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## Article

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# Loan and equity-based Crowdfunding: a comparative analysis of Greece and Poland

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## Abstract

*Difficulties on accessing to banking credit especially for small business created a main barrier to creative business. New financial instruments replacing banking financing have been developed. One of the new financial instruments focusing on creative business is the crowdfunding. This instrument aims to a common financial effort from a wider population on a local but also international basis. The paper proposes a comparative examination of the function and development of the crowdfunding in two European Union countries, Poland and Greece. The paper focuses on some main issues that are the legislation, the main players of crowdfunding that are the platforms of crowdfunding in a national level, the campaigns and the value of the market. The analysis shows differences and similarities between the two countries. Legislation is a main issue to be resolved for both countries. Both countries undertook legislative efforts as result of European Union directives. Crowdfunding platforms were created in both countries with different results. In Poland the crowdfunding market has a higher development in loan and equity based issues. In Greece the market is still limited and focusing almost exclusively to donation initiatives as result of the economic and social crisis in the country.*

**Keywords:** Crowdfunding, Financing, SMEs, Greece, Poland

**JEL** classifications: G23

## Introduction

Crowdfunding is more and more recognisable as a new source of financing many projects. It is used under four types-models: Donation, reward, lending and equity. Within those forms hybrid models exist as well. Donation is a form under which the funder does not expect a return on its donation. The projects are usually for a good purpose and for a wider common target. This model is often used by Non Governmental Organizations (NGO). On Reward the funder expects for a material return usually of a small or even symbolic value. On Lending the demanding part will borrow money from the interested on the idea population; through this form the crowd funding permits the lending for social purpose projects; a main characteristic is the limited gain for the lender, as the non-interest lends. On equity, the interested part aims to attract investments by a wide population in order to fund the investments. The crowd funding schema can replace the other equity

forms as the venture capital and angels. Contrary to the last two forms the investors are much more numerous.

Crowdfunding offers investment important financing potentialities for small and medium-sized enterprises (SMEs) as well. SMEs can use loan and equity-based crowdfunding. This is particularly important for SMEs as they face various problems in access to financial capital. However, crowdfunding has been developing very fast in the United Kingdom. The important question regards but the development in other member states of the European Union (EU). The authors decided to choose two countries: Greece and Poland. The reason is that they have quite similar Gross Domestic Product (GDP) per capita. In connection to the above, the aim of the paper is to analyse crowdfunding especially the loan and equity-based crowdfunding in Greece and Poland if it is developed under this form. Data is provided by statista.com for the case of Poland; on the contrary such data is not offered for Greece. In the Greek case data resulted from sites and direct contact of authors with Greek crowdfunding platforms.

In the first section of the article, the literature was reviewed. Then the analyses of crowdfunding in Poland and Greece were conducted. The conclusions were formulated in the end of the paper.

The authors decided to set the following research questions:

- Is there any specific legislation and public support?
- Which platforms are the most important?
- What was the value of the market in the recent years and what are the predictions for future?
- What was the value and number of campaigns in the recent years and what are the predictions for future?

## Literature review

Sources of financing for SMEs have been the subject of both public policy and empirical research for many years. There are many publications about the issues connected with either own (Peszek, 2007; Duda, and Wolak-Tuzimek, 2008; Woźniak, 2012a) or foreign capital (Wach, 2007; Woźniak, 2012b; Duda, 2013) and public help (Karafolas, S., Woźniak M, 2014 and Karafolas, S., Woźniak M, 2014a). However, crowdfunding, particularly loan and equity-based is quite new issue. Therefore, it has been the subject of research only for the last few years. Ajay et al. made interesting research about some principles (2014), the scale (2015), and threats of crowdfunding (2016). Karafolas, (2014), was interested on the role of crowdfunding in financing of start-up cooperatives. In the most comprehensive report, the synthesis index was presented (Current State of Crowdfunding in Europe, 2016). All countries of EU were also described. However, the report focuses rather on legislation matters. The other issues were presented just in general. The European Commission published also a memo about crowdfunding in the member states (Communication on crowdfunding in the European Union, 2014). It focused but on some case studies.

