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How Crowdfunding Works in Romania?

Mădălina Bălău¹

Abstract: Crowdfunding is increasingly becoming a good solution for entrepreneurial ventures to obtain funds, being facilitated by internet and social networks, and it is also spreading in Romania as well. The current paper aims to explore this alternative for financing in Romania in order to understand better its evolution until now, whether if it is viewed as suitable for business as well, and to compare the advices offered for entrepreneurs in Romania versus those on famous crowdfunding sites such as Kickstarter and Indiegogo. In order to achieve this we explored websites offering crowdfunding in Romania and the information they offer entrepreneurs, we identified the types of most successful campaigns and we compared advices offered to those existing on international websites, renowned for their success. The marketing strategy and the planning of the campaign seem to be essential for its success and this paper highlights in its conclusion some lessons Romanian entrepreneurs could learn from international crowdfunding campaigns and the growing scientific literature available on this subject.

Keywords: Crowdfunding; social networks; marketing and business plan.

JEL Classification: M13

1. Introduction

Crowdfunding represents a unique category of fundraising, facilitated by the Internet, but since this field is just emerging it can be found in a state of evolutionary flux. Thus, crowdfunding is “an open call for the provision of financial resources in form of donation or in exchange for some form of reward” (Schwienbacher & Larralde, 2010) but it can also refer to peer-to-peer lending (Lin & Viswanathan, 2013) and fundraising initiated by fans of a music group (Burkett, 2011). Crowdfunding refers to the efforts made by entrepreneurs or groups of individuals who want to fund their start-ups, by collecting relatively small contributions from a relatively large number of individuals using the internet, avoiding the usual financial intermediaries.

In Romania, crowdfunding is at its beginning, so the aim of the paper is to find an answer to several questions related to this kind of solution for obtaining funds: (1) What types of projects are successful in crowdfunding in Romania? (2) What advices are offered to entrepreneurs for a successful crowdfunding campaign on each website? (3) Is there a focus on the business perspective in the initiatives or is the not-for-profit perspective prevailing? (4) What are the recommendations for entrepreneurial ventures offered by international crowdfunding websites and what additional recommendations are offered?

¹Senior Lecturer, PhD, Department of Economics, Danubius University of Galati, Romania, Address: 3 Galati Blvd., Galati 800654, Romania, Tel.: +40372361102, Corresponding author: madalina.balau@univ-danubius.ro.

In order to provide answers to these questions we identified several Romanian platforms dedicated to crowdfunding. We decided to choose those with most numerous projects available, which lead us to a study of four websites, among which three are located in Bucharest and one in Baia Mare.

The sections of the paper will initially highlight some essential ideas and perspectives on crowdfunding, identifies in the literature on the subject. The third section will present the comparison between websites, highlighting the solutions offered to entrepreneurs. The conclusions emphasize the managerial implications of crowdfunding and lessons to be learnt by comparing crowdfunding in Romania and what's happening at international level, in order to increase the quality of crowdfunding projects in Romania.

2. Essentials about Crowdfunding

Crowdfunding is a new tool available to entrepreneurs as well as to representatives of non-governmental organizations that aim mostly for charitable causes. The essential part in a crowdfunding initiative is that it should be structured as a project which calls for participants – funders – outside the traditional financial intermediaries for business, such as the financial and credit institutions. The variety of crowdfunding projects is immense, ranging from small artistic projects to entrepreneurs wishing to develop innovative products of hundreds of thousands of dollars (Mollick, 2014; Schwienbacher & Larralde, 2010). Crowdfunding is in a way related to concepts such as micro-finance (Morduch, 1999) and crowdsourcing (Poetz & Schreier, 2012), but it stands as a separate category for financing an initiative. Its popularity grew as the number of websites dedicated to this aim has grown in recent years (Mollick, 2014).

Online platforms designed for crowdfunding are becoming intermediaries individuals or organizations that launch an innovative project (founders of the initiative) and those who decide de fund that project, the backers. There are several crowdfunding platforms available, some of which are exclusively dedicated to not-for-profit initiatives (Agrawal, Catalini, & Goldfarb, 2010), but most popular have sections dedicated to product development and business start-ups.

One important issue, specific to crowdfunding is that the main goal of backers in crowdfunding is not that of obtaining profit. Usually, funders on crowdfunding platforms are rewarded with the direct output presented by the campaign, depending on the amount of contribution offered by the backer. An important factor that influences the choice of the backer to support the cause is the exclusiveness of the product given as a reward, especially since it will be offered to the market only after being provided to the backers and usually, it reaches the market at a higher price.

