

Jacek BINDA*

CROWDFUNDING AS A KIND OF SOCIAL SUPPORT OF BUSINESS VENTURES

Summary

In recent years crowdfunding has become an important instrument of capital raising. Its importance, popularity and impact are still growing thanks to the development of ICT technologies and new ways of thinking about investments. Both individuals as well as small and middle size enterprises see crowdfunding as a new way of collecting capital by benefiting from free financial assets of Internet users. Therefore, more and more investors are noticing the clear-cut advantages offered by this kind of financial instrument. Crowdfunding is rearranging the way that entrepreneurs finance their endeavors, launch new products and services onto the market and open start-up companies. Crowdfunding's social impact appears to be undisputed when it comes to start-ups, it also seems to be a key factor contributing to the increase in their number and socio-economic success. The paper presents the basics of crowdfunding i.e. its models, associated risks and growth on Polish and European market. The world reports on crowdfunding and the author's own research in this field were the main sources of material for this paper.

JEL classification codes: G32, L11, L13, L15, L21, L31

Key words: crowdfunding, crowdsourcing, financial assets, non-profit, ICT, Internet

1. Essence of crowdfunding

Crowdfunding as a term or phenomenon has been known for about 15 years. However, its popularity started growing dynamically a few years ago, mainly due to the dissemination and popularity of ICT allowing individuals and SME entrepreneurs to gather free financial assets of investors without intermediary of a bank. In this way, crowdfunding occurs as a financial solution that needs no middle institutions. It allows individuals and entrepreneurs to look for external funding worldwide through an “open call” on the Internet. It seems to be

* Professor Jacek Binda, Department of Finance and Information Technologies, Bielsko-Biała School of Finance and Law, jbinda@wsfip.edu.pl

a less complicated, powerful and effective instrument than the traditional solutions based on bank credits.

However, it is not as simple mechanism as it seems to be. Especially, considering a wide range of similar but not identical solutions (e.g. crowdsourcing, crowd-investing, charity) and restrictions and risks associated with these terms. The notion of crowdfunding should therefore be treated as a part of a broader concept of crowdsourcing, in which crowds of individuals linked via online social networks can act jointly and develop corporate activities³⁰.

The term crowdsourcing was used for the first time by Jeff Howe and Mark Robinson³¹ who indicated that its success is possible thanks to raising the importance of human capital and perceiving people through the quality of their ideas rather than their formal academic qualifications. One of the reasons why, in recent times, online communities have decided to work together is the fact that there is no need to employ and pay executives for organizing and managing things. Besides, people are more effective when they are in a cooperative environment managed by persuasion rather than by edicts and commands. So, one can say that, humans generally function better in collaborative online communities than in rigid hierarchies limiting freedom of thought and team flexibility. Furthermore, in crowdsourcing communities recognition, opportunity to show off individual expertise and respect for others can be far more motivational than the financial aspect.

The definition of crowdsourcing referring to outsourcing specific tasks of entrepreneurs to the internet community was proposed by many authors, among others, by Kleemann in 2008³².

Definition 1. *Crowdsourcing takes place when a profit oriented firm outsources specific tasks essential for the making or sale of its product to the general public (the crowd) in the form of an open call over the internet, with the intention of animating individuals to make*

³⁰ Bayus, B., 2013, *Crowdsourcing new product ideas over time: an analysis of the Dell Idea Storm community*. *Manag. Sci.* 59, pp. 226–244.

³¹ Howe, J., *The Rise of Crowdsourcing*. *Wired* 14 (6), 2006, available online at: <http://www.wired.com/wired/archive/14.06/crowds.html>

³² Kleemann, F., Voß G.G. and Rieder K., *Un(der)paid Innovators: The Commercial Utilization of Consumer Work through Crowdsourcing*. *Science, Technology & Innovation Studies* 4, pp. 5-26, 2008.

*a [voluntary] contribution to the firm's production process for free or for significantly less than that contribution is worth to the firm.*³³

While talking about crowdfunding, the above definition should only be treated as a starting point, in which raising funds by “tapping Internet society” is a key element of this mechanism³⁴. In this way Internet individuals can volunteer and provide input in the form of financial help and have their contribution in the project development. One can also say that crowdfunding is a type of collection and allocation of capital transferred for the development of a project in exchange for providing feedback, which involves a wide range of capital providers. It is also characterized by ICT and a lower barrier market entry³⁵. It defines a variety of transactions or source of capital provided by the community of Internet users, where this unspecified number of investors come together, to invest their free funds in a well-defined purpose or to support entrepreneurs.

In literature crowdfunding is defined as *financing projects or businesses with small contributions from large numbers of individuals*³⁶ or small amounts of capital usage from many individuals to finance a new ideas or business venture³⁷. In this way crowdfunding is defined as an alternative way of financing projects or a venture by a group of individuals, not necessarily professionals, typically via the Internet³⁸. In most cases, the beginnings of crowdfunding were based on specific needs – vision and lack of money. Its phenomenon arose under rather unclear and ambiguously defined rules.

The origins of crowdfunding may probably be associated with the rock band Marillion and the year 1997 when the band had no money for a concert tour and a new album. The band members decided to attract attention of the Internet society, and persuaded Internet users to invest their financial surplus into Marillion's new project, offering in return

³³ Ibid.