Only few Polish authors have made research about this issue but they were rather general (Mitreğa-Niestrój, K., 2013; Kozioł-Nadolna, 2015). Only Litwa and Jabłoński (2017) analysed loan and equity-based crowdfunding in Poland in the last years. They stated that the value of this market was growing rapidly. Woźniak (2017) presented the stages of equity-based crowdfunding and analysed in details the transactions but only for one year. This author also scrutinised (2018) public support in the chosen countries of EU. He concluded that the authorities of the United Kingdom offer the most comprehensive

public aid both for investors and enterprises. In the Greek case this issue is a new one and it is reflected to the absence of studies related to the development of this form of investment in Greece. Therefore the current paper is a unique in our knowledge providing some data on the Greek case.

## **Analysis of loan and equity-based crowdfunding in Poland**

### **Legislation and public support**

There is lack of specific legal regulations regarding loan and equity-based crowdfunding in Poland. According to the previous general regulations the value of the raised funds can not exceed EUR 100,000 and/or the number of investors can not be higher than 149. In another case, the prospectus should be prepared. It was not until April 2018 that the financial limit was raised to EUR 1 million (Woźniak, 2018, p. 4). It can boost particularly equity-based crowdfunding in Poland. Moreover, Polish financial authorities want to raise this threshold to even EUR 5 million (Branżę equity crowdfundingu czeka poważna zmiana, 2018).

The support for crowdfunding in Poland has so far been limited to only one initiative which could be included in the promotion and cooperation activities between entrepreneurs and potential investors and mentors. In 2017, the Beesfund platform, offering equity-based crowdfunding, along with the Warsaw Stock Exchange (WSE), decided to launch a joint accelerator for startups. Its purpose is to give access to new entrepreneurs to the contacts, managers and experience of listed companies. In addition, startups can sell their shares to new investors which search opportunities to invest their capital. Already at the beginning of the cooperation, several CEOs of listed companies expressed their willingness to become mentors for startups. The WSE wants, however, that the joint accelerator will allow to increase the number of debuts on the stock exchange in the future. Initially, this is to apply to the NewConnect market, which is intended for startups. Ultimately, the companies should move to the main market. The clients of the accelerator will be prospective companies that operate in the form of joint-stock, limited partnership or can quickly be transformed into such enterprises, (Woźniak, 2018, p 5).

### **Crowdfunding platforms**

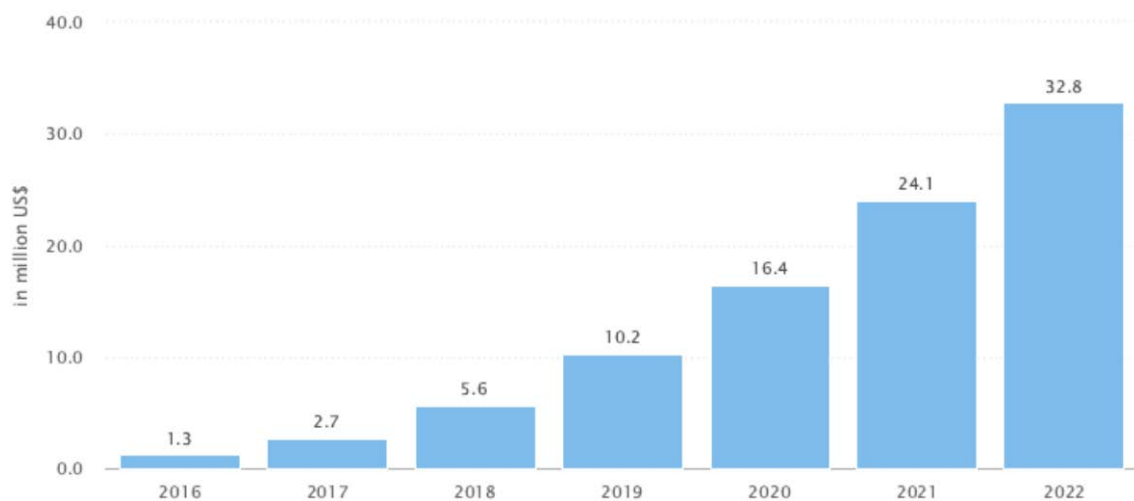
There is not any loan-based crowdfunding platform in Poland. However, such campaigns are offered by other websites. Nevertheless, there are two main equity-based crowdfunding platforms. Beesfund offers the opportunity to conduct both equity-based crowdfunding through the sale of shares and loans in the form of bond issues. However there has not been any bond offer for investors so far. In the first stage, the applicant must provide a detailed description of the project and the assumed financial goal. The campaign period can be from 1 to 3 months. The platform offers additional paid services such as: assistance in establishing a joint-stock company, preparation of documents necessary for the sale of shares or support in the financial and marketing preparation of the prospectus. An entrepreneur may raise capital in the form of flexible financing, specifying the minimum level that is necessary for him. However, it can not exceed the financial objective, which means that at the moment of raising 100% of the amount, the

