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CROWDFUNDING IN THE COLLABORATIVE ECONOMY

Abstract

This paper is devoted to the concept of crowdfunding, a new, dynamically developing form of raising capital for planned projects, which is also an alternative source of financing for enterprises. The paper is based on literature review. The research methodology used in the study is desk research, which means an analysis of secondary sources. The first part of the paper introduces the concept of crowdfunding, discusses its evolution and specifies factors which allow its identification. Then crowdfunding platforms and their typical elements are analyzed. Afterwards types of crowdfunding are systemized depending on the operating model. The last part concerns the legal aspects of this phenomenon.

The concept of crowdfunding should be systematically observed in the order to be able to identify any barriers of its development and take effective stimulation steps without avoiding possible threats for users of crowdfunding platforms.

Keywords: crowdfunding, crowdfunding platforms

Introduction

Despite the fact that the most popular methods of financing different kind of enterprises are still owners' or shareholders' funds, loans and bank credits, crowdfunding is becoming an increasingly popular method of financing. It is a form of alternative

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financing typical for the digital society and the collaborative economy. It is definitely favoured by the development of Web 2.0 and increasingly wider possibilities to making micropayments. What counts the most in the crowdfunding model is an idea of a product or business. If it catches on, sponsors are willing to finance it. In traditional models generally the first step is to check the originator's solvency before he or she receives financing in the form of a loan for his or activity (Kasprzycki-Rosikoń, 2016).

In other words, crowdfunding is community financing. The word is descended from two English words 'crowd' and 'funding'.

Capital is one of four resources which are most often gained through crowdsourcing, i.e. from commitments of "crowd" to execute a task. Other resources include (Boniewicz, 2016; Kasprzycki-Rosikoń, Piątkowski, 2013):

- information, knowledge and ideas, which allow generating solutions of various problems quickly and efficiently as well as seeking the best variants;
- opinions on products, services or brands;
- work, i.e. orders to execute small tasks as part of greater project, which not only accelerates its realization but also serves creating new values in the form of services and products (crowd design).

This paper aims at presenting and analysing the ways of realization of the idea of crowdfunding, an intensely developing form of gaining resources for financing various enterprises, which is at the same time an alternative method of gaining capital by businesses. This paper has a review character. The author has carried out an analysis of secondary resources, defined the notion of crowdfunding, presented its evolution and identified factors facilitating its recognition. Also, she has made an analysis of crowdfunding platforms from the perspective of features typical for them, the object of financing and forms of prize. In consideration of a relative novelty, which crowdfunding is, the final part of the paper discusses also the legal aspects of this phenomenon.

1. The development of crowdfunding

Gaining funds from the group of committed citizens supporting realization of a common idea is nothing new. Subscription, popular in the 18th century, was a prototype of crowdfunding. A composer proposed purchase of a composition to

wealthy music lovers. The print was started only when a sufficient number of subscribers was found, which guaranteed that the composition would not bring loss. Such a manner was used to publish the earliest compositions of Beethoven (Gwizdalanka, 2016, p. 50).

Additionally, small contributions from the French and Americans allowed building the Statue of Liberty. Due to lack of financial means its construction in 1882 was doubtful. Then Joseph Pulitzer, the publisher of “The New York World”, initiated fundraising during which 120 thousand people gathered the lacking sum of 100 thousand dollars whereas many of them paid less than one dollar. As a token of gratitude all grantors’ names were published in the newspaper (Banach, 2016).

A precursor of crowdfunding realized on the Internet was the British rock group Marillion, which in 1997, thanks to the generosity of its faithful fans and using possibilities provided by technology, succeeded in raising 60 000 dollars to finance their concert tour in the USA (Malinowski, 2014). Later the band used this method to finance their next albums.

In the announcement of the European Committee, issued on 27 March, 2014 to the European Parliament, the European Council, the European Economic and Social Committee and the Committee of the Regions “Liberation of the potential of community financing in the European Union” said that the term “community financing” (...) refers to an open invitation for the community whose aim is to gain financial means for realization of a determined project. Such invitations are often published and spread by the Internet and by means of social media are valid only in a determined period of time. Financial means are usually gained from a considerable number of participants in the form of comparatively small contributions, but there are exceptions” (...)” (Milewski, 2014).