³⁴ Belleflamme, P., et al., *Crowdfunding: Tapping the right crowd*, J. Bus. Venturing (2013), <http://dx.doi.org/10.1016/j.jbusvent.2013.07.003>.

³⁵ Lawton, K., and Marom D. (2010), *The Crowdfunding Revolution. Social Networking Meets Venture Financing*, Amazon Digital Services.

³⁶ Collins, L., & Pierrakis, Y. 2012, *The Venture Crowd: Crowdfunding Equity Investment into Business*, London Nesta.

³⁷ <http://www.investopedia.com/terms/c/crowdfunding.asp>

³⁸ A. Schwienbacher, B. Laralde, *Crowdfunding of Small Entrepreneurial Ventures*, [in]: *The Oxford handbook of Entrepreneurial Finance*, Oxford University Press 2012.

financial benefits. Based on the above, one of a broad set of crowdfunding definitions is as follows:

Definition 2. *Crowdfunding involves an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights³⁹.*

Crowdfunding also resembles the principle of microfinance, which is a source of financing for entrepreneurs who do not fulfill the prerequisites to obtain a bank loan or other financial service⁴⁰. Such micro finance-based funding can take the form of loans, donations or investments with potential money providers being both individuals and institutions.

The above mentioned understanding can be redirected to start-ups and their endeavors in obtaining capital by means of special Internet platforms. A great variety of existing equity-based crowdfunding Internet platforms became a promising instrument to overcome start-ups liquidity problems, often indicated as an early-stage equity gap. The gap can significantly endanger the new start-ups success or prevent start-ups from fully concentrating on their business model. It should be noted that around 16% of start-ups faced this lack of financial resources in 2011⁴¹. Crowd-investing (also known as equity-based crowdfunding) is a subset of crowdfunding, providing a set of projects or start-ups users invest receiving shares from the public in return. It can also be said that backers expect a financial compensation for their investment. One of the definitions describing crowd-investing could be as follows:

Definition 3. *Crowd-investing is an equity-based solution, exclusively considered as an investment in equity shares or profit-related returns based on ICT mechanism of communication (also related with financing start-ups and considered as a part of venture capital).*

³⁹ Kleemann, F., G.G. Voß and K. Rieder (2008), *Un(der)paid Innovators: The Commercial Utilization of Consumer Work through Crowdsourcing*, Science, Technology & Innovation Studies 4, pp. 5-26.

⁴⁰ Bradford, C. S. (2012), *Crowd-funding and the federal securities laws*, Columbia Business Law Review 1, pp. 1–150.

⁴¹ Hagedorn A, Pinkwart A., *The Financing Process of Equity-Based Crowdfunding: An Empirical Analysis, Crowdfunding in Europe*. State of the Art in Theory and Practice, FGF Studies in Small Business and Entrepreneurship, Springer International Publishing, Dennis Brüntje, Oliver Gajda (eds.), pp.71-85.

However, in order to obtain a crowd of individuals participating in the future company profits, fundraisers in some jurisdictions offer equity shares in a private limited liability company (LLC). An example can be found in British portals such as Crowdcube or Seeders. Unlike the United Kingdom, start-ups in Germany do not offer common shares in LLC due to the substantial additional notarial costs. Instead of common shares in LLC, German startups running a crowd-investing campaign use profit participating notes, silent partnerships and profit participating loans.

Considering the above mentioned financial mechanism, it can be said that crowdfunding as a subset of crowdsourcing and crowd-investing is a form of crowdfunding based on the same fundamental principles as the above-mentioned early form of reward-based crowd-funding but with certain distinctions. The similarities between crowd-investing and crowdfunding concern financing projects through “the crowd” via the Internet. However, there are also differences in underlying financing method. Unlike reward-based crowdfunding, where money providers usually obtain non-monetary rewards, supporters of crowd-investing projects receive monetary contributions in the form of interests or dividends.

2. Crowdfunding financial models

There is no doubt that crowdfunding is a real alternative for entrepreneurs to start their projects because it is an easier way of investing process (without troublesome banks intermediary). The crowd of potential investors is a crucial element of every single business model, but while talking about crowdfunding the relationship between entrepreneurs and “Internet supporters” is even more important. This is mainly due to a special relationship created in the virtual sphere. Among numerous crowdfunding financial models, four of them are the most recognizable^{42, 43} (Table 1, Fig 1):

- **Donation model** – (also known as a charity, traditional model) - is anything but new and the most common model (thanks to online platforms) mainly based on philanthropy. Individuals donate to specific projects receiving no financial nor material return. The

⁴² Dziuba D.T. (2012), *Rozwój systemów crowdfundingu – modele, oczekiwania i uwarunkowania* [in:] *Problemy Zarządzania*, vol. 10, no 3 (38), pp. 86–87.

⁴³ Commission staff working document, *Crowdfunding in the EU Capital Markets Union*, SWD (2016) 154 final, Brussels, [3 May 2016].

satisfaction from money well spent is essential. In its modified version (reward-based model) donors can expect their rewards in the form of books, records etc. The most important aspect of this model is time - the collection of funds is limited in time and usually lasts from a few weeks to several months.