The context and the nature of the crowdfunding project influences the relationship between project initiators and funders (Belleflamme, Lambert, & Schwienbacher, 2012), allowing the backers to achieve different types of goals, sometimes even several goals simultaneously. In the case of art or humanitarian projects, the backers follow a philanthropic goal, as in the lending model, funders might be interested in the rate of return on capital. Finally in micro-financed loans, lenders might want to promote a social good. Yet, the most frequent goal in crowdfunding is the reward obtained.

3. Comparing Crowdfunding Policies of Dedicated Websites

In order to answer the research questions we studied five crowdfunding websites in Romania (crestemidei.ro, wearehere.ro, sprijina.ro, multifinantare.ro, potsieu.ro), among which four were based

in Bucharest and one in Baia Mare. We also analyzed the advices offered for starting a campaign in two renowned international crowdfunding websites (kickstarter.com and indiegogo.com) in order to identify differences in advices offered to Romanian entrepreneurs. We suspect that the existence of such differences might be linked with the degree of success in crowdfunding campaigns, but this study is mainly an exploratory one, aiming to identify first features of crowdfunding in Romania, for further testing in future studies.

Three of the Romanian websites were more active, while two of them proposed initiatives rather old for the moment of this study. We conducted this research in March 2016, and at this time there was the following situation of successful projects (funded) reported on the websites.

At a first glance, after analysing Table 1, the crowdfunding activity seems to differ quite much from one website to another, but also we notice that the current active campaigns are rather few, with a maximum of 8 active projects. Concerning the successful projects until now, in three websites we found around 30 projects successfully funded, while two websites seemed less active. Usually, the number of unsuccessful projects is almost comparable with those successful, except for one case. Multifinantare.ro seems to be quite a special website, since only 6 projects were successful and 49 unsuccessful. When analysing the average funded sum and compare it with what are current projects aiming at, for some websites we find some persistence, as in the care of wearehere.ro, or increases in the objective (compared with the past). Two special cases deserve being mentioned, first there is the care of multifinantare.ro where projects demand very diverse amounts of funding and very few are successful, and secondly, sprijina.ro who finances all projects, even those that didn't reach their target, and the pressure on setting an achievable objective is lower (in spite of their affirmation on website that they encourage realistic objectives).

Table 1. Funded projects in Romania

	Potsieu.ro	Crestemidei.ro	Multifinantare.ro	Wearehere.ro	Sprijina.ro
Successful projects (funded)	4 projects	31 projects	6 projects	31 projects	30 projects ¹
Unsuccessful projects	6 projects	31 projects	49 projects	38 projects	42 projects
Current active projects	0 projects	6 projects	1 project	2 projects	8 projects
Average funded sum in successful projects	6668,25 lei	9038,19 lei	Not relevant ²	1672,13 euro	36080,43 lei
Amount (average) aimed by current projects	Not the case	19071,33 lei	500000 lei	1500 euro	111824,33 lei ³

In order to understand what categories of projects are mostly proposed for crowdfunding initiatives, we analysed the categories available on four of the above platforms, namely: crestemidei.ro, multifinantare.ro, wearehere.ro and sprijina.ro. Potsieu.ro offered information about only few projects, so the analysis doesn't seem relevant for this case. Projects dedicated to the 'Community' category were the most numerous and also this category was present on all the platforms. Other categories important are 'Education', 'Sports', 'Publishing' and 'Music'. As such, most crowdfunding projects are situated in areas not strongly connected to business purposes and initiatives, even though there are

¹ The website doesn't offer information whether the objective of the campaign was reached or not in the crowdfunding initiative. In addition, the website funds all projects even if they didn't reach their objective. As a consequence we counted only projects that gathered more than 1000 lei (approx. 220 euros).

² Of the six successful projects one was funded 3500000 lei, while another one was funded with 360 lei.

³ In this case, average also seems irrelevant as there are big differences in the objectives established, and in our average we excluded two projects we considered outliers, aiming for 10.000.000 lei and 1.000.000 lei, the other one.

a few cases on such projects. The only platform with investment projects is *multifinantare.ro*, however, we can suspect that not all funding is gathered through the online platform since the two successful initiatives in investment gathered important amounts of funds from a very limited number of funders.

If we could describe the crowdfunding platforms based on types of projects, then *wearhere.ro* is mainly dedicated to artistic performances and art, while *crestemidei.ro* and *sprijina.ro* are highly dedicated to community, education, sports and writing /publishing. In conclusion we can say that for now crowdfunding is used in Romania in order to fund innovative ideas which don't take a business approach, at best they are, in few cases, social enterprises. The charitable aspect is emphasized much more, and this can be also observed in the types of rewards offered, where offering a "thanks" on Facebook, on the official website or on a panel at the location of the initiative are some of the most featured.

