

LEGAL CHANGES AND THE DEVELOPMENT OF THE EQUITY CROWDFUNDING MARKET IN POLAND

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Purpose: The aim of this article is to analyse and evaluate crowdfunding campaigns running up to the end of 2022 and to draw conclusions for the following years.

Design/methodology/approach: The research methods used in the article are literature analysis, inference and desk research analysis. The main research method to achieve the objective is the descriptive method supported by a critical analysis of the literature. Desk research (known as the cabinet method, desk data analysis) is a research method that involves compiling, analysing and processing information and data from existing sources. It can be further emphasised by the fact that in this method there is no influence of the researcher on the subject of the study. The study covered equity crowdfunding platforms operating in Poland (Polish and foreign).

Findings: On the basis of the analyses made, it can be concluded that the highest interest in share CF took place in 2021. In the following year, the situation began to change, due to the socio-economic situation and legal changes to its operation.

Research limitations/implications: It should be taken into account that the legal changes were only introduced at the end of 2023. This means that the data presented in the article does not yet reflect the changes introduced. Furthermore, it should be taken into account that the reaction of both crowdfunding platforms and originators and investors in Poland may differ from other EU countries.

Practical implications: The paper has practical implications for decision made by the crowdfunding platforms and companies interested in crowdfunding. It shows the main limitations for the crowdfunding market after the law changes.

Originality/value: The article presents recent equity crowdfunding transactions in Poland. Important changes in EU and Polish law that significantly affect the development of equity crowdfunding are presented. Unfortunately, it may turn out that the changes, although introduced to protect investors and order the market, may cause a significant limitation of these transactions.

Keywords: crowdfunding, crowdwisdom, sharing economy, ECF.

Category of the paper: general review, case study.

1. Introduction

The subject of the considerations undertaken in the article is the equity crowdfunding market in Poland, with a particular focus on the legal changes that were introduced in November 2023. The aim of the article is to analyse and evaluate crowdfunding campaigns implemented in 2019-2022 and to draw conclusions for the following years. The author primarily draws attention to the legal solutions introduced by the Regulation of the European Parliament and of the EU Council (2020/1503) on European equity crowdfunding providers and the Act of 7 July 2022 on equity and loan crowdfunding. The study deals exclusively with equity model crowdfunding platforms. The research methods used in the article are a descriptive method supported by a critical analysis of the literature and desk research analysis. Based on the analyses, it can be concluded that the highest interest in equity CF took place in 2021. In the following year, the situation started to change. There is a risk that the legal changes introduced at the end of 2023, combined with the socio-economic situation, may cause a decline in interest in equity crowdfunding.

Crowdfunding is not a new phenomenon. It has been developing gradually since the beginning of the financial crisis in 2007. However, it is worth noting that equity crowdfunding started to develop dynamically only a few years later. In Poland, the first equity crowdfunding collection took place in 2012. This form of raising capital has become an opportunity for new innovative companies with ideas that had no chance of traditional funding in the form of a bank loan. The investor has the opportunity to open up to a new market with a relatively low initial investment. In turn, those seeking capital can gain access to a larger pool of investors/donors and thus increase their chances of realising their projects and achieving their goals. Any equity crowdfunding transaction is fraught with risk and one should be aware that the return on capital may be negative.

2. Literature review

The idea of crowdfunding using online platforms has already been analysed and published in various countries. It can certainly be noted that the financial crisis was a factor that caused its rapid development (Kleeman, Voss, Rieder, 2008). What distinguishes crowdfunding from other forms of funding is, first and foremost, the possibility for more participants to get involved in a project (Belleflamme, Lamber, Schwienbacher, 2014). There are many publications in the literature on crowdfunding as a holistic phenomenon, encompassing all its models (Lambert, Schwienbacher, 2010), as well as those on only its selected forms, such as equity crowdfunding (Moritz, Block 2014, pp. 5-20). Crowdfunding would not have developed if it were not for the

popularity of the internet and social media. These tools have made equity crowdfunding a viable alternative to traditional forms of external funding for businesses (Hornuf, Schwienbacher, 2017). Much of the literature includes a global analysis of all types of crowdfunding. The most important developments in equity crowdfunding are described by A. Schwienbacher (2019). An in-depth analysis of available academic articles on equity crowdfunding was conducted by Mochkabadi and Volkmann (2018) in their article. The importance of CF as a new source of entrepreneurial funding for unlisted startups and ventures was presented by Coakley and Lazos (2021).