- **Lending model** – (also known as crowd lending, peer-to-peer lending or marketplace lending) offers the possibility of direct funds lending from the internet community through dedicated platforms in the form of loan agreement, bypassing banks, para-banks and other intermediary organizations. There are two specific variations of such financial model: *microfinance* model and *social lending*. The first one is based on the concept of financial aiding, addressed to the poorest beneficiaries - the small amounts of money are apportioned between the target group. The second is based on collecting large amounts of money that are subsequently lent under certain conditions for consumption or business. Furthermore, depending on differences in legal structure the lending financial models across the EU Member States may vary:
 - *Consumer lending model* – presents relations between individuals (consumer-to-consumer or business-to-consumers) where lending money is accomplished through unsecured loans.
 - *Business lending model* – referring to relations where lending money is accomplished through secured or unsecured loans by individuals or institutions directly to businesses.
 - *Mixed business lending model* – relations are based on the loan contract between the lender and borrower, while the role of the platforms is focused on coordination of payments and repayments. Another variation allows a platform to cooperate with a credit institution that originates loan or manages the escrow account that accumulates pledged amounts. In the last solution, the transfer of money is activated from escrow account to project's account when the pledged amount is reached.
- **Investment model** – its popularity is growing increasingly recently thanks to the Internet financial platforms. Its essence lies in the fact that Internet users invest their free financial surplus in projects by means of financial platforms, expecting in return financial benefits. This way of investing money is commonly used for financing start-ups. It is possible to identify three sub-models within the Investment

model: *collective investment model, investment fund model, securities model*. In the first one, different group of participants including the so-called *angels of business* invest small amounts of money in a company's development or in a specific project. Royalties or shares in future profits are highly expected in return. The second sub-model is associated with collective investing funds (the electronic platform can be structured as an e.g. an investment fund). Investors take their financial decisions so as to which project to choose based on e.g. its future potential. Investors who support a company, participate in profits, typically buy shares or share of the revenue, receiving a financial reward in case of profit. The last sub-model involves the sale of shares and ownership rights transfer to online investors. The funds invested are usually high.

- ***Invoice trading model*** – refers to a solution in which business uses a platform for selling unpaid invoices to a pool of institutions (investors).
- ***Mixed solution model*** – combining all above-mentioned features.

Table 1. Comparison of crowdfunding models

Crowdfunding financial model	Main features	Level of progression
Donation model	donors receive small non-financial remuneration for the donated funds <i>(reward-based model)</i>	wide range of social interaction (mainly based on philanthropy)
Lending model (general)	donors' funds have the character of loan donors receive their money back within a predetermined period, together with interest due	wide range of social interaction due to internet community, through dedicated platforms
Lending model (microfinance variety)	addressed to the poorest beneficiaries based on collecting small amounts of money that are apportioned between the target group addressed for consumption or business aim	
Lending model (social lending variety)	based on collecting large amounts of money that are subsequently lent under certain conditions	

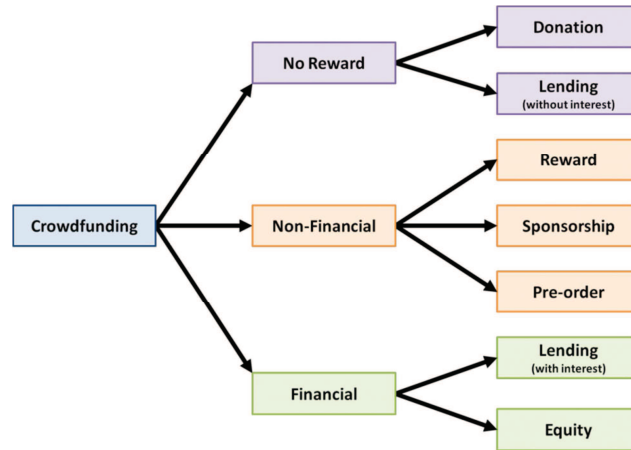
Crowdfunding financial model	Main features	Level of progression
Investment model	projects are the main investment objective, donors receive financial benefits in return e.g. promise of participation in the company or in profits, commonly used in financing start-ups	addressed mainly to businesses of any size. Dynamically growing due to Internet financial platforms accessibility
Invoice trading model	businesses can sell individual invoices to an online community of investors flexibility – possibility of selling appropriate invoices in predetermined time leading business back in control of cash flow, possibility of quick release of cash, investors can earn good returns through a diversified portfolio	addressed mainly to businesses of any size. Dynamically growing due to Invoice trading platforms accessibility. New way to trade invoices
Mixed solution model	combining all above-mentioned models' features	wide range of social interaction due to the most complex mechanism of action

Source: Own work

ICT technology has a significant impact on the development of crowdfunding. Taking the above-mentioned financial models into account, four different payout models used by crowdfunding platforms can be differentiated:

- all or nothing,
- all and more,
- holding,
- club membership.

Fig. 1 Typical crowdfunding financial models⁴⁴



Source: Typical crowdfunding financial models.

