Crowdfunding as a Contemporary Financing Mechanism: Conceptual Foundations and Historical Evolution

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Abstract:

This research paper examines crowdfunding as an innovative and evolving financing mechanism, emphasizing its conceptual underpinnings and historical progression in light of global economic developments and digital transformation, particularly in the aftermath of the 2008 financial crisis.

Chapter One: Conceptual Foundations of Crowdfunding

The chapter commences with a general overview of the notion of financing, distinguishing between traditional methods (internal and external sources) and contemporary mechanisms that have emerged in response to market needs and technological advancement.
Crowdfunding is defined as the mobilization of small-scale financial contributions from a large number of individuals via electronic platforms to support specific projects or ideas.
The study presents a comparative analysis of doctrinal, institutional, and legislative definitions of crowdfunding, highlighting both narrow definitions—limited to donation-based models—and broader interpretations encompassing lending-based and equity-based crowdfunding, thereby revealing the multifaceted legal nature of this financial tool.

Chapter Two: Historical Evolution of Crowdfunding

This chapter traces the historical roots of crowdfunding to ancient notions of social solidarity and cooperative financial support.
Significant historical and modern milestones include:
•Early forms of public financing, such as community-driven support for literature and wartime needs (e.g., The Iliad, the Statue of Liberty).
•The first crowdfunded film (Manthan, 1976).
•The emergence of digital crowdfunding platforms, beginning with ArtistShare (2001) and Zopa (2005).
•The introduction of investment-based crowdfunding models, such as ASSOB and CrowdCube.
•The COVID-19 pandemic, which intensified the demand for non-traditional financing alternatives and accelerated the digitalization of funding mechanisms.

Conclusion

Crowdfunding has evolved into a legally significant and democratized financial instrument that empowers entrepreneurs, startups, and creative individuals to access capital outside traditional financial institutions. Enabled by digital technologies, it reflects a transformative shift in the financial landscape, posing important implications for regulatory frameworks, investor protection, and platform governance

Introduction

Financing represents a cornerstone of economic systems across all nations, irrespective of their political, social, or economic orientations. Its critical role lies in mobilizing the resources necessary to support both productive and consumptive economic activities, thereby contributing to the development and sustainability of various societal sectors. Moreover, financing serves as a fundamental driver for stimulating investment and enhancing national economic performance. In the context of globalization, countries are increasingly engaged in a competitive race to attract investment flows, particularly within a landscape dominated by powerful economic blocs. Failure to effectively participate in this competition risks marginalization in the global economy.

The global financial crisis of 2008, coupled with rapid technological and informational advancements, has significantly transformed the landscape of financing. These changes are evident not only in the forms and mechanisms of financing but also in the diversity of its sources. The proliferation of internet technologies, smartphones, and digital platforms has given rise to innovative financing models that challenge traditional financial systems. Among the most prominent of these is crowdfunding—a decentralized, internet-based financing method that enables individuals to collectively fund entrepreneurial ventures outside the conventional banking and financial frameworks.

This paradigm shift has redefined key economic concepts and altered the metrics traditionally used to assess economic progress. While Gross Domestic Product (GDP) has long served as the primary indicator of national development, contemporary perspectives increasingly emphasize technological integration and innovation—particularly within financial systems—as more accurate measures of advancement. In this regard, digital financing platforms have emerged as focal points of academic inquiry due to their transformative potential.

1.Significance of the Study:

This study is significant as it explores crowdfunding, a modern and increasingly influential financing mechanism that has gained prominence in the wake of the 2008 global financial crisis and the rapid advancement of digital technologies. Crowdfunding represents a democratized and decentralized alternative to traditional financial systems, enabling entrepreneurs, startups, and creative individuals to access funding through online platforms without relying on conventional financial institutions.

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The importance of the study also lies in its examination of the legal dimensions of crowdfunding, which are critical for shaping regulatory frameworks, ensuring investor protection, and governing digital financing platforms. By highlighting the evolving nature of financing and the role of technological innovation, the research addresses a timely and transformative shift in global financial landscapes.

2. Objective of the Study:

The primary objectives of this research are to:

- Provide a comprehensive legal understanding of crowdfunding by analyzing its doctrinal, institutional, and legislative definitions.
- Trace the historical development of crowdfunding mechanisms from early forms of collective support to modern, technology-enabled platforms.
- Examine the legal and economic implications of crowdfunding as a tool for alternative finance.
- Highlight the role of crowdfunding in reshaping traditional financing systems and contributing to inclusive economic development.

3. Methodology of the Study:

This study adopts a comparative analytical legal approach. It:

- Analyzes a range of doctrinal, institutional, and legislative definitions of crowdfunding to identify the legal characteristics and classifications of the concept.
- Traces the historical evolution of crowdfunding by referencing significant milestones, from ancient practices to digital innovations.
- Compares different international and national legal frameworks governing crowdfunding to illustrate variations and commonalities in regulatory approaches.
- Relies on qualitative legal analysis of primary and secondary sources, including legislation, academic literature, and real-world case studies of crowdfunding platforms.

4. Research Outline (Structure):

The research is divided into the following main chapters:

- Introduction

Discusses the role of financing in modern economies, the impact of the 2008 financial crisis, and the rise of alternative digital financing models, with a focus on crowdfunding.

- Chapter One: Conceptual Foundations of Crowdfunding

Defines the concept of crowdfunding and analyzes its various classifications and definitions from legal, institutional, and doctrinal perspectives.

- Chapter Two: Historical Evolution of Crowdfunding

Explores the origins and historical development of crowdfunding, highlighting key events and platforms that shaped its current form.

- Conclusion

Summarizes the key findings and emphasizes the legal and economic relevance of crowdfunding, proposing implications for future regulation and policy development

To comprehensively understand crowdfunding as a modern financing tool, it is essential to begin with a precise definition of the concept, followed by an exploration of its historical evolution. These aspects will be addressed in the following sections:

Chapter One: The Concept of Crowdfunding

Chapter Two: The Origins and Historical Development of Crowdfunding Mechanisms

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Chapter One

The Concept of Crowdfunding

While crowdfunding has recently emerged as a financing mechanism within the financial sector, it has underlying foundations and did not arise from a vacuum. It has gone through several stages before taking the current form. Understanding these foundations clarifies the concept and dispels concerns and misconceptions.[1]

Thus, in order to clarify the concept of crowdfunding as a legal construct, it is first necessary to briefly define the general notion of financing and its various methods. Subsequently, the concept of crowdfunding will be examined in detail as a contemporary financing instrument. Accordingly, this section is structured into the following two subsections:

Section One: Definition of Financing and Its Principal Methods

Section Two: The Meaning of Crowdfunding

[1] Abdel Salam Abdullah Al-Difar, Crowdfunding Platforms, PhD Thesis, Faculty of Law, Alexandria University, 2021, p. 17.

