International Journal of Social Sciences

Caucasus International University
Volume 5, Issue 1

Journal homepage: http://journal.ciu.edu.ge/

DOI: https://doi.org/10.55367/UQTD5184

Crowdfunding Opportunities and Barriers in Developing Economies: The Case of Georgia

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A B S T R A C T

This study examines the role of crowdfunding as an alternative financing mechanism in Georgia's evolving financial ecosystem. Given the country's banking sector dominance and limited access to diverse funding sources, startups and SMEs face considerable challenges in securing capital. While crowdfunding has gained traction globally as a means of democratizing finance, its adoption in Georgia remains underdeveloped. This paper explores the barriers hindering crowdfunding's growth, including regulatory gaps, low financial literacy, and a lack of public awareness. A comparative analysis with Lithuania (A country that has successfully integrated crowdfunding into its financial system) provides valuable insights into how regulatory support and market conditions shape alternative financing adoption. The research employs a mixed-methods approach, combining secondary data analysis and a comparative case study. Data from official Georgian and Lithuanian sources, alongside relevant literature, are analyzed to evaluate the factors influencing crowdfunding development.
This research investigates key factors influencing crowdfunding awareness and SME growth, emphasizing financial literacy, reliance on traditional bank loans, and regulatory frameworks. The findings reveal that regulatory barriers and limited financial literacy are major obstacles to crowdfunding adoption in Georgia. Lithuania's regulatory innovations, particularly the adoption of the ECSP Regulation in 2021, have significantly enhanced its crowdfunding ecosystem, leading to increased access to alternative financing for SMEs. In Georgia, the dominance of traditional banking further stifles alternative financing options, hindering entrepreneurial growth.
Addressing the gaps in financial literacy, public awareness, and regulatory frameworks could unlock Georgia's potential for crowdfunding. Lessons from Lithuania's proactive policies suggest that regulatory reforms and public-private collaborations are critical to fostering a competitive and inclusive crowdfunding market.

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These results have significant implications for policymakers, financial institutions, and entrepreneurs seeking to enhance access to alternative funding sources. The paper concludes with recommendations for strengthening Georgia's investment infrastructure, promoting financial education, and integrating best practices from Lithuania to develop a more inclusive and competitive financial ecosystem.
This study underscores the need for tailored strategies in Georgia to enhance financial literacy, diversify funding sources, and establish robust regulatory frameworks for crowdfunding. Future research should focus on longitudinal data collection and explore the socio-cultural factors influencing crowdfunding adoption in Georgia.

Keywords: *Crowdfunding, Alternative Finance, Financial Literacy, SME Growth, Investment Infrastructure, Regulatory Framework, Georgia, Lithuania.*

სახალხო დაფინანსების შესაძლებლობები და ბარიერები განვითარებად ეკონომიკებში საქართველოს მაგალითზე

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ა ბ ს ტ რ ა ქ ტ ი

განვითარებულ სამეწარმეო ეკოსისტემებში სახალხო დაფინანსების crowdfunding მოდელმა დიდი ხანია მნიშვნელოვანი ადგილი დაიკავა და ჩამოყალიბდა, როგორც საჭირო ფინანსური რესურსების მოძიების ეფექტური ალტერნატიული საშუალება. კვლევა განიხილავს სახალხო დაფინანსების როლს, როგორც ალტერნატიულ დაფინანსების მექანიზმს განვითარებად ფინანსურ ეკოსისტემაში საქართველოს მაგალითზე. საქართველოში ქვეყნის საბანკო სექტორის დომინირებისა და დაფინანსების მრავალფეროვან წყაროებზე შეზღუდული ხელმისაწვდომობის გათვალისწინებით, სტარტაპები და მცირე და საშუალო საწარმოები (SMEs) მნიშვნელოვან გამოწვევებს აწყდებიან კაპიტალის მოზიდვის თვალსაზრისით. მიუხედავად იმისა, რომ სახალხო დაფინანსებამ გლობალურად მოიპოვა პოპულარობა, მისი წილობრივ საინვესტიციო მექანიზმის დანერგვა საქართველოში კვლავ ვერ ხერხდება. აღნიშნული ნაშრომი იკვლევს იმ ბარიერებს, რომლებიც აფერხებს წილზე დაფუძნებული სახალხო დაფინანსების დანერგვას, მათ შორის მარეგულირებელ ხარვეზებს და დაბალ ფინანსურ წიგნიერებას. ლიეტუვასთან (ქვეყანა, რომელმაც წარმატებით მოახდინა წილობრივი სახალხო დაფინანსების ინტეგრირება თავის ფინანსურ სისტემაში) შედარებითი ანალიზი გვაძლევს ღირებულ ინფორმაციას იმის შესახებ, თუ როგორ აყალიბებს მარეგულირებელი მხარდაჭერა და საბაზრო პირობები ალტერნატიული დაფინანსების მექანიზმების დანერგვას და განვითარებას.

კვლევაში გამოყენებულია შერეული მეთოდების მიდგომა, რომელიც აერთიანებს მეორადი მონაცემების ანალიზსა და შედარებით კვლევას. საქართველოსა და ლიეტუვის ოფიციალური წყაროებიდან მოპოვებული მონაცემები, შესაბამის ლიტერატურასთან ერთად, გამოყენებული და გაანალიზებულია სახალხო დაფინანსების განვითარებაზე მოქმედი ფაქტორების შესაფასებლად.

