



Opportunities for the Development Crowdfunding in the Republic of Moldova

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Abstract: Objectives: The purpose of the research is to highlight the functioning of crowdfunding in the current context of financing economic agents, and the objectives set refer to: reflecting studies on the concept of crowdfunding, analyzing it internationally, presenting the specific situation for the Republic of Moldova regarding; elucidating the opportunities and challenges in the development of crowdfunding. **Prior work:** The paper is based on the concept of studying loan-based crowdfunding services for economic agents and is related to other mentioned research. **Approach:** The research methods used: descriptive method, graphic method, SWOT analysis, synthesis, observation and comparison, deduction and induction, scientific abstraction. **Results:** Presenting aspects of the functioning of crowdfunding in the Republic of Moldova compared to the practices and types of platforms used internationally, identifying strengths, weaknesses, opportunities and challenges in the development of participatory financing. **Implications:** The research conducted is useful for researchers and teachers who study the field of financing economic agents through the crowdfunding mechanism. **Value:** This work is unique in presentation of aspects regarding the functioning of the crowdfunding mechanism, the results are relevant and significant in view of the opportunity to develop the topic addressed, which is of particular relevance and importance.

Keywords: finance; economic agents

JEL Classification: G22

1. Introduction

In an economy in constant transformation, the role of crowdfunding in financing economic agents at the current stage is a subject of great topicality and importance. This form of financing represents an open call for the provision of financial resources, facilitating the connection between financiers and beneficiaries through online platforms. Although the total volume of crowdfunding financing currently

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remains relatively small compared to traditional financing methods, this alternative form of financing is rapidly gaining ground due to technological progress and the new development opportunities it offers.

International practice shows us that the crowdfunding market which is global has seen notable changes happening across major regions, driven by technology advancement, shifts in regulations and changing customer habits.

Essentially, the evolution of crowdfunding reflects a significant shift in the way funding activities are designed and conducted. This shift has not only broadened the opportunities for projects to obtain funding, but has also encouraged greater community participation and collaboration, emphasizing the importance of intelligence and collective resources.

Taking into account the changes that have occurred at the current stage regarding the implementation of the mechanism for the functioning of a new source of financing for economic agents in the Republic of Moldova, studying aspects regarding the prospects for the development of participatory financing at the national level becomes an important object of scientific analysis, especially in the context of the need to finance economic agents and the sustainable economic growth of the country, which determines the relevance of the research.

2. Related Work

The growing demand for alternative sources of financing and the accelerated development of technology have made crowdfunding a phenomenon in constant transformation, with the potential to change the structure of financial markets. The term has become popular and more widespread in the following years with the increasing use of online platforms that facilitate this type of collective financing. Today, crowdfunding is recognized as a viable method of financing for a wide range of projects and initiatives, from art and culture to technology and business.

The degree of study of the topic focused on local researchers (Băncilă & Popovici, 2022; Gherjavca, 2023; Moroi & Gumovschi, 2024) specified in their works the concept of crowdfunding, the advantages of this financing method compared to traditional ones for entrepreneurs in the Republic of Moldova. In his doctoral thesis, the researcher (Pâslari, 2023) studied the aspects of crowdfunding from the perspective of alternative investment instruments, specifying that the crowd finance market in the Republic of Moldova is incipient.

Internationally, the most recent works published by researchers have referred to the following topics: financing small and medium-sized enterprises through crowdfunding after the pandemic crisis (Marina, 2023); financial sustainability through crowdfunding (Martinez-Climent, 2019); economic perspectives and legal aspects in Germany (Angerer & Kraus, 2023); regulatory harmonization in Europe (Cicchello, 2019).

3. Problem Statement

The Republic of Moldova is in the early stages of the functioning of participatory financing, representing an alternative financing for economic agents. Thus, access to a new source of financing is an important step in the development of the financial system through innovative methods. At the same time, it

becomes necessary to study the radiography of the functioning mechanism of crowdfunding by identifying the opportunities and challenges of using this financing method in the Republic of Moldova. In this context, there is a need to determine the position of the Republic of Moldova and the aspects of the functioning of crowdfunding compared to the practices and types of platforms used internationally to highlight the strengths and weaknesses, which will allow the transformation of risks into development opportunities.

