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Crowdfunding – worldwide and Polish experiences

Crowdfunding – doświadczenia światowe i polskie

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Introduction

The last over twenty years is the period of vast and revolutionary changes in financial services. One of the most important and interesting process is the development of the “collaborative finance” which assumes that financial transactions are being conducted between relevant parties without the intermediation of financial institutions. This is possible because of the technological innovations, especially in the information technology and the rise of the significance of social networks (the Internet). The collaborative finance is the part of the wider phenomenon of the “sharing economy” – the new economical model based on sharing of the resources and the cooperation.

One of the forms of the collaborative finance is crowdfunding which gives possibility to obtain funding without the participation of financial institution.

Crowdfunding, especially in Poland, is a quite a new phenomenon, that is why scientific literature and empirical researches are limited. The objective of the article is twofold. First, it focuses on the fundamental issues in crowdfunding. Second, it analyses the crowdfunding activity worldwide and in Poland. As the research method used is the descriptive and comparative analysis.

1. Crowdfunding – the outline of the concept

The main idea of crowdfunding (also referred to as crowd financing or crowd sourced capital) is that members of society, through the collective cooperation network, pool their resources together in order to support various efforts or projects initiated by other people or organizations. The definition most often used in literature describes the crowdfunding as the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights through an open call (especially through the Internet) [Belleflamme and others, 2010, p. 5].

Crowdfunding seems to be a new phenomenon – the term was first used on the blog by Michael Sullivan in 2006 – although the general concept has been around for some centuries already. The concept of modern crowdfunding comes from broader idea of crowdsourcing, which assumes the use a large group of people – distributed network of individuals (the “crowd”), to obtain ideas, feedback and solutions in order to develop corporate activities (also production). The promoters of crowdfunding believe in the “wisdom of crowds” which, according to James Surowiecki, means that “under the right circumstances, groups are remarkably intelligent, and are often smarter than the smartest people in them” [Brabham, 2008, p. 76, 79].

The vast development of crowdfunding is nowadays accelerated by the new information technologies which give the possibility to arrange financing through social networks, in particular through the Internet (among others Facebook, Twitter, LinkedIn, other specialized blogs and special crowdfunding platforms). The global social networks allow quick and effective way for finding funds even for sudden needs (such as disaster relief). Crowdfunding could be a very good method for supporting of creative and innovative projects because they can easier find people’s wide-web acceptance than financing through financial institutions.

There are different methods for classifications of crowdfunding. One of them distinguishes four types of crowdfunding according to the relationships between individuals and organizations which are connected through an Internet based platform (which allows to market projects, generate interest, and receive funds):

1. Lending-based crowdfunding – for instance company can borrow money from a group of people instead of a bank, funders expect their money back plus a commission after a set period of time. The role of the crowdfunding platform here is to act as a middle-man and also make the repayments to the lenders or to be only the match-maker and the borrower and lenders are connected when the deal is closed.
2. Equity-based crowdfunding – investors receive a stake in the company (equity position or stock in business) and become shareholders. The company gains funding from a group of people, instead of funding by a business angel or another private investor, although this practice is very similar to business angels. And frequently the funders are interested in a given projects because it shares their own values or is locally engaging, or creates jobs in their community.

3. Reward-based crowdfunding – funders receive non-monetary benefits for their donation, a gift (e.g. material object or service). The rewards are of a symbolic value, much lower than the donation amount, to ensure the enough level of capital for the project. Although the perception of the value for the funders can be much higher, as they feel engaged in the project.
4. Donation-based crowdfunding – the motivation of funders is purely philanthropic, for their personal satisfaction. The funders are more willing to donate higher amounts per person since they know that their money are used on a very specific project, with charitable cause [De Buysere K. and others, 2012, pp. 10–11, and Brickstarter, 2012, and Blog.Ideascale, 2012].

Proponents of crowdfunding say that it allows financing of the project that might not be able to get bank loans or conventional funding and is not limited to certain kind of project. The financing is fast, efficient, and effective and can be little risk involved compared to other business ventures, is not geographically limited and is not dependent upon a company's credit rating. The rule "all or nothing" is used in crowdfunding meaning – if the project doesn't reach the target amount of financing within the time limit, no financing is made. Crowdfunding could be also associated with certain dangers: the projects can be exposed to potential copycats, the crowdfunding platforms may limit the amount of funds one can receive for the project, the crowdfunding regulations and taxation (especially for equity-based crowdfunding) are still being worked out which can cause problems for fundraisers and investors. What's more crowdfunding could lead to over-investing in a newly popular industry, causing the rise of market bubbles [Quinlan, 2012]. Crowdfunding is appropriate for financing the startups but there can be problems within the context of long-term investments plans and crowdfunding rather doesn't attract large investors [Thompson, 2012].

2. Crowdfunding in the world

The world's crowdfunding market is developing very fast last years. Total crowdfunding volume nearly doubled in 2012 comparing to previous year from 1.4 bn USD to 2.7 bn USD, and is expected to exceed \$5 bn in 2013. North America and Europe are the leading regions in crowdfunding activity – almost 95% of all transactions. In 2012 the crowdfunding volumes grew 105% in US to 1.6 bn USD and 65% in Europe to 945 m USD. Although the growth of other markets was bigger – 125%.

