

CROWDFUNDING AS A MECHANISM FOR FINANCING SMALL AND MEDIUM-SIZED ENTERPRISES

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Abstract

The implementation of an innovative idea by small and medium-sized enterprises often is difficult because of the difficulty in finding a source of financing. The modern level of development of communication technology, exchange of information, the possibility of combining these potentials and using synergistic initiatives provides an opportunity to overcome this barrier. Dynamically growing crowdfunding is an opportunity for implemented projects. This study presents a definition of crowdfunding, its types as well as advantages and disadvantages from lender and loaner of capital points of view. It also shows the dynamics of crowdfunding market growth in Europe and the legal basics. The aim of the article is to describe the characteristics of crowdfunding, attempt of identification of the key factors determining its allocative efficiency, and to present their impact on its further development.

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INTRODUCTION

The implementation of an innovative idea is often difficult because of the barrier of lack of its funding sources. The modern level of development of communication technology, exchange of information, the possibility of combining these potentials and use of synergistic initiatives, jointly create possibilities to overcome this barrier. An opportunity for innovative projects is therefore more dynamically growing crowdfunding, which has to be understood as an alternative, relative to the traditional, tool of gaining capital, financing various projects, based on a group of individual entities.

Crowdfunding allows almost immediate implementation of innovations and reduction of the risk of lack of acceptance of the target group of its customers. The number and value of payments made by single capital providers give a kind of certainty that the idea is a hit, and thus, its implementation is possible and desirable.

The aim of the article is to describe the characteristics of crowdfunding, attempt to identify key determinants of its allocative efficiency, and signal their impact on its further development as a source of funding of small and medium-sized enterprises. The adopted research hypothesis is that crowdfunding is a business model, allowing entrepreneurs to raise funds, reach selected target groups, and provide advertising.

THE NATURE AND CONCEPT OF CROWDFUNDING

The first public fundraising with the use of Internet appeared in the 1990s, however, the most dynamic growth occurred in the first and second decades of the twenty-first century¹. Nevertheless, the proper development of crowdfunding was in the years 2005-2009, when numerous online platforms for communication of initiators and investors (for example Kickstarter.com, Zopa.com, IndieGoGo.com, Kiva.org) started running. Mainly, propagation of the Internet and the expansion of on-line payments using PayU or DotPay systems, allowing one to make small transfers (called micropayments)

had an influence on its dissemination. The increased interest might also have been associated with a decrease of confidence in the traditional financial institutions, especially banks, which might be observed after the year of 2008.

Crowdfunding fits within the concept of the Internet community, which users connect into groups in order to build their own environment (Bannerman, 2013) which is a part of the so-called *collaborative economy*. The collaborative economy is built on distributed networked individuals, known as communities. Fundamentally, it stands in opposition to centralized market institutions (imposing methods of production, consumption, financing and learning) and is based on four key principles (cgs.org.pl):

- 1) design, production and distribution of goods takes place through a *collaborative network*,
- 2) efficient models of redistribution and sharing access to resources allow their maximum use,
- 3) a community uses direct forms of financing (called disintermediation) and investment models, decentralizing the investment process,
- 4) 'democratization' of science occurs through the so-called open knowledge resources and direct models of its sharing.

The term *collaborative economy* can therefore be understood as a totality of economic activity, consisting in production of goods and providing services, on the basis of the above principles, which seeks maximization of the use of available resources, with a community's cooperation.

The concept of *crowdfunding*, which is a neologism formed from the combination of two words: *crowd* and *funding*, namely raising funds through a crowd (via internet network), was suggested for the first time by M. Sullivan in 2006 on the forum of fundavlog blog (Burkett, 2011, p. 70; Drummond, 2011, p. 16; Sullivan, 2006) and was derived strictly from the concept of crowdsourcing². Despite its not long history, there have been many attempts at defining crowdfunding. T. Lambert and A. Schwiendbacher were the first who undertook this, and according to them crowdfunding is a kind of open

1 The British rock band Marillion was one of the pioneers of using this type of project financing, which in 1997 went on a tour in the United States from funds raised from the fans through an Internet campaign in the amount of 60 thousand USD (Frey, 2012). This solution, the team decided to repeat in the later period during preparation of their albums „Anoraknophobia”, „Marbles” and „Happiness Is the Road”.

