

EQUITY CROWDFUNDING IN 2020-2022: DEVELOPMENT OPPORTUNITIES AND BARRIERS IN POLAND

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Purpose: The aim of the article is to present equity crowdfunding, to explain its purpose and principles as well as to identify economic and social factors in the development of this form of fundraising in Poland in 2020-2022.

Design/methodology/approach: The study used reports from crowdfunding platforms and own re-search. The study is based mainly on descriptive, analytical and comparative research methods.

Findings: After analyzing the data from crowdfunding platforms and the provisions of the new regulations, it can be concluded that equity crowdfunding is a dynamically developing method of financing economic projects in Poland.

Originality/value: The publication presents the results of research conducted on the basis of crowdfunding reports.

Keywords: equity crowdfunding, community, funding source.

Category of the paper: Research paper.

1. Introduction

The years 2020-2022 saw the COVID-19 pandemic, when the popularity of crowdfunding reached an all-time high in Poland. The economic shutdown contributed to the popularisation of crowdfunding and caused a revolutionary change in how Poles view crowdfunding. Crowdfunding involves setting up an online fundraiser with the goal of gaining financial backing for a new project, expanding an existing business, or supporting charity. To this end, crowdfunding platforms are used.

These are specialised websites that connect fundraisers with donors. The originator may offer certain benefits to the funders in exchange for their contributions. These may include a finished product, a price discount once the product is marketed, or shares in a company.

The project creator must be able to accept the contribution method proposed by funders. They depend on the type of crowdfunding.

There are five basic types of crowdfunding: donation-based, rewards-based, pre-sale crowdfunding, debt-based, and equity-based crowdfunding. The latter two models are crucial for business venture funding. The equity crowdfunding market is showing a growth trend and interest in equity crowdfunding is likely to increase even more due to regulatory changes involving a rise in the maximum amount of capital. The aim of the article is to present equity crowdfunding, to explain its purpose and principles as well as to identify economic and social factors in the development of this form of fundraising in Poland in 2020-2022. The paper uses the methods of literature analysis and criticism as well as analytical and comparative research methods.

2. Literature review

Equity crowdfunding is part of investment crowdfunding. It is an innovative method of financing enterprises, based on acquiring shares in a business using modern technologies (Glanc, 2020, p. 7). The financing process consists of the following stages: selection and valuation, investment, postinvestment and exit (Wilson, Testoni, 2014, p. 3). Typically, it is used to finance medium-sized investment projects falling into so called financing gap. Table 1 presents the basic characteristics of equity crowdfunding, in which an investment is a form of backing and shares in a company are a form of return.

Table 1.
Characteristics of equity crowdfunding

Entities	Backers	Type of backing	Form of return	Motivation for backers
Companies in growth or maturity stage	Numerous small, dispersed investors	Investment	Shares	Possible return on investment

Source: Own preparation based on Malinowski, 2018, p. 13.

Equity crowdfunding is usually characterised by a much greater campaign goal (e.g. Stars.Space SA – PLN 4.55 million) than in donation-based campaigns. Proper valuation of the project and formulation of clear business objectives can ensure the financial success of the business reflected in the profit earned by numerous investors (Vulkan, Astebro, Sierra, 2016, p. 38). Compared to a standard equity issue, equity crowdfunding is considered a more democratic method of project financing designed for multiple, dispersed investors who attach importance to relationship with the issuer (Cumming, Meoli, Vismara, 2021, pp. 23-24). Crowdfunding platforms which allow, among other things, the assessment of the risk involved in projects and rejection of a large number of the proposed campaigns, play a key role in equity

crowdfunding. Such platforms are accessed by companies – businesses whose primary objective is to sell, grow, develop, profit and maximise shareholder value. Equity crowdfunding seeks to fund a company's entire business or a selected strategic or operational function, rather than a single product or service. Investors are more willing to back companies that already have a track record of sales and a positive market validation. If an entity has not yet created any product or service and has only a concept or prototype to present, it should use another crowdfunding model, such as the reward-based model (Lissowska, 2018, pp. 59-86).

The process of financing companies through equity crowdfunding in Poland is mainly based on the provisions of the Commercial Companies Code. However, it is worth noting that as of 10 November 2021 the new Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937 applies. The new legislation seeks to comprehensively regulate crowdfunding platforms and changes the legal reality for crowdfunding. What is important for the development of this market is that as of 10 November 2021 equity crowdfunding has become a fully-fledged regulated part of the financial market in the European Union. The new EU guidelines introduced, among other things, supervision of part of the crowdfunding market by competent state authorities and uniform rules for the authorisation of services in the lending and investment models, as well as raised again the limit of issuance without prospectus to €5 million (although this threshold will be reduced to €2.5 million by 9 November 2023) (Regulation (EU) 2020/1503). Additionally, crowdfunding service providers were required to ensure certain safeguards to protect investors using their platforms, particularly investors who are defined as inexperienced (Regulation (EU) 2020/1503).