Section One

Definition of Financing and Its Principal Methods

Despite the existence of numerous and diverse mechanisms for financing projects—each distinguishable by its unique characteristics—legal frameworks generally do not focus on defining financing as a purely economic concept. Rather, the law is primarily concerned with regulating the rights and obligations that arise from financing transactions. Nevertheless, to develop a clear and comprehensive understanding of crowdfunding as a modern financing method, it is essential to begin by outlining the general concept of financing and its principal forms, as follows:

1. Definition of Financing:

Financing constitutes one of the foundational pillars upon which modern societies depend. It is indispensable for institutions and projects to sustain their operations, foster development, and achieve both economic and social objectives in general, as well as financial and profit-oriented goals in particular. Consequently, financing commands significant interest across various disciplines and receives considerable attention from governments and policymakers alike. Linguistically, the term "financing" denotes the act of providing funds; for example, one "finances" an individual or a project by supplying the necessary monetary resources.[1]

Technically, financing has been defined in both legal and economic sciences in various ways. Among the clearest of these definitions is:

- A set of actions and procedures that provide us with means of payment,”[2]
- A set of actions and procedures that secure funds for new investments”. [3]

[1] Dictionary of Selected Sahihs, Sheikh Imam Muhammad Abu Bakr Abdul Qadir Al-Razi, Seventh Edition, Al-Amiriya Press, Cairo, 1996, p. 639.

[2] See: Obaid Ali Ahmed Al-Hijazi, Sources of Financing with an Explanation of Loan Sources, Dar Al-Nahda Al-Arabiya, Cairo, 2001, p. 3. See also: Encyclopedia Britannica, William Bentom, U.S.S., 1964, vol. 9, p. 272.

[3] Ibid, pp. 7-15.

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The degree of profitability and return is closely correlated with the volume of financing, the accessibility of its sources, and the efficiency with which it is invested and utilized[1]. Accordingly, financing may be defined as the provision of funds at the time they are needed to support economic or productive activities.[2]

Building on the above, financial activity can be described as the implementation of a set of money management practices employed by individuals or institutions. It fundamentally relies on maintaining a strategic balance between expenditure and revenues, while also accounting for the risks associated with investment decisions.[3]

In the aftermath of the 2008 global financial crisis, accompanied by significant advances in technology and communications, and the shift toward a knowledge-based and digital economy — particularly with the spread of the internet and smartphones — the concept of financing has undergone substantial transformation. New and diverse forms of financing have emerged to compete with traditional methods[4], primarily due to the integration of technology into financial and funding transactions. Crowdfunding platforms stand at the forefront of these new models, utilizing the internet to raise funds for projects and ideas.

1 See F.W. Beach, Project Financing, translated by Muhammad Tawfiq Madi, Iranian Revolution Library and Arab Thought House, 1972, pp. 5-6.

2 Mustafa Kamal Al-Sayed, Investment Decision in Islamic Banks, Modern University Office, Alexandria 2006, p. 1.

3 Finance Economics – An article written by: The editors of Encyclopedia Britannica – available at:
https://web.archive.org/web/20190703233951/https://www.britannica.com/topic/finance
last visit: 7-8-2025 12:00 am.

4 The non-banking financial sector has become a significant player in financing various economic sectors in the Egyptian market. The financing it provided in 2021 amounted to more than 40% of the total financing volume, equivalent to EGP 396 billion. All of this is subject to the supervision and oversight of the Financial Regulatory Authority. See the papers of the Economic Conference - Egypt 2022.

2. Methods of Financing:

Given that financing is one of the most critical components for the development and advancement of all sectors of society, and for securing the necessary resources to support national progress, it encompasses a wide range of mechanisms and cannot be confined to a single approach. These mechanisms can generally be classified into two broad categories: traditional (or conventional) financing methods, which are well-established within economic and commercial practice, and modern (or advanced) methods, which have emerged in response to technological innovation and the evolving demands of contemporary financial systems.[1]

Although these methods may be referred to by different terms, they all fundamentally represent various sources of funding. Broadly, they can be categorized as follows:

A. Internal (self) financing
B. External financing, which includes:
   - Direct financing
   - Indirect financing
C. Modern methods of financing developed as a result of financial innovations and technological integration. **Each of these shall be explained as follows:**

A. Internal (Self) Financing:

This is one of the traditional methods of financing, also referred to as internal funding sources. It refers to the entity's ability to generate new resources through its operational activities, which are then retained and reinvested to finance future operations.[2]

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1 For more details, see Samir Muhammad Abd al-Aziz, Economics of Investment, Finance and Financial Analysis - Al-Isha'a Technical Press Library, Alexandria 1997 - p. 135. See also Mona Ibrahim Hindi, Modern Thought in the Field of Sources of Finance, Mansha'at al-Ma'arif, Alexandria 1998, p. 39.

2 Nazir Riyad Muhammad Al-Shahat, Financial Administration, The Egyptian Library of Mansoura, Mansoura, Egypt, 2001, p. 221.

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It essentially reflects the institution's ability to finance itself independently, without reliance on external parties. This is achieved through its core operations and indicates the degree of institutional autonomy.[1] Key examples of internal financing include:

- Profit reinvestment
- Depreciation reserves
- Cost reduction
- Supplier and customer financing

These factors collectively define the internal nature of this financing method. However, internal financing alone is often insufficient to meet all of an institution's financial requirements. Exclusive reliance on it may not align with the objectives of sustainable future development and could hinder the optimal utilization of available and potentially profitable investment opportunities. [2]

B. External Financing:

External financing refers to sources of funding obtained from outside the institution. It is typically sought when internal financing is insufficient to meet the financial needs of a project or organization. External financing can generally be categorized into the following types:

1. Direct Financing:

Direct financing refers to a financial arrangement in which the relationship between the lender, borrower, or investor is established without the involvement of any financial or banking intermediary.[3] Units that

1 Abdel Ghaffar Hanafi, Fundamentals of Finance and Financial Instruments, University House for Printing, Publishing and Distribution, August 2007.

2 Atef William Andaws, Finance and Financial Management of Institutions, Dar Al Fikr Al Jami'i, January 2007, pp. 15.

3 Obaid Ali Ahmed Al-Hijazi, Sources of Financing, Dary Print - Third Edition - Cairo 2017, pp. 7-15. Also see, Anas Abdel-Qader Qasim and Abu Al-Majd Obaid, Financial Intermediation in Direct and Indirect Financing and Its Role in the Financial System, Al-

generate surplus financial resources transfer this surplus to other units that have a deficiency in such resources.[1] Typically, the debtor (borrower) undertakes to make a series of payments to the creditor over time, accompanied by an appropriate return to compensate for the credit risk involved. The terms of such financing arrangements vary depending on the nature of the borrowing entity, which may be an individual, an institution, or even a governmental body. The primary forms of these operations include bonds and shares, through which investment financing is carried out either by subscribing to the capital of a specific project or by extending credit to it.