კვლევა აიდენტიფიცირებს იმ ძირითად ფაქტორებს, რომლებიც გავლენას ახდენს სახალხო დაფინანსების შესახებ ინფორმირებულობაზე, მცირე და საშუალო ბიზნესის ზრდაზე, ხაზს უსვამს ფინანსური განათლების ნაკლებობას, ტრადიციულ საბანკო სესხებზე დამოკიდებულებას და მარეგულირებელ ჩარჩოებს.
დასკვნები ცხადყოფს, რომ მარეგულირებელი ბარიერები და შეზღუდული ფინანსური ცოდნა არის მთავარი დაბრკოლება სახალხო დაფინანსების დანერგვისთვის საქართველოში. ლიტვის მარეგულირებელმა ინიციატივებმა, განსაკუთრებით ECSP რეგულაციის მიღებამ 2021 წელს, მნიშვნელოვნად გააუმჯობესა ქვეყნის სახალხო დაფინანსების ეკოსისტემა, რამაც გამოიწვია მცირე და საშუალო ბიზნესის ალტერნატიულ დაფინანსებაზე ხელმისაწვდომობის გაზრდა. საქართველოში ტრადიციული საბანკო საქმიანობის დომინირება კიდევ უფრო ახშობს დაფინანსების ალტერნატიულ ვარიანტებს, რაც ხელს უშლის სამეწარმეო ეკოსისტემის ზრდას. კვლევის შედეგები მნიშვნელოვან ინფორმაციის წყაროდ შეიძლება იქცეს პოლიტიკის შემქმნელების, ფინანსური ინსტიტუტებისა და მეწარმეებისთვის, რომლებიც ცდილობენ გააძლიერონ დაფინანსების ალტერნატიულ წყაროებზე ხელმისაწვდომობა.
კვლევა ხაზს უსვამს საქართველოში ფინანსური წიგნიერების ზრდის, დაფინანსების წყაროების დივერსიფიკაციისა და სახალხო დაფინანსებისთვის ძლიერი მარეგულირებელი ჩარჩოების ჩამოყალიბების აუცილებლობას.
ნაშრომი მთავრდება რეკომენდაციებით საქართველოს საინვესტიციო ინფრასტრუქტურის გაძლიერების, ფინანსური განათლების ხელშეწყობისა და ლიტვის საუკეთესო პრაქტიკის ინტეგრაციის შესახებ.

საკვანძო სიტყვები: *სახალხო დაფინანსება, ალტერნატიული ფინანსები, ფინანსური განათლება, მცირე და საშუალო ბიზნესის ზრდა, საინვესტიციო ინფრასტრუქტურა, მარეგულირებელი ჩარჩო, საქართველო, ლიეტუვა.*

1. **Introduction**

Launching and expanding a startup without external funding is nearly impossible, regardless of the country in which it operates. The crowdfunding model has established itself as a vital component of the entrepreneurial ecosystem, serving as an effective alternative for securing the necessary financial resources. While variations of this approach have been practiced for centuries in many countries, crowdfunding is still undergoing development and refinement. Over the past 30 years, the rapid advancement of internet technologies has created new opportunities, significantly simplifying the process of securing financing for startup entrepreneurs. It is no surprise that, in today's interconnected world, people are more connected than ever, with information being exchanged more easily and quickly. Amid these global changes, crowdfunding has gained increasing popularity as a financing method (Paul & Ravinder , 2024).

Crowdfunding has emerged as an innovative financing model that reshapes the entrepreneurial ecosystem by enabling entrepreneurs to raise funds from a large audience through digital platforms (Brem, 2020). Particularly in developing economies, crowdfunding provides an alternative to traditional financing avenues, addressing the challenges faced by startups and SMEs in accessing capital. Since its rise in the mid-2000s, crowdfunding has been lauded for its democratizing effect, facilitating financial inclusion and fostering innovation.

Despite these advantages, the development of crowdfunding ecosystems varies widely across countries, influenced by regulatory frameworks, financial literacy levels, and market maturity. While nations like Lithuania have embraced crowdfunding through supportive regulations, other countries, including Georgia, are yet to realize its full potential due to regulatory, cultural, and infrastructural barriers.

This article seeks to explore the opportunities and challenges of crowdfunding in Georgia within the broader context of developing economies. Drawing on a comprehensive review of existing literature and a comparative analysis of Lithuania's crowdfunding ecosystem, the research underscores the importance of regulatory reforms, enhanced financial literacy, and technological innovation in fostering crowdfunding adoption.

The research highlights key obstacles, such as the dominance of traditional banking systems, low public awareness of alternative financing, and the absence of a robust regulatory framework for equity- and debt-based crowdfunding. Addressing these issues is essential for Georgia to leverage crowdfunding as a tool for economic development.

This study aims to provide actionable recommendations to advance Georgia’s crowdfunding ecosystem by identifying best practices from Lithuania and other developing countries. It emphasizes its potential to drive SME growth, diversify funding sources, and boost financial inclusion.

1.1. Definition and relevance of crowdfunding

Crowdfunding is a financing method in which numerous individual investors collectively contribute to fund a project initiated by an entrepreneurial firm. It is sometimes regarded as one of the top 10 innovations of the 21st century (Miglo, 2021).

Crowdfunding has experienced rapid growth alongside advancements in information technology, providing an essential funding avenue for start-up firms that are establishing their presence and assessing market demand Tian et al. (2024). It serves as a reliable indicator of consumer interest, offering insights into demand that help emerging businesses refine their approach. Unlike traditional financing methods, crowdfunding capital is often more accessible and less costly, as it reduces information asymmetry for early investors and potential customers, enabling them to make informed decisions Tian et al. (2024).