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2 It is a process in which an economic entity carries out outsourcing of tasks, traditionally performed by employees to an unidentified, usually a very broad, group of people in the open call form (Howe, 2006). Crowdsourcing involves various forms of entities' cooperation, including primarily enterprises with Internet users, using their commitment, skills and knowledge. It can take many forms of paid or unpaid transfer of knowledge, skills or finished products, referring in this way to the concept of the Internet community.

announcement via the Internet, aimed at raising financial resources (in the form of donations, in exchange for an agreed form of remuneration or the right to vote) to support specific initiatives (Lambert & Schwienbacher, 2010, p. 8). In turn, K. Król presents crowdfunding as a way of collecting and allocating capital, transferred in favor of a particular project in exchange for a predetermined return arrangement. It involves many capital providers, using teleinformatic technologies and is characterized by better transaction conditions than other methods publicly available on the market (Król, 2013, p. 23). K. de Buyser draws attention to the fact that *crowdfunding* is most often used to finance micro and small enterprises in the initial stage of their business³. In this way, these entities overcome the barrier of access to the so-called traditional sources of financing, which means bank loans or securities issuance (Buyser, et al. 2012). Another, more complex definition of crowdfunding, was suggested by D. Dziuba, stating that (Dziuba, 2012, p. 85):

1) it is a process conducted on the Internet, activated through open notification of an offer (in order to project), relies on the accumulation of free financial resources among the potentially huge number of dispersed participants (their 'crowd'),

2) gathering financial resources can be made in the form of non-repayable donations resulting from charitable causes, philanthropic motives or payments in anticipation of a material prize or for the purpose of the possibility of borrowing resources in the future, either - as in the case of investment systems - investments in selected projects (companies especially in the early stages of development) in anticipation - on financial gratuities and profit-sharing or shares,

3) the range of benefits results from the implemented crowdfunding model and strategy used of rewarding participants.

Summarizing the presented views, the following definition of crowdfunding can be formulated: it is an alternative and innovative method of raising capital, increasing the likelihood of implementation (and further commercialization) of various projects - often innovative - at an early stage of their realization (seed or start-up stage) by micro and small enterprises based on a large

group of people, who supporting a given project, pay small amounts through an Internet finance platform, however their motivation may be diverse - philanthropic activity, material or financial prizes, or even shares and stocks in investment projects.

It is noticeable that the key elements of crowdfunding are Internet finance platforms, which enable communication between the entities wanting to raise funds, and a large group of people who want to share their financial surpluses. Thus, Internet finance platforms are used, among others in:

- 1) the presentation of projects' offers,
- 2) incurring financial commitments, making payments and control of their implementation,
- 3) creating interaction between market participants,
- 4) providing payment systems and rewarding participants.

On the basis of the foregoing considerations, an attempt can be made to define the basic characteristics of crowdfunding, which are:

- 1) using the communication potential of Internet,
- 2) the involvement of many capital providers (called community),
- 3) reduction of a barrier of enterprise's access to financial funds available on the market,
- 4) often better trading conditions than the other, publicly available on the market forms of financing (Król, 2013, p. 23),
- 5) parties involved in the transaction - normally a transaction involves three entities: financing - crowdfunding platform - beneficiary; it is also possible a situation in which crowdfunding is limited only to bilateral relations: financing - beneficiary,
- 6) purpose - can be different, for example: investment, charitable, the implementation of a specific project,
- 7) mutuality of benefits - it may take the form of return arrangement of a beneficiary for the benefit of financing an entity with measurable material value or be for example financing's satisfaction from the support of an interesting (charity) project.

