

# PARTICIPATING FINANCE AS A DEMOCRATIC WAY TO ACCESS CAPITAL FOR INVESTMENT

## FINANȚAREA PARTICIPATIVĂ CA ȘI MODALITATE DE DEMOCRATIZARE A ACCESULUI LA CAPITAL PENTRU INVESTIȚII

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**Rezumat.** *Această cercetare își propune să analizeze Finanțarea Participativă ca o nouă alternativă de finanțare a investițiilor, identificând oportunitățile și riscurile pentru investitori. Studiul a fost realizat printr-o revizuire a literaturii, care a permis identificarea principalelor caracteristici, avantaje și dezavantaje ale Finanțării Participative. Unul dintre cele mai relevante rezultate obținute a fost identificarea potențialului Finanțării Participative de a democratiza accesul la resurse financiare pentru a dezvolta proiecte de investiții, în special pentru investitorii mici. Cu toate acestea, s-a observat și faptul că această modalitate de accesare a finanțării, prin intermediul unei platforme, prezintă riscuri care necesită o evaluare atentă din partea investitorilor. În concluzie, Finanțarea Participativă, care apare ca o opțiune promițătoare atât pentru firmele care vor să obțină bani pentru afacerile lor cât și pentru potențialii investitori, are potential de dezvoltare. În final fiind prezentate trend-urile internaționale, precum și unii factori care pot influența viitorul crowdfunding-ului.*

**Cuvinte cheie:** *Finanțarea Participativă, Crowdfunding, investiții alternative, oportunitate de investiții*

**JEL CLASSIFICATION** G1, G20, G23, G32, O16

### INTRODUCTION

Participating Finance or crowdfunding is a fast-growing method of supporting new business ventures that is closely related to the advancement of information technology and computer networks. This financing option enables people with appealing, creative ideas but limited financial resources to support a variety of projects such as business, cultural, social, athletics, or charity. Crowdfunding provides marketing and distribution advantages that conventional financing does not, and it is particularly beneficial for creative business endeavors. However, not all crowdfunding sites promote commercial objectives. The key to crowdsourcing success is raising the amount of money needed to accomplish a venture's goals. Crowdfunding platforms play an important part in the process, each with their own set of processes, provisions, and services. Global crowdsourcing sites such as Kickstarter, Indiegogo, GoFundMe, and Casus are among the most famous, and the number is increasing all the time. The most significant benefits of crowdsourcing platforms include faster financing, easier project execution, product development, a favorable influence on marketing, acquiring additional business partners, acquiring additional resources, and more effective project documentation creation. Crowdfunding also promotes the development of inventions by providing the required money for initiatives that would otherwise be impossible to execute.

The purpose of this paper piece is to investigate the number of crowdfunding platforms in Europe that are used to carry out business initiatives. To accomplish this objective, the piece drew on a variety of sources, including extant literature, records, reports, and the websites of the biggest European crowdsourcing platforms. The investigation of these sources was completed in 2022.

### CONTENT

For any business to start, grow, and operate effectively in the market, it requires a certain amount of financial resources. There are various sources of financing available to companies that have a significant impact on their development opportunities. These financing sources can be classified into two types: classic and alternative. Classic sources include loans, leasing, EU subsidies, net profit retained within the company, owners' equity, and trade credit. However, companies may also seek alternative sources of financing in order to diversify their funding sources or when they are unable to meet the requirements for traditional financing. One such alternative source of financing is crowdfunding.

In recent years, European companies have increasingly turned to unconventional forms of financing, which can be more attractive than traditional methods of raising capital. However, it requires specific knowledge and skills to apply these forms of financing effectively and to use the funds acquired efficiently. The market is constantly providing companies with newer forms of financing, and it is essential for businesses to stay informed and adaptable to utilize them to their advantage.

It is a contemporary fundraising strategy that has transformed the way people collect funds for various purposes. It entails soliciting small sums of money from a diverse group of people, primarily via the internet, in order to finance a specific project or endeavor. Crowdfunding is a type of electronic financial invention in which individuals can contribute, invest, lend, or pre-purchase goods to support a specific cause. It is an open call to join in fundraising for specific reasons. The technique has been lauded as a means of democratizing financial support for a wide range of purposes, including charitable initiatives, start-ups, and business development.

Crowdfunding platforms act as middlemen between project creators and investors or donors. These sites play an important part in making the process of raising funds for various reasons easier. They offer a place for project initiators to showcase their projects, as well as for financiers to discover projects that match their interests. Crowdfunding platforms have transformed the way people raise funds, making it simpler for them to give to causes they care about.

Like any investment or fundraising method, it carries its own set of risks. One of the main risks associated with crowdfunding is the possibility of fraud or scams. There have been cases of fraudulent crowdfunding campaigns that mislead investors by presenting false or misleading information about the project, its potential returns, or its progress. Another risk is the lack of regulatory oversight, as crowdfunding is a relatively new industry that is still in the process of being regulated in many countries. This can make it more challenging for investors to evaluate the credibility and legitimacy of a crowdfunding campaign. Additionally, there is the risk of projects failing to deliver on their promises or not achieving their funding goals. Finally, investors may face liquidity issues when investing in crowdfunding campaigns, as they may not be able to easily sell or transfer their investment. As with any investment opportunity, it is essential for investors to do their due diligence and thoroughly research the crowdfunding platform, project, and project initiator before investing any funds.