This payout models describe rules and conditions referring to, among others, project status (success/failure), based on which the crowdfunding platform will transfer funds to entrepreneurs (funders). The first model describes a situation where the pre-determined goal is not met and the funding project itself is deemed unsuccessful. In such a situation, the accumulated amount of money will be returned to funders without additional benefits. The second model (*all or more*) is based on the assumption, that despite the fact the pre-determined goal has not been met, the entrepreneur will receive the accumulated amount of money at the cost of a higher platform fee. The third one (*holding payout model*) describes a situation where equities are bought by the funder in a fund-seeking company. The last model assumes, that only club members can participate in profits. It means that funders pay a fee to join a club and then they can benefit from expert work (experts invest or buy equity on behalf of others). It should be noted, that equity based crowdfunding is functioning in many countries under very strict circumstances and regulations for securities intermediation. In other countries, this model is not accessible for home based businesses, e.g. Denmark. In effect, foreign equity platforms (e.g. UK platforms) have started operating in Denmark.

⁴⁴ D. Gedda, B. Nilsson, Z. Sâthén, K. Solberg Søylen, *Crowdfunding: Finding the Optimal Platform for Funders and Entrepreneurs*, Technology Innovation Management Review, 03.2016 (Volume 6, Issue 3).

As it is seen from the above, every model has its own risk level, and a level of socioeconomic influence. No matter which crowd investment model will be chosen, the business plan for effective decision-making is highly necessary for crowd investment shareholders.

3. Crowdfunding growth

The growth of crowdfunding importance and popularity worldwide has forced changes in law that governed the way this financial mechanism is used. As an example, the U.S. market can be recalled. A turning point and a kind of springboard for crowdfunding in the U.S. was the passage of JOBS Act in 2012 that heralded the equity crowdfunding revolution in the U.S.A. This JOBS Act is still expected to uptick investments in crowdfunding. Based on that Act some small and middle sized entrepreneurs got another prospect of gaining or investing their money. The key issue in terms of equity shares using crowdfunding was the number of investors that are indeed able to put their money into a business. One of possible options was limiting the number of investors to accredited investors⁴⁵ that met basic conditions defined by the U.S. Securities and Exchange Commission (SEC)⁴⁶:

- a net worth of \$1 million or more,
- \$200,000 worth of annual income and
- at least \$300,000 worth of joint annual income (family income).

The above-mentioned JOBS Act (Title III) also defined frames, expected to be a catalyst for crowdfunding in the U.S., e.g.⁴⁷:

- issuers may raise up to \$1 million in any 12-month period,
- investors with an annual income or net worth up to \$100,000 may invest the greater of \$2,000 or 5 percent of annual income or net worth in all crowdfunding issuers in a 12-month period, but investors with annual income or net worth over \$100,000 may invest up to 10% of the lesser of annual income or net worth,
- issuers raising over \$100,000 must provide investors with accountant-reviewed financials, while issuers raising over \$500,000 must supply audited financials to investors.

⁴⁵ Due to the risky nature of startup in the U.S., the equity crowdfunding has been limited to accredited investors – based on Securities Act of 1933.

⁴⁶ www.sec.gov/answers/accred.htm

⁴⁷ <https://peerrealty.com/blog/an-in-depth-look-at-title-iii-crowdfunding>

Like in the U.S., Poland has also made some amendments in its legal system. Crowdfunding in Poland is not covered by a separate legal regulation devoted to this activity. Therefore, it must be evaluated through the prism of the general provisions of the Civil Code or special provisions that regulate the legal aspect, including rules indicated in the Act on Public Offering. The concept of crowdfunding should be clearly separated from a public collection, which has been defined in the new law on the principles of public collections - art. 1: *Public collection is a collection of victims in cash or in kind in a public place on a specific, legitimate purpose of remaining in the sphere of public tasks, referred to in Art. 4, paragraph. 1 of the Act of 24 April 2003. Benefit Activity public and voluntary service (OJ 2010. No. 234, item 1536 as amended. d.), and for religious purposes.*

It should also be noted that most of the crowdfunding projects aim to achieve commercial success and public utility. Refinement through entities authorized to conduct public collections contained in art. 3 of this Act. Crowdfunding exclusion of the principles of public collections frees the project manager from notification of collection to the minister responsible for internal affairs or the obligation to report to the collection. Thus, one can say that the participants in the financing of social benefit from the Code of Canon Law principle of freedom of contract (art. 3531 of the Civil Code), determining binding their relationship at will, however, remaining in line with the characteristics of sex, the law and the principles of social coexistence.