4. Concept and Terms

In the Republic of Moldova, in accordance with Law No. 181 of 07.07.2023 on participatory financing services, the term participatory financing is applied, which is analogous to the term crowdfunding applied internationally. Thus, the law establishes the goal of supporting and offering a financing alternative for newly established enterprises, small and medium-sized enterprises and local public administration authorities, through participatory financing platforms¹.

Crowdfunding is a way to provide small and medium-sized enterprises with access to financing and a method of obtaining capital for a unique product or service through the financial participation of the community. In accordance with European Union rules, the following components are required for crowdfunding to function: the developer of a participatory financing project, the investor and the online crowdfunding platform².

The developer of a crowdfunding project is the natural or legal person who has an idea, product or service and who wants to obtain financing to create or develop that product/service.

The investor is the individual or legal person who wants to provide loans to the project developer or to provide financing by purchasing securities made available by the project developer.

The online crowdfunding platform presented through the publicly accessible online information system, operated or managed by a crowdfunding service provider.

The European Crowdfunding Network highlights the following characteristics necessary for crowdfunding to function:

- 1) through a crowdfunding campaign, an open call is launched to those who want to support a business/project - the supporter/investor can see the campaign they want to finance and choose the one that brings them the greatest benefits;
- 2) crowdfunding appeals to the community and offers the opportunity for anyone to contribute financially;
- 3) crowdfunding is activated through online platforms, where financial transactions are carried out;
- 4) In exchange for the financial contribution, the supporter/investor may receive tangible non-financial benefits or may benefit from financial advantages (interest on the invested amount or percentage of a company's profits).

¹ https://www.legis.md/cautare/getResults?doc_id=138188&lang=ro.

² EU Regulation 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European providers of crowdfunding services for businesses and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937.

Crowdfunding is a collective financing mechanism that allows the accumulation of funds for various projects, businesses or initiatives by collecting small amounts of money from a large number of people. This process is carried out mainly through online platforms, which facilitate the meeting between project initiators and potential investors or donors.

The European Union presents the key stages of the crowdfunding operating mechanism, which are indicated in Figure 1.



Figure 1. The stages of the crowdfunding mechanism

Preparing and launching the campaign. In this first stage, the project initiator identifies and outlines the central idea that requires financing through crowdfunding. This can be an innovative initiative, a new product or service, or any other initiative that requires financial support. It is essential that the initiator clearly defines their objectives and assesses their available resources before engaging in the crowdfunding process.

Choosing a crowdfunding platform. An important step is the selection of a suitable crowdfunding platform for the project. There are a variety of specialized platforms available, each with its own specific features and rules. The initiator must carefully evaluate the available options and choose the platform that answer the objectives and nature of his project.

Elaborate campaign. At this stage, the project initiator must develop a comprehensive crowdfunding campaign. This activity involves developing an attractive campaign page that includes a detailed description of the project, proposed financial goals, the project implementation strategy, and a clear presentation of the rewards or benefits offered to supporters.

Campaign promotion. Effective campaign promotion is essential to attract the necessary support. The project initiator should use a variety of communication channels, including social media, email, blogs and mass media, to convey the campaign message to the widest possible audience.

Community involvement. Active interaction with the community is an important component of the success of a crowdfunding campaign. The initiator must answer the questions and concerns of potential supporters and encourage their participation and engagement in the campaign.

Funding and reward offer. The funding process can involve various mechanisms, from an “all or nothing” model to keeping the funds raised, depending on the rules of the chosen platform. The initiator can offer rewards in the form of products, services or other benefits, or can involve supporters in the project through a stake in the business.

Complete. If the campaign reaches or exceeds the proposed funding goal, the funds are released to the initiator to start implementing the project. At this stage, the initiator must comply with the terms and conditions of the platform and ensure efficient management of the funds.