3. Methods

The study is based mainly on descriptive, analytical and comparative research methods. The paper compares crowdfunding platforms, both in terms of the number of participating investors, the types of projects carried out, and the invested amounts, and demonstrates that equity crowdfunding is a method of economic project funding which is becoming increasingly popular in Poland. The last part of the article is devoted to assessing the development prospects for equity crowdfunding and the opportunities and threats associated with the same.

4. Determinants of equity crowdfunding development

Ongoing digital transformation, popularisation of innovative solutions and turmoil in the banking sector and capital market (mainly related to the crisis of confidence in the market and reputational damage caused by the financial crisis) may be considered as some of the reasons for developing alternative methods of financing, including equity crowdfunding. Their purpose is to reduce or eliminate the role of a traditional financial intermediary and to decentralize traditional banking services (Crowdfunding, 2022). In addition to information technology itself as the foundation of crowdfunding, the changes in social attitudes associated with the sharing economy, i.e. sharing access to goods and services, including through technological channels, may have contributed to the emergence of this innovation.

Crowdfunding is an example of how financing services, which for centuries were mainly the domain of usurers, banks and capital markets, can also be shared (Ziobrowska, 2021, pp. 154-155). Crowdfunding is used not only by startups but also by well-established businesses. This allows them to reach new target groups or verify their valuation, for example, before a traditional IPO. A key advantage of using crowdfunding to fund a business is the ability to remain the owner of a project or business. The COVID-19 pandemic, which changed Poles' perception of equity crowdfunding, also contributed to the popularisation of various forms of crowdfunding. In 2020-2021, due to the pandemic, Poles spent a lot of time at home and had the opportunity to explore different forms of financial backing online. They began setting up and eagerly supporting online fundraisers for various causes on a massive scale (Ziobrowska, 2021, p. 107). The growth of the equity crowdfunding market has also been positively impacted by the increased limits on public equity issuance without the requirement of a prospectus or memorandum. The public offering limit in the early days of the equity crowdfunding market was €100 thousand. Following the changes in 2018 and the raising of the issue limit to €1 million without the obligation to publish a prospectus or memorandum, the market has gained a considerable momentum. Already in 2019, companies have raised more than PLN 47 million, which is over four times (440%) more than in 2018, and 2020 saw a twofold increase (110%), which is mainly due to the high volume of issues in the previous year (almost PLN 48 million). A factor driving continued market growth is the further increase in the limit for crowdfunding campaigns from €1 million in 2018 to €5 million in 2021 (Trzebiński, 2021, pp. 9-10). The Polish law implementing the European regulations provides for a two-year transition to this maximum threshold. During the transition period, the maximum threshold will be €2.5 million (Crowdfunding for Business Bill, 2022). It will also be possible to introduce a notice board, i.e. a sort of secondary market on crowdfunding platforms. Share dealing will be possible even before their IPO (Emiteo, 2022). Navigator Crowd is already working on this solution. The offering board is expected to be available to investors in 2022 (Navigator Crowd, 2022).

5. Determinants of equity crowdfunding development

All crowdfunding platforms follow a generally accepted model. After registering on the platform, a person who wants to set up a crowd fundraiser describes his/her idea, presents potential backers with the benefits of launching the project and specifies the financial conditions of the entire undertaking (i.e. specifies the minimum amount of money that is needed for launching). A time frame for raising the necessary funds is also provided (Dziuba, 2012, p. 86). The best known equity crowdfunding platforms in Poland include: Beesfund, Crowdway and CrowdConnect. The first one, Beesfund has been operating since 2012 and is the first equity crowdfunding platform in Poland (Beesfund, 2022). Chart 1 shows the value of all investments made on the largest equity crowdfunding platforms in Poland between 2017 and 2021.