campaign is considered as finished. Funds from investors are transferred by the selected payment operator to the company on an ongoing basis, and not only after the entire procedure. This allows, for example, financing from such payments, promotion of the project. After the completion of the campaign Beesfund offers paid services such as legal advice on issuing or sending shares. The commission of the platform amounts to 6.9% of the transaction plus VAT and 2% for the selected payment operator (Woźniak, 2017, p. 7). Crowdfunders offers only equity-based crowdfunding. The entrepreneur must first prepare a project description, business plan, projected profit and loss account for the next 3 years, registration documents, company agreement and financial statements. The minimum financial goal may be set at 100.000 PLN. (about 23.000 euros), and campaign time from 1 to 6 months. The Crowdfunders platform offers the following paid services: marketing and advertising, IT consulting, designing websites, creating a business plan, treasurers and financial projections, as well as producing films promoting the project. The project must meet the 100% financial goal so that it can be financed. It is possible to exceed this level at the request of the entrepreneur. It is called overfunding and it is only allowed if there is still time until the end of the campaign. After its completion, shares are transferred to investors. Then, the raised capital is transferred to the account of the company. The commission of the platform is 6% of the value of the above transactions plus VAT (Woźniak, 2017, p. 9-10).

#### Value of market

The value of equity-based crowdfunding (crowdinvesting) doubled in 2017 and probably will double in 2018 as it can amount 5,6 million USD (figure 1). Estimates indicate that this market will grow by more than 50% annually, reaching more than 30 million USD in 2022.