Implementation and reporting. After raising funds, the initiator must maintain transparent and regular communication with their backers. This involves providing regular updates on the project’s progress and delivering promised rewards, so that backers feel involved and informed throughout the process (Passeri, 2021).

The application of these stages is relevant and essential in the development of participatory financing in the Republic of Moldova.

Analyzing bibliographic sources, three main types of participatory financing were identified:

1. Equity crowdfunding, which involves the purchase by investors of shares or shares of a company;
2. Crowdlending or peer-to-peer lending – the granting of project loans or consumer loans by investors to other people in exchange for interest;
3. Donation-based crowdfunding – collecting funds to support various charitable causes (religious, social, ecological or other), which does not involve rewards for donation, but is based on the altruistic motivation of donors.¹

Loan-based crowdfunding is one of the most popular types and, at the same time, the form of crowdfunding with the largest share in the total market in terms of transaction volume.

5. Solution Approach

By identifying the mechanism of operation of crowdfunding, the place of the Republic of Moldova was assessed, the situation at the current stage regarding the regulatory dimensions, the registration of participatory financing platforms in 2024, the types of crowdfunding used. At the same time, it was possible to highlight the responsible factors that lead to the stimulation of the functioning of participatory financing and the challenges of the development of participatory financing, which will

¹ <https://www.bnm.md/ro/content/platforme-de-finantare-participativa-crowdfunding-crowdlending-crowdinvesting-cum>.

contribute in the future to the alignment of international practices in order to improve this financing method in the Republic of Moldova.

6. Analysis of Results

There are significant differences between EU countries in terms of providing financing to small and medium-sized enterprises. This diversity is reflected in:

- the relative potential of different sources of financing used by businesses;
- the level of development of different types of financial institutions, such as banks, investment funds, insurance companies and pension funds;
- the level of development of various segments of the financial market, such as the stock exchange, the bond market.

Thus, due to problematic access to different sources of financing, crowdfunding has developed rapidly in some countries of the European Union. Based on the report on the European Crowdfunding Market Survey 2023, the European countries that have developed crowdfunding platforms are grouped by region (Shneor et al., 2024), which we have presented in Table 1.

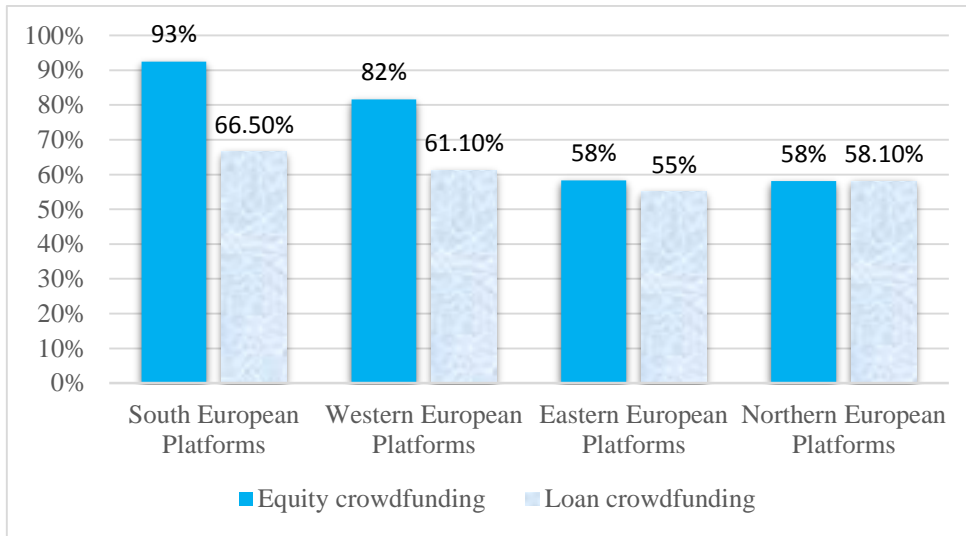
Table 1. European countries that have developed crowdfunding platforms, grouped by region