Crowdfunding involves gathering capital from a broad online audience and has gained popularity as a funding mechanism for innovative projects and ideas since the mid-2000s. It can be divided into four main types: reward-based, equity-based, donation-based, and lending-based models. Its primary participants include entrepreneurs seeking funds, contributors who make up the "crowd," and the platform that enables their interaction. Entrepreneurs are drawn to crowdfunding due to its relatively lower costs compared to traditional financing options and the added benefit of obtaining insights from the crowd (Lambert, 2024).

Reward-based crowdfunding, used by platforms like Kickstarter and Indiegogo, offers contributors non-financial rewards in exchange for their support. This model provides key advantages as it allows entrepreneurs to gauge product demand before fully committing resources to production. However, it also introduces a risk of moral hazard since entrepreneurs receive funding upfront, which could tempt them to misuse the funds rather than follow through on production (Lin & Pursiainen , 2022).

Equity-based crowdfunding enables young ventures and commercial projects to acquire funding by offering equity stakes to a diverse group of potential investors through online platforms. Unlike traditional equity financing, these investments typically lack a secondary market, although some platforms are working to address this limitation (Estrin, 2018).

Debt-based crowdfunding, or peer-to-peer (P2P) lending, requires the borrower to repay the amount within a set period, providing the investor with interest payments. Unlike traditional debt financing, where the borrower typically deals with a single lender, debt-based crowdfunding involves multiple creditors, which can introduce unique dynamics in cases of financial distress (Zilber & Silveira, 2016).

In donation-based crowdfunding, contributors do not expect material or financial returns, and fund recipients hold no binding financial obligation to the donors. While the literature on donation-based crowdfunding is less extensive than on other types, it is steadily growing (Gerber, Hui, & Kuo, 2012).

1.2. The importance of crowdfunding in developing economies

The concept of crowdfunding platforms quickly gained popularity after their inception, as they offer an alternative funding source for entrepreneurs and startups, enabling the implementation of ideas and projects with public support and involvement. In international economic circles, crowdfunding platforms are recognized as:

- ✓ A democratic tool for business project realization, as the crowd finances projects.
- ✓ A tool for social validation of a business idea, since a project funded by thousands of people is considered to have significant value.
- ✓ A mechanism for gradual growth and effective validation, as funding is typically secured in stages or rounds.

Moreover, initial evidence from the eastern EU countries suggests that crowdfunding has tangible positive impacts, correlating with greater venture capital investment and an increase in entrepreneurial activity.

1.3. Georgia's economic context and SME financing challenges

For over 30 years Georgia has experienced two parallel processes: the development of a Georgian capitalism model and the creation of a functional financial market. These processes, however, have shown inconsistencies and contradictions. The capital market in Georgia is underdeveloped, which impacts the country's financial growth, international investment potential, and economic integration (Khishtovani, 2012). The banking sector's monopoly limits the development of financial markets due to its dominance and resistance to competition.

Historically, the development of the securities market and investment market in Georgia has been uneven. Following the collapse of the Soviet Union and the country's subsequent independence, banks were able to capitalize on the existing financial infrastructure, allowing them to adapt and expand more rapidly than other sectors within the financial market. Although there were initiatives to establish alternative markets, such as insurance and securities, the banking sector perceived these developments as potential threats to their access to capital. Consequently, banks began lobbying for policies that would allow only banks to establish insurance companies.

In 1998, the passage of the "Securities Law" marked a significant shift, as it demonstrated to the business community and the public that banks were not the sole sources of financial resources. This legislation initially spurred rapid growth in the securities market; however, this momentum proved to be short-lived. Currently, the insurance sector is overseen by a separate regulatory body, whereas the regulation of the securities market remains under the National Bank of Georgia. The National Bank, which also serves as the supervisory authority for commercial banks, exhibits limited interest in fostering the development of the securities market, largely due to the significant influence of the banking sector.

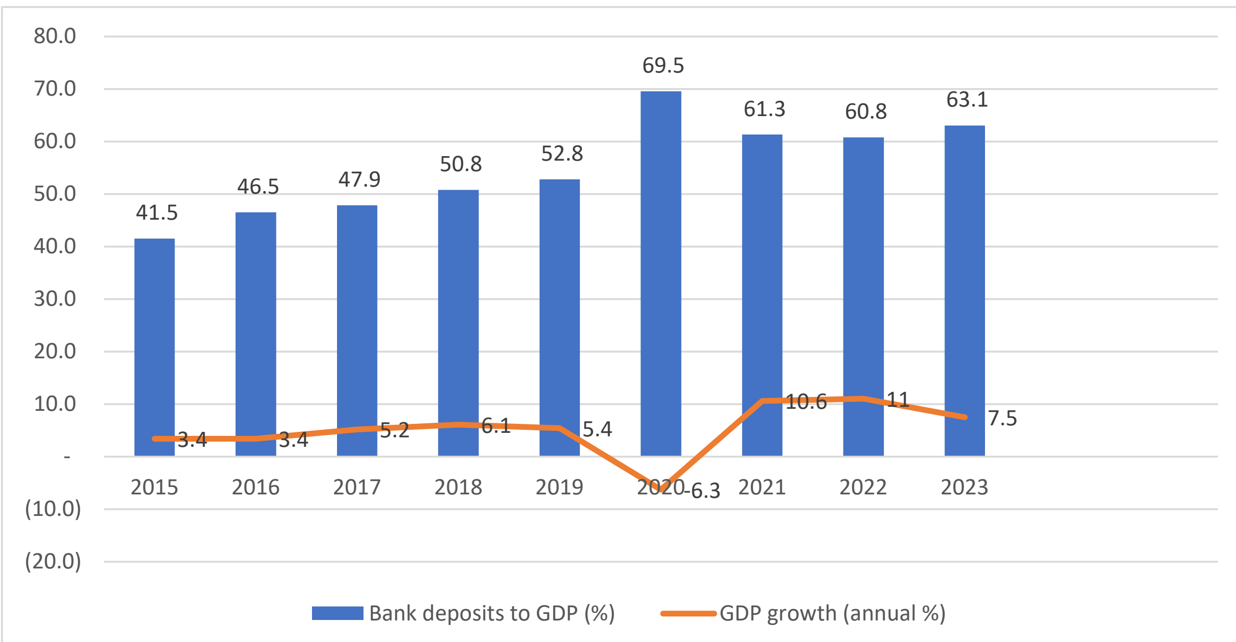
Government policies have disrupted financial markets by focusing heavily on foreign direct investment and supporting state-owned enterprises for privatization, rather than fostering a competitive environment.