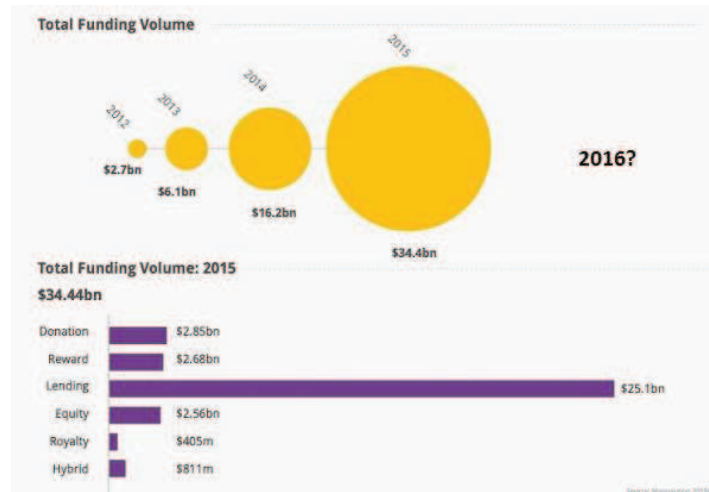
Crowdfunding systems based on the pre-construction and reward participants are mostly regulated on sale, so the meaning here takes on issues concerning a claim for an item of sale, warranty for defects subject or guarantee. In case of debt crowdfunding, the legal relationship between the parties (the investor and the designer) regulate both the provisions of the loan or the provisions of the law on consumer credit (if the investor is an entrepreneur). In most cases, however, these relations will be based on the provisions of the Civil Code relating to the loan. Most ambiguities make regulations relating to the share-crowdfunding, related to the acquisition of equity units. Based on current legislation, if such transactions are applied, provisions of the Code of Commercial Companies, as well as the Act on Public Offering and Act on Investment Funds can be used.

It should be noted that all permissions for public and non-public fundraising were issued in Poland based on the Public Fundraising Act

dated 1933 (in force until 18 July 2014) when the law was changed (Art. 40 of the Act on the principles of public collections). However, since 27 November 2015 this financial instrument has been under the supervision of the Ministry of Internal Affairs and Administration.

The changes in law wide opened the new virtual channel for crowdfunding operations. In recent years, this concept of funding projects has led to rapid development of web portals specializing in crowd investing (ArtistShare.net - portal addressed to artists, Indiegogo.com – supporting technological inventions projects etc.). One of the most recognizable platforms, that has dominated the crowdfunding market is Kickstarter.net - founded in 2009. Its spectacular success and high competitive market position is mainly connected with over 111 thousand of successfully completed projects and over 11 million platform users. Taking this outstanding and spectacular success into account, the question arises on motivation that encourage users to finance a variety of foreign ideas. Although one may assume that many people would put their money into a venture, in fact, many of them feel uncomfortable investing in start-ups or in projects with increased risk level. It is, in part, because of immaterial form of money influencing the trader account, public projects nature (open call - no restrictions on access to the project), accumulation of capital done using ICT solutions. However, the number of accredited investors has grown from approximately 8.7 million to over 300 million Americans, Fig 2.

Fig. 2 Total funding volume⁴⁸

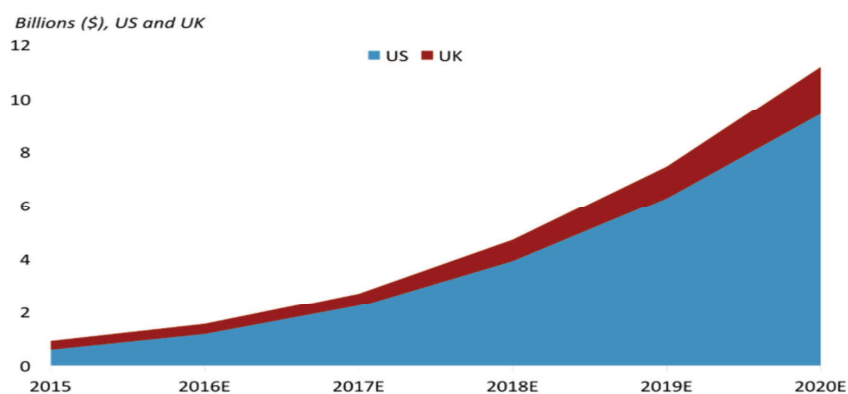


Source: Total funding volume.

In this way business is expected to rise up to \$1 million annually via registered crowdfunding portals. Thanks to regulations implemented in the JOBS Act, crowdfunding in 2016 could top \$60 billion and even surpass some traditional forms of finance. This assumption is possible to be true as crowdfunding continues to book growth each year and traditional bank lending has not come back to its prior level before the financial crisis. What's more, ICT is still growing and offering technology that helps financial managers to look to peer lending for higher returns, Fig 3.

⁴⁸<http://www.crowd101.com/crowdfunding-2016-predictions-the-next-real-estate-boom/>

Fig. 3 Forecast concerning Volume Raised by Firms in US and UK Using Equity Crowdfunding Platforms⁴⁹



Source: Forecast concerning Volume Raised by Firms in US and UK Using Equity Crowdfunding Platforms.

Based on Fig 3 it can be stated that equity crowdfunding is a key element of financial strategy of many SME companies and one of the fastest-growing areas in the alternative finance industry. The BI Intelligence report confirms that equity crowdfunding grew over 100% in both the UK and the U.S. in 2015. As the World Bank's crowdfunding forecasts, BI Intelligence forecasts concerning equity crowdfunding are equally optimistic. The forecasts claim that in 2020 companies across the U.S. and the UK will raise \$11 billion, up from \$1 billion in 2015⁵⁰.