Grouped by region	Countries
Eastern Europe	Bulgaria, Czech Republic, Hungary, Republic of Moldova, Poland, Romania, Slovakia, Ukraine.
Northern Europe	Denmark, Estonia, Finland, Ireland, Lithuania, Norway, Sweden, Iceland, Latvia (ex: United Kingdom).
Southern Europe	Albania, Bosnia and Herzegovina, Cyprus, Croatia, Greece, Italy, Malta, Montenegro, North Macedonia, Serbia, Slovenia, Portugal, Spain
Western Europe	Austria, Belgium, France, Germany, Luxembourg, Switzerland, Netherlands

Source: Shneor, R., Wenzlaff, K., Boyko, K., Baah-peprah, P., Odorovic, A., & Okrimenko, O. (2024). The European Crowdfunding Market Report 2023.

In 2023, there were 594 crowdfunding platforms operating in Europe, with some platforms operating in multiple countries. The countries served by the largest number of platforms in absolute terms include Germany, the UK and France, the Baltic countries (Estonia, Latvia and Lithuania).

According to Figure 2 we can deduce that across all regions and models, SME fundraisers dominated equity models across all regions with 93% in Southern Europe, 82% in Western Europe, 58% in Eastern Europe, and 58% in Northern Europe respectively.



Source: Shneor, R., Wenzlaff, K., Boyko, K., Baah-peprah, P., Odorovic, A., & Okrimenko, O. (2024). *The European Crowdfunding Market Report 2023*.

Similarly, SME fundraisers also dominated lending models in most regions with 61.1%, 58.1% and 66.5% in Western, Northern and Southern Europe respectively.

In response to the rapid development of crowdfunding, authorities in some Member States are taking steps to clarify the conditions for this new business model, sometimes adopting specific legislation. However, measures will need to be taken to ensure a balance between the continued expansion of this emerging source of financing and the protection of investors (Association for Financial Markets in Europe, 2017).

In the US, the market is mature with more regulation and various platforms catering for different sectors. However, China though characterized by stricter government policies but shows growth in some certain areas like real estate. Germany on the other hand has a growing market especially involving green projects and social ventures while India's rise in crowdfunding activities can be attributed to technology and youthfulness of its population. Japan's market is known to be smaller but it witnesses slow growth based on creative ideas and entrepreneurialism-related initiatives. These developments demonstrate a dynamic world that recognizes regional aspects as determining factors of the crowdfunding industry (Lucintel, 2024).

In order to project an overall vision on the use of participatory financing, we have developed the SWOT matrix, which provides a detailed assessment of the advantages and challenges that participatory financing presents for economic entities, identifying potential strategies through which they can streamline fundraising and increase market visibility. At the same time, it is important to elucidate the weaknesses and threats in the application of this financing opportunity by economic entities.