**Figure 1. Total transaction value in equity-based crowdfunding in 2016 and 2017 and predictions until 2022 in Poland**

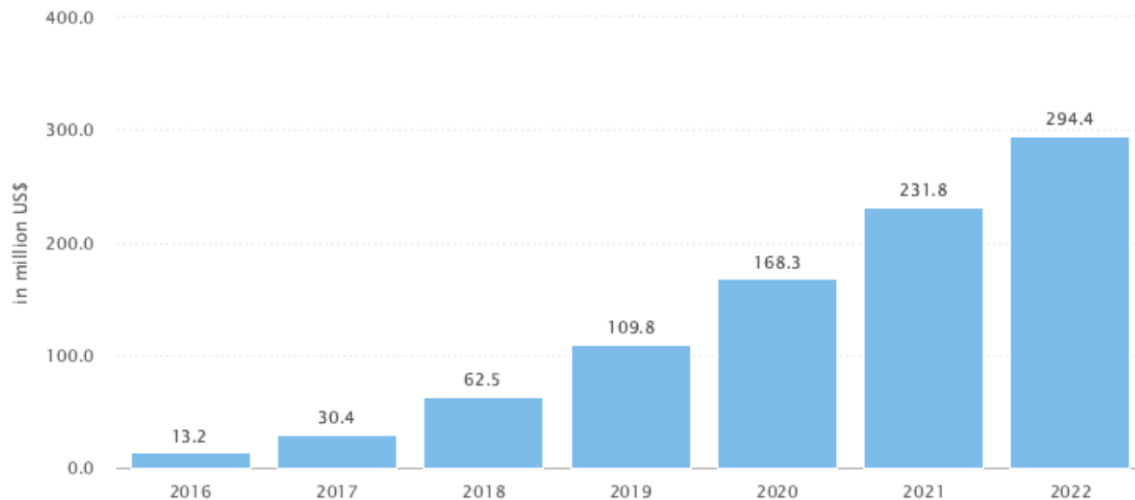


Source: [www.statista.com](http://www.statista.com), accessed: 20.08.2018.

The value of loan-equity crowdfunding (crowdlending) for business increased over two times in 2017 (figure 2). The predictions for 2018 are similar because it can amount 62,5 million USD. This number is over ten times higher than for crowdinvesting. Moreover, the

transaction value is expected to have annual growth rate about at about 47% per year. It means that total transactions value of crowdlending for business can reach over 294 million in 2022.

**Figure 2. Total transaction value in loan-based crowdfunding for business in 2016 and 2017 and predictions until 2022 in Poland**

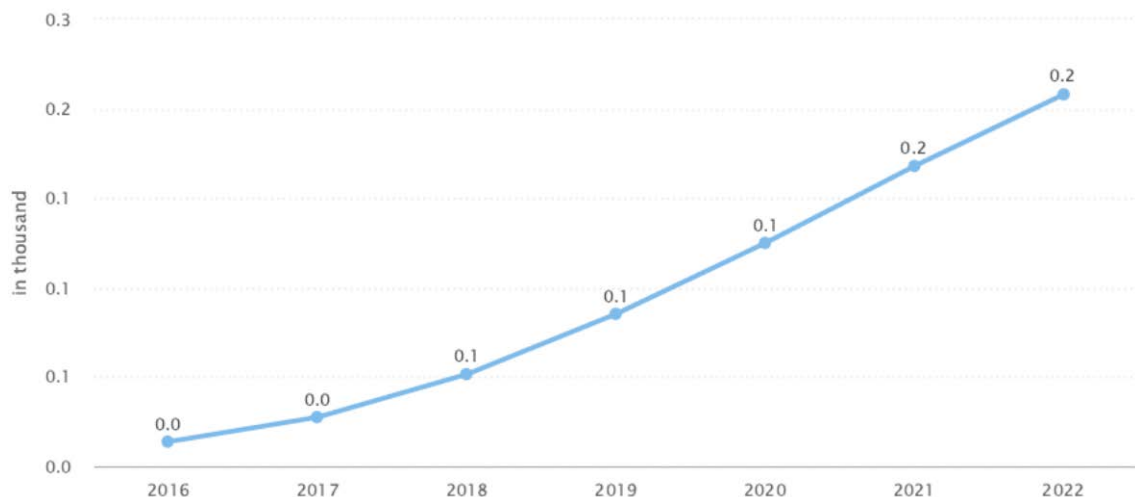


Source: [www.statista.com](http://www.statista.com), accessed: 20.08.2018.

### Campaigns

The number of equity-based crowdfunding campaigns was growing quite fast and probably the same till be in the future. It was shown in figure 3. However, the prediction number is not much – about 200 campaigns per a year.