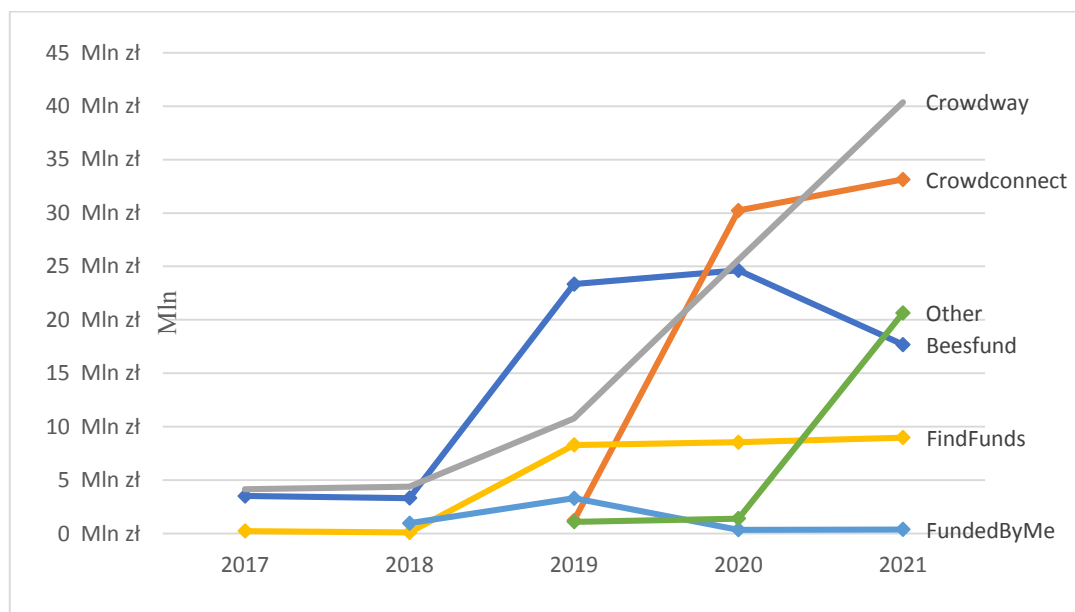


Figure 1. Total value of investments made on the largest equity crowdfunding platforms in Poland between 2017 and 2021.

Source: Own preparation based on Crowdway (2022).

Issuance of shares through equity crowdfunding are campaigns which are not always successful and raise funds exceeding the goal. Table 2 shows the equity crowdfunding platforms operating in Poland in 2020-2021.

Table 2.*Equity crowdfunding platforms in 2020-2021 (completed issues)*

Platform	Number of companies		Number of investors		Total amount raised (PLN)		Achieved 100% of goal and beyond	
	2020	2021	2020	2021	2020	2021	2020	2021
Beesfund	31	26	22,193	3,639	24,639,068	17,677,553	4	2
Crowdway	12	18	6,226	8,580	25,641,750	40,360,261	7	7
CrowdConnect	12	14	2,866	1,554	30,239,604	33,132,420	11	9
FindFunds	8	7	478	306	8,550,450	8,979,500	7	7
SmartFunds	-	2	-	169	-	2,715,000	-	2
FundedByMe	1	1	36	11	358,679	385,000	-	-
shareVestors.com	3	-	40	-	1,400,240	-	1	-
Emiteo	-	2	-	3779	-	8,499,985	-	2
Forc.ee	-	1	-	23	-	600,000	-	1
Investoor	-	1	-	3	-	18,240	-	-
Navigator Crowd	-	1	-	1	-	1,216,190	-	-
Prosper Capital	-	2	-	-	-	2,075,572	-	-
Raisemana.com	-	1	-	203	-	323,901	-	1
StockAmbit	-	2	-	-	-	4,118,650	-	-
Total	67	80	31,839	18,488	90,829,790	121,180,144	30	31

Source: Own preparation based on Crowdway.pl (2022).

Currently, there are fourteen platforms (Crowdway, ZPP, 2022). It can be seen that in 2021 their number doubled in relation to the previous year. The largest number of companies presented their offerings on the Beesfund platform – both in 2020 (31 companies) and 2021 (26 companies), however only 6 companies among them met 100% or more of their goal. The following platforms recorded the lowest number of offerings: FundedByMe, Forc.ee, Investoor, Navigator Crowd and Raisemana.com (1 company). It should be noted that some of them did not start operating until 2021. In 2020, company offerings presented on the Beesfund platform attracted the largest number of investors (22,193 investors) and those on the FundedByME platform – the smallest number (36 investors). In 2021, the largest number of investors accepted offerings presented on Crowdway (8,580 investors) and the smallest number on Navigator Crowd (1 investor). In 2020, the highest total amount of funds was raised on the CrowdConnect platform (PLN 30,239,604) and in 2021 on the Crowdway platform (PLN 40,360,261). In 2020, the smallest amounts were raised on the FundedByMe platform and in 2021 on the Investoor platform (Crowdway, ZPP, 2022). Table 3 shows the largest equity crowdfunding investments in 2020-2021 in Poland.