ADVANTAGES AND DISADVANTAGES OF CROWDFUNDING

Economic benefits associated with crowdfunding can be obtained by all the groups of participants, such as capital providers, initiators, Internet platforms, as

³ Crowdfunding allows also to finance large projects. Raising capital in Ireland for the purpose of building a brewery within the 'Equity for Punks' project might be an example. People who financed the project received shares in a newly created company. Each of them also obtained a voucher worth 10 pounds for a beer and 5 percent of a lifetime discount on the purchase of beer in BrewDog bars and on the Internet (Mazurek, 2014, p. 23).

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well as institutions cooperating with them (for example advertisers, suppliers of information technology, security systems, or micropayments). The scope of benefits depends on the used model and specifics of the given platform. The smallest bundle of benefits occurs in the simple donation systems, slightly higher in the sponsorship model, and potentially the biggest is related to the investment model. However, it should be taken into account that the more complex model, the more risky the project. Obvious benefits of crowdfunding include:

- 1) from the initiators' point of view – gaining necessary resources to finance a particular purpose,
- 2) from the investor's point of view - material prize, interest, profit share or satisfaction,
- 3) from the Internet platform's point of view - financial benefits arising from the registration or subscription fees and commissions from financial transfers.

For the investor, comparatively low credit risk is also important, which involves their sharing in this type of financing model relatively low amounts of support for the project. Another advantage is the presentation on the Internet platform assumptions of the project, because the financing entity is able to take a look at it and come to a decision on funding from its acceptance. An advantage for the investor that should also be recognized is its anonymity, because the investor decides alone, whether and what kind of data about itself will be revealed.

In turn, from the initiator's point of view, an advantage of crowdfunding is the relatively small amount of initial investment. This could effectively encourage financial support of projects, which significantly increases the chance to raise funds, on which the initiator submits the demand (Drake, 2013, p. 122). This is important for innovative solutions, which would not have received financial support from more traditional sources. However, it should be noted that not all projects generate added value for a community or economy and do not spread important ideas, or do not support individuals or social groups (these are initiatives oriented exclusively on implementation of an individual unit's need, for example raising funds for the trip of one's dreams).

The benefits resulting from crowdfunding can also be considered in the non-financial dimension. One of them is a fast verification of the project through its demonstration. I. Singh notes that due to *crowdfunding*, an economic entity obtains information about the value of its project. Internet users in fact decide to support the

project if in their opinion, it can achieve market success. Crowdfunding creates an excellent opportunity for rapid confrontation of the idea with reality. Market verification of the project is reflected in the scale of payments made - the approval of the project is expressed in a rapid gathering of the amount of which its author submitted demand (Singh, 2013, p. 18). Invaluable for him is also the access to the community among which may be people with expert knowledge. Communicating through a crowdfunding platform enables project authors to gain valuable feedback without incurring additional costs⁴. Crowdfunding is therefore a marketing tool to present a new product or company, by directly referring to people who may become its users or customers. A successful crowdfunding campaign may also be helpful in the case of a possible applying for an additional (classic) form of financing or/and to obtain better financing conditions.

Crowdfunding is also connected with a number of threats. One of them from the initiator's point of view should be considered a risk of dissemination of the intellectual property and the accompanying duplicating of the idea. Another risk that the initiator has to deal with is related to the underestimation of transaction costs. In particular this concerns the investment model, because its costs increase with each new issue of shares (establish contacts with new investors, preparing current information about the project or ensuring the possibilities of the exercise of rights by shareholders).

Crowdfunding is also associated with the risk of loss of reputation by the initiator. Contact with the community on the one hand provides an opportunity to use the experience and expert knowledge, while on the other hand exposes any negligence or errors in the project's description, which undermines the competence and credibility of the initiator.

Significant risk associated with crowdfunding also results from the possibility of unknowingly breaking the law. Due to the lack of clear regulations defining principles of the organization of crowdfunding (they are being formulated), relations there should be based on the existing rules, which do not always fit into the specifics of crowdfunding. Lack of or low regulatory requirements regarding this form of financing do not guarantee an adequate level of safety to investors (Demaria, 2013, p.