Politically connected enterprises benefit from government favoritism, which reduces the incentive to utilize capital market mechanisms such as stock market listings.

Currently, the issue of access to alternative finance for small and medium-sized enterprises (SMEs) in Georgia is a pressing concern. State grants and bank loans continue to serve as the primary sources of SME financing, with additional support from international non-governmental organizations. However, alternative financing options remain underdeveloped and limited in availability, highlighting a significant gap in the financial ecosystem.

In parallel with the dominance of the banking sector, there has been a substantial increase in the population's deposits within commercial banks. Notably, in 2023, the total volume of deposits in commercial banks reached 63.1% of the country's gross domestic product (GDP) (Figure 1). This trend reflects the central role of the banking sector in the financial system and indicates a significant reliance on traditional banking mechanisms for savings and investment.

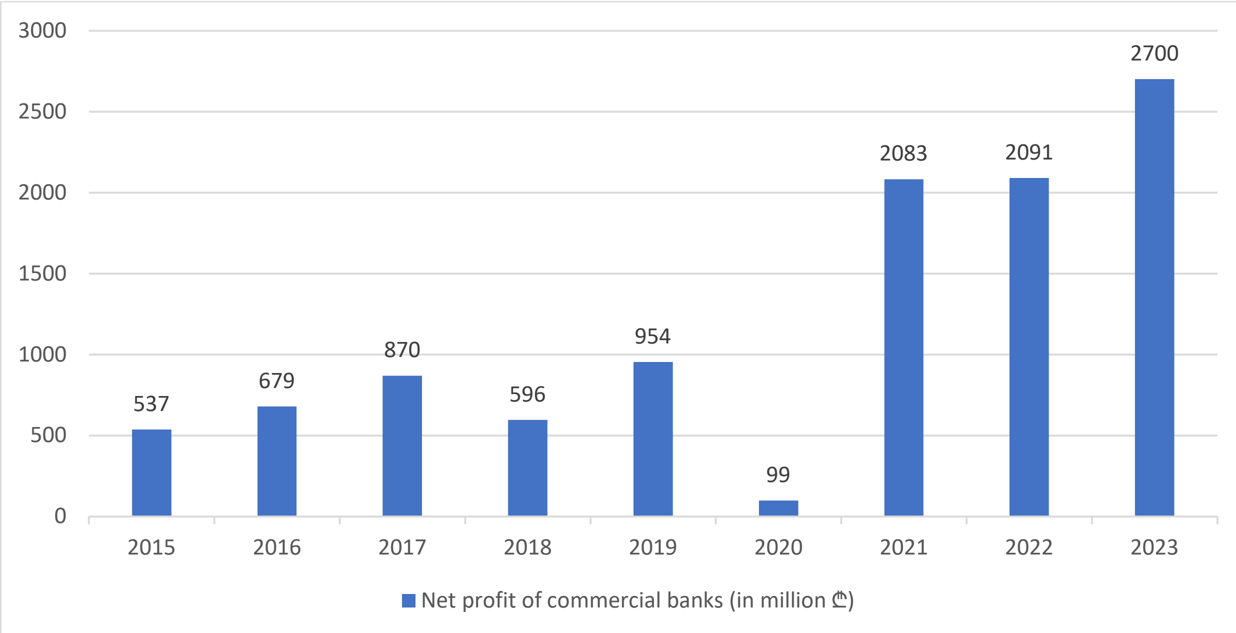
Figure 1. Deposit Volume in Commercial Banks as a Share of Georgia's GDP



Source: National Statistics Office of Georgia. Diagram created by the author based on data from the National Statistics Office of Georgia.

In the context of Georgia's underdeveloped financial sector, the net profit of commercial banks remains remarkably high. According to the National Bank of Georgia, the net profit of commercial banks in 2023 reached 2.7 billion GEL, reflecting a significant increase of nearly 30% compared to the 2.1 billion GEL recorded in the previous year.

Figure 2. Net Profit of Commercial Banks in Georgia (2015–2023)



Source: Diagram created by the author based on data from the National Bank of Georgia.

The high profitability of banks, despite an underdeveloped financial sector, suggests that commercial banks dominate financial intermediation in Georgia, with limited competition from alternative financial institutions (e.g., insurance companies, capital markets, or crowdfunding platforms).

This article aims to achieve **three primary objectives** in the context of crowdfunding in Georgia:

To identify the value or relevance of crowdfunding for economic development:

The article explores how crowdfunding can be a significant financing mechanism for Georgia's economic growth. It will focus on its potential benefits for startups and small and medium-sized enterprises (SMEs) that face challenges in accessing traditional financing. The analysis will highlight the role of crowdfunding in fostering innovation, diversifying funding sources, and promoting financial inclusion.