The role of national policymakers in the development of equity crowdfunding markets through the proper implementation of European directives is presented by Cicchiello and Leone (2020). The results of the study show that countries correctly implementing European directives are able to avoid destabilising regulatory arbitrage phenomena, while countries with delayed and incorrect transposition may be exposed to severe destabilising effects on international financial markets with moderate growth of equity crowdfunding markets. For regulation introduced in the UK market, see Li (2022).

Ralcheva and Roosenboom (2020) conducted an analysis of 2171 equity crowdfunding campaigns launched between 2012 and 2017 on the world's two largest platforms Crowdcube and Seedrs. As part of their research, they pointed out that the CF market is maturing. They estimated forecasts for the development of the CF market. Data on the harmonisation of CF in Europe is presented in *Advances in Crowdfunding* (2020).

Research on regulation in the Italian market was carried out by Battisti, Creta and Miglietta (2020). In 2021, an international Delphi study on the functioning of CF in the coming years was conducted. The authors do not expect CF to disqualify other forms of financing and attract large corporations or institutional investors. However, they note that platforms will impose more stringent requirements on capital raisers, expand their services and innovate their business models (Tiberius, Hauptmeijer 2021). A study on the dissemination of CF information through social media (in particular Twitter) was presented by Battisti, Graziano, Christofi (2022). A systematisation of the CF concept was undertaken by Majewski (2020). The development of CF in Poland was presented by Gemra (2019), Kaczan (2019) and Kordela (2018). A cyclical publication on equity crowdfunding in Poland is led by Trzebinski (2022).

3. The essence of crowdfunding

Crowdfunding is kind of invitation for crowds understood as individuals or business entities, various social groups to support a specific initiative. This initiative is presented on the special crowdfunding platform. There can be distinguished four main types of crowdfunding – in two categories (Lambert, Schwienbacher, 2010):

Those that do not offer any financial return:

Reward-based crowdfunding – backers usually get small amounts of money in exchange of reward (a ticket, a specimen, an autograph etc.). The most popular reward-crowdfunding platforms are Kickstarter and Indiegogo.

Donation-based crowdfunding – is used to raise money for a non-profit organisations, charity, societies, supporting sport and education, people suffering from severe diseases or being in difficult life situation. Crowdrise and GoFundMe are popular donation-based platforms.

Those that propose some kind of financial return:

Equity-based crowdfunding – donors are really investors. They get a piece of equity capital in the company instead of reward. They usually invest more money than those who take part in reward and donation-based crowdfunding. They also expect financial return. In this case crowdfunding is not just an initiative for the single project but a tool to raise money for growth of a company. Crowdfunder, Beesfund or Crowdcube are examples of equity crowdfunding platforms.

Debt-crowdfunding – the people who support projects are lenders. Instead of equity capital or reward they make a loan and expect a refund with interest. The idea is that the backers borrow small amounts of capital from multiple of people.

In this article the equity crowdfunding projects and platforms will be analysed.

The undoubted advantage of crowdfunding is that by using an online platform, the project initiator has the opportunity to reach many investors potentially interested in the project. A factor to bear in mind is information asymmetry, when the project originator knows more about the project than potential investors (Bellaflemme et al., 2015). The asymmetry is compounded by the fact that sometimes the originators are in a completely different geographical location than the investors (Renwick, Mossialos, 2017).

Furthermore, it is worth noting the randomness of investors. Many times they have no experience with the topic of investment and make the decision to invest in an idea spontaneously (Agrawal et al., 2015). The consequence of this fact is that the relationship between the project originator and investors resembles that between principal and agent (Ley, Weaven, 2011).

Analysing the basic features of equity crowdfunding, it can be pointed out that it is a type of crowdfunding in which a backer invests in a specific venture in exchange for shares (stocks) in the share capital of the beneficiary company that will implement the venture.

Equity crowdfunding primarily enables small companies to raise capital from a large number of investors (communities) via the internet. It is a form of funding that can be seen as a way of solving the capital shortage problem for micro, small and medium-sized enterprises. In equity crowdfunding, investors support an originator who is working to develop his or her product or service, while expecting a monetary return when the investment agreement expires or the venture capitalist buys back the startup.

4. Equity crowdfunding in Poland

Equity CF has been developing in Poland since 2012. At that time, there was only one equity CF offering platform with one issue. In 2021, there were already 16 platforms offering equity CF, and in 2022, 13. Unfortunately, the situation may change in 2023 due to the entry into force of the legislation on the need for authorisation on 10.11.2023. The year 2021 can be considered a record year for Polish equity CFs both in terms of the number and value of transactions (Trzebinski, 2023).