4 However, not all of them share this view. For example, C. Demaria (2013, p. 135) emphasizes that an entrepreneur using this type of financing, does not obtain - through a contract with the community - professional support in the form of advice and project's control.

136). Therefore, there is a risk of:

- 1) the use of fictitious platforms, and hence extortion or money laundering,
- 2) the nature of the legal relation between financing and beneficiary entities,
- 3) dispatching of the entrusted resources by the platform's operator,
- 4) improper record of funds,
- 5) lack of adequate legal protection and pursuing claims,
- 6) theft of intellectual property.

TYOLOGY OF CROWDFUNDING

Crowdfunding, due to the variety of economic objectives and legal conditions, occurs in various forms. Therefore, there have already been created a lot of classifications, separating its different types depending on the adopted criterion.

For example, in view of the method of organization it can be divided into simple and complex models. The first of them are similar to traditional public fundraising, which, however, through the Internet, take place on an incomparably larger scale. In contrast, complex models create advanced structures, based on equity or debt financing and result in establishing of complex legal relations between the initiator and financing entity.

Another classification distinguishes only two types of crowdfunding: *lending crowdfunding (reward-based crowdfunding)* and *equity crowdfunding*, which are characterized later in the article.

Currently, business practice has developed lots of varieties of crowdfunding, while the most common models include:

- 1) reward-based crowdfunding,
- 2) equity crowdfunding,
- 3) peer-to-peer lending (crowdlending),
- 4) donation-based crowdfunding,
- 5) fundraising,
- 6) experiment crowdfunding,
- 7) real estate crowdfunding (real estate crowdfunding).

The first of these is the most classical model. Its aim is to create a specific product (in pre-sale) or unique service, which an investor receives in the form of a non-financial reward, so they have the opportunity to be one of the first owners of a product or user of service. This

form of crowdfunding allows companies to implement an innovative product or service and their further commercialization, with a guaranteed order backlog, liquidity and recipients, who do not have control over the project. This solution is popular among entrepreneurs and start-ups because it allows them to get almost immediate financing of different ideas, especially innovative ones, or those arousing the interest of many consumers. When in this model there is no way to gather all the needed funds, there are two possible solutions. First, the project is not implemented, and all payments are returned (*All or Nothing model*). In a second solution, all gathered funds are adopted by the capital recipient, but he makes a decision on whether to reduce the scale of the project, or use other sources in order to collect the needed capital (*Keep it All model*).

Equity crowdfunding (crowdinvesting) consists in turn of sale of shares in a company in exchange for payments made by investors, which allows them to actively join in the project. However, it should be taken into account that most of the projects are in early stages of development, with high investment risk. The difference, between equity crowdfunding and traditional methods of financing, used by young companies (for example private equity/venture capital funds, business angels), is that it is not based on a relation with one investor, but a wide range of investors, while some of them may be their future customers. Depending on the scale, financing is carried out through a public offering or private placement. The initiator, deciding on this type of crowdfunding, should consider to what extent they are ready for transferring the control over the enterprise to new shareholders. Moreover, the amount and price of shares and the method of investors' remuneration should be specified. In addition, the choice of this model is costly, especially if there is a public offering⁵. In addition to standard information introducing activity, also required is a presentation of a business model, as well as the development and marketing strategies of an entrepreneur. In this model, a success occurs in the case of gathering 100 percent of the funds. A lower value does not give the project execution capabilities, while collecting a higher amount is also not possible, because of a predetermined amount of the offered shares, and thus the required amount. Companies creating software or applications, with a business model

⁵ Due diligence analysis limited in scope, is usually carried out by the platform, and investors may have the ability to request additional information, so it need to be prepared to share with them, which may result in additional costs.

based on subscriptions most frequently use this form of crowdfunding. In this solution, there is a so-called classic model, in which there is a traditional agreement in written form, which is not made through an internet portal, as well as a so-called investment club model, in which the community collects funds to jointly buy and after that manage the company electronically⁶.