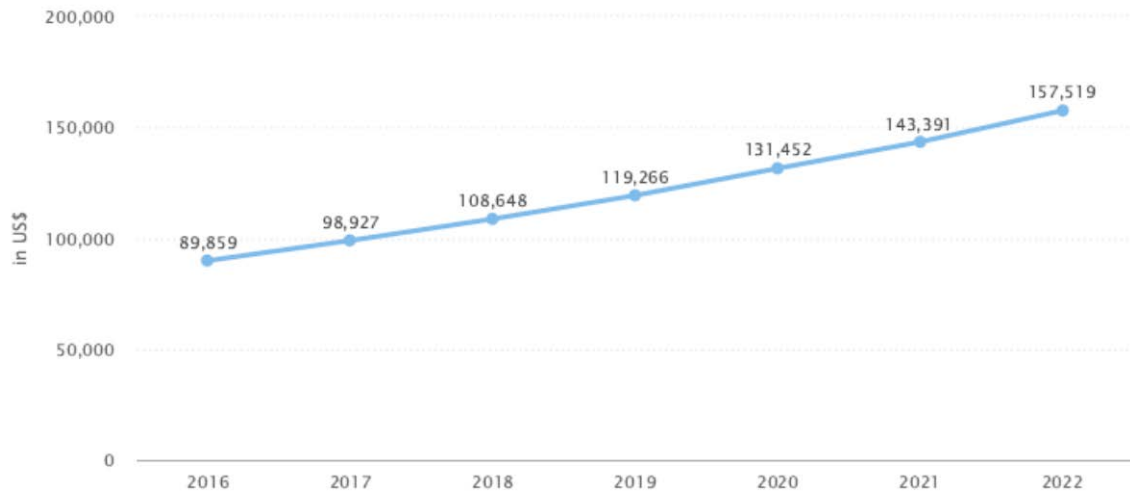
**Figure 3. The number of equity-based crowdfunding campaigns in 2016 and 2017 and predictions until 2022 in Poland**



Source: [www.statista.com](http://www.statista.com), accessed: 20.08.2018.

The average value of equity-based crowdfunding campaign in Poland had not exceed 100.000 USD what was presented in the figure 4. However, the change in regulations allows to rise over this level. According to predictions, the average funding per campaigns can reach even nearly 158.000 USD in 2022.

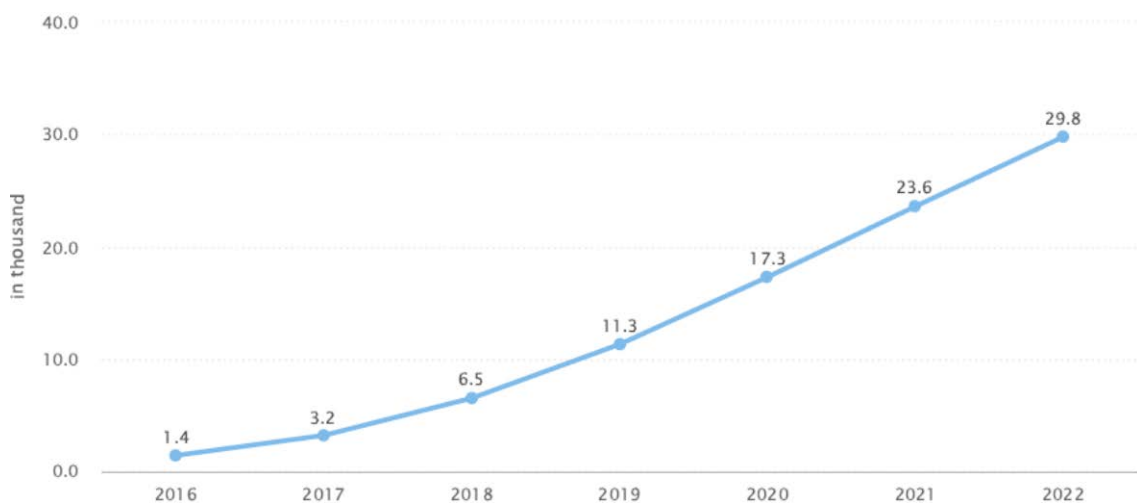
**Figure 4. The average funding per an investment of equity-based crowdfunding in 2016 and 2017 and predictions until 2022 in Poland**



Source: [www.statista.com](http://www.statista.com), accessed: 20.08.2018.