4. Crowdfunding as a springboard to success for Polish companies

It seems to be undeniable, that crowdfunding is a dynamically growing financial mechanism. This statement is confirmed by hundreds of different websites that recently emerged and can be used for equity sharing. It can be stated that it seems to be a new trend in business worldwide. Its success is spectacular and mainly based on liberalization of crowdfunding law and changed mentality of investors. However, only a handful of crowdfunding platforms achieved success and attracted the funders' interest. There were 452 platforms worldwide in 2012 and only 4 of them in Poland⁵¹. In the two years that followed, their number

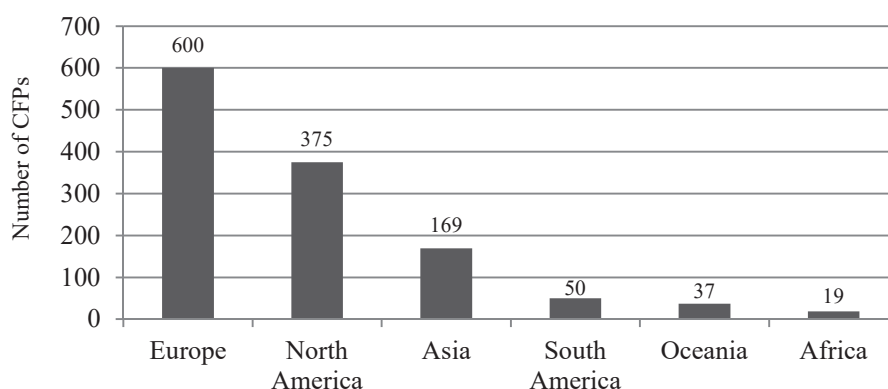
⁴⁹ NESTA, KPMG BI Intelligence Estimates.

⁵⁰ <http://www.businessinsider.com/equity-crowdfunding-research-2016-10?IR=T>

⁵¹ *Crowdfunding Industry Report 2012*, www.crowdfunding.org

worldwide increased and amounted to 1246 platforms. Based on the report of the European Commission (2016), by the end of the 2014, 510 live platforms were identified as active in the EU. Most of these platforms (502 platforms) were found in 22 Member States, especially in the United Kingdom (143) and France. The remaining 8 platforms were found in Australia, Canada, China, New Zealand and the United States⁵². While, according to *Statista Report* approximately 600 active platforms were located across the EU, Fig 4.

Fig. 4 Number of crowdfunding platforms worldwide as of December 2014, by region⁵³



Source: Number of crowdfunding platforms worldwide as of December 2014, by region.

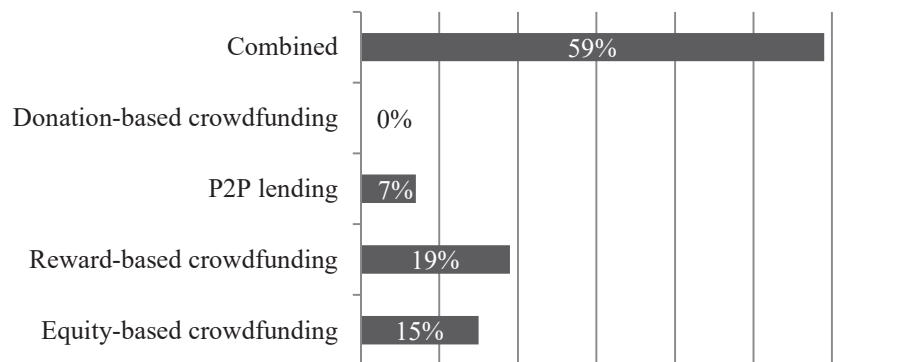
In the report of the European Commission (2016) some different business models used by crowdfunding platforms were indicated: investment-based crowdfunding, lending-based crowdfunding, invoice trading crowdfunding, reward-based crowdfunding, donation-based crowdfunding and hybrid models of crowdfunding. Although investment-based crowdfunding and lending-based crowdfunding models were treated in a particular way, donations or rewards, still remain important for innovators and early-stage entrepreneurs. The report shows that the vast majority of platforms (about 30%) were involved in reward-based crowdfunding, followed by equity crowdfunding (23%) and loan-based

⁵² *Commission staff working document*, 154 final ed., tom SWD (2016), Brussels: European Commission, 2016.

⁵³ <https://www.statista.com/statistics/497227/number-of-crowdfunding-platforms-globally-by-region/>

crowdfunding (21%). However, based on Statista.com, the mixed crowdfunding model was the most popular in Europe - approximately 59% of all crowdfunding platforms were based on this model, barely 15% were based on equity-based crowdfunding model and 0% were based on donation model (Fig 5). The above-mentioned report states that crowdfunding market is still gaining popularity across the EU. The crowdfunding market value across the EU in 2015 raised to about EUR 4.2 billion through crowdfunding platforms. It should be noted that EUR 4.1 billion of EUR 4.2 billion were raised through crowdfunding models entailing a financial return⁵⁴. The selected crowdfunding values in the EU in 2015 are presented in Table 2.

Fig. 5 Share of web-business focused crowdfunding platforms in Europe in 2014⁵⁵



Source: Share of web-business focused crowdfunding platforms in Europe in 2014.