Another model is crowdlending (peer-to-peer lending), which is a direct alternative to a bank loan, however the amount of paperwork is smaller, and the whole process is more efficient. In this solution, there is neither use of prizes nor shares, only interest, which (similar as repayment of loans) are transferred to the lenders via the Internet platform. In addition, the platform verifies the request in legal terms, assesses the creditworthiness of a potential borrower and sets out an indicative interest rate of the loan. It is worth noting that in almost every case the platform carries out due diligence analysis, because is obliged to protect the interests of both a company and an investor. Therefore, platforms require a presentation of financial data (Mitrega - Niestrój, 2013). There are two types of peer-to-peer:

1) *peer-to-peer consumer lending* (C2C) – debt-based transactions between individual investors, most are unsecured personal loans,

2) *peer-to-peer business lending* (B2B) – debt-based transactions between individual/institutional investors and existing businesses who are mostly small and medium enterprises (SME).

Often the solution used in this model is the determination by the lenders of the interest rate, at which they are willing to share resources. For a large number of submitted bids, this allows the initiator to choose those that are the cheapest for him.

Donation-based crowdfunding enables donors to support charitable or social causes or civic projects for no financial or material returns. In other words - no legally binding financial obligation is incurred by the recipient to the donor. It's worth pointing out that no financial or material returns are expected by the donor. The primary goal in this case is doing good, organizing volunteer work, supporting useful initiatives (charity) in connection with the implementation of specific charity project.

In the case of fundraising, which is similar to *donation-based crowdfunding*, the objective of the project

6 Another typology suggested for example by D. Dziuba, who pointed out the donation model, loan model, investment model, and mixed models (Dziuba, 2012, pp. 86-88).

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does not have to be necessarily pro-social, because for example it may be a desire to realize the personal plans of the initiator. Thus, he is not obliged to provide financial or material return arrangement, not counting sincere gratitude and possible symbolic prizes (for example a set of photos, e-mail thanks, gifts, letters, greetings, sticker, etc.)⁷.

Another type - *experiment crowdfunding* - gives the opportunity to carry out specific research or perform a specific scientific experiment. The interest in this model results in the possibility of raising funds to carry out scientific research or experiments in exchange for the access to their results and formulated on their basis the conclusions by supporters.

The last of the types is *real estate crowdfunding* (*real estate crowdfunding*). The purpose of this model is to sell real estate, but in contrast to the classical approach to selling, the vast majority of formalities are carried out online via the platform. The proposed real estate sales offer includes a specified price, which is available only to accredited investors (with the relevant financial skills), who can choose the size of the share in the given property, that they want to have (so-called fragmentary shares). Participation in the property depends on the value of the amount paid, which expresses a proportional share in the total value of a property. The internet platform also provides an appropriate range of information about a property, necessary to analyze the profitability of the investment. The use of a specific platform may significantly increase the exposure of the offer⁸.

In the near future, the appearance of new versions of crowdfunding in certain niches (for example leasing of vehicles and machines) can be expected. Noteworthy is the fact that the European Commission draws attention to the possibility of creating cross models, in which a part of the funds would be gathered through one of above crowdfunding models, and a second part from a structural fund or another development fund. It seems that such a solution will arouse a lot of interest because of the many opportunities for growth.

7 Theoretically, the difference between crowdfunding and fundraising is clear. In crowdfunding, investors receive something in return, while in the case of fundraising there is no formula for compensation except gratitude. However, in practice, projects, offering symbolic prizes in exchange for support, have a fundraising nature, while crowdfunding is characterized by offering prizes, whose material or intangible (experience or idea) value is similar to the amount of support.

8 In Poland, there do not exist such platforms yet. If, however, indigenous legislation does not get in the way, it can be expected that this state should change quickly.