Karol Król (2011) defines crowdfunding as “a kind of accumulation and allocation of capital transferred for development of a determined enterprise in exchange for determined returnable services which involves a wide group of investors, is characterized with utilization of data communications technologies and a lower entry barrier and better transactional conditions than the generally available ones on the market”. Crowdfunding, as an element of crowdsourcing, is based on an open invitation for Internet users, encouraging them to share operation, in this instance financing a specified enterprise, in return for determined returnable services, not necessarily material ones.

Scott Steinberg (2012) calls crowdfunding the procedure of gaining contributions from the society, which allows gathering capital essential to realize new en-

terprises, and Alessandro Brunello (2016) describes it as a process which involves cooperation of a greater number of individuals. They decide to allot their own money to support efforts, projects and visions of other private individuals, companies, enterprises or organizations.

So, it is essential to engage a large crowd people, such as investors, donors, paying small sums for a determined objective. In modern crowdfunding all that takes place by means of the Internet and mainly specialized platforms. therefore favour certain permanent features, allowing identification of crowdfuning (cf. Król, 2013):

- **money** – crowdfunding always consists in financial support;
- **purpose** – every crowdfunding project has a clearly defined purpose, intended use of raised money and a result which is supposed to arise after spending them;
- **wide community** – information about the project is available for a wide group of people, practically everyone whom it can reach;
- **open invitation (Open call)** – information about the possibility to support the project is presented in an open manner, directed to an unspecified addressee and imposing no limitations in the access;
- **ICT** – the process of accumulation of capital takes place with the utilization of data communications solutions, particularly crowdfunding platforms;
- **better conditions** – gaining capital is effected on more advantageous conditions than other ones available for a particular designer on the market;
- **returnable services** – every supporting person or every supporting company is offered so-called returnable services which can take different forms.

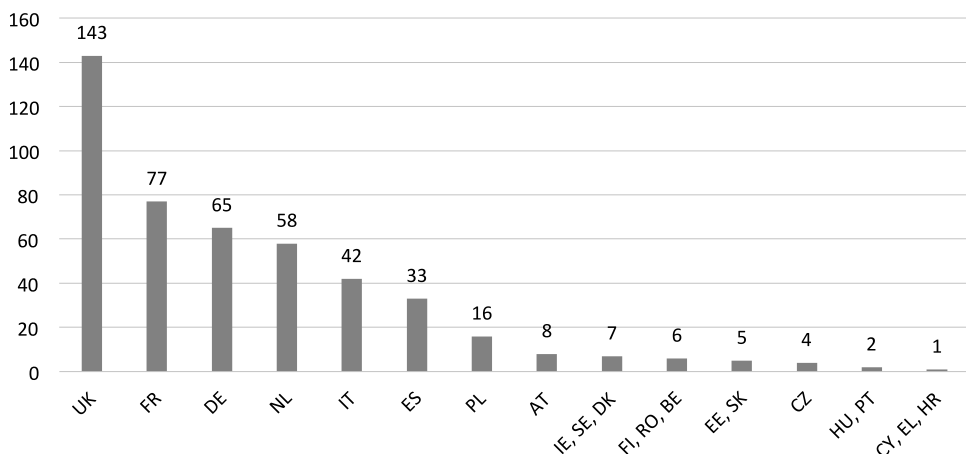
Apart from capital for realization of an enterprise, crowdfunding offers other values important for the designer. First of all, it permits checking, examining and testing interest with the idea and consequently defining its business potential. A successful crowdfunding campaign is an excellent starting point for talks with large investors because support on the part of future customers is one of the best possible recommendations for the investor.

Crowdfunding can provide support for every enterprise, not only for business, but also for cultural, social or charitable enterprises if only the community is successfully convinced. This in turn requires good preparation, building reliability, transparency and first of all commitment.

2. Crowdfunding platforms

The number of crowdfunding platforms in countries of the European Union in 2014 was slightly over 500. The detailed data concerning of the location according to countries were presented in Figure 1.

Figure 1. The number of active crowdfunding platforms in countries of the European Union in 2014, according to location



Source: European Union (2015).