The number of loan-based crowdfunding for business campaigns was increasing significantly in the past – figure 5. The predictions for the next years are also very well as there can be even 30,000 campaigns in 2022. The numbers are much higher than for equity-based crowdfunding campaigns.

**Figure 5. The number of loan-based crowdfunding for business campaigns in 2016 and 2017 and predictions until 2022 in Poland**

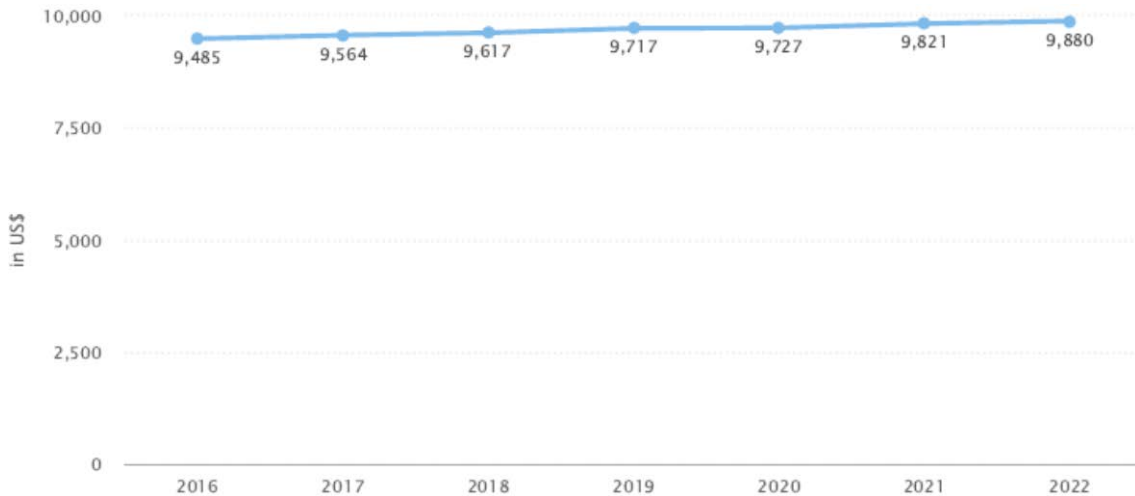


Source: [www.statista.com](http://www.statista.com), accessed: 20.08.2018.

The average funding per a loan, however, increased very slowly in 2017 when it amounted a little over 9.500 USD. It was shown in the figure

6. The rise is expected to be still quite stable in the next years. The average funding for business crowdlending in 2022 can reach nearly 9.900 USD. It is but much lower than for equity-based crowdfunding.

**Figure 6. The average funding per loan of crowdlending for business in 2016 and 2017 and predictions until 2022 in Poland**



Source: [www.statista.com](http://www.statista.com), accessed: 20.08.2018.

## Analysis of crowdfunding in Greece

### Legislation and public support

The absence of a rigorous legal regime on crowdfunding in the European Union appears in the Greek case. An effort to resolve the lack of a specific legislation resulted to the introduction of the provisions of the Law 4416/2016. With the law 4416/2016, focusing on the transposition into national law of Directive 2014/91 / EU / L 257, in particular Articles 23 and 24, the Greek authorities try to introduce for the first time in Greece, the legislative framework for Crowdfunding, (Hellenic Government 2016). The provisions of the Law have not established a special law for Crowdfunding. Issues of Crowdfunding are regulated indirectly by providing specific changes on the Laws 3401/2005 and 3606/2007. By the law 4416/2016 the following amendments are provided:

- An electronic platform presents through the internet the investment proposals of the publishers and accepts with the same way the ordering of investors to acquire securities.
- Crowdfunding electronic platforms can be managed only by Investment Firms, Anonymous Alternative Investment Management Companies (AEDOOE) and Credit Institutions as part of the investment service of receiving and transmission of orders. The two first institutions are supervised and controlled by the Hellenic Capital Market Commission (HCMC) while credit institutions are controlled by the Bank of Greece
- The providers of crowdfunding services are required to notify the HCMC or the Bank of Greece, depending on the institution, the intention to manage electronic platforms by submitting the necessary information and data.