Crowdfunding has been around since 1997, when the idea was first presented. ArtistShare.net was the first crowdsourcing website, launched in 2000. Since then, crowdfunding has grown in prominence, with several sites springing up around the world. Kickstarter, which was founded in 2009, is now the world's biggest and most famous crowdfunding platform. Kickstarter has used crowdsourcing to help several startups and entrepreneurs bring their ideas to life, and it remains a major participant in the crowdfunding field.

Following the 2008 global financial crisis, there was an increase in interest in crowdsourcing. This was due to a hunt for alternative financing and investment possibilities in the aftermath of the turmoil in global financial markets at the time.

The COVID-19 pandemic also posed a major challenge for many businesses, which needed to adapt rapidly to the continuously changing circumstances in order to continue offering products and services. Gastronomy, tourism, culture, amusement, and the automotive trade were among the sectors hardest hit, with financial problems resulting from decreased demand for their goods and services. As a result, many of these businesses resorted to alternative financial instruments, such as crowdsourcing, to obtain the necessary financing. The United Kingdom has emerged as one of the top nations in the worldwide crowdfunding industry. According to the Cambridge Centre for Alternative Finance, the United Kingdom is the world's third-largest crowdsourcing industry, trailing only the United States and China.

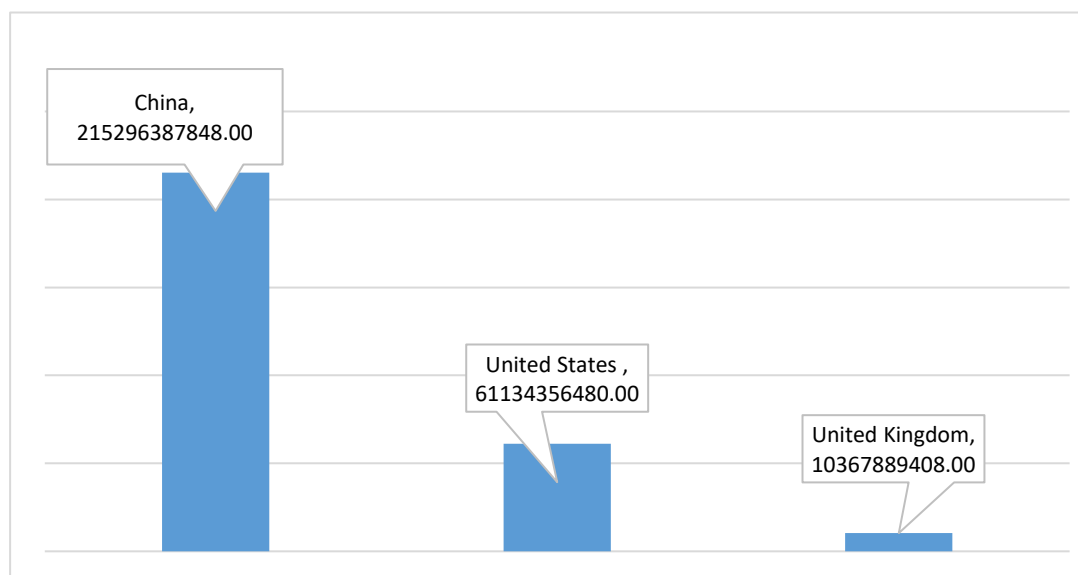


Figure nr.1: Top 3 Crowdfunding Countries in the World

Source: Own elaboration based on numbers from the Cambridge Center for Alternative Finance

<https://www.jbs.cam.ac.uk/wp-content/uploads/2021/06/ccaf-2021-06-report-2nd-global-alternative-finance-benchmarking-study-report.pdf>

The future of crowdsourcing appears bright, with the industry expected to expand further in the coming years. Here are some possible trends and advancements that could influence crowdfunding's future:

- Regulation: As crowdsourcing becomes more popular, governments all over the world are attempting to control the business. This may reduce the risk of fraud and boost investor trust, but it may also make it more difficult for companies and small businesses to obtain financing.
- Blockchain: Blockchain technology has the ability to transform the crowdsourcing industry by allowing quicker and more secure transfers, decreasing the need for middlemen, and boosting openness.
- Crowdfunding as a service: Some businesses are beginning to offer crowdfunding as a service, which allows them to establish their own crowdfunding website and collect money directly from their customers or followers.
- Globalization: As the world becomes more linked, it is possible that crowdsourcing will become more global, with investors from various nations adding to campaigns and companies seeking funds in multiple currencies.

Overall, legislation, technology, and shifting investor tastes are likely to influence the future of crowdfunding. While crowdfunding has risks and challenges, the possible benefits of democratizing access to money and empowering entrepreneurs and small companies are substantial.

## CONCLUSION

To summarize, crowdsourcing has grown in popularity as an alternative financing option for companies and people, enabling them to collect funds for a variety of reasons such as start-ups, charity

causes, and societal projects. Crowdfunding platforms have transformed fundraising by making it simpler for people to contribute to initiatives that are relevant to them. Crowdfunding, on the other hand, comes with its own set of risks, including the possibility of fraud, a lack of regulatory oversight, and projects that fail to deliver on their promises. To mitigate these dangers, investors must conduct thorough research before spending any money. Nonetheless, the rise of global crowdfunding platforms such as Kickstarter continues to democratize access to funding and support the development of inventive projects that would otherwise be difficult to implement.

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