LEGAL CONDITIONS OF CROWDFUNDING IN POLAND - SELECTED ISSUES

In recent years, the social financing market has been growing rapidly, which is reflected in the appearance of new forms, as well as the increased interest in them, of both business practitioners, theorists and regulatory bodies, including the European Union⁹. Special legislative conditions concern investment models based on the sale of shares. Regulators determine whether such solutions are possible in general, how many investors may be shareholders of a company, what funds they may invest, etc. On the electronic market there have operated so far a small group of such platforms, including Crowdcube.com (United Kingdom), Symbid.com (Netherlands), ASSOB.com (Australia). Until recently in the US these activities were illegal. The situation changed in 2012 after the adoption of the Jumpstart Our Business Startups (JOBS) act, under which the process of creating mechanisms began to stimulate the American economy through crowdfunding.

Despite the growing popularity of crowdfunding, Polish legislation has not yet developed legal acts dedicated to this form of financing. In the case of *donation-based crowdfunding*, without the return arrangement, it should therefore use the regulations applicable to public collections, namely the Act on Public Collections from 2014 (Act, 2014). According to Article No. 5, there is no need to obtain permission to collect funds. This procedure has been replaced by a declaration on a specially created for this purpose nationwide electronic portal, and then submitting, also through the portal, a report from the collection. The Act also indicates that collection can be done in cash or in nature. However, it does not resolve the problem of electronic payments, so it can be used a form of electronic money through transfer payment systems. It is worth noting that the public collections can not be carried out by individuals, but only by organizations, foundations, associations and social committees established by at least three people.

Other regulations are used in the case of *reward crowdfunding*. This model is not explicitly regulated by separate legal provisions, while by reason of the fact

⁹ In the European Commission's Communication of 27 March 2014 about crowdfunding it was noted that this mechanism brings a number of benefits, such as the promotion of entrepreneurial initiatives, by funding projects, including small and medium sized enterprises. Moreover, crowdfunding, in the Commission's view, is a tool testing the market success of a product or service, and at the same time a tool of marketing communication with consumers (Communication, 2014).

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that it is not a typical example of a public collection, the provisions of the above mentioned act can not be applied. In this situation, the most reasonable is to assign to this model a sales contract based on pre-payment. Through project financing, there is a purchase of a product (service), which will be created from collected funds. However, the offered prizes should be characterized by a physical value and can not have sponsorship signs. Email messages, posters, CDs or postcards from the trip are the examples of such rewards.

Even more complicated in terms of legal interpretation is the equity *crowdfunding* model, which should be used in particular by enterprises. In this case, an offer presented via Internet may fulfill the requirement of a public offering included in the Act on Public Offering from 2005 (Act, 2005). The obligation, for drawing up the issue prospectus and making it available for the public, is incumbent on an initiator. The cost of preparing a prospectus and the complicated procedures of public offering are disproportionately high and inadequate to the average value of funds obtained in crowdfunding programs in Poland¹⁰. Because of the possibility of selling shares in a private limited company, the provisions of the Commercial Companies Code (Act, 2000) are also applicable, which provide making required contributions by the shareholders, to cover the share capital of private limited company at a level no lower than 5 000 zł.

THE CURRENT STATE OF THE CROWDFUNDING MARKET AND THE FACTORS DETERMINING ITS DEVELOPMENT

The popularity of crowdfunding globally is constantly growing - in 2009 540 million USD was collected in this way, in 2011 1.5 bln USD, a year later 2.7 bln USD, and in 2013 the value of the global crowdfunding market was 5.1 bln USD. It is also estimated that there operate at the moment about 700 crowdfunding platforms, and most of them operate primarily in Europe and North America. Showing that crowdfunding is not a fad, IMF forecasts predict that in 2020 the world value of crowdfunding will be at a level of 500 bln USD, which will create 2 mln additional work places (Kuczma, 2014).