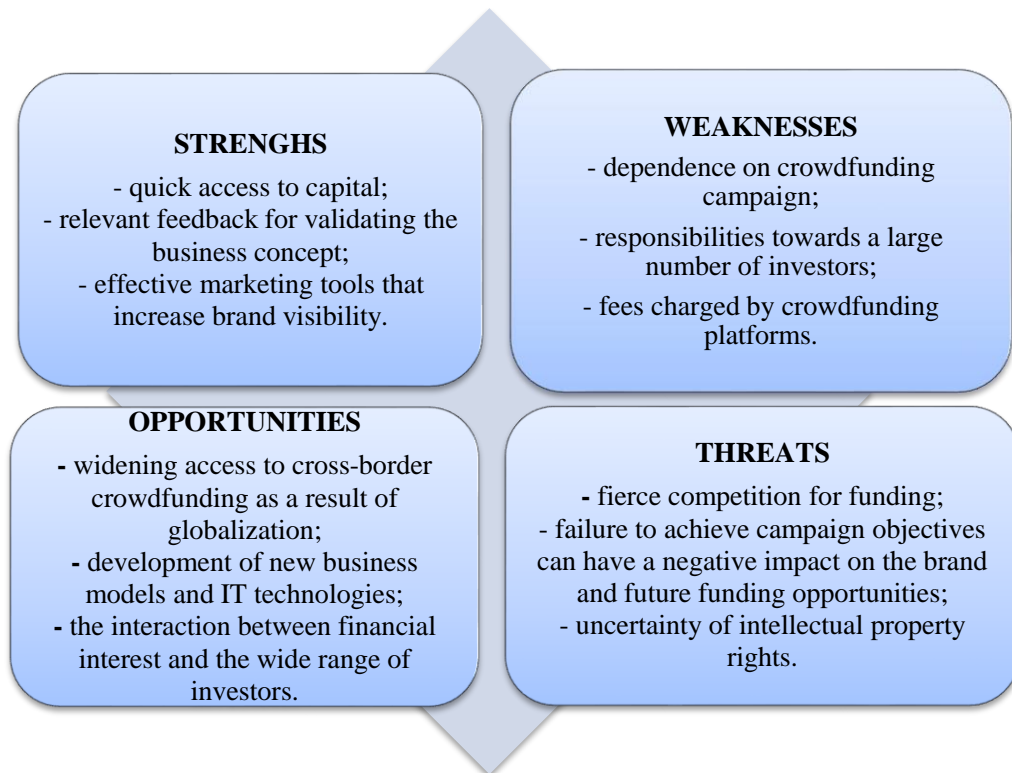


Figure 3. SWOT analysis regarding SME financing on crowdfunding platforms

The analysis revealed that the main advantage of crowdfunding lies in its ability to democratize access to funding. Crowdfunding platforms allow entrepreneurs to expose their ideas to a global audience, giving them the opportunity to validate and test market interest before the full commercial launch of the product or service. This aspect not only increases transparency and community involvement, but also provides a solid foundation for innovation through direct feedback from supporters.

However, crowdfunding is not without risks. Among the main challenges are the uncertainty of project implementation and the risk associated with investing in fully validated initiatives, which can lead to significant financial losses. Investors must be well informed about the specifics of the projects in which they choose to invest and about the protection mechanisms offered by crowdfunding platforms.

6.1. Peculiarities of the Functioning of Participatory Financing in the Republic of Moldova

At the current stage, important steps have been taken in the Republic of Moldova to initiate the participatory financing method, in this context we highlight the following action:

- creating the regulatory framework through the adoption by parliament of Law No. 181 of 07.07.2023 on crowdfunding services, which entered into force on March 1, 2024;
- creation of the Public Register of providers of crowdfunding services and registration of providers “Fadura” and “Balkanika”. “Fadura” provides loan-based crowdfunding services, including loan portfolio management. “Balkanika” provides loan-based crowdfunding services, including loan portfolio management and investment-based crowdfunding services;

- for customer protection, according to the provisions of Law No. 181 of 07.07.2023 on crowdfunding services, certain limits are established:

- the value of funds that can be accumulated for a single crowdfunding project (excluding consumer loans) cannot exceed 1 million euros, and the term for accumulating investments cannot exceed 12 months;
- the value of funds that can be granted to a consumer debtor as a consumer loan cannot exceed 7,500 euros, and the term for accumulating investments cannot exceed 6 months;
- unsophisticated investors can invest, within a year, a maximum of 200 euros for a single consumer debtor or 5,000 euros in a single crowdfunding project;
- unsophisticated investors can invest a maximum of 10,000 euros per year for total investments in crowdfunding, of which, at most, 3,500 euros can be directed to consumer loans¹.

Next, we will elucidate the responsible factors that lead to stimulating the functioning of participatory financing and the challenges of developing participatory financing.

The responsible factors that lead to stimulating the functioning of participatory financing refer to:

1) *Demand for alternative financing through unconventional sources.* Due to the regulated traditional lending institutions, small and medium-sized enterprises that are not eligible for normal loans are among those who will show greater interest in using this option compared to other sources of financing. Through crowdfunding projects, economic agents can obtain funds from a wide variety of financial supporters at different levels. Which, in our opinion, will lead to an explosion in the popularity of alternative financing, under these conditions participatory financing becomes an essential part of the financial architecture of a country.