In this context, it represents a financing channel through which funds flow from lending entities (savers) to borrowing entities (spenders). The latter issue financial instruments or securities, which are then sold to the former in exchange for the required funding.[2]

2. Indirect Financing:

This method refers to financing that is conducted through a financial intermediary, which may include financial markets or institutions—whether banking or non-banking. These institutions collect savings from surplus units, such as individuals, corporations, or governments, and redistribute them to deficit units that lack sufficient financial resources to support their activities and expenditures. In doing so, they facilitate the achievement of those units' economic and operational objectives[3].

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last visit: 7-8-2025 1:00 am.

[1] Robert Ferrondier, Vincent Koen, Marché de capitaux et technique Financières 4 édition, Economica, Paris, 1997, p. 21.

[2] Abdel Moneim El Sayed Ali, Nizar Saad El Din El Issa, Money, Banks and Financial Markets, Dar Hamed for Publishing and Distribution, Amman, Jordan, 2004, p. 89. See also Sayed El Hawary, Public Administration, Ain Shams University Library, sixth edition, 1996, pp. 229-230.

[3] For more details, see Khalil Abdel Qader, The Role of Financial Mediation in Indirect Financing of Small and Medium Enterprises, Faculty of Economics and Management Sciences, Laboratory of Globalization and North African Economics, 2006. Also see the definition of direct financing, Arabic Language Encyclopedia, on the website - https://mimirbook.com

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These financing methods are frequently utilized by institutions due to the insufficiency of internal resources and capital, particularly in light of the growth in current assets, which increases the demand for external funding. Commercial banks serve as the primary source of external financing for institutions, with various types of loans constituting the most significant instruments in this regard—especially those involving overdraft facilities, cash credit lines, and similar arrangements.

C. Modern Financing Methods:

Modern financing methods have emerged as a result of the technological revolution and the shift toward a digital economy. These approaches offer innovative, flexible, and efficient solutions for raising capital, often at lower costs and with broader outreach compared to traditional mechanisms. Among the most prominent of these is crowdfunding, a method that utilizes online platforms to directly connect project owners with a large number of individuals willing to contribute small amounts of money—collectively forming the required capital. [1]

This form of financing marks a shift in financial thinking — moving away from reliance on traditional institutions toward the empowerment of individuals and communities. It also resonates with the participatory spirit of the digital era, where technology enables greater collaboration, transparency, and innovation.[2]

The most important modern financing methods have emerged in line with technological advancements in financing processes. Among the most significant of these methods are financial market financing, credit, leasing finance, financing for projects facing financial difficulties, social or cooperative financing, deposit guarantees, and managed money markets.

Based on the above, one of the most important modern financing methods in the field of economic financing is 'crowdfunding' or participatory financing, which relies on electronic platforms to carry out financing operations that support emerging projects and ideas. This is the subject of our study, where we

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[1] Zainab Hussein Awadallah and Osama Mohamed El-Fouly, Economics of Money and Finance, Al-Halabi Legal Publications, 2005, pp. 19.

[2] Farouk Bouyacoub, l'entreprise et le financement bancaire, Casbah éditions, Alger 2000, p. 234.

will address the meaning of this financing method as one of the most important and recent alternative financing approaches. We will explain its nature and main elements, followed by an exploration of the historical development of this financing mechanism.

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Section Two

The Meaning of Crowdfunding

At the outset, what may unsettle many about the emergence of a new phenomenon is its departure from familiar systems and rules—those they have grown accustomed to over many years, having come to understand their boundaries and features. This concern is heightened by the fact that the phenomenon is expanding at an unprecedented and remarkably rapid pace.[1]

The term "Crowdfunding," also known as "participatory financing" in French ("Le Financement participatif") and "CrowdFunding" in English, is a composite term consisting of two words: "Crowd," meaning a large group or public, and "Funding," meaning financing. It is translated as "crowdfunding" or "funding from the public" or "crowd financing".[2]

Crowdfunding is considered a modern term in the realms of finance, business, and legal systems. The novelty of the term has influenced the degree of focus placed on defining it. This is evident from the considerable attention it has attracted from various scholars and institutions, making crowdfunding a subject of extensive study and analysis, and resulting in the emergence of multiple definitions.[3]

Therefore, in recent years, many scholars—as well as various international governmental and non-governmental institutions, along with the legislations of some countries—have sought to establish several definitions of crowdfunding. We will highlight some of these definitions below:[4]

[1] Hussein Abdo Al-Mahi, Legal Perspectives on E-Commerce, Op. cit., p. 275.

[2] crowd funding oxford English dictionary online - Available at: http://en.oxforddictionaryes.com/definition/crowd funding.Accessed last visit: 7-8-2025 2:00 am.

[3] Reda Mohamed Abdel Gawad, Towards Legal Regulation of Crowdfunding Platforms, a study published in the Journal of Legal and Economic Studies, Volume 8, Issue 2, Faculty of Law, Sadat City University, 2021, p. 8.

[4] For more details: abrita Maciel several critical analysis of crowdfunding as an entrepreneurial tool in the particular case of Portugal – Op. cit., p. 5.

1. Scholars' Definitions of Crowdfunding:

Initially, it is important to note that the definitions provided by scholars regarding the crowdfunding mechanism are diverse. According to the researcher's perspective, these definitions generally follow one of two main directions. This variation stems primarily from the differing lenses through which crowdfunding is examined. Some scholars adopt a narrow approach in defining crowdfunding, while others take a broader perspective. These two approaches will be clarified as follows:

A. Narrow Approach:

Some scholars have defined crowdfunding as "the process of requesting donations from the public to provide capital to start a project."[1] Another definition describes it as "a place where a large number of people (the crowd) support a financial project by providing relatively small amounts of money either in exchange for rewards or as a donation". [2]

A further definition characterizes it as "an open call, primarily through the Internet, to provide financial resources either as donations (without rewards) or in exchange for some form of reward or voting rights to support specific initiatives".[3]

It is evident that these definitions limit crowdfunding to a single category—non-profit crowdfunding (without financial return), typically in the form of donations or rewards. However, they overlook other significant forms of crowdfunding, particularly those involving investment, which may be even more impactful. These additional types will be discussed in detail in the following sections.

[1] Steinberg, S., R. DeMaria, and J. Kimmich. 2012. "The crowdfunding bible. How to raise money for any startup, video game or project- available at:
www.crowdfundingguides.com/The%20Crowdfunding%20Bible.pdf
last visit: 7-8-2025 2:00 pm.