⁵⁴ *Crowdsurfer Dashboard*, www.crowdsurfer.com

⁵⁵ <https://www.statista.com/statistics/413507/web-focused-crowdfunding-platforms-in-europe-model/>

Table 2. Crowdfunding in the EU in 2015

	Total raised (EUR)	Average raised (EUR)	Number of campaigns	Number of platforms
Equity	422 039 462	504 832	836	60
Bonds and debentures	103 368 785	1 590 289	65	8
Loans, of which:	3 209 368 439	15 688	204 575	77
<i>Secured business loans</i>	453 423 956	79 132	5 730	6
<i>Unsecured business loans</i>	728 839 337	58 154	12 533	16
<i>Secured individual loans</i>	63 497 821	35 834	1 772	3
<i>Unsecured individual loans</i>	1 266 723 276	7 082	178 854	14

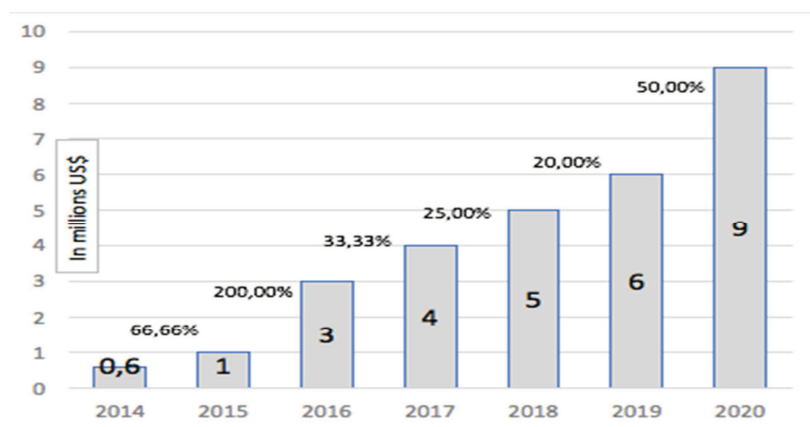
Source: based on⁵⁶

At present, the transaction value of crowdfunding market reached the level of USD 5.067 billion. In the years to come, it is even expected to show an annual growth rate (CAGR 2016-2020) of 44.6% in 2020. With regard to global trends it should be noted, that crowdfunding dynamically raised by 167% in 2014 y/y and reached USD 16.2 billion. North America maintained the status as a leader, being the first region in terms of crowdfunding volumes, raising a total of USD 9.46 billion.

The growth of crowdfunding market in Poland looks quite interesting, while it is much smaller in comparison to e.g. Germany, France or the U.S. Its transaction value in 2016 in Poland amounted to USD 3 million. The annual growth rates of the transaction values are also very promising, at least 20% y/y with the prediction of 50% y/y for 2020. If the current market growth will be maintained, its size in Poland in 2020 is expected to reach the level of USD 9 million (Fig. 6).

⁵⁶ *Commission staff working document*, 154 final ed., tom SWD (2016), Brussels: European Commission, 2016.

Fig. 6 Transaction's Value annual growth rate (CAGR 2016-2020)



Source: Transaction's Value annual growth rate (CAGR 2016-2020)

The above-mentioned figures present a significant potential of crowdfunding markets in Poland (Table 3).

Table 3. Social financing platforms in Poland - models, fees, value - selected in terms of the value of funds collected (Status for 2016)

Platform name	Type of financing	Categori es of projects	Charges	Value of collected funds (PLN)	Number of projects funded
Kokos.pl	Lending model	different	3% of the loan value	133 898 350	118 302
Lendico.pl	Lending model	different	2,25% - 5% of the loan value	No data	No data
Beesfund.pl	Investment model	Business	Platform commission: 6.9% of the collected amount, Commission on payment: up to 3.5% of the amount paid	573 200	4

Crowdfunding as a kind of social support of business ventures

Crowdangels.pl	Investment model	Business, mainly from modern sectors	Platform commission: 6% of the collected amount	152 500	2
Zrzutka.pl	Donation model	Various	Fees for transfers and advertising	7 756 007	12646
Siepomaga.pl	Donation model with participants rewarding	Charity	Platform commission: up to 6% of the collected amount	56 163 404	2853
Polakpotrafi.pl	Donation model with participants rewarding	Various projects, e.g. travel finance, film making, music	Platform commission: 7.4% of the amount collected Payment Commission: 2.5% of the amount collected payed to the online payment operator	10 848 202	2082

Source: Own work based on online sources.

As shown in Table 3, most of the capital was donated through the platform Kokos.pl - over 133 million PLN, which shows strong interest in social loans. It can also be stated that the growth of crowdfunding platforms in Poland is meaningful, in particular the donation model. The dominance of this model is expressed both in the number of Internet portals as well as in the value of funds obtained through them. Most funds were raised for charity purposes on *Siepomaga.pl* Internet platform i.e. over PLN 56 million and 2853 projects financed. Equally active, though with much less effect, is the investment crowdfunding model whose growth has also been observed in Poland. *Beesfund.pl* seems to be a leader in this area - used by four companies it collected PLN 573 thousand. Dynamic growth of crowdfunding platforms in Poland allowed to finance in 2016 over 136,622 projects, with the total amount of funds raised over PLN 217 million.