Table 3.

Largest investments through equity crowdfunding during the 2020-2021 pandemic (completed issues)

Company	Number of investors	Amount raised (PLN)	Average amount per Investor (PLN)
Stars.Space	88	4,550,000	51,705
KTS Weszło	3,471	4,500,000	1,296
Kombinat Konopny (2nd issue)	736	4,500,000	6,114
Alembik Polska SA (2nd issue)	1,026	4,499,979	4,386
Tenczyńska Okovita (2021)	977	4,436,158	4,541
CanPoland SA	576	4,400,000	7,639
United Label	175	4,400,000	25,143
ConsoleWay	326	4,375,000	13,420
Mazurska Manufaktura Alkoholi	324	4,375,000	13,503
Wolf and oak distillery	1,482	4,202,820	2,836
Kombinat Konopny	895	4,200,000	4,693
Alembik Polska SA	1,204	4,185,000	3,476
Browar za miastem	647	4,180,000	6,461
Tenczynek Bezalkoholowe	1,112	4,176,000	3,755
GenXone SA	54	4,140,000	76,667
Farmy Fotowoltaiki SA	992	4,050,000	4,083
Final total	14,085	69,169,957	4,911

Source: Own preparation based on Crowdway.pl (2022).

Some of the most popular industries for equity crowdfunding projects include: craft spirits, gaming, marketing, sports, and renewable energy (Trzebiński, 2021, p. 13). The highest value of subscriptions for shares in the public offering was obtained by Stars.Space SA (PLN 4.55 million). Thus, the company reached a record high in Poland in terms of capital raised through crowdfunding. Stars.Space SA's offering was made on the CrowdConnect platform and was divided into two rounds. The first one was addressed to larger investors who were offered shares worth a total of PLN 1 million. In the second round, which was open to all, the company raised PLN 3.55 million. The average amount per investor was PLN 51,705. The core business of the company is predicting trends in the consumer market using artificial intelligence, Big Data analytics and VR technology. The company is currently developing products inspired by outer space and, in collaboration with the social networking platform TikTok and the Rossmann drugstore chain, has launched its first cosmetics line, Stars from the Stars (CrowdConnect, 2022).

The second place was taken jointly by: KTS Weszło and Kombinat Konopny which raised PLN 4.5 million. Kombinat Konopny broke the time record of Polish equity crowdfunding by raising PLN 4.5 million from 736 investors in just 7 minutes. The previous time record was set by CanPoland, which raised 4.4 million PLN in 11 minutes in early 2021. Both issues by Kombinat Konopny and the issue by CanPoland were promoted by the Crowdway platform. The average amount per investor in Kombinat Konopny was PLN 6,11424 (Crowdway, 2022). Kombinat Konopny is a company specialising in the cultivation and processing of hemp. The funds raised will be used, among other things, to expand the herbal plant, the product portfolio and to expand abroad. It is worth noting that in the first issue in 2020 Kombinat raised PLN 4.2 million in 38 minutes. Kombinat Konopny has revised its forecasts for the coming years and estimates that it will reach 5 million in revenue in 2022. In 2023, the company's profit is expected to amount to PLN 2 million, 2 years later to PLN 6 million (Kombinat Konopny, 2022).

KTS Weszło was valued at PLN 22.5 million and offered 20% of the share capital. It raised PLN 4.5 million on the Emiteo platform from 3,471 new shareholders in 1.5 hours. The average amount per investor was PLN 1,296 (Emiteo, 2022). The funds obtained by KTS Weszło S.A. will be spent on the development of the infrastructure and the functioning of the club, however the investors were most interested in the idea of developing an application for day-to-day management of the club by the community of shareholders. The application, referred to by its originators as a real life equivalent of football manager computer games, is to enable each holder of KTS Weszło shares not only to appoint members of the management board, but also to vote in current club affairs. KTS Weszło is additionally planning to create a sports and educational centre, combining the functions of a club's stadium, a pitch rented for training and amateur games, and a football academy (Emisja Weszło, 2022).

The success of the crowd fundraisers discussed above paves the way for many other interesting ventures. In crowdfunding, the most important task is to present an idea on the crowdfunding platform in the most detailed and interesting manner possible. This will determine the success of the fundraiser and the future success of the project. Thus, campaigns that are appreciated by younger people – largely internet users – but above all those that are easy to present and generate excitement are more likely to benefit from this type of funding. This is why crowdfunding methods are often used – successfully – by developers of online games or physical products.