[2] Wieck, E., U. Bretschneider, and J. M. Leimeister. 2013. "Funding from the Crowd: An Internet-Based Crowdfunding Platform to Support Business Set-Ups from Universities." International Journal of Cooperative Information Systems 22 (3): 1–21.

[3] J Hemer, A snapshot on crowdfunding (Working Paper No. R2/2011). Karlsruhe: Fraunhofer Institute for Systems and Innovation Research ISI.

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Crowdfunding operations have also been defined as "a process where one party moves toward a goal by requesting and receiving small contributions from many parties in exchange for some form of value for those parties".[1]

It is clear from this definition that it overlooks a crucial aspect of crowdfunding operations—namely, that they are conducted via internet networks or social media platforms. This digital dimension is what distinguishes crowdfunding from other, more traditional forms of financing, as will be discussed in subsequent sections.

B. Broader Approach:

Some scholars have adopted a broader approach in defining crowdfunding. For example, it has been described as "a term that refers to a collective and collaborative process based on trust and a network of relationships among individuals who pool money and other resources together to support initiatives by individuals or other organizations, often through the Internet". [2]

Another definition refers to it as "practices aimed at collecting small amounts of money from many people through online platforms to finance a project, initiative, or idea".[3]

It has also been defined as "using the Internet to collect funds from small contributions by a large number of investors". [4]

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[1] Rubinton, B.J. 2011. "Crowdfunding: disintermediated investment banking" https://papers.ssrn.com/sol3/papers_cfm?abstract_id=1807204
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[2] See, for more information, Dindane Salah Eddine, The Reality of Small and Medium Enterprises in Algeria, Master's Thesis, Department of Economics, Abu Bakr Yilkaid University, Tlemcen, Algeria, 2016, p. 45, available on the website: https://dspace.univ-tlemcen.dz
last visit: 7-8-2025 2:30 pm..

[3] HU Ying "Regulation of equity crowdfunding in Singapore ", Singapore Journal of Legal studies, Faulty of law, National University of Singapore, July 2015, p. 46.

[4] Steven Bradford -crowd funding and the federal Securities laws- college of law publications –

Finally, one definition characterizes it as "an open call to the public, primarily through the Internet, to gather financial resources through donations or other forms of exchange". [1]

Based on these definitions, it is evident that they adopt a broader approach to defining crowdfunding operations. As such, they encompass all activities conducted through crowdfunding platforms, including investment-related operations such as lending and equity participation, as well as donation-based crowdfunding—without excluding any category. Furthermore, these definitions consistently highlight the essential role of the Internet in facilitating such operations.

2. International and Governmental Institutions' Definitions of Crowdfunding:

The **World Bank**, through its infoDev program[2], defines crowdfunding as *"an online method for companies or other organizations to raise funds—typically ranging from $1,000 to $1 million—in the form of donations or investments from multiple individuals."* This definition emphasizes the digital nature of crowdfunding and its use by organizations to attract relatively small contributions from a large number of people.[3]

According to the UK Financial Conduct Authority (FCA), crowdfunding is *"a method by which individuals, organizations, and businesses, including startups, can raise money through websites (called crowdfunding platforms) to finance or refinance their activities."* [4]

University of Nebraska – Lincoln – 2012 p.10

[1] Al-Amin Othman Mahmoud Al-Ajlawani, The Impact of Using the Social Networking Site (Facebook) on Crowdfunding in Non-Profit Organizations in Jordan, Master's Thesis, College of E-Business, Middle East University - Jordan, 2017, p. 10, available on the website: https://searcch.manduma.com/reccord/856850

[2] InfoDev is a World Bank Group program that supports high-growth entrepreneurs in developing economies. It is part of the Innovation and Entrepreneurship Unit of the World Bank Group's Trade and Competitiveness Global Practice.About infoDev." www.infodev.org
last visit: 7-8-2025 4:00 pm.

[3] Crowd funding's Potential for the Developing World".2013. infuse, Finance and Private Sector Development Department. Washington, DC: World Bank.
http://www.infodev.org/infodev-files/wb_crowdfundingreport-v12.pdf

[4] English definition: Referred to by Reda Mohamed Abdel Gawad – Op. cit., p. 10

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The European Commission defines crowdfunding as *"an emerging source of funding involving open calls to the general public, typically via the Internet, to finance projects through donations, monetary contributions in exchange for rewards or advance product orders, loans, or investments."*[1]

The European Union describes crowdfunding as *"an open call to the public to fund and support an initiative or project, typically through websites on the World Wide Web, marketed through social media, with contributions usually being small, with some exceptions."*[2]

According to the Arab Monetary Fund (AMF)[3], crowdfunding is "a source of financing developed specifically to meet the needs of promoters of small and medium enterprises or startups by inviting the public to contribute to their funding. Projects are presented by their owners on crowdfunding platforms for investors to choose the financing that meets their expectations, and the funder receives compensation from the project or in-kind contributions".[4]

"Crowdfunding is a way in which people, organizations and businesses, including business start-ups, can raise money through online portals (called crowdfunding platforms) to finance or re-finance their activities ".

[1] European Commission-crowd funding explaned-2016. Available at: https://ec.europa.eu/growth/tools-databses/ccrowdfunding-guide/what-is/explained-en last visit: 7-8-2025 4:30 pm.

[2] Referred to by Fahd Ali Al-Zumai, The Legal Framework for Crowdfunding Operations for Small and Medium Enterprises, A Comparative Study, Journal of Law, Kuwait University, Scientific Publication Council, Volume 43, Issue 4, 2019, p. 69.

[3] The Arab Monetary Fund (AMF) is a regional Arab financial institution established in 1976 and began operating in 1977. Its 22 member states are: Jordan, the United Arab Emirates, Bahrain, Tunisia, Algeria, Djibouti, Saudi Arabia, Sudan, Syria, Somalia, Iraq, Oman, Palestine, Qatar, the Comoros, Kuwait, Lebanon, Libya, Egypt, Morocco, Mauritania, and Yemen. https://www.amf.org.ae/ar/about-us

[4] See also: The Digital Revolution and its Implications for the Banking System and Financial Stability, Risks of Financial Innovations, a paper prepared by the Financial Stability Working Group in Arab Countries, Secretariat of the Council of Arab Central Banks and Monetary Authorities Governors, Arab Monetary Fund, 2019, pp. 5, available on the Fund's website: https://www.awf.org.ae last visit: 7-8-2025 4:30 pm.

It is noted that this definition adopts a narrow concept of crowdfunding operations, focusing only on lending and investment, excluding donations and gifts, perhaps due to the focus on small and medium-sized startups that face challenges in obtaining financing in the Arab world.