The report of the University of Cambridge about

¹⁰ There is no need to incur costs associated with drawing up the issue prospectus in the private placement and public offering, provided that the total value of shares, calculated according to their issue price or the sale price does not exceed the equivalent of 100 000 EUR.

crowdfunding in the European Union shows that this market is growing at a very fast pace (Wardrop, Zhang, Rau & Gray, 2015). In the authors list of the five dominant models of crowdfunding, changes are as follows (see Table 1):

1) peer-to-peer consumer lending (C2C) - the value of this market in the EU without the UK in 2014 amounted to 274.6 million EUR (increase compared to the year 2013 by 113%),

2) reward crowdfunding - the value of this market in the EU without the UK in 2014 was 120.3 million EUR (increase compared to the year 2013 by 127%),

3) peer-to-peer business lending (B2B) - value in 2014 was 93.1 million EUR with an increase of 272% compared to previous years (in Poland this phenomenon is still not known, and we can expect that a platform will appear soon and offer this type of service),

4) equity crowdfunding - an increase of 116% in 2014 compared to 2013, and the sum of all transactions amounted to 82.6 million EUR (the value of this market in the European Union with the UK amounted to 193 million EUR, of which 111 million is on the British market),

5) donation-based crowdfunding has been growing steadily, with 104% average growth rate over the last three years to reach 19.91 mln EUR in 2014.

European countries where the crowdfunding market is growing the fastest, in terms of market value are (data for 2014):

- 1) United Kingdom - a strong leader - 2.4 bln EUR,
- 2) France - 154 mln EUR,
- 3) Germany - 140 mln EUR,
- 4) Sweden - 107 mln EUR,
- 5) Netherlands – 78 mln EUR,
- 6) Spain – 62 mln EUR.

In other countries, market value is estimated at a level of 79 mln EUR. It is also worth noting that over the years of 2012-2014, UK domination was also seen in terms of growth dynamics of crowdfunding (Table 2).

The Polish crowdfunding market against this background looks quite modest - the market value in 2014 amounted to about 4 million EUR. Despite this, growth prospects in Poland are promising. The potential of the Polish crowdfunding market has been noted by the economic environment, reflected in the announcement of the Warsaw Stock Exchange to run its own crowdfunding platform, aimed at stimulating the formation and development of indigenous start-ups. Other evidence may be the launching of the British equity crowdfunding platform Crowdcube on the Polish market. It is also worth noting the establishment of the Polish Crowdfunding Society, promoting the idea of social financing and creating conditions for its development in Poland.

Analyzing the current state of the Polish crowdfunding market from the side of a project’s initiator raises some concerns about the financial aspect of the whole project. Firstly, the cost of raising capital is not small. Commissions

Table 1: Values of selected crowdfunding models in Europe, excluding UK (in mln EUR)

Crowdfunding model	Years		
	2012	2013	2014
peer-to-peer consumer lending (C2C)	62,5	157,1	724,6
reward crowdfunding	24	63,1	120,3
peer-to-peer business lending (B2B)	7,8	39,6	93,1
equity crowdfunding	82,6	47,5	82,6
donation-based crowdfunding	4,3	11,2	16,3

Source: Own work based on (Wardrop, Zhang, Rau & Gray, 2015, p. 18)

Table 2: Crowdfunding market value in Europe in 2012-2014

Region	Market value (in mln EUR)			Growth dynamics (in percent)	
	2012	2013	2014	2013/2012	2014/2013
UK	350	873	2337	150	168
Europe excluding UK	137	338	620	147	83
Total	487	1211	2957	149	144

Source: Own work based on (Wardrop, Zhang, Rau & Gray, 2015, p. 13)

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of internet platforms at the level of 8-9% quite effectively can reduce the profitability of projects.

The second issue is the amount of capital involved in this form of project financing. At present, projects with a value of several thousand zloty, which often can not find financing, are posted on platforms. It shows the shallowness of the market and the lack of higher funds, which at the moment would be interested in investments.

A key problem seems to be the quality of the projects appearing on the Polish platforms. For the most part they have the character of charitable collections, which aim at financing someone's dreams or providing aid for the needy. As long as there will be worthwhile projects, the Polish crowdfunding market will look more like public collections than the catalyst of original innovative ideas.