The growth of total funding volume in 2013 was the biggest in the category of lending-base crowdfunding and equaled to 111% (1.2 bn USD) and was especially driven by crowdfunded micro-loans and community-driven loans to local SMEs. Donation – and reward-based crowdfunding volume reached 85% (1.4 bn USD) and equity-based – 30% (116 m USD). As for number of crowdfunding platforms – in 2012 the largest category was the reward-base, and the smallest in lending-base

crowdfunding. The fastest growth in the number of platforms was the equity-base (114%) and was caused mainly by the growth of European platforms.

The largest amount of funds raised on a per-project basis is usually connected with the equity-based crowdfunding – in 2012 only 6% of funds raised for projects drew less than 10,000 USD, and 21% – 250,000 USD and more.

Crowdfunding is especially popular as a way to finance social projects: in 2013 social causes gained 30% of all crowdfunding activity. The next place – business and entrepreneurship (16.9%), and then art categories: films and performing arts (11.9%) and music and recording arts (7.5%). The emerging category among the five most active categories is energy and environment (5.9%).

As it was stated before – crowdfunding has become increasingly popular in the United States and Europe. The number of crowdfunding platforms in 2012 reached 191 in US. Among the top US platforms are: Kickstarter with more than 63,000 projects and 250 m USD in pledges raised, Indiegogo like Kickstarter, a popular crowdfunding platform that recently raised 15 m in Series A funding, Fundable – especially devoted to reward-based funding platform but also offers accredited investors the opportunity to invest in small business for equity [Scharwath, 2012]. It should be mentioned that very important for the development of crowdfunding in US is the Jumpstart Our Business Startups Act (the “JOBS Act”) which was enacted into law in 2012. The general intent of the JOBS Act is to enhance access to private and public capital and it basically made crowdfunding legal in the U.S. The new law enables entrepreneurs, start-ups, and small businesses to raise funds and gather investors through equity crowdfunding [Forbes, 2012].

In Europe all kinds of platforms are present and the most popular are: reward-based (nearly 50% of the activity), then donation and equity-based platforms (around 25%), and the rest – lending (and debt) category. It is estimated that average funding for donation per campaign are around 500 EUR for dotation-based, 3,000 EUR for reward, 4,500 EUR for lending and debt and 50,000 EUR for equity based campaigns. There are numerous crowdfunding platforms in the region (among others in 2012: 44 in the United Kingdom, 29 in the Netherlands, 28 in France, 20 in Germany) and a number of large American crowdfunding platforms are already active in Europe (for instance Kickstarter and Indiegogo). In the UK, for example Crowdcube – which is crowdfunding platform for funding start-ups and business expansion for equity, founded in 2010, has thus far raised over 4 m GBP to support early stage companies and small businesses. Another example is Germany where last year funding volume quadrupled compared with 2011 from nearly 460 thousands to nearly 2 m EUR. [Dapp, 2013, p. 3 and 4].

The growth of crowdfunding is not limited to the United States and Europe – also in other parts of the world the activity of crowdfunding platforms is rising. In Latin America one of the largest platforms – Ideame is present in Argentina, Chile, Mexico, Colombia, and Brazil and is especially devoted to creative and artistic talent in the region. It should be underlined that in the case of developing countries

crowdfunding could be an important tool for eliminating financing barriers for small entrepreneurs. In Australia and New Zealand, there are 18 crowdfunding platforms (for instance Pozible, iPledg, StartSomeGood, PledgeMe, and Give a Little) which support creative, community, charitable, social impact, music, and sporting projects.

3. Polish experiences with crowdfunding

Poland is another market important for the development of crowdfunding specially taking under consideration the existing financing gap particularly for small projects up to 800 thousands PLN. And problems with gaining the financing could hamper the initiatives, not infrequently – innovative, of small entrepreneurs and development of new ventures.

The crowdfunding market is developing very dynamically – last year via crowdfunding platforms a few hundred thousand zlotys was raised for the realization of many interesting undertakings. According to Deloitte in 2013 the funds organized through “crowd” should reach 9 bn PLN, the amount twice as big as in the previous year [Narodowy Instytut Audiowizualny, 2013]. Still most of the projects have the niche and nonmass character, and what’s more – the organizing of the fundraising is not the main aim but the goal is promotion. The advance of crowdfunding in Poland needs of course the changing of mentality and the development of the “culture of sharing” and to see one’s own good through offering something to somebody.

In Poland different models of functioning of crowdfunding platforms are applied and thus they can differ in requirements – for instance the difference can concern tax obligations, as well as the acceptability of different types of projects. Almost every platform is taking the commission from raised capital (aprox. 8–9%), one should predict this cost when planning the minimum budget of the project. Platforms also often offer additional services for the authors of the projects but they are not free of charge.

There are seven main crowdfunding platforms functioning in Poland. Table 1 shows the main crowdfunding platforms in Poland and types of projects they finance.