In the context of financial inclusion, It is defined by the Global Partnership for Financial Inclusion (2016) “crowdfunding refers to a financing method based on market mechanisms where money is raised from large numbers of individuals or legal entities in small amounts, bypassing traditional financial intermediaries, and using mobile phones and Internet-based platforms to communicate with borrowers, either for business projects or specific needs”.[1]

3. Legal Systems or Legislations' Definitions:

In the French System, crowdfunding is defined as “An alternative financing tool stemming from practical experience, whereby an institution, trader, contractor, inventor, or artist approaches the public through an online platform to obtain part or all of the necessary funds for protecting an invention, creation, production, or trade of funds, service, or cultural product, and to develop existing or newly created commercial activities”.[2]

This definition attempts to encompass both commercial and non-commercial aspects of crowdfunding and identifies the categories of participants involved in the process. However, it functions more as a descriptive account than a precise definitional statement.[3]

1 GPFI (Global Partnership for Financial Inclusion), “Global Standard Setting Bodies and Financial Inclusion", 2016, available at: https://www.gpfi.org/sites/default/files/documents/GPFI_WhitePaper_Mar2016.pdf last visit: 7-8-2025 4:45 pm.

2 Voir; Piret Quentin. Le Crowdfunding et son potentiel de financement pour la création d’entreprises: analyse d’un point de vue notarial Faculté de droit et de criminologie, Université catholique de Louvain, 2015, p 05.

3 Badr Al-Din Barahlia, "The Legal and Regulatory Framework for Crowdfunding in the United Kingdom and France: A Mechanism to Support Islamic Finance," Journal of Islamic and Economic Studies, Volume 25, Issue 1, 2019, available at: https://www.researchgate.net/publication/337199532 last visit: 7-8-2025 5:30 pm.

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Furthermore, the Saudi Arabian Monetary Agency's 2020 Rules for Crowdfunding, issued in Article 1, states: "Crowdfunding is the process of raising funds from participants in the financing process via electronic platforms to finance beneficiary enterprises."[1]

The Crowdfunding Regulations issued by the Central Bank of the United Arab Emirates 2020 define it in Article 1, Paragraph 10, as: “Crowdfunding is the process of raising funds from multiple people through a dedicated platform for a specific purpose.”[2]

Chapter Two

The Emergence and Historical Development of Crowdfunding

With the developments that followed the global economic crisis and its subsequent effects, there has been a growing interest in issues that significantly influence national economies and their growth. Among the most prominent of these issues is entrepreneurship, which has garnered considerable attention in recent years.

It is no surprise that access to financing remains one of the primary obstacles facing innovators, creators, and entrepreneurs seeking to grow and expand their ventures. The decentralized nature of the Internet, along with the rise of social media, has revolutionized the financial landscape by integrating technology into the financial sector. Fundraising through these digital channels has become increasingly liberated from the rigid requirements and conditions traditionally imposed by conventional financial institutions and grant-making bodies.

This transformation in the financial domain is now referred to as contemporary finance, and one of its most significant modern tools is crowdfunding. Crowdfunding relies primarily on the availability of financial technology and the use of the Internet, enabling the seamless exchange of funds and ideas.

1) The Saudi Arabian Monetary Authority (SAMA) issued the rules for practicing debt crowdfunding on July 7, 2020. Available at: https://www.sama.jov.sa

2) The Loan-Based Crowdfunding System, approved by the Central Bank of the United Arab Emirates on January 30, 2020, in Abu Dhabi, is available on the website: https://www.centralbank.ae

Finance, as an economic concept, fundamentally arises from the ever-growing nature of human needs. While contemporary financial tools have evolved significantly, crowdfunding—despite being perceived as a recent innovation—is, in fact, rooted in much earlier practices, as will be demonstrated.

Accordingly, the researcher has chosen to begin by examining the historical origins of finance in general, followed by an exploration of the historical development of crowdfunding as one of the most recent mechanisms of contemporary finance. This chapter is therefore divided into two main sections as follows:

Section One: The Origin of Finance

Section Two: The Historical Development of Crowdfunding

Section One

The Origin of Finance

There is no doubt that finance, as an economic phenomenon, occupies a vital position within all economic, social, and political systems across various countries. This is due to the essential role it plays in supporting the development and advancement of different sectors within society. Through finance, economic activities can be carried out efficiently, as it provides the necessary resources—whether for productive or consumptive purposes—ensuring the smooth functioning of the overall economic system.[1]

Given the importance and prominence of this economic phenomenon, and although phenomena related to finance such as solidarity and mutual aid have existed since the early stages of humanity, some may believe that finance dates back to ancient times. However, in reality, finance did not exist in ancient times; during the era of nomadism[2], economic needs were met through direct production and exchange within these primitive societies.[1]

[1] Al-Saghir Muhammad Mahdi, The Legal System of Real Estate Financing: A Comparative Study, Pharos University, New University House, 2020, p. 15.

[2] Obaid Ali Ahmed Al-Hijazi, Op. cit., p. 5. See also: Shawqi Hussein Abdullah - Finance and

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Throughout history and into the Middle Ages, essential financial functions—such as trade, accounting, and rudimentary banking—were gradually integrated into the economic systems of various societies. These practices laid the groundwork for more complex financial structures. By the late 19th century, with the expansion of global trade, industrialization, and the rise of formal banking institutions, a more structured and interconnected global financial system had emerged.[2]

In line with this progression, the emergence of the concept of the division of labor, the development of societies, the integration of production factors, and the recognition of capital as the most critical factor of production significantly increased the demand for finance.[3] By the mid-20th century, finance had emerged as a distinct academic discipline, separate from economics.[4]

The increasing existence and development of finance, along with the evolution of banking operations and the provision of short- and long-term loans, played a role in regulating financial and economic thinking in

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Financial Management, Dar Al-Nahda Al-Arabiya, Cairo 1980, p. 13.

[1] Money has existed since the dawn of civilization in its various uses and types, but the origin of banking or banking business goes back to the Sumerian Babylonian Empire in approximately 3000 BC, which at that time used palaces and temples to store financial assets such as grains, livestock, silver and copper ingots, etc., and these financial transactions were formulated in the Babylonian Code of Hammurabi around 1800 BC. See: Adam Hayes . Daniel Kurt, "what is Finance?",investopedia , 2021, available at: https://www.investopedia.com/terms/f/finance.asp

[2] Gippel, Jennifer K, "A revolution in finance?". Australian Journal of Management, 2012, available at : https://journals.sagepub.com/doi/10.1177/0312896212461034 last visit: 7-8-2025 6:30 pm.

[3] In the past, countries, especially in the Middle Ages, resorted to borrowing from wealthy individuals to secure the necessary funding for wars. See in detail Shawqi Hussein Abdullah, Finance and Financial Management, Op. cit., cited by Al-Saghir Muhammad Mahdi, The Legal System of Real Estate Financing, Op. cit., p. 17.