In Poland there are several active crowdfunding platforms. Each of them gathers a virtual community who support ideas from different areas. Particular platforms force their formats of the appearance of projects but each time it consists of following elements:

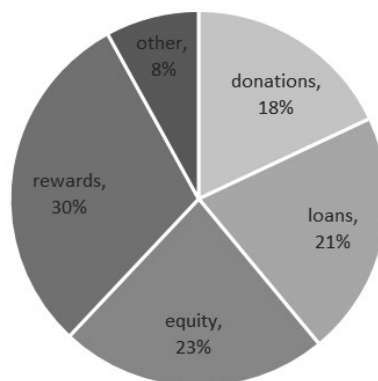
- title – short, attracting attention, referring directly to the project;
- description – detailed presentation of the project and the manner of its realization, presented with photos, films or visualizations in other forms; at this point it is desirable also to describe previous experience of the author of the project;
- financial aim – minimum budget of the realization of the project which should be specified in such a manner that is possible to succeed in realizing the aim of the enterprise without lowering its quality, and at the same

time it should be the smallest because most frequently its achievement decides whether the project will succeed;

- rewards – information about bonuses for supporting in return for payments for realization of the project, depending on the crowdfunding model (classification from the perspective of advantages for investors – cf. Dziuba, 2012) they can be;
- material rewards (in sale crowdfunding), e.g. product whose manufacturing will be possible thanks to fundraising (an advance sale model), other products or services, e.g. tickets, a copy of a book, a CD, a T-shirt or other gadgets, entrance card to a photo or film location, participation in an interesting event, meeting with a famous person, autographs;
- corporate image advantages, in the form of thanks extended on a website, placing names or a logotype of grantors in a specified place, e.g. on a product prototype (in a donation model);
- returning the sum of given support together with established interest (in a loan model);
- shares and other forms of rights to profits (in investment crowdfunding).

Apparently, there can be several types of reward but there can also appear mixed types, connecting elements of the models mentioned above. Figure 2 presents a proportional participation regarding the model of crowdfunding platforms in various countries of the European Union in 2014.

Figure 2. Active crowdfunding platforms in countries of the European Union in 2014 according to type



Source: European Union (2015).

The Internet resources include detailed guidebooks about crowdfunding platforms, classified according to types, including information about the business model, preferred types of projects and commissions (Bęczkowski, 2017; Godziszewski, 2017; Milewski, 2016). Apart from a description of individual platforms, authors often include essential statistics concerning numbers of started projects, the greatest realized project, the total sum of money gathered on the platform, an average sum of support in a campaign and an average number of supporters.

If the object of financing is to be taken as the classification criterion of platforms, then the following types of platforms are distinguished (cf. Bęczkowski, 2017):

- universal (polakpotrafi.pl, wspieram.to, odpalprojekt.pl),
- cultural (wspieramkulture.pl, megatotal.pl, patronite.pl),
- sports (stworz mistrza.pl, fans4club.com),
- public petitions, civic initiatives (fundujesz.pl, mintu.me),
- scientific (scienceship.com),
- real estate (sharevestors.com),
- and from the perspective of forms of rewards,
- partnership shares (beesfund.com, findfunds.pl, crowdangels.pl),
- charitable (zrzutka.pl, domore.live, pomagamy.im, siepomaga.pl, pomagam.pl),
- loan (sekrata.pl, zakra.pl, finansowo.pl, kokos.pl).

The most famous crowdfunding platforms in the world include: kickstarter.com (USA), indiegogo.com (USA), gofundme.com (USA), crowdfunder.com (USA), pledgemusic.com (USA), rockethub.com (USA), onevest.com (USA), kisskiss-bankbank.com (France), ulule.com (France), crowdfunder.co.uk (Great Britain), crowdcube.com (Great Britain), ourcrowd.com (Israel), fundedbyme.com (Sweden) (Branicka, 2016; Godziszewski, 2017).

3. Crowdfunding in the light of the Polish law

In consideration of the fact that the idea of crowdfunding is still quite fresh, the Polish law lacks regulations referring directly to this phenomenon. Consequently, this is a form of collecting funds which includes a trace of the cash flow, i.e. funds are recorded, crowdfunding is not subject to regulations about the rules of public funding (Act of 14 March, 2014). It has a very essential meaning for subjects who gain financing and owners of platforms who do not need meet severe requirements imposed by this law, e.g. notification and settlement on the web portal <http://zbiorki.gov.pl>.

Due to lack of separate legal regulations, there are only attempts to match binding legal constructions to problems appearing in crowdfunding.

Frequently the character of the contract signed by the supporter of the project with the creator of the project is not explicitly specified. The relation between supporters and designers suggests that they could use a construction called an unnamed agreement.