6. Crowdfunding development opportunities and barriers

Equity crowdfunding may be analysed in terms of opportunities and barriers related to its further development in Poland. The first part will discuss opportunities. It may be concluded that the new funding regulations will contribute to further development of equity crowdfunding. Until now, there have been many doubts about the proper performance of such activity. From the perspective of crowdfunding platforms, the new regulations will contribute to the professionalisation of the market, as well as allow platforms to carry out crossborder operations throughout the EU.

From the perspective of investors, the new regulations will provide better protection, as well as greater exit opportunities. The growth of the equity crowdfunding market will also be positively impacted by the increased limits on public equity issuance without the requirement of a prospectus or memorandum (Emiteo, 2022).

An unquestionable advantage of crowdfunding is that by using an internet platform, the originator of a project can reach a considerable number of people who are potentially interested in its realisation. Crowdfunding allows the establishment of a bilateral relationship – on the one hand, it is a great way for the investor to grasp investment opportunities that, in the past, were difficult to find or even unavailable to private investors. On the other hand, from a entrepreneur's perspective, it is a unique opportunity to create a community which believes in the founder's vision and wants to build and expand the business together. With crowdfunding platforms available and a multitude of information channels, reaching potential investors and customers is definitely becoming easier than it was a few years ago. The community centred around the project will naturally drive web traffic, stimulating interest in new consumers. A community characterised by investor experience and numerous business contacts facilitates reaching new investors even more. Investors are actively involved in the development of the project, sharing their knowledge with the company, however, the right to decide on the direction of the project's development is retained by the entrepreneur. Companies that execute crowdfunding issues maintain almost complete control over the project, which is often not possible with professional investors or Venture Capital funds. Investment crowdfunding ensures growth capital in exchange for shares in a company. Until now, such a mechanism has only been in place in the stock market. Investment crowdfunding is an opportunity for companies in the growth stage, for which another form of raising funds is impossible or would be a barrier to growth (Crowdfunding, 2022).

Crowdfunding is not without its risks. These include the risk of another entrepreneur using an idea made public. All it needs are funds for implementation. Therefore, to enter the world of crowdfunding a copyright registration will be necessary. The main barriers to development that have significantly halted the growth of the equity crowdfunding market include, in particular, the lack of clear rules for crowdfunding platform providers, restrictions on the amount of funds

that can be raised to launch projects, the lack of mechanisms for exiting an investment, as well as insufficient safeguards to protect non-professional investors. If there is no requirement to publish a prospectus, investors may be exposed to an increased risk of failure of the project in which they are investing. The problem associated with crowdfunding is information asymmetry. Asymmetry is when the originator knows more about the project than potential funders who want to get involved (Crowdfunding, 2022). Furthermore, disinvestments, or exits from crowdfunding investments, are not always profitable. The few IPOs of companies previously offering shares outside the stock market often performed unsatisfactorily. Certain campaigns are overly long and eventually fail to raise the intended amount of funds for further development. As a result, companies often hold off on launching offerings. Another barrier to the development of equity crowdfunding in Poland is the issue of managing the community that has invested in a company. There are no accepted and common best market practices in place yet, and it seems that they would be conducive to the proper development of equity crowdfunding in Poland (Trzebiński, 2021, pp. 9-20).

7. Conclusion

The analysis of data from crowdfunding platforms and new regulations indicates that equity crowdfunding, as a method of financing businesses, is thriving in Poland. The offerings that appear on crowdfunding platforms are increasingly interesting and reach higher and higher financial goals. In crowdfunding, as in other forms of alternative financing, there are numerous risks associated with investments.

Above all, there should not be unreasonable valuation expectations towards the companies, and there needs to be more offerings from entities that are more mature and are profitable and still in a strong upward trend. It is important to examine the market in which the companies operate, assessing its stage of development, growth potential and competitive potential. An analysis of the barriers to entry for entrepreneurs is also a significant factor. Barriers that may be encountered are those related to the scale of operations and regulatory constraints. The development of equity crowdfunding will certainly be accelerated by further information and promotion campaigns. This form of equity crowdfunding – raising awareness among both entrepreneurs and potential investors lies with crowdfunding platforms. The author believes that the presented issue will encourage researchers dealing with economics, finance and management to explore the area of equity crowdfunding as it is still an insufficiently researched phenomenon due to its innovative nature.

It is worth noting that the article doesn't exhaust the entire subject matter discussed in it. Main cause is the breadth and importance of the issues studied, due to the difficulties associated with empirical analysis how crowdfunding will develop in the post-pandemic world as well as the fact of constantly emerging new models of crowdfunding and new legal regulations in this area.

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