects by 64,215 backers (numbers retrieved on April 19, 2017). Most projects are about CD's, movies and documentaries, books, festivals and theatre productions.

On Fundwise €551,757 has been raised by 7,403 investors for 10 companies (numbers retrieved on April 19, 2017). The current focus is on small firms which need capital to grow. Most of them sell artisan products, but there is also a game production company.



Partnerships and income

Hooandja takes a fee of 5% of the money raised for a successful project. When the project also wants an English language page, the fee is 7%. Its income is not public, but if you calculate 5% of the total of the money raised, the fee is less than €200,000 in 5 years. The site has run a crowdfunding campaign in 2016 to be able to build a new site and has raised €5,000 for this purpose.

Hooandja is supported by 10 partners. Some of them are partners who promote the site, one of them is a bank (LHVbank), another is an online cultural newspaper (Müürileht). A legal firm called Glimstedt, supports them in-kind with legal support. There is also funding by two partners which support NGO's. Swedbank supported setting up Hooandja as they also did with Fundwise. Swedbank had a small crowdfunding site on its own which has ceased to exist since Hooandja started operating. Nordeabank is a matchfunding partner, they provide extra funding for projects that meet their funding criteria in the areas of culture and youth.

Fundwise has a different set of partners. Fundwise is linked to the Estonian network of business angels, EstBAN. Swedbank takes care of all the financial transactions. Deloitte Legal contributes in hours for the legal issues.

Glimstedt offers legal services to the entrepreneurs. And Fundwise is part of the public-private cluster organisation for financial services of Estonia: FinanceEstonia.

The fee of Fundwise is 5% of the amount raised for successful projects, with a minimum of €1,000, for successful projects. This fee is also applied if the campaign reaches its original goal within 90 days after the closing of the campaign through other kinds of funding. Included in the service is up to 30 hours of legal advice, campaign marketing, consultancy and project management. Additional hours are billed at €70 per hour, excluding VAT.

Partnership model

Since the founder of both platforms is crucial in establishing the partnerships, it is important to introduce him. Henri Laupmaa is a well-known figure in Estonia. He is member of the Estonian Presidents Thought Council, member of the board of the Estonian Fund for Nature and co-organizer of TEDxTallin. Before starting the crowdfunding platforms Henri Laupmaa had already set up several crowdsourcing platforms and actions, for example to have 50,000 people clean illegal waste in one day.

Model of cooperation

For Hooandja there are three partnership models:

1. Partners for the promotion of the platform and its activities
2. Funding partners, which support the platform itself.
3. Service partners, which deliver in-kind specialized services and knowledge, such as legal and marketing advice.

Fundwise has a smaller list of partners.

1. There are two network partners. EstBAN (business angel network) is a partner in bringing forth potential entrepreneurs for the site. Fundwise can also approach members of EstBAN as potential investors. FinanceEstonia provides access to the financial ecosystem of Estonia.
2. The other partners deliver services. Deloitte Legal delivers services in setting up the legal framework for Fundwise and deals with the regulations on a national and European level. Glimstedt offers legal services to the companies on Fundwise and Swedbank takes care of the financial system underlying Fundwise.

Since Estonia is too small for an equity crowdfunding platform to grow, Fundwise is looking for expansion possibilities, first in the other

Baltic States and later further in Europe. This will have consequences for future partnerships.

Deloitte legal

The partnership with Deloitte Legal is an example of the reciprocal relationship between a crowdfunding platform and a partner. Before entering a partnership with Fundwise, Deloitte Legal was a traditional law firm. There was no understanding of the disruptive changes large companies are going through because of digitalization and because of the development of fintech companies. The legal issues concerning crowdfunding in general and the different forms of crowdfunding of Hooandja (donation/reward) and Fundwise (equity), the diverse development of regulation in different countries and the implications for the European level required a whole new area of knowledge development. This expertise is crucial if platforms want to expand beyond the borders of their own country. It aided Deloitte Legal to develop new expertise in this fast changing field and helped branding the company as a frontrunner. Merit Lind as head of the law firm is also chairing the Crowdfunding Expert Group of FinanceEstonia and has in this position a direct link to any government regulatory framework concerning crowdfunding in Estonia. It helped getting a government proposal off the table that would limit the possibilities of future crowdfunding.

Impact of partnerships and critical success factors

Impact on the platform

For both Hooandja and Fundwise the partners are indispensable. The country is quite small for a donation/reward platform or an equity platform to be economically sustainable. A platform needs to have funding partners to keep the platform in existence and service partners to deliver specialized expertise that otherwise could not be delivered.

Impact on the partners

The funding partners of Hooandja are NGO-supporting organisations. Supporting a crowdfunding platform such as Hooandja is a means to empower the sharing and crowdsourcing economy. Crowdfunding enables the development and implementation of projects that bring people together, which is one of their goals.

For the service partners of both Hooandja and Fundwise the value of the partnership lies in the acquisition of knowledge and expertise within a new and developing domain. By their in-kind donations they also associate their own firm with these new developments and strengthen its brand value.

Especially for banks the involvement in crowdfunding enables them to follow new developments in fintech and have an insider's view on trends that might affect their future.

Critical success factors of the platform and partnership model

For both Hooandja and Fundwise the position of the founder is crucial. His network and position within the Estonian society, grown from his previous work, enables the composition of a specific range of partnerships that fits each of the two crowdfunding platforms.

These partnerships are also critical success factors for the survival of both platforms. The provided funding and specialized expertise by the service partners are crucial factors for the performance of the platforms.

A third critical success factor is the scale of the geographic area the platforms cover. In itself Estonia is a relatively small country of 1.3 million inhabitants which is a challenge for the potential to survive in the long run for both platforms

Overall conclusions

Crowdfunding platforms in a smaller country

The positions of both Hooandja and Fundwise are probably exemplary for crowdfunding in a smaller country. The presence of a local platform stimulates many professionals within the cultural and creative sector to put up their projects for crowdfunding, attracting the nearby crowd. A local platform represents the cultural specifics of the country and knows how to play into those target groups that might be helpful for a specific project.

On the other hand, the scale limits of a smaller country also limit the economic sustainability of such a platform that cannot survive without funding partners. For an equity crowdfunding platform like Fundwise this dilemma is even more significant. Estonia as a country cannot provide enough small and medium business needing equity crowdfunding. Fundwise will have to expand to other countries to grow and have a chance of becoming economically sustainable.

From donation/reward to equity crowdfunding

The development of both a donation/reward and an equity crowdfunding platform by the same founder is intriguing.

It is exemplary of the state of crowdfunding for the cultural and creative sector. The large majority of campaigns take place on a donation/reward platform which reflects the project-by-project nature of most creative professionals. Most of them live from project to project and miss the financial literacy and knowhow to develop into a business that could profit from other types of crowdfunding, such as lending and equity.

Building an equity crowdfunding platform after a donation/reward crowdfunding platform forces to broaden the scope of the kind of business that a platform wants to attract. While at the same time retaining the knowhow and experience of working in the cultural and creative sector.

If the cultural and creative sector wants to grow as a business sector it has to develop the ability to grow from a project-by-project endeavour to a more sustainable business perspective. The availability of different kinds of crowdfunding platforms is then a necessity as the cultural and creative sector needs a financial ecosystem that provides all kinds of financial services. In this way the building of an equity crowdfunding platform after a donation/reward platform precludes the future of the cultural and creative sector.



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