To examine the barriers and challenges to crowdfunding growth in Georgia:

The article will investigate various obstacles that hinder the expansion of crowdfunding in the country, including regulatory, cultural, and market-based issues. Understanding these barriers is essential for developing strategies to overcome them and create a more conducive environment for alternative finance.

To compare Georgia's crowdfunding landscape with other developing economies:

The article analyses crowdfunding experiences in other developing countries to identify best practices and successful strategies that can be applied in Georgia. This comparative analysis will provide insights into regulatory frameworks, government incentives, and market development measures that have facilitated crowdfunding growth elsewhere.

The article will address the following **research questions** to guide the analysis:

What are the primary opportunities that crowdfunding presents for Georgia's economic development, particularly for SMEs and startups?

What barriers and challenges are limiting the growth of crowdfunding in Georgia, and how do these compare to the experiences of other countries?

What strategies and policies could be implemented to promote the growth of crowdfunding as a viable financing option in Georgia?

This article is structured as follows: The next section provides an overview of the theoretical foundations of crowdfunding and reviews the relevant literature, highlighting key opportunities and challenges specific to developing economies like Georgia. The results section presents and discusses the key findings, emphasizing the comparison with Lithuania as a case study for successful crowdfunding ecosystem development. Following this, the conclusions section summarizes the study's main contributions and offers practical recommendations for advancing crowdfunding in Georgia. Finally, the limitations of the study are acknowledged, and suggestions for future research directions are proposed.

2. Literature Review

2.1. Theoretical foundations of crowdfunding

The foundations of crowdfunding draw from economic, social, and psychological theories, each explaining different aspects of its appeal and effectiveness as a capital-raising mechanism.

Strausz (2017) highlights crowdfunding's innovative role in allowing entrepreneurs to engage with consumers before committing to investment. By enabling pre-investment contracting, crowdfunding helps reduce demand uncertainty, improving the screening process for valuable projects. However, Strausz notes that entrepreneurial moral hazard and private cost information can undermine this benefit. To address these issues, popular crowdfunding platforms offer mechanisms, such as conditional pledging, that allow consumers to defer payments and manage moral hazard effectively. Strausz further emphasizes that crowdfunding's efficiency is contingent on expected returns surpassing agency costs associated with entrepreneurial incentives. Ultimately, by diminishing demand uncertainty, crowdfunding enhances welfare and complements traditional financing methods, which focus more on controlling moral hazard.

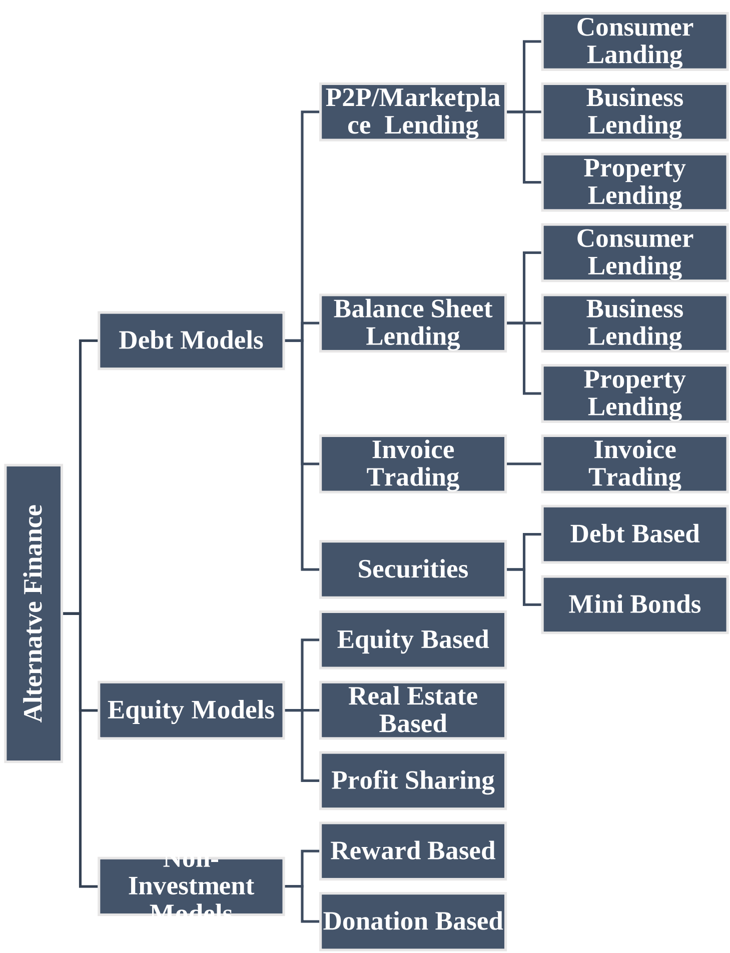
As CF has developed over the past decade, its terminology has become more standardized. Most academic literature now references the taxonomy established by the Cambridge Centre for Alternative Finance (CCAF). According to CCAF's *Global Alternative Finance Market Benchmarking Report*

(2020), 14 different crowdfunding models have been identified, broadly categorized into three main types: debt-based models, equity-based models, and non-investment models (such as donation-based and reward-based crowdfunding). This classification system helps clarify various alternative finance models as distinct methods of capital raising (Figure 3)

Gerber, Hui, & Kuo (2012) describe crowdfunding as a tool for attracting financial resources, often in exchange for a future product, service, or symbolic reward. This mechanism can engage various segments of society, including individuals and private organizations. According to Gerber, CF has the potential to significantly influence social and economic activities by facilitating the realization of new and innovative products and services. Drawing from economic theories (behavioral economics, microeconomics, entrepreneurial finance) and socio-psychological concepts (motivation, behavior, drive), Gerber analyzes and discusses CF as a multifaceted phenomenon.