2) *Technological progress* through technological innovations is driving the crowdfunding market to continue growing. Digital platforms, mobile applications, and online payment systems have become more accessible, which allows for wider use of the platform. These technologies can include global reach; seamless transactions, as well as real-time progress indicators of such campaigns across various websites. The continued integration of technology into crowdfunding platforms is expanding their reach, leading to greater participation from both investors and project creators.

3) *Regulatory framework.* The regulatory framework serves as both an enabler and a barrier in crowdfunding markets. On the one hand, regulations help set investor protection standards and compliance requirements for platforms, while facilitating trust-building aspects such as greater participation by other stakeholders, such as investors and funders in general. On the other hand, strict regulations can hinder innovation, thus limiting growth opportunities in the markets they currently cover around the world, when it comes to equity financing legislation abroad or in jurisdictions around the world.

At the same time, based on the research conducted, we identified the following challenges to the development of participatory financing:

¹ Law No. 181 of 07.07.2023 on participatory financing services.

- *Regulatory barriers.* The crowdfunding market can face significant regulatory barriers, especially when expanding into new regions with different legal environments. The complexity and cost of complying with various regulations, including consumer protection and securities laws, can be high. As a result, platforms may choose not to expand into certain markets or engage in limited activities. Addressing these challenges requires a deep understanding of local regulatory frameworks and rapid adaptation to regulatory changes. Platforms that can properly manage these issues have an advantage in the current crowdfunding world.

- *Market saturation.* With the increasing number of platforms in the crowdfunding industry, market saturation is becoming more of a problem. Increased levels of saturation can lead to intense competition, which leads to low profit margins, thereby limiting entry into the market for new operators. Thus, platforms must constantly innovate, improve the user experience, and focus on narrow segments to succeed in this crowded space. When it comes to crowdfunding, differentiation is everything during expansion.

- *Investor education.* One issue in the development of crowdfunding is investor education, as many investors do not have enough information about how the platforms work. A knowledge gap among investors can lead to doubts or ill-considered investments that will affect the reputation of the market as a whole. Therefore, companies should invest in educational resources to educate potential investors about the risk factors associated with crowdfunding options. By improving investor education programs, companies will attract more trustworthy and engaged customers, which are essential for the overall development of this growing sector.

The development of the crowdfunding market is influenced by a combination of factors and challenges. Challenges such as regulatory hurdles, market saturation and the need for investor education must be addressed to achieve sustainable growth. Thus, by navigating these dimensions, the platform can capitalize on the opportunities in the crowdfunding market while mitigating the risks.

7. Conclusions

By using crowdfunding internationally, we observe the complexity and diversity of the application of this alternative source of financing for the activity of economic agents. The types of crowdfunding researched demonstrate the adaptability of this financing instrument to different objectives and projects, from those with a charitable aspect to entrepreneurial initiatives. The mechanisms of operation of crowdfunding are essential for understanding how project creators can interact with potential investors to achieve their financial objectives.

Integrating crowdfunding into growth and financing strategies not only reflects the adaptation to technological and social changes, but also represents a remarkable opportunity for innovation and collaboration on a large scale. This model of collective financing creates a platform through which the community can actively participate in supporting and realizing innovative projects, highlighting the essential role of collective collaboration in the contemporary economy.

Research suggests that the development of crowdfunding depends on the ability to effectively navigate the complexities of this ecosystem. Recommendations for participants in crowdfunding include a rigorous assessment of opportunities, a deep understanding of the risks involved, and the development

of a well-founded strategy for managing them. Continuing education and judicious selection of platforms can significantly contribute to optimizing the benefits and minimizing the risks associated with crowdfunding.

8. Future Work

Future research will address the development of the topic of financing economic agents through the analysis of the functioning of crowdfunding platforms in the Republic of Moldova compared to the experience of other countries grouped by regions in Europe.

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