There is no data yet on the functioning of equity crowdfunding in Poland in 2023, but one can already notice a decidedly lower interest in this form of raising capital by both originators and potential investors. The reason for this phenomenon is certainly the uncertain socio-economic situation (war in Ukraine, pocovid uncertainty or high inflation), but the key element is certainly the legal changes concerning the functioning of equity crowdfunding.

After 10 November 2023, the conditions for the operation of investment crowdfunding platforms in Poland have significantly changed. This is due to the implementation of Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European providers of crowdfunding services for business ventures. In Polish law, these changes were introduced by the Equity and Loan Crowdfunding Act. Originally, the legislation was to be in force from November 2022, but based on the opinion of the European Securities and Markets Authority, the transition period was extended by 12 months. The most important obligation introduced is the authorisation of equity crowdfunding services. According to the ECSP European Crowdfunding Service Providers, a crowdfunding service provider can only be a legal entity based in the EU that has obtained a licence to carry out such activities from the competent supervisory authority in the country where it is established. For platforms, the need to obtain a licence entails more regulatory requirements or internal procedures, the obligation to examine the platform's investor profile or more information about the issue. Additionally, following legal changes, it is no longer possible to offer shares in limited liability companies, which was common in earlier years.

The authority competent to issue permits in Poland is the Financial Supervision Commission. However, it is worth noting that the obtained permit entitles to conduct activities throughout the EU. The Polish Financial Supervision Authority can stop the course of a funding offer in case of irregularities (preventive action), but react to collections already in progress (e.g. fines for the supplier or board members, or ordering the dismissal of the board member responsible for the violation).

Theoretically, as of 13/11/2023, companies can raise more funds from equity crowdfunding, as the limit for offerings without a prospectus has been raised from €2.5 million to €5 million. On the other hand, however, as of the time of going to press, only three entities have received authorizations from the Financial Supervision Commission for investment crowdfunding. These are finansowo.pl, Emiteo and GPW Private Market S.A. (ESMA, 2023).

Previously, the Polish equity crowdfunding market was not subject to restrictions; interested companies raised funds on the basis of regulations on public offering of shares, using the possibility of not publishing a prospectus or offering shares in limited liability companies.

Table 1. shows examples of equity crowdfunding implemented in Poland in 2019-2022, where the value of funds raised exceeded PLN 4 million. It is worth mentioning here that until November 2022, the maximum amount that could be raised without publishing a prospectus was the equivalent of €1 million (Smith, 2017).

The years 2018-2021 saw a steady increase in both the number of issues and their value (ZFP). Unfortunately, a slump in the market could be observed as early as 2022. This could have been caused by the general socio-economic situation, but also by the awareness of the change in regulations, which were originally scheduled to take effect in November 2022. Between 2012 and 2022, the average emission efficiency level was 60% (ZFP). In 2014 and 2017, the efficiency level exceeded 100%, but in 2022 it was the lowest in the analyzed period, at less than 35% (in 2020 and 2021 it was above average). Unfortunately, all indications are that 2023 will close at an even lower efficiency level.

Table 1.

Equity crowdfunding in Poland (over 4 mln PLN)

Name	Amount	Field of activity	Platform	Year
Start Space	4 550 000,00 zł	Marketing	CrowdConnect	2021
Kombinat Konopny	4 500 000,00 zł	Alcohol	Crowdway	2021
KTS Wieszło	4 500 000,00 zł	Entertainment	Emiteo	2021
Alembik Polska S.A.	4 499 799,00 zł	Alcohol	Crowdway	2021
Tenczynska Okovita S.A.	4 436 158,00 zł	Alcohol	Crowdway	2021
CanPoland S.A.	4 400 000,00 zł	Technology	Crowdway	2021
United Label	4 400 000,00 zł	Games	CrowdConnect	2020
Mazurska Manufaktura Alk.	4 375 000,00 zł	Alcohol	CrowdConnect	2020
Wolf and Oak Distillery	4 202 820,00 zł	Alcohol	Beesfund	2020
Kombinat Konopny	4 200 000,00 zł	Technology	Crowdway	2020
Alembik Polska S.A.	4 185 000,00 zł	Alcohol	Crowdway	2020
Tenczynska Okovita S.A.	4 180 000,00 zł	Alcohol	Crowdway	2020
Browar za Miastem Sp. z o.o.	4 180 000,00 zł	Alcohol	Crowdway	2020
Tenczynek Bezalkoholowe	4 176 000,00 zł	Alcohol	Crowdway	2020
Pinta Barrell Brewing	4 149 846,00 zł	Alcohol	Crowdway	2019
GenXone	4 140 000,00 zł	Biotechnology	CrowdConnect	2020
SatRevolution S.A.	4 100 000,00 zł	Technology	Crowdway	2019
Farmy Fotowoltaiki	4 050 000,00 zł	Energy	Crowdway	2021
Wisła Kraków	4 000 000,00 zł	Sport	Beesfund	2019
GenXone	4 000 000,00 zł	Biotechnology	CrowdConnect	2019