Since the mid-2010s, blockchain-based CF has gained traction as well, with platforms adopting blockchain technology to improve transactional efficiency and even establish secondary markets. This innovation offers new opportunities for transparency and trust, addressing some limitations of earlier crowdfunding models (Lambert, 2024).

Figure 3. Alternative Finance Taxonomy. Source: (THE USAID ECONOMIC GOVERNANCE PROGRAM, 2021) based on CCAF (Cambridge Centre for Alternative Finance, 2020)



2.2. Overview of global trends in crowdfunding in developing countries

Developing countries face significant challenges in accessing capital, especially for small and medium-sized enterprises (SMEs) and startups. Crowdfunding addresses this gap by democratizing finance, allowing businesses to attract funding from local and international contributors. Platforms such as Kenya's M-Changa and India's Ketto exemplify how CF has broadened access to funds, empowering entrepreneurs who might otherwise struggle to secure bank loans or investment capital (Africa Diaspora Revival Fund, 2023).

Regulatory frameworks in developing countries are gradually evolving to accommodate and support CF. While some countries, like Malaysia and Brazil, have introduced specific regulations for crowdfunding, others are in the early stages of regulatory development. Effective regulation is crucial for building trust among investors and minimizing risks such as fraud, particularly in equity and debt-based crowdfunding. This trend highlights the importance of transparent, secure regulatory environments in fostering sustainable CF ecosystems.

Despite its growth, CF in developing countries faces challenges, including low financial literacy, limited internet access, and lack of investor protection. Many potential backers are unfamiliar with CF mechanisms, which limits participation. Additionally, inadequate regulatory frameworks in some countries may expose investors to risks, discouraging them from engaging in equity-based or lending-based CF models. Addressing these issues is critical for maximizing the potential of CF as a tool for economic empowerment in developing markets.

3. Methodology

This study adopts a mixed-methods research approach to analyze the theoretical foundations, current state, and potential development of crowdfunding within Georgia's financial ecosystem. The research integrates a thorough literature review with secondary data analysis and a comparative study of Lithuania to evaluate the factors influencing crowdfunding awareness and adoption among small and medium-sized enterprises (SMEs) in Georgia.

The secondary data utilized in this study are sourced from reliable institutions, including reports from the National Bank of Georgia, international databases, and publications from local financial organizations. This data provides insights into SME financing trends, the regulatory framework, and the financial literacy levels of Georgian entrepreneurs, all shaping the crowdfunding ecosystem.

To assess the relationship between financial literacy, SME financing, and crowdfunding, a comparative analysis with Lithuania is conducted to draw lessons from its successful implementation of crowdfunding platforms and regulatory practices.

The findings synthesize insights from the literature review, data analysis, and comparative study to formulate actionable recommendations. These recommendations aim to enhance crowdfunding awareness, address regulatory challenges, and promote its adoption as a viable alternative financing model for SMEs in Georgia.

4. Analysis of Opportunities

4.1. Opportunities for SMEs and startups

Early-stage ventures use crowdfunding to test a product's viability and engage initial adopters with minimal barriers to entry. Crowdfunding campaigns also provide marketing advantages by generating visibility for the business. Companies can gauge market interest and measure demand through pre-sales or donation-based models, allowing them to assess the potential for product launches. For investors, this validation from the crowd lowers investment risk by affirming market demand. Some angel investment groups, such as Heartland Angels in Chicago, now incorporate crowdfunding portals to help businesses demonstrate market acceptance through successful campaigns.

Crowdfunding campaigns can attract a group of motivated customers who serve as both advocates and a source of valuable feedback. By expanding into crowd-financed investment (CFI), companies gain access to an early support network of investors with a vested interest in their success. These early supporters often act as informal advisors, offering insights, sharing skills, and connecting entrepreneurs to influential partners, all of which help new businesses overcome early growth challenges.

Traditional micro-lending practices often depend on local networks for monitoring and governance. Crowdfunding, however, breaks these geographic constraints by connecting projects to a wider investor base that may not be locally tied. While there is some evidence of "local bias" in donation-based crowdfunding, geography tends to play a less significant role in supporting promising projects on crowdfunding platforms. Whether this shift is due to differing trust standards, verification methods, or other factors remains unclear, but the trend toward borderless investment continues to grow.

Traditionally, early-stage enterprises in developed countries have relied on business angels and venture capitalists (VCs) for funding, while in developing regions, such funding often comes from friends and family. Advances in social media and information and communication technology (ICT) now allow early-stage and high-growth ventures worldwide to bypass traditional venture investor routes by presenting their offerings directly to a broad network of online investors. This process benefits from "crowd validation," where interest from other investors can help reduce perceived and real risks associated with early-stage investment. While crowdfunding does not replace the role of angels or VCs in larger or later-stage funding, it offers an alternative route for early growth.

Entrepreneurs also benefit from the immediate feedback crowdfunding provides on market viability. Feedback from backers may lead to business model adjustments or market focus shifts. This collaborative exchange of information can help companies refine their strategies, identify potential new markets, and build partnerships with suppliers or vendors. A successful CF campaign enhances a company's credibility and visibility among investors, building an engaged audience of supporters who may become future customers and advocates.