Crowdfunding can be regulated by Act on consumer's rights, which deals with online sale and whose regulations provide consumers with the right to withdraw from an agreement within 14 days "from the date of issuance of the purchased product, and when the agreement concerns providing services – from the date of signing the agreement", which can be applied in crowdfunding based on advance sale or the reward system. Problems will appear when a consumer who supported the project wants to withdraw from the contract already after the fundraising is completed. This can result in lack of achievement of the assumed threshold thereby hindering the realization of the project.

Due to the fact that fundraising campaigns are conducted online, crowdfunding will be regulated also by Act on providing electronic services, which involves placing obligatory regulations on crowdfunding websites and obeying regulations concerning the protection of personal details.

Legal regulations essential for crowdfunding include those concerning services of payment on web platforms. If a platform does not have any permission from the Financial Supervision Committee, it often uses two other solutions allowing it to provide payment services: registration of the platform as a so-called BUP (payment service office), i.e. the subject performing only money transfer services, i.e. direct money transfers without a money account for person submitting the payment order, or performing only the role of a beneficiary's agent. This legal relationship allows crowdfunding platforms to be excluded from the requirements of the Act on payment services. However, both solutions are not always applied in compliance with the law because mostly the real range of payment services provided by such platforms is wide enough that they should have permission of the Financial Supervision Committee (SGP LEGAL, 2016).

Another important aspect for the originator will also be the matter of copyrights. Crowdfunding lacks any confidentiality contracts, then there is no certainty that a public presentation of an idea will not result in copying it by some recipients.

Also, there are no direct tax regulations concerning crowdfunding. In practice the existing constructions are applied, matching them to individual types of crowd-

funding, e.g. the Act on inheritance and donations tax in donation crowdfunding, the Act on income tax from natural persons in sale crowdfunding and legal regulations on income tax from interest and dividends in shareholding crowdfunding (Szczudło, 2018).

Summing up, from a legal perspective the crowdfunding market in Poland is still considerably unregulated. The existing regulations do not take into account all his aspects. On one hand this can be an advantage, however, with this type of business activity it is worth bearing in mind a possibility of appearance of unforeseen complications regarding legal risk.

Conclusions

Like all crowdsourcing, crowdfunding is a typical phenomenon for the collaborative economy. Its idea is solve problems in collaboration, seek solutions, create products or accumulate funds as a considerably more effective variant than acting alone. Elements essential for development of this form of financing are frankness, confidence and suitable legal regulations to provide all its participants with safety and process transparency. The technological development and the society globalization cause that crowdfunding is becoming a trend allowing realization of tasks which had no chances for realization so far due to financial reasons. Therefore, crowdfunding is an important alternative source of financing of projects, its potential for more effective and quicker achievement of aims is gigantic. Apart from the fact that it is an ideal solution in the event case difficult access to traditional forms of financing, it also provides an easy, cheap and very reliable manner to verify the market chances of an enterprise and promote them.

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CROWDFUNDING W GOSPODARCE WSPÓŁPRACY

Streszczenie

Artykuł poświęcony jest koncepcji crowdfundingu – nowej, dynamicznie rozwijającej się formie pozyskiwania kapitału na planowane przedsięwzięcia, stanowiącej jednocześnie alternatywne źródło finansowania dla przedsiębiorstw. Opracowanie ma charakter przeglądowy. Zastosowaną metodologią badawczą jest *desk research*, czyli analiza źródeł wtórnych. W pierwszej części artykułu autorka przybliżyła pojęcie crowdfundingu i omawia jego ewolucję. Wyróżnia czynniki pozwalające na jego identyfikację. W dalszej części dokonuje analizy platform crowdfundingowych oraz ich typowych elementów. Systematyzuje typy crowdfundingu w zależności od modelu działania. Ostatni podpunkt dotyczy aspektów prawnych tego zjawiska.

Koncepcję finansowania społecznościowego należy bacznie obserwować, by móc na bieżąco identyfikować bariery rozwoju i podejmować skuteczne kroki stymulacji, a jednocześnie nie przeoczyć ewentualnych zagrożeń dla użytkowników platform crowdfundingowych.

Słowa kluczowe: finansowanie społecznościowe, platformy crowdfundingowe

Kody JEL: O3, O16, F36, L17

Cytowanie

Krok, E. (2019). Crowdfunding in the collaborative economy. *Studia i Prace WNEiZ US*, 55, 43–53. DOI: 10.18276/sip.2019.55-04.