Table 1. Crowdfunding platforms in Poland

| Crowdfunding platform | Types of projects |
|-----------------------|---|
| Beesfund.com | Projects could be of social and business character, the charity ventures are not accepted |
| Siepomaga.pl | Charity projects led in cooperation with bodies recognized as having charitable status holding the permit for conducting public collections |
| Polakpotrafi.pl | All kind of projects; only non-equity funding |
| Megatotal.pl | Art projects – started from music projects now area is widening – publishing, film, programming projects, and the organization of events |

| Crowdfunding platform | Types of projects |
|-----------------------|--|
| Crowdfunders.pl | Thanks to the Internet and microinvestments, the numerous group of small investors can together finance even large investment projects first of all in the real estate |
| Wspieramkulture.pl | Organizing funding for ambitious, innovative, imaginative cultural projects |
| Wspieram.to | For creative people with projects from different areas; only non-equity funding |

Source: Crowdfunding w Polsce, <http://crowdfunding.pl/crowdfunding-w-polsce/#.UYADhEo0kks>

For instance Beesfund.com – which went online in August 2012 – is a first donation-based, equity-based and hybrid crowdfunding platform in Central and Eastern Europe [Crowdsourcing.org, 2012]. On the account of originators of this platform Internet users paid 62 thousand PLN within the first three months after the launch. MegaTotal.pl succeeded in helping to record and distribute 70 CD's of about 50 music artists [Król, 2011]. All well done and continuing projects on platform PolakPotrafi.pl, which was the pioneer in crowdfunding in Poland, were supported by 2566 persons, and every of them on average paid 84 PLN [Bellon, 2012]. Especially interesting are the platforms which support cultural events – for example last year 573 persons in 30 days entirely financed the Cohabitat Gathering 2012 festival [Narodowy Instytut Audiowizualny, 2013].

Important for the promotion of crowdfunding was the establishment of the Polish Crowdfunding Society in March 2012. The Society aims to influence the legal-administrative environment and initiate changes which will enable the common access to financing of social initiatives, charity and of business undertakings. Other goals are among others: undertake legislative steps in order to allow crowdfunding as a source of financing in Poland and Europe, popularize charity initiatives, supporting e-society initiatives and NGOs in fundraising, support investors on the capital market and SME [Polish Crowdfunding Society, 2013].

It should be underlined that legislation in Poland hampers the development of crowdfunding. Firstly, the law orders that nationwide public collections must have permission of the Minister of Internal Affairs and Administration. Secondly, in the case of equity-base crowdfunding – it is treated as the public offer and, according to Polish law, requires the approval of the Polish Financial Supervision Authority. The crowdfunding-enabling legislation is also important in the whole Europe. Apart from that – education and research concerning crowdfunding are essential [De Buysere K. and others, 2012, p. 7].

Conclusions

Crowdfunding is an emergent method to fund different kind of projects by individuals using the social networks. The vast development of crowdfunding is nowadays

accelerated by the new information technologies. The world's crowdfunding market is developing very fast last years. North America and Europe are the leading regions in crowdfunding activity. In Poland crowdfunding is still a new phenomenon, but successes of many projects which gained financing this way, are showing that Polish Internet users are very favorably inclined towards crowdfunding. Because of the legislation which impedes the development of crowdfunding in Poland the open public debate about this problem is necessary. It should be underlined, that the development of crowdfunding certainly poses important questions (for instance about benefits and risks associated with this concept) and this article provides only a kind of introduction to future research in this area.

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Crowdfunding – worldwide and Polish experiences

The aim of the article is firstly, to present the basic issues related to crowdfunding, and, secondly, to analyze the activities of the crowdfunding market in Poland and in the world. The main assumption of crowdfunding is the fact that community members combine their financial resources through a co-operation network in order to support all kinds of projects initiated by individuals and organizations. Financing by crowdfunding is dynamically developing world-wide, this phenomenon is also present in Poland. Crowdfunding platforms functioning in this country are the subject of growing interest of internet users and participate in an increasing number of projects. Regrettably, legal solutions in Poland have a restrictive impact on the development of crowdfunding, which certainly requires open public debate.

Crowdfunding – doświadczenia światowe i polskie

Celem artykułu jest, po pierwsze, przedstawienie podstawowych kwestii związanych z crowdfundingiem i po drugie, analiza aktywności na rynku crowdfundingu na świecie oraz w Polsce. Głównym założeniem crowdfundingu jest fakt, że członkowie społeczności poprzez wspólną sieć współpracy łączą swoje finansowe zasoby, aby wspierać różnego rodzaju projekty, zainicjowane przez osoby indywidualne i organizacje. Finansowanie poprzez crowdfunding rozwija się bardzo dynamicznie w skali światowej; fenomen ten nie omija również Polski. Funkcjonujące w naszym kraju platformy crowdfundingu cieszą się coraz większym zainteresowaniem internautów i angażują się w coraz większą liczbę projektów. Rozwiązania prawne funkcjonujące w Polsce niestety ograniczają rozwój crowdfundingu, co z pewnością wymaga otwartej publicznej debaty.