Market analysis cannot focus only on the successes. It should also note misguided ideas, failed collections or simply scams (Saulski, 2015). For example, on the Kickstarter.com platform more than 40 percent of projects are misguided ideas, which are projects that failed to raise the required funds (Pająk, 2012). One reason for failure was the inadequate amount on which initiators submitted the demand, whose level was too high in investors' assessment.

The analysis of completed projects through crowdfunding platforms in Poland provides for the identification of fundamental barriers to further development. One of them is lack of public awareness of the existence of such practices among potential users. According to M. Galicki, only 2 percent of Poles are aware of the existence of crowdfunding, while each month over 6 million Britons use crowdfunding platforms. Therefore, it is necessary to conduct information campaigns and educational programs, explaining the legal basis of all forms of crowdfunding.

It seems that the impact on further development of crowdfunding will also have the proper law regulations. It is important that implemented solutions, aimed at its rationalization and reduction of accompanied risk, do not unduly hamper the development of crowdfunding. Therefore, necessary are:

- 1) the unification of tax issues,
- 2) settlement of the status of platforms' operators,
- 3) clarification of the tax status of funds collected by the external services supporting payments,
- 4) adaptation of the capital market rules and the commercial law in acquiring stocks in joint stock

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companies or shares in public limited companies,

- 5) the implementation of tax reliefs for investments in projects at an early stage of development,
- 6) definition of a clear model of gathering capital through presale,
- 7) clarification of the status of persons not conducting economic activity, whose status after implementation of the project may change,
- 8) solving a problem of so-called flexible campaigns, in which the initiators do not receive the whole assumed amount.

In turn, at the European level, it seems that necessary is a consistent approach of Member States of the EU in areas such as the consolidation of tax and capital market regulations, concerning the prevention of money laundering, the place of benefit fulfillment and protecting intellectual property (introduction of a single patent). In order to precisely identify and remove barriers for the development of social financing, a discussion is needed with all interested parties.

One of the directions of further development of crowdfunding will be activities, stimulating innovativeness. The authors of innovative ideas should have a chance to reach out to Internet users, who willingly engage in interesting initiatives. There is a group of investors who want to use new solutions and technologies, before they become mass marketed. The success of the first campaign financing the project of one of the first line of Pebble smart watches was based on reaching this group. So far completed projects have concerned not only so-called creative industries, but also products and solutions related to the new technologies industry. Therefore, crowdfunding will have great importance in the further development of these spheres of the economy. This confirms the position of the Polish government to the statement of the European Commission about crowdfunding, in which it is written that it can be an important source of financing of innovative projects (The position of the Polish Government, 2014).

CONCLUSION

Based on the statistical data, it can be noticed that crowdfunding success has shown the power of the crowd, which allows the implementation of various projects, including investments. Noteworthy is also the development, in a relatively short time, of its many

different types which are used in practice.

The basis of the success of any crowdfunding campaign is the idea for which the implementation funds are collected. Furthermore, an initiator should precisely define the target group and prove that the idea is unique, of good quality and well thought out. Equally important for success is its presentation, because any ambiguity may arouse distrust among potential lenders (the crowd) and adversely affect results. Hence, it is important to have regular contact of originators with potential investors and at the same time with consumers, even during the campaign.

Crowdfunding as a new and not exactly well-known mechanism for financing various projects, especially small and medium-sized enterprises carries a number

of threats. Their source may be use of the Internet and existing lack of precise legislation, regulating this method of financing, which potentially increases the likelihood of occurrence of negative effects resulting from asymmetric information, which means the risk of abuse and the risk of adverse selection.

In the near future, we can expect further development of crowdfunding, which will be connected with a need for its regulation. It is important that regulations are not excessively limiting and consequently do not inhibit its further development. Therefore, regulators' consultations conducted with all interested stakeholders are very important, to find solutions satisfactory to all, and at the same time limiting the risk of fraud to the funds entrusted to idea originators by investors.

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