[4] The first academic journal specializing in finance, "The Journal of Finance," was published in 1946, and doctoral programs in finance were established in the 1960s and 1970s. "Herodotus on Lydia." World History Encyclopedia. https://www.worldhistory.org/article/81/herodotus-on-lydia/ last visit: 7-8-2025 7:30 pm.

financing processes, contributing to a more organized role for banks[1]. Furthermore, the expansion of commercial markets and the impact of the Industrial Revolution played a pivotal role in the development of finance, helping to establish a general framework for modern financial systems.

Finance was initially regarded as a subfield of economics and a natural extension of studies related to projects, particularly in connection with financial markets. It was not until the early 20th century that finance began to emerge as an independent academic discipline, distinct from economics, with its primary focus centered on the processes of acquiring funds and managing financial resources.[2]

In the 1940s and early 1950s, finance was recognized as a descriptive field, offering a more superficial perspective on institutions compared to administrative disciplines. However, by the late 1950s and early 1960s, the concept of finance shifted from being a theoretical area of financial analysis to a practical field focused on decision-making within entities, such as asset selection and financial structuring. The primary function of finance became centered on maximizing the wealth of owners.

The concept of finance continued to evolve, particularly during the 1980s, with the expansion of financial activities and the introduction of advanced financial services by non-financial companies. This development prompted a restructuring of financial institutions to enable them to remain competitive and preserve their market share.

In more recent decades, key global developments—such as globalization, the widespread adoption of technology, the reduction of trade barriers, and a shift in investor behavior—have significantly contributed to the transformation of finance into its current form.

[1] For details, see Aqila Ezz El-Din, The Impact of Foreign Investments and Technology Transfer on Economic Development in Egypt, PhD Thesis, Faculty of Economics and Political Science, Department of Economics, Cairo University, 1990, pp. 192.

[2] Regarding research into technical methods for obtaining funds, and studying financial institutions and capital markets, see Shawqi Hussein Abdullah, Op.cit., p. 47. Also see: Mustafa Rushdi Sheha, The Economics of Money, Banking and Finance, Sixth Edition, Dar Al-Ma'rifah Al-Jam'iah, Alexandria 1996, p. 462.

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Section Two

The Historical Development of Crowdfunding

While the concept of crowdfunding may appear modern, its underlying principles are deeply rooted in ancient traditions of solidarity and cooperation found across many societies. These social phenomena—solidarity and mutual aid—are as old as humanity itself [1]. What has notably changed in recent times is the application of the Internet and modern information systems to revitalize and advance these traditional principles. This technological integration has broadened the scope of cooperation, enabling collective action across diverse domains. As a result, individuals are now able to accomplish objectives that would be difficult or impossible to achieve independently. This contemporary form of digital solidarity builds upon instinctive practices that have been embedded in human societies since antiquity.[2]

The emergence and development of the crowdfunding concept can be better understood by examining its historical trajectory—from its ancient origins and gradual evolution to its widespread adoption in the digital age. This progression can be categorized into distinct stages or key milestones, each contributing significantly to the shaping of modern crowdfunding practices as follows:

1. Before Crowdfunding:

Historical evidence suggests that practices resembling crowdfunding date back as far as the 13th century. For instance, groups of citizens would collectively finance maritime ventures, sharing both the risks and

[1] In the Old Testament, it contained various directives and references related to loans, property purchases, and debts, as many people in that era were concerned with protecting the poor, preventing the skewed distribution of wealth, and promoting solidarity and cooperation among members of society.
Gregory Levy, A Brief History of Finance, In book: Computational Finance Using C, 2016, available on : https://www.researchgate.net/publication/305727320_A_Brief_History_of_Finance
last visit: 7-8-2025 7:15pm.

[2] Imran Abdel Hakim and Farid Mustafa, "Crowdfunding Platforms as an Innovative Mechanism for Project Financing: A Presentation of the Greater London Authority's Experience in Crowdfunding Public Projects," Al-Ijtihad Journal of Legal and Economic Studies, Volume 7, Issue 1, 2018, available on the website: https://mandoumah.com
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potential profits. Similarly, authors often relied on subscription-based models to publish their works, contingent on sufficient interest from prospective readers. The issuance of war bonds also reflects a comparable mechanism, wherein governments solicited public contributions to fund military efforts.[1]

However, while these practices share certain characteristics with modern crowdfunding, they do not fully align with its contemporary definition.[2] One of the earliest widely recognized examples of a model closely resembling modern crowdfunding emerged in 18th-century Ireland. Jonathan Swift, the renowned writer and social reformer, established the Irish Loan Fund, which provided small loans to low-income families in Dublin. These funds were sourced from groups of affluent individuals who viewed their contributions as a collective effort to support the poor. This initiative closely parallels what is now known as "peer-to-peer lending," a key branch of modern crowdfunding.

2. From Personal Considerations in Financing to Crowdfunding:

Historically, the practice of patronage—where nobles and wealthy individuals financially supported artists—served as a foundational model for what would later evolve into crowdfunding. While patronage typically involved elite sponsorship, there were instances in which broader public support played a role, resembling the collective backing seen in modern crowdfunding. Notable examples include the poet Alexander Pope, who financed the publication of his translations through subscriber contributions, and the composer Wolfgang Amadeus Mozart, who organized public concerts funded by advance ticket sales. These cases illustrate early forms of community-supported artistic production, aligning closely with contemporary crowdfunding principles.[3]

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[1] Eventy Partners, The History of crowd funding, July 2018, available at: https://enventyspartners.com

[2] Steven Bradford-crowd funding and the federal securities- laws - college of law faculty publications – university of Nebraska – Lincoln – 2012, available at: https://digitalccommons.unl.edu/lawfacpub/119
last visit: 8-8-2025 1:00 am.

[3] Wolfgang Amadeus Mozart, born on January 27, 1756 in Salzburg, Austria, is an Austrian composer considered one of the most famous geniuses and innovators in the history of music. He died at the age of 35 after having succeeded in producing 626 musical works, and he conducted an orchestra at the age of seven. Available at: https://Wikipedia.org
last visit: 8-8-2025 1:15 am.

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Notably, when Alexander Pope began translating The Iliad, he secured funding directly from his audience. He employed a model akin to modern crowdfunding, receiving advance payments with the promise of publishing one volume annually over a period of more than six years. A similar case can be found in the life of Wolfgang Amadeus Mozart. Despite his status as a classical music icon, Mozart faced financial difficulties in organizing a concert tour in the early 1780s. He reached out to his supporters and successfully raised enough funds to perform three new piano concertos. Ultimately, 176 patrons contributed to the tour, each receiving a musical manuscript bearing their name along with a personal note of thanks.