Conclusions

At present the crowdfunding is indeed an important and dynamically developing element of capital raising used by SME companies. Although the largest crowdfunding popularity can be observed in the United States, many of the largest U.S. crowdfunding platforms operate worldwide, also in Europe. Crowdfunding in Poland is also developing rapidly, what can be proved by the large number of projects financed and amount of funds raised in 2016. Its continuous growth in the value and the number of projects financed shows that this form of financing fills a niche on the financial market. However, continual growth of crowdfunding market worldwide causes, that Polish portals must compete with Kickstarter or Micro Ventures portals.

In Europe, this form of funding projects is on a rising wave and its importance has been confirmed by the European Commission. It seems to be an emerging alternative source of financing for SME in their start-up phase. One can say, crowdfunding has taken investment out of hands of high-net-worth individuals and opened the market to anyone linked in the Internet and interested in investing. Its benefit is primarily because traditional sources of funding such as banks are of limited help when it directs to lending or investing in small or even micro-businesses⁵⁷. Based on the above data it can be stated that crowdfunding seems to be one of the wide spectrum of technological solutions having potential to transform the financial system. That is why this financial solution is of great interest to SME entrepreneurial firms and still gains popularity.

⁵⁷ Belleflamme, P., Lambert, T., & Schwienbacher, A. 2014, *Crowdfunding: Tapping the Right Crowd*, Journal of Business Venturing, 29(5), pp. 585–609. <http://dx.doi.org/10.1016/j.jbusvent.2013.07.003>

Literature

- [1.] Bayus, B., *Crowdsourcing new product ideas over time: an analysis of the Dell Idea Storm community*. Management Science 59, pp. 226–244, 2013.
- [2.] Belleflamme, P., et al., *Crowdfunding: Tapping the right crowd*, J. Bus. Venturing, 2013, <http://dx.doi.org/10.1016/j.jbusvent.2013.07.003>.
- [3.] Belleflamme, P., Lambert, T., & Schwienbacher, A., *Crowdfunding: Tapping the Right Crowd*. Journal of Business Venturing, pp. 585–609, 2014, <http://dx.doi.org/10.1016/j.jbusvent.2013.07.003>.
- [4.] Bradford, C. S., *Crowd-funding and the federal securities laws*, Columbia Business Law Review, 1, pp. 1–150, 2012.
- [5.] Collins, L., & Pierrakis, Y., *The Venture Crowd: Crowdfunding Equity Investment into Business*, London, Nesta 2012.
- [6.] Commission staff working document, 154 final ed., tom SWD (2016), Brussels: European Commission 2016.
- [7.] Commission staff working document, Crowdfunding in the EU Capital Markets Union, SWD (2016) 154 final, Brussels, [access 3 May 2016].
- [8.] Crowdfunding Industry Report 2012, www.crowdfunding.org
- [9.] Crowdsurfer Dashboard, www.crowdsurfer.com
- [10.] Dziuba D.T., *Rozwój systemów crowdfundingu – modele, oczekiwania i uwarunkowania*, [in:] Problemy Zarządzania vol. 10, no 3 (38), pp. 86–87, 2012.
- [11.] Gedda D., Nilsson B., Sâthén Z, Solberg Sølilen K., *Crowdfunding: Finding the Optimal Platform for Funders and Entrepreneurs* [in:] Technology Innovation Management Review, Volume 6, Issue 3, 2016.
- [12.] Hagedorn A, Pinkwart A., *The Financing Process of Equity-Based Crowdfunding: An Empirical Analysis, Crowdfunding in Europe. State of the Art in Theory and Practice*, [in:] FGF Studies in Small Business and Entrepreneurship, Springer International Publishing, Dennis Brüntje, Oliver Gajda (eds.) pp.71-85.
- [13.] Howe, J., *The Rise of Crowdsourcing*, Wired 14 (6), 2006, <http://www.wired.com/wired/archive/14.06/crowds.html>
- [14.] Kleemann, F., G.G. Voß and K. Rieder, *Un(der) paid Innovators:*

The Commercial Utilization of Consumer Work through Crowdsourcing, *Science, Technology & Innovation Studies* 4, pp. 5-26, 2008.

- [15.] Lawton, K., and D. Marom, *The Crowdfunding Revolution. Social Networking Meets Venture Financing*, Amazon Digital Services 2010.
- [16.] NESTA, KPMG BI Intelligence Estimates.
- [17.] Schwienbacher A., Laralde B., *Crowdfunding of Small Entrepreneurial Ventures* [in:] *The Oxford Handbook of Entrepreneurial Finance*, Oxford University Press 2012.

Websites

- [1.] www.sec.gov/answers/accred.htm
- [2.] www.statista.com/statistics/497227/number-of-crowdfunding-platforms-globally-by-region/
- [3.] www.businessinsider.com/equity-crowdfunding-research-2016-10?IR=T
- [4.] www.crowd101.com/crowdfunding-2016-predictions-the-next-real-estate-boom/
- [5.] www.investopedia.com/terms/c/crowdfunding.asp
- [6.] peerrealty.com/blog/an-in-depth-look-at-title-iii-crowdfunding
- [7.] www.statista.com/statistics/413507/web-focused-crowdfunding-platforms-in-europe-model/