Source: own elaboration based on platforms: www.crowdway.pl, <http://crowdconnect.com>, <https://beesfund.com/>

The six largest issues took place in 2021. (including four on the Crowdway platform, one on Emiteo and one on CrowdConnect). Currently, only one of these platforms (Emiteo) has issuance authority. Of course, as mentioned earlier, entities authorized in other EU countries can also operate in Poland, but given the historical data, the dominance of platforms operating strictly in the Polish market was significant. It is worth noting that no issue from 2022 was

included in the list. This is due to the fact that all of last year's issues had a lower value - the highest amount raised was PLN 2,240,016 (Trzebinski, 2023).

The industries that dominate equity crowdfunding transactions in Poland are mainly: alcohol industry, biotechnology and technology. This is partly in line with trends across the EU, although there they are also dominant: clean energy sector and climate tech.

Despite the many ambiguities related to the application of the regulations governing equity crowdfunding, it is promising to note that as of November 2023, the non-prospect limit for issuers has been raised to €5 million, when using an intermediary crowdfunding platform with a business license. Originally the issuance limit was the equivalent of €100,000, it was raised to €1,000,000 in 2018, and to €2.5 million as of November 2022. This change will allow crowdfunding to raise the equivalent of €5 million over the next 12 months without the need to draft and approve a prospectus.

5. Discussion

Research on equity crowdfunding has been conducted in Europe and internationally for several years. Researchers are interested in both the motives of companies choosing to raise capital through this route and the motivations of investors. In recent years, researchers have also focused on changes in the approach of national authorities and the EU as a whole to the legal status of equity crowdfunding platforms (Schwartz, 2023). This is consistent with the research conducted in this article. Recent changes introduced in the EU may change the perception and accessibility of the ECF market, especially in countries such as Poland. Authors in other studies also highlight the importance of information resource management, where different sources of information may require different disclosure rules (Dao et al., 2023).

In the discussion, it should be emphasized that the development of the equity crowdfunding market in Poland is part of a broader trend in the European Union, which has been further supported by the introduction of the Regulation of the EU Parliament and Council (2020/1503). Aimed at facilitating access to funding through crowdfunding platforms, the regulation introduces a uniform legal framework for equity crowdfunding across the EU. This is important because it provides greater transparency and legal security for investors and entrepreneurs. The likely assumption of policymakers was to introduce this regulation in order to increase trust and investment interest in crowdfunding in member states. What caused a significant reduction in interest in ECFs in Poland in 2023 has not slowed down companies and platforms in Europe. Platforms have long been aware of the need to change and adapt to the European Commission's requirements. Many platforms complied with these requirements back in 2022. Unfortunately, as the situation of the Polish market has shown, it may turn out that the introduced solutions, at least in the short term, may cause a decline in interest in equity crowdfunding. In conclusion,

the analysis of the equity crowdfunding market in Poland, in the context of the new EU regulations, indicates the important role of this form of financing in the EU financial ecosystem.

6. Conclusions

Despite the many uncertainties regarding the application of the regulations governing equity crowdfunding, it is promising that the non-prospective limit for issuers has been raised to €5 million as of November 2023 when using an intermediary crowdfunding platform with an authorization to operate. Originally, the issuance limit was the equivalent of €100,000, raised to €1 million in 2018, and to €2.5 million from November 2022. This change will allow for crowdfunding to raise the equivalent of €5 million over the next 12 months without the requirement to draft and approve a prospectus.

The study's conclusions underscore the importance of aligning domestic regulations with EU standards, which in the long run can further develop the market and make it more attractive to international investors. The EU Regulation (2020/1503) opens up new opportunities for the crowdfunding market, while posing challenges related to its implementation and monitoring its impact on local financial markets.

In the context of further research, it is crucial to analyse the impact of the EU Regulation (2020/1503) on the long-term development of the crowdfunding market in Poland and other member states. It would be worthwhile to study how different countries are implementing this regulation and what are the effects of these actions. It would also be important to understand how companies and investors are responding to these changes and how they are adjusting their financing strategies. A study that includes an analysis of the impact of these regulations on the innovation and competitiveness of European financial markets would add value. Further research should also address how the ECF market will develop and whether in the longer term it is possible that investors will move their savings from bank deposits to ECFs.

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