- The HCMC or the Bank of Greece may reject the application if it considers that the organizational requirements of the Law are not met, within two months from the submission of all foreseen data.
- The law mentions the minimum content of the information the above producers of the electronic platform must provide to existing or potential customers.

### Crowdfunding platforms

Platforms created at the first decade of 2010 Open Circle, Groopio in 2012 and Winners Fund in 2014 was not able to continue their function. Now days two electronic platforms are in function, Act4Greece and Give&Fund. They focus on donation. Between them Act4Greece had an important growth if we consider the amount collected. Tables 1 and 2 give the projects financed through Act4Greece platform and table 3 those financed through Give&Fund platform. Act4Greece collected more than 2 million euros during the last 3 years, (2018 is an ongoing year). On the contrary Give&Fund collected only 32 thousand euros.

### Crowdfunding Campaigns

In Greece, so far only the donation model works through Greek crowdfunding platforms. As it appears on tables 1 and 3 financing campaign focus on donation. In the case of Act4Greece main part of funding was dressed to school food. Crisis had severe social consequences and the offer of public meals tried to solve humanitarian problems, especially in the Greek capital, Athens. One of the forms of these social meals took the form of school food since children lack of nutrition has been one of major social crisis problems. Through this platform money was collected to finance the school food, table 1. If we add medical and social help, donations regarding social issues provoked collect more than 80% of total funds. Theater, education, culture and libraries collected about 18% of the funding.

**Table 1. Financing of Act4Greece campaigns, by diver categories**

Category	Total (in euros)	Part in total (%)
School food	1.245.437	61,7%
Theater-Animation	211579	10,5%
Medical help	194378	9,6%
Social help	141367	7,0%
Education	101335	5,0%
Child care	49980	2,5%
Culture	42885	2,1%
Athletes Paralympics	25000	1,2%
Libraries	5154	0,3%
Total	2.017.115	100%

Source: Act4Greece, 2018

**Table 2. Campaign of Act4Greece, completed**

Year	Amount	Part per year, (%)
2016	720.729	36%
2017	993.058	49%
2018	303.328	15%
	2.017.115	100%

Source: Act4Greece, 2018

In the case of Give&Fund a specific project on the creation of a studio to produce audio books for the visual impaired collected 23,5% of funds. This project and two projects related to school needs collected 56,5% of total amount at campaigns still ongoing. The rest of campaigns are focusing on social help, table 3. One has to note the small amount of only 32 thousand euros.

**Table 3. Financing of Give&Fund campaigns, by diver categories**

Category	Total (in euros)	Part in total (%)
Books recorder for blinds	7.534	23,5%
School	6.295	19,6%
Social help	5.059	15,8%
School bus	4.296	13,4%
Social help-Kongo Tanzania	2.987	9,3%
Theater	1.745	5,4%
Refugees	1.745	5,4%
Medical help	1.437	4,5%
Child help	985	3,1%
Total	32.083	100,0%

Source: Give & Fund, 2018

## Conclusions

Crowdfunding can be an important alternative financial instrument for the new start SMEs but also for initiatives related to social targets. A main problem remains the legislation even if initiatives have been undertaken by the European Union and several countries. Between the examined countries, crowdfunding has a bigger development including loans and equity-based crowdfunding. In the Greek case this instrument is used much more for social purposes; it had the role of intermediary collecting necessary funds. Social crisis in Greece, natural disasters on 2016 and 2018 and the refugees' problems created a solidarity movement and one of components of these movements was expressed by the development of the donation through the crowdfunding.

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