

CROWDFUNDING AS A TOOL FOR ALTERNATIVE FINANCING IN POLAND: PERSPECTIVES AND CHALLENGES

Marzanna Poniatowicz

*Professor at the Faculty of Economics and Finance,
University of Białystok
m.poniatowicz@uwb.edu.pl*

Agnieszka Piekutowska

*Associated Professor at the Faculty of Economics and Finance,
University of Białystok
piekutowska@uwb.edu.pl*

ABSTRACT

Purpose The dynamic development of the alternative finance sector is a characteristic phenomenon of contemporary times. In the literature, the key reasons identified for this phenomenon are:

- i. Technological advancement: The development of digital technologies, including the Internet, blockchain, and artificial intelligence, has enabled the creation of innovative financial platforms and services that are more accessible and efficient compared to traditional financial institutions (Taherdoost, 2023; Lekhi, 2024).
- ii. Financial exclusion issues: Many small and medium-sized enterprises, startups, and individuals have limited access to traditional sources of financing, such as bank loans, due to stringent credit requirements. This exclusion manifests as a lack of access to traditional banking services, high costs and demands of traditional financial institutions, lack of flexibility of traditional financial services, limited geographical availability of specific financial services, low financial awareness, and a lack of trust in traditional financial institutions. Alternative finance, through technological innovations and flexible business models, offers solutions that can reduce the problem of financial exclusion and provide access to essential financial services for entities previously excluded from the traditional financial system (Carbó *et al.*, 2005).
- iii. The search for higher returns: Investors are looking for new investment opportunities that offer higher returns compared to traditional bank deposits or bonds. Alternative forms of investing, such as crowdfunding, attract investors due to potentially higher profits (Freedman and Nutting, 2015).
- iv. Changes in consumer behavior in the market: The younger generation, known as Millennials and Generation Z, prefers convenient, fast, and online financial services. Young people are more open to using modern financial technologies and are less attached to traditional banks (CAsfera.pl, 2022).
- v. Changing regulations and government policies aimed at increasing competition in the financial sector: Many governments and regulatory bodies are introducing regulations that support the development of alternative finance. These include not only regulations regarding crowdfunding but also cryptocurrencies and open banking, which promote innovation and competition in the financial sector (World Bank and Cambridge Centre for Alternative Finance, 2019).

The aforementioned conditions contribute to the rapid development of the alternative finance sector, which is becoming an increasingly important part of the global financial system. In this

context, the dynamic growth of crowdfunding (CF) as a community financing instrument is also observed. CF appears to be a kind of phenomenon. The term was first used in 2006 by the American blogger M. Sullivan, founder of Fundavlog. One of the most comprehensive definitions of CF is proposed by Mollick (2014). According to him, CF “refers to the efforts by entrepreneurial individuals and groups - cultural, social, and for-profit - to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries” (Mollick, 2014).

The research objective set by the authors is to determine the specifics of CF as an alternative financing tool in the Polish context. The authors focus on ten key characteristics of the analyzed instrument, including (1) community financing, (2) accessibility for small and medium-sized enterprises and startups, (3) lower entry barriers compared to traditional financial services, (4) direct interaction with investors, (5) diversity of financing models (e.g., donation-based CF, reward-based CF, royalty-based CF, equity CF, debt CF, etc.), (6) market testing, (7) marketing and promotion, (8) investment risk, (9) administrative support and legal regulations, and (10) community and engagement.

Design/methodology/approach The study employed the method of analyzing literature related to the issues of alternative finance and CF, as well as the analysis of legal acts regulating CF for instance Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business) and the national level (the Act of 7 July 2022 on crowdfunding for business ventures and assistance to borrowers). Additionally, an analysis was conducted on the functioning of selected crowdfunding platforms and entities authorized to provide crowdfunding services, as well as an analysis of examples of investments financed using this instrument. The article also utilized statistical data from the European Securities and Markets Authority database.

Findings The conducted research confirmed the research hypothesis, which states that the development of CF as a financial instrument in Poland is driven by technological advancements that enable the creation of innovative financial platforms, as well as by the ability of the instrument to offer greater financial flexibility (compared to traditional financing instruments), faster access to capital, and the potential to build communities around financed projects. It was shown that in Poland, compared to other EU member states (such as France, Italy, Spain, the Netherlands, and even Lithuania), CF is at an early stage of development (European Securities and Markets Authority Database, 2024). However, it has significant growth potential due to the aforementioned attributes. These features make it not only an attractive instrument for entities that face difficulties in obtaining traditional financing but also contribute to reducing financial exclusion in Poland. It was demonstrated that CF is gaining importance primarily as an alternative source of financing for small and medium-sized enterprises, startups, and various social and cultural projects.

Originality/value The legal regulations regarding CF in Poland are relatively new, and analyses of the functioning of crowdfunding platforms and investments financed through this source of funding are limited. This analysis fills that gap. The unique economic context of Poland, with its specific economic and social conditions differing from those of other EU countries, is significant in this regard. The analysis of CF in Poland takes into account the specific conditions of the country, such as the level of digitization of society, trust in new technologies, the level of financial exclusion, and the specific financial needs of small and medium-sized enterprises. Moreover, Poland is one of the fastest growing fintech markets in Europe. Analyzing CF in this context allows us to understand how innovative financial technologies impact the development of alternative sources of financing in the country. Poland is at the stage of developing various types of crowdfunding platforms, including donation-based, equity-based, and reward-based platforms. Examining the functioning of these platforms provides valuable information about their effectiveness and attractiveness to different user

groups. It is also worth noting that Poland has a strong community culture (e.g., "Solidarity" as a social movement in the 1980s, which played a key role in overthrowing communism in Poland and is one of the most well-known examples of a strong community and solidarity culture in Europe), which can promote the development of CF. Importantly, our research also considers the aspect of financial education, which is crucial for understanding and accepting alternative forms of financing by society.

Keywords: *Crowdfunding, Alternative financing, Investment.*

JEL classification: *G11, G23, G28.*

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