3. Communication and Relationships Paving the Way for Crowdfunding:

The Statue of Liberty is one of the most famous events in the history of crowdfunding. A large fundraising campaign was what eventually allowed its construction. In 1885, France was set to send the "Statue of Liberty" to New York as a commemorative gift celebrating the centenary of the American Revolution[1]. However, they were unable to raise enough funds to build its base, almost leading to the statue being relocated. This led to the intervention of Joseph Pulitzer, who launched a fundraising campaign in his newspaper, The New York World. He offered mini versions of the statue as rewards to those who donated.[2]

This initiative garnered widespread support, and within less than five months, the campaign successfully raised $101,091—sufficient to meet its final goal of $250,000. It is considered one of the earliest successful examples of modern crowdfunding, marking a transition from a localized effort to a nationally recognized campaign.[3]

[1] The two countries agreed that France would design the statue, while the Americans would design the massive base on which it would rest. To this end, massive campaigns were launched in both countries to secure the necessary funding for such a massive project. See: Harris, Jonathan, A Statue for America: The First 100 Years of the Statue of Liberty, 1985.

[2] Culture Trip, A Brief History of the Statue of Liberty available at: https://thecultuetrip.com/north-america/usa/new-york-city-statue-of-liberty last visit: 8-8-2025 2:00 am.

[3] Assadi, Djamchid - Strategic Approaches to Successful Crowdfunding – premiere reference source - IGI Global, 2015, p. 265.

4. The First Crowdfunded Film:

In the 20th century, it became increasingly evident that a wide range of projects could benefit from crowdfunding, particularly within the entertainment industry. A notable early example is the Indian film Manthan[1], directed by Shyam Benegal, which is widely recognized as the first feature film fully financed through crowdfunding. Released in 1976, the film was funded by contributions from approximately 500,000 Indian farmers, each donating a small amount to support its production. Manthan tells the story of a poor farmer and milk seller in India, a narrative that resonated strongly with its contributors. The film's success not only demonstrated the potential of crowdfunding in cinema but also inspired similar initiatives within the Indian film industry.[2]

5. The Birth of Online Crowdfunding Platforms:

Today, digital devices and the Internet are integral parts of our lives, which was not the case in past decades. Despite this, in 1997, the British band Marillion[3] managed to save their U.S. tour through digital donations, raising $60,000 in crowdfunding, which was more than enough for the tour. This model gained particular popularity in the entertainment industry, where fans began contributing to the production of new albums prior to their release, often receiving recognition in the form of their names printed in exclusive editions as a reward.[4]

Inspired by the success of Marillion's fan-funded tour, American producer Brian Camelio founded ArtistShare in 2001—the first crowdfunding platform dedicated exclusively to musicians. Two years

1 The 1977 film Manthan won the National Film Award for Best Feature Film in India and the National Film Award for Best Screenplay. Available at: https://stringfixer.com/Manthan

2 The History of Crowdfunding –the history of day crowd funding, available at: https://www.fundable.com/crowdfunding
last visit: 8-8-2025 3:00 am.

3 Marillion is a famous British rock band, formed in Aylesbury, Buckinghamshire, in 1979 AD, and they existed as a bridge between punk rock and classic rock styles, becoming one of the most commercially successful rock bands in the 1980s.

4 Waleed samara – crowdfunding platforms in the developing economies : outreach from the funders and fundraisers perspective- case of Jordan, available at: https://search.mandumah.com/record/957866

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later, jazz artist Maria Schneider won a Grammy[1] for a record sponsored by her fans on ArtistShare. This achievement marked a significant milestone in the history of crowdfunding, demonstrating its potential not only as a viable funding model but also as a means of enabling high-quality, award-winning creative work through direct audience engagement.

6. The Beginnings of Lending-Based Crowdfunding Platforms:

The year 2005 marked a significant milestone in the evolution of crowdfunding with the launch of the first crowdlending platform, Zopa, in London. The founding team brought substantial experience from the financial sector, having previously worked with the online banking service Egg. In the same year, the crowdfunding platform Kiva was established in San Francisco, aiming to expand financial access to underserved communities by facilitating microloans through a peer-to-peer model.

7. Coining the term crowdfunding:

Although the practice of crowdfunding has deep historical roots, the term itself is relatively recent. The first recorded use of the word crowdfunding appeared online on August 12, 2006. American writer Michael Sullivan coined the term as a concise and accurate way to describe the collective financial contributions made by individuals to support a project or cause.[2]

8. Introduction of Investment Crowdfunding Platforms:

Crowdfunding has quickly evolved into an investment option. In 2007, the Australian Small Scale Offerings Board (ASSOB) launched the first equity-based crowdfunding platform, which was the first of its kind.[3] This platform enabled the pooling of capital from multiple investors to support small and

[1] The Grammy Awards are presented by the National Academy of Recording Arts and Sciences and are one of the four major music awards in the United States. Available at: Wikipedia.

[2] David Megren: "Fifty Shots of Shrouded in Glory - 50 World Shrouded in Glory", Lulu.com, February 21, 2014, p. 14.

[3] The ASSOB platform is Australia's largest and most successful business offerings platform for showcasing investment opportunities in high-growth, unlisted Australian companies. Available at: https://www.crunchbase.com/organization/the-australian-small-sale-offerings-board---assob
last visit: 8-8-2025 6:00 pm.

emerging companies, thereby expanding access to early-stage financing beyond traditional venture capital and institutional funding sources.

In return, companies offered equity shares in their businesses, allowing individuals to invest directly in smaller enterprises that were not yet prepared to enter the public stock market. The concept of equity crowdfunding soon expanded to Europe and the United States. A notable development was the establishment of CrowdCube in the United Kingdom in 2011, which has since grown to become one of the largest and most influential crowdfunding platforms globally.

In the United States, however, crowdfunding for equity was illegal at the time, and this situation changed with the introduction of the JOBS Act in 2012[1], which legalized "equity crowdfunding" and helped it become a fast-growing business activity worldwide.

9. Increasing Trend Toward Crowdfunding:

Until 2008, crowdfunding was just a niche phenomenon. The global financial crisis, however, hit the global economy and led to a decrease in public trust in traditional financial institutions. As a result, alternative financing, such as crowdfunding, grew in popularity, with reward-based platforms such as "IndieGoGo"[2] and "Kickstarter"[3] being created, which significantly boosted the growth of crowdfunding. Initially, the majority of projects funded through crowdfunding were in the artistic and creative fields, as it provided a way to engage fanbases in the production of artistic work. However, it quickly expanded to

[1] The Jumpstart Our Business Startups (JOBS) Act is a piece of U.S. legislation signed into law by President Barack Obama on April 5, 2012, that eases regulations placed by the Securities and Exchange Commission (SEC) on small businesses and makes crowdfunding easier. Available at:
https://www.investopedia.com/terms/j/jumpstart-our-business-startups-act-jobs.asp

[2] IndieGoGo is a crowdfunding platform headquartered in California and founded in 2008. See website: https://Indiegogo.com/about
last visit: 9-8-2025 1:00 am.