Effective crowdfunding systems require more than just entrepreneurs and interested investors; they also depend on a supportive ecosystem with progressive regulations, advanced technological solutions, and a culture that can adapt to this new funding model. The idea of building an ecosystem around a technology platform is well-established. For example, social networking and online advertising platforms have demonstrated how an ecosystem of entrepreneurs and businesses can form around it after the initial platform launch to enhance its overall value.

4.2. Georgian crowdfunding ecosystem

Currently, the most active crowdfunding platform in Georgia is Orbelianimeti.ge, which has been in operation since 2020. The platform primarily focuses on social issues and civil society initiatives, though it also allows startups to submit ideas. To date, it has raised a total of 407,000 GEL, supplemented by co-financing from donor organizations such as UNDP, USAID, SIDA, the Embassy of the Czech Republic, the Embassy of the Netherlands, and the EWMI Access Program. Built on a reward-based model, the platform rarely features business investment projects, instead hosting primarily social and civic projects.

Investme.ge was the first platform in Georgia to focus on commercial startups through reward-based crowdfunding. Established in 2018 with financial support from the Reserve Fund of the President of Georgia, it also provided a space for social entrepreneurship, offering rewards to financial backers. The platform hosted a limited number of crowdfunding projects, but none reached their full funding targets. Currently, the platform is inactive, and project placement is temporarily suspended.

Crystalcrowd.ge is an equity-based crowdfunding platform established in 2015 by the microfinance organization Crystal. However, due to non-compliance with legal requirements, no projects were ever launched on the platform.

Fundraiser.ge was launched in 2018 as a reward-based crowdfunding platform primarily supporting social initiatives. Initially operating in a test mode, the platform targeted civil society representatives as its primary audience. In 2020, Fundraiser.ge expanded to fully include startups, now serving both civic and entrepreneurial sectors. To date, it has raised approximately 93,853 GEL. The platform predominantly hosts civic initiatives, with fewer projects focused on business investments.

5. Analysis of Barriers

Despite its potential, the growth of crowdfunding in Georgia faces several significant barriers and challenges that need to be addressed. These include:

The banking sector’s strong influence in Georgia's financial market presents a challenge for alternative financing methods. With a large share of the population's deposits held in commercial banks, there is a tendency to rely on traditional financial institutions rather than explore new, unproven funding models like crowdfunding.

The regulatory framework in Georgia currently prohibits the operation of equity and debt-based crowdfunding, limiting the development of crowdfunding as a mainstream financing option. The lack of specific legal guidelines for various crowdfunding models—such as equity and debt-based—creates uncertainty for both entrepreneurs and investors. This regulatory gap increases the risk of fraud and market abuse, which can discourage potential participants from engaging with crowdfunding platforms. To tackle the financing challenges that small and medium-sized enterprises (SMEs) face during early development stages, the Georgian Innovation and Technology Agency (GITA) has engaged in close collaboration with technology startups. In response to market demand, GITA prepared draft amendments to the Georgian Law "On Securities Market," aiming to introduce and regulate new loan- and equity-based crowdfunding mechanisms. Although these amendments were intended for parliamentary approval in 2017, they have yet to be adopted. It is notable that, unlike equity or debt-based crowdfunding, donation- and reward-based models do not require regulatory or legislative modifications to function effectively.

In Georgia, there is a historical preference for more traditional forms of finance, and the public may be skeptical of new financial mechanisms. The lack of trust in online transactions and unfamiliarity with digital financial platforms can further inhibit the adoption of crowdfunding.

In Georgia, crowdfunding remains a relatively unfamiliar concept, with limited public and business community awareness regarding its potential benefits and how it operates. Furthermore, low financial literacy levels add to the challenges facing crowdfunding's growth, as many potential investors and entrepreneurs may not have the necessary knowledge to use these platforms effectively.

Financial literacy is a crucial component in developing any financial ecosystem, especially in emerging economies like Georgia. The level of financial literacy among business owners significantly influences their ability to access alternative funding sources, including crowdfunding. However, the findings from a recent survey conducted by the National Bank of Georgia in 2021 reveal that there is room for substantial improvement in the financial knowledge, behavior, and attitudes of micro, small, and medium-sized enterprises (MSMEs) across the country[3].

The study indicates that the overall financial literacy score for Georgian MSMEs is 10 out of 17, reflecting a moderate level of understanding and skills in financial management. This score comprises three components: financial knowledge (3.1 out of 5), financial behavior (5.6 out of 9), and financial attitudes (1.6 out of 3). Notably, businesses in Tbilisi tend to demonstrate higher financial literacy levels compared to those in other regions, underscoring a regional disparity in financial education.

Awareness of traditional financial products, such as property insurance, micro-credit, and bank loans, is relatively high among business owners, with over 90% familiarity. However, there is a significant gap in the understanding and using alternative financing mechanisms. For instance, awareness of angel investment stands at only 19%, venture capital at 14%, and crowdfunding/peer-to-peer lending at a mere 7%. Moreover, the actual usage of these alternative financing options remains extremely limited. This

[3] Financial Literacy Study of MSMEs, Report of Quantitative Research, August 2021; Survey instrument was developed by OECD/INFE to measure the financial literacy of MSMEs. The study is organized by the National Bank of Georgia and Financial Education Portal - Finedu with the financial support of EFSE DF;

lack of familiarity and engagement with non-traditional financial products hinders the potential growth and diversification of funding sources for Georgian entrepreneurs.