When considering the projects that were successful in achieving their goal, the type of funding options offered by the crowdfunding platform seemed to play an important role. On this issue, platforms might offer flexible funding or fixed funding, the latter functioning on the "all or nothing" principle, meaning that if the goal of the crowdfunding projects isn't reached, the funders aren't charged the amount of money they agreed to give the project. Among the platforms in Romania, *crestemidei.ro* and *multifinantare.ro* were using the "all or nothing" approach, while *wearhere.ro* offers the two options, while for *sprijina.ro* all funding is flexible, the only consequence when a project doesn't reach its goal is a higher fee paid to the platform. Thus, *sprijina.ro* has a higher number of projects proposed, however as a general observation the quality of the projects proposed is lower, meaning that the description is less detailed and justified as for the video usually required in the presentation, again is lower in quality. Definitely, all or nothing approach is offering stronger incentives for initiators to propose good projects.

Based on the findings of Mollick (2014), the quality of a project is strongly linked to its success in achieving the target funding. This quality can be assessed by some very simple features for now, when the crowdfunding phenomenon is still reduced in size, and these are: providing a video, offering updates soon after launching the campaign and making a project description without spelling or language mistakes. When it comes to the projects available on the Romanian platforms we observed that almost none of them provided updates. The only exception is *crestemidei.ro* for which only the successfully funded projects offer some updates.

Concerning the advices offered by the websites to project initiators these refer to tips about creating a presentation video, concrete advices on how to set the objective of the campaign, how to create rewards as well as on how to communicate with backers. The most comprehensive set of advices can be found on *sprijina.ro*, but all these advices can be found on the other platforms as well, in a shortened version. However, no advice is given about updates. Since *multifinantare.ro* is the only platform to propose investment projects as well, it features dedicated information for businesses and it also specifically asks for a business plan. Indeed, most of the projects in the investment category provided a business plan and a financial prediction.

Recommendations available on the two international crowdfunding websites we compared with the Romanian sites were in some ways similar, more detailed and with more examples from successful projects. Here we will only emphasize the differences in order to highlight the issues on which more knowledge about planning and budgeting could be of help for Romanian entrepreneurs as well. Thus, an important issue relates to the budget of the project, for which you can get detailed advice and

recommendations on Kickstarter and Indiegogo, a subject which is almost inexistent in Romanian crowdfunding sites (the only exception are investment projects in *multifinantare.ro*) and this could enhance project's credibility and realistic side. For now, we can only find basic rules of thumb on how to set the goal for the campaign, but this has nothing to do with business planning. Second, international platforms also advise for providing a time-line for the project, another essential aspect for the credibility and feasibility of the proposed initiative. Unfortunately, this subject lack completely from advices found in Romanian. Finally, updates are warmly advised.

4. Conclusions

Crowdfunding is a new method of funding social businesses, community and education projects and artistic initiatives that is gaining grounds at global level as well as at national level, in Romania already existing at least five crowdfunding platforms with different focus, each. The crowdfunding activity has been supported increasingly by social networks which directly linked to the success of a project in achieving its target. As well, this novel financing solution is more and more important in an economic context in which companies have difficulties in accessing credits but also in a social context in which young people would easily spread the news about initiatives representative for them.

In this paper we wanted provide an initial exploration of the crowdfunding phenomenon in Romania and to compare the existent knowledge available in Romanian on how to create a crowdfunding campaign with what exists on renowned international crowdfunding platforms. Answering to our first question about the projects that are successful in Romania, we can say that most of them relate to categories like community, education, sports and publishing and the average financial goals achieved through a crowdfunding campaign is between 1600-2000 euros.

Concerning the focus on business versus charity and non-profit perspective, right now the second one is definitely prevalent. This can possibly be due to the focus of the advices offered by the website, only one offering recommendations for investors, while the rest of them don't seem to be concerned with aspects vital for business and financial sustainability, such as provision of a budget, time-line and regular updates on how the team is working towards implementing the project crowdfunded.

In conclusion, Romanian crowdfunding websites emphasize more the project features of the initiative, not offering many advices important from a business perspective, and thus providing insufficient knowledge for entrepreneurs in really creating a business plan and especially a marketing and communication plan. This part of the recommendations is what differentiates the international platforms from the Romanian ones in terms of advices, and there is potential for adapting that knowledge to the particular needs of Romanian entrepreneurs aiming to fund their business through crowdfunding.

This paper has only been an initial research on crowdfunding in Romania, and it is quite limited in the findings provided for entrepreneurs and the managerial implications. In fact, further studies should elaborate more on the managerial impact of crowdfunding in the current Romanian business environment and also in understanding the challenges in implementing business and marketing planning recommendations by entrepreneurs.

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