[3] Kickstarter is a crowdfunding platform founded in 2009 and headquartered in New York. It is an American website that allows people to raise funds from interested investors to support creative projects. Launched in 2009 by Pedro Silver and Alex Levine, the site has since raised more than $5 billion from more than 19 million investors.
https://cfundsa.com/article/228 https://www.kickstarter.com/

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cover a broader range of business and entrepreneurial ventures. By 2020, Kickstarter had supported over 50,000 successful projects, while IndieGoGo had facilitated more than 180,000 campaigns, enabling backers to support startups and innovators across diverse fields. This transformation democratized access to early-stage investment opportunities, making it possible for the general public to participate in funding new businesses and innovative ideas.

10. Crowdfunding Today:

In the contemporary era, crowdfunding has evolved into a thriving global industry. The market has experienced rapid growth, expanding from approximately USD 1.5 million in 2011 to over USD 100 billion by 2015.[1] This growth is expected to continue in the coming years, with an increasing number of crowdfunding platforms emerging across various models—such as donation-based, reward-based, equity-based, and lending-based crowdfunding—benefiting a broader range of individuals and businesses. Furthermore, the global economy faced another major disruption during the COVID-19 pandemic in 2020, which placed significant financial strain on small and medium-sized enterprises (SMEs), many of which struggled to remain operational.[2]

Despite the challenges, some businesses were able to survive the economic downturn through successful crowdfunding campaigns. As the pandemic disrupted the global financial system, many individuals and enterprises turned to alternative financing methods, such as crowdfunding, contributing to the recent surge in non-traditional funding models. While crowdfunding has a long history rooted in informal financial support among individuals, modern crowdfunding platforms have formalized and expanded this concept, making it more accessible and scalable. The growth of crowdfunding has been substantial, with the total value of campaigns reaching approximately USD 84 billion in 2018. By 2021, the market was projected to grow to around USD 114 billion. Forecasts further indicate that the global crowdfunding market could reach USD 196 billion during the 2021–2025 period, with an estimated annual growth rate of 15%.[3]

[1] GPFI (Global Partnership for Financial Inclusion). (2016). "Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape, available at: https://www.gpfi.org/sites/gpfi/files/documents/GPFI_WhitePaper_Mar2016.pdf

[2] Heba Abdel Moneim, Rami Youssef Obeid, Crowdfunding Platforms: Prospects and Regulatory Frameworks, Arab Monetary Fund, 2020, Council of Arab Central Banks and Monetary Authorities Governors, available at: https://www.amf.org.ae

[3] See in this regard: Estimates by the Global Partnership for Financial Inclusion (GPFI) and

Applied Study: Crowdfunding Regulation in the United States

The United States is considered a global pioneer in the regulation and development of crowdfunding, particularly through its implementation of the Jumpstart Our Business Startups Act (JOBS Act), signed into law in April 2012. This Act aimed to ease securities regulations and facilitate small business capital formation through online platforms.

Key Aspects of the U.S. Crowdfunding Framework:

1. *Legal Framework:*

• *Title III of the JOBS Act legalized equity crowdfunding, allowing startups to raise capital from a large pool of investors via online platforms.*

• *The Securities and Exchange Commission (SEC) issued Regulation Crowdfunding in 2016, setting out rules for issuers, intermediaries (portals), and investors.*

2. *Investor Protection:*

• *The U.S. model sets investment limits based on the investor's income or net worth to mitigate risks.*

• *Issuers are required to disclose key information, including business plans, financial statements, and use of proceeds.*

3. *Intermediary Platforms:*

Ernst & Young (EY), cited in:
Heba Abdel Moneim, Rami Yousef Obaid, Anwar Othman, Second Edition of the Arab Fintech Monitor Report, Arab Monetary Fund, September 2021, p. 6.

The size of the crowdfunding market is estimated at $1.5 billion in 2024 and is expected to reach $3.11 billion by 2029, at a compound annual growth rate of 15.7% during the Forecast Period (2024-2029) - Crowdfunding Market Insights - Crowdfunding Market Size and Share Analysis, Growth Trends and Forecasts (2024-2029), available at: https://www.mordorintelligence.com/ar/industry-reports/crowdfunding-market

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- *Portals must register with the SEC and become members of the Financial Industry Regulatory Authority (FINRA).*

- *These platforms play a vital role in vetting issuers, educating investors, and ensuring compliance.*

4. *Impact and Challenges:*

- *The U.S. approach significantly broadened access to capital for startups, especially in underserved areas.*

- *However, challenges persist regarding fraud risks, administrative burdens on small businesses, and the limited success rate of campaigns.*

Conclusion:

n light of the foregoing analysis, crowdfunding emerges as a modern, flexible, and technology-driven financing mechanism that has significantly reshaped access to capital. Rooted in historical practices of solidarity and collective support, it has evolved through centuries—from community-driven contributions to sophisticated digital platforms—culminating in a diverse set of models including donation-based, reward-based, lending-based, and equity-based funding. This democratized tool enables entrepreneurs, start-ups, reatives, and even public initiatives to secure financing beyond the limitations of traditional banking and investment channels, while also engaging communities in the development process.

Key Findings:

1. Crowdfunding represents both a financial and social innovation, combining ancient cooperative principles with modern financial technology (FinTech).

2. The legal landscape surrounding crowdfunding is still evolving, with varying definitions, regulatory approaches, and operational frameworks across jurisdictions.

3. Historical milestones—from the funding of the Statue of Liberty to the launch of platforms like Kickstarter and CrowdCube—demonstrate its adaptability to diverse needs, sectors, and audiences.

4. The integration of the internet and digital payment systems has transformed crowdfunding into a scalable, borderless mechanism with significant economic impact.

Recommendations:

1. Regulatory Harmonization – Develop clear and unified legal frameworks that balance investor protection with innovation, enabling crowdfunding to thrive while mitigating risks.

2. Awareness and Education – Promote public understanding of crowdfunding mechanisms, benefits, and risks to encourage informed participation.

3. Platform Governance – Ensure transparency, accountability, and due diligence in crowdfunding platforms to strengthen trust and prevent misuse.

4. Sectoral Integration – Encourage the adoption of crowdfunding in strategic sectors such as renewable energy, cultural heritage, and social entrepreneurship to maximize societal benefits.

5. Support for SMEs – Leverage crowdfunding as a policy tool to facilitate financing for small and medium-sized enterprises, particularly in emerging markets where access to capital remains a major challenge

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