6. Comparison with Lithuania

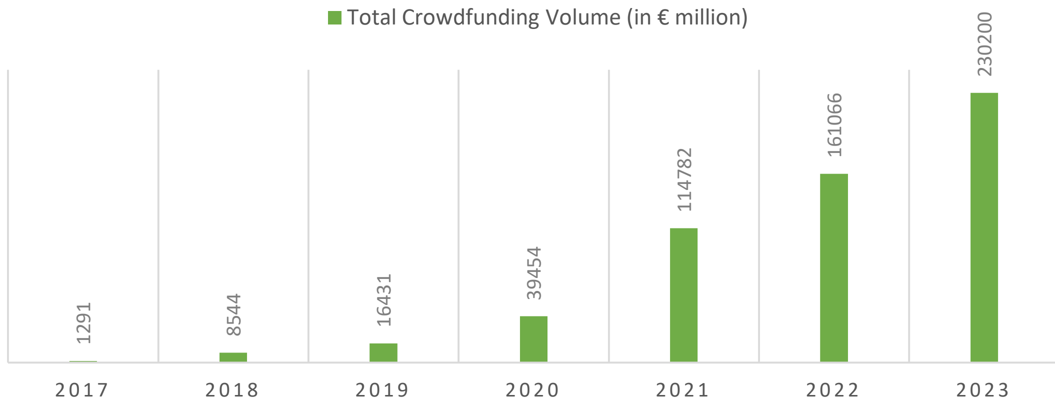
Lithuania ranks third in Europe for the amount of funds raised and the number of crowdfunding platforms, following Germany and France. Prior to the implementation of common EU crowdfunding regulations, Lithuania had 23 crowdfunding platform operators; currently, only 12 remain active.

Crowdfunding is gaining importance as an alternative source of business financing. According to the Bank of Lithuania, crowdfunding platforms raised a total of €230.2 million in 2023, representing a 42.9% increase compared to 2022. A total of 591,200 transactions were completed, a slight decrease of 4.35% from the previous year, while the number of funded projects rose by 2.6% to 2,788. During this period, project owners delayed payments to investors totaling over €12 million.

Between 2020 and 2023, the funds raised through CF platforms in Lithuania increased from approximately EUR 39 million to EUR 230 million, while the number of transactions rose from around 150,000 to over 600,000. (Figure 4)

In Lithuania, the regulatory framework for crowdfunding platform operators (CPOs) is comprehensive, ensuring that only authorized entities may offer CF services. The Bank of Lithuania oversees the registration and compliance of CPOs by maintaining a Public List, where only listed entities are allowed to operate legally. Applicants must submit detailed documentation demonstrating readiness to comply with regulatory standards to be included in this list. These standards focus on safeguarding project financiers by ensuring that CPOs operate transparently and adhere to prudential requirements.

Figure 4. Crowdfunding Volumes in Lithuania (2017–2023)



Source: Diagram created by the author based on data from the LenderKit.

Lithuania's crowdfunding market shows potential for growth due to regulatory support, government promotion, and technological advancements. However, it faces challenges from economic conditions (like high deposit interest rates) and low financial literacy, which limit market participation. Increasing government involvement and financial education could mitigate these barriers, encouraging broader adoption and positioning crowdfunding as a mainstream financing tool for SMEs.

7. Conclusion

The crowdfunding ecosystem presents transformative opportunities for SME financing in Georgia, yet its development is hindered by structural barriers deeply rooted in the country's financial history. Like many Eastern European and post-Soviet states, Georgia's financial sector has been heavily dominated by banks, which emerged from the foundations of former state-owned institutions. This dominance has created a monopolistic environment, limiting the growth of alternative financing mechanisms and reducing opportunities for diverse financial players to thrive.

Lithuania offers a compelling counterpoint. By actively fostering competition within its financial market and implementing strategic regulations like the ECSP Regulation, Lithuania has succeeded in creating an inclusive and dynamic crowdfunding ecosystem. As a result, the availability of alternative financial resources in Lithuania has expanded significantly, enabling the SME sector to grow rapidly and contribute meaningfully to economic development. This contrast underscores the importance of regulatory and institutional frameworks in shaping financial ecosystems and fostering innovation.

In Georgia, the lack of a dedicated regulatory framework for equity- and debt-based crowdfunding, coupled with low financial literacy and limited public awareness, has stifled the growth of this promising financing model. While platforms such as Orbeliani and InvestMe have attempted to introduce crowdfunding mechanisms, these efforts remain fragmented and insufficient to meet the needs of the SME sector. The absence of clear legal support further exacerbates the risks for entrepreneurs and investors, discouraging participation in crowdfunding initiatives.

To address these challenges, Georgia must adopt a multi-pronged strategy. Policymakers should prioritize the establishment of a robust regulatory framework for crowdfunding that not only encourages innovation but also protects investors and entrepreneurs from potential risks. Additionally, targeted efforts to enhance financial literacy and public awareness are critical for fostering a culture of trust and participation in alternative financing mechanisms.

Lithuania's success demonstrates that a well-regulated and inclusive crowdfunding ecosystem can catalyze SME growth, driving innovation and economic development. By adopting best practices and tailoring them to its unique economic and cultural context, Georgia can unlock crowdfunding's potential to diversify its financial ecosystem and empower its entrepreneurial community.

Future research should focus on collecting detailed longitudinal data on SME financing trends and crowdfunding awareness in Georgia. Comparative studies exploring the impact of regulatory changes in similar economies would also provide valuable insights into the pathways for advancing crowdfunding adoption. These efforts will be essential for creating a financial ecosystem that supports sustainable SME growth and positions Georgia as a regional leader in alternative financing.

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