Received: April 4, 2026
Revised: April 28, 2026
Accepted: May 8, 2026
Published: August 27, 2026

Elicit Journal of Economics and Management Studies
eISSN:3121-634X
pISSN:3093-0529

https://elicitpublisher.com

REVIEW PAPER

Crowdfunding as Financial Intermediation: A Critical Review of Its Promises, Limitations, and Economic Impact

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DOI
10.65820/ejems-4vol2-issue2-2026

Abstract

Purpose: This study critically examines whether crowdfunding constitutes a genuine form of financial intermediation, contributes meaningfully to economic development, and can be regarded as a credible institutional alternative to traditional financial systems.

Methods: The study adopts a structured narrative literature review, synthesising existing theoretical and empirical research across five key themes: crowdfunding as financial intermediation, developmental outcomes, comparisons with traditional financial institutions, structural and scalability limitations, and regulatory, technological, and trust-related constraints.

Results: The findings reveal a persistent gap between the rhetoric of disruption and empirical realities, showing that crowdfunding's impact remains modest, geographically uneven, and sector-specific. While it provides valuable support for early-stage ventures, creative industries, and financially excluded groups, its capacity to generate transformative macroeconomic effects is limited.

Novelty and Contribution: This study contributes a theoretically grounded and critically balanced synthesis that moves beyond both promotional and dismissive narratives. It reframes crowdfunding as a complementary financial mechanism within pluralist financial ecosystems, rather than a disruptive substitute for traditional financial intermediation.

Social and Practical Implications: The findings underscore the need for policy and regulatory approaches that recognise crowdfunding's complementary role while addressing its structural limitations. The study also highlights the importance of rigorous, longitudinal, and cross-national research to better understand its long-term economic and distributional effects.

Keywords: Crowdfunding; Financial Intermediation; Economic Development, Fintech; Financial Inclusion

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How to cite this article:

Oshoba, A.O., & Mueeb, A.O. (2026). Crowdfunding as Financial Intermediation: A Critical Review of Its Promises, Limitations, and Economic Impact. *Elicit Journal of Economics and Management Studies*, 2(2), 64-77. https://doi.org/10.65820/ejems-4vol2-issue2-2026

1 Introduction

Over the past decade, crowdfunding platforms have expanded rapidly across both developed and developing economies, driven by advances in digital infrastructure, the disintermediation dynamics of platform capitalism, and increasing recognition that traditional financial institutions often fail to adequately serve entrepreneurs, creative professionals, and socially marginalised communities. From Kickstarter and Indiegogo to equity-based platforms like Seedrs and Crowdcube, and peer-to-peer lending intermediaries like Funding Circle, to donation-based models used for humanitarian causes like donate-ng, crowdfunding has taken on a variety of institutional forms and permeated almost every aspect of economic activity. Crowdfunding research has grown in parallel. Early descriptive studies gave birth to more complex empirical evaluations of campaign success factors, backer behaviour, platform governance, and macroeconomic relevance. International organisations such as the World Bank, the Cambridge Centre for Alternative Finance, and the Organisation for Economic Cooperation and Development have produced influential reports indicating that crowdfunding could significantly improve financial inclusion, particularly in regions where banking penetration is low and access to venture capital is structurally limited (World Bank, 2013; Ziegler et al., 2021; OECD, 2020). These claims have been widely received in policy circles, giving rise to regulatory frameworks, innovation strategies, and development finance initiatives predicated on the presumed transformative potential of crowdfunding.

However, a growing body of critical research has begun to systematically question these claims. Researchers have highlighted the concentration of successful crowdfunding activity in a small number of urban, high-income markets; the persistent dominance of a narrow range of campaign types; significant information asymmetries that disadvantage retail investors; platform-level governance failures; and the fundamental inability of crowdfunding at its current scale to substitute for institutional credit allocation, equity markets, or public development finance (Mollick, 2014; Cosh et al., 2009; Agrawal et al., 2015; Zhang et al., 2016b). The gap between the rhetorical positioning of crowdfunding as a democratising force and the empirical evidence of its actual developmental impact has become a defining tension in the literature.

This article addresses that tension via a structured narrative literature review. The key issue addressed in this study is the potential overestimation of crowdfunding's economic significance in academic and policy discourse, as well as the lack of critical review of the conditions under which crowdfunding can and cannot yield meaningful economic effects. Instead of adding another empirical case study to an already substantial literature, this review provides a synthetic, theoretically grounded critical appraisal of what is known, what is claimed, and what is truly unknown about crowdfunding as a financial and economic institution. This is achieved through the following research questions:

i. To what extent can crowdfunding be considered a true form of financial intermediation within modern financial systems?
ii. To what extent does crowdfunding contribute to economic development, and is its impact overstated in existing literature?
iii. How does crowdfunding compare with traditional financial institutions in terms of efficiency, scalability, and risk allocation?
iv. What structural constraints limit crowdfunding's ability to achieve significant macroeconomic impact?
v. Should crowdfunding be conceptualised as a complementary financial tool rather than a transformative economic driver?

2 Theoretical Foundations

2.1 Financial Intermediation Theory

According to the classical theory of financial intermediation, financial institutions serve a variety of critical economic services that cannot be efficiently replicated through direct trade between final borrowers and lenders. Diamond and Dybvig (1983) revealed that banks produce liquidity and manage maturity transformation by accepting short-term deposits and extending long-term loans, allowing for an intertemporal allocation of resources that would otherwise be limited by coordination failures. Diamond (1984) further demonstrated that financial intermediaries reduce the costs of delegated monitoring: by pooling the monitoring obligations of multiple depositors into a single institutional agent, they resolve the free-rider problem that would otherwise render creditor oversight inefficient. Leland and Pyle (1977) proposed the signal-theoretic dimension of intermediation, demonstrating that asymmetric information between borrowers and lenders generates a market for intermediaries who can reliably certify borrower quality. This signalling function is inextricably linked to the screening and certification functions played by banks, venture capital firms, and investment banks when providing funds to ventures whose quality is difficult for uninformed investors to determine. Subsequent theorists, such as Ramakrishnan and Thakor (1984) and Bhattacharya and Thakor (1993), elaborated on the conditions under which intermediation improves welfare, identifying the reduction of adverse selection, moral hazard, and transaction costs as key justifications for the existence of financial intermediaries.

These theoretical foundations pose crucial questions concerning crowdfunding. If financial intermediation is fundamentally about resolving information asymmetries, managing risk through diversification and monitoring, and creating liquidity through maturity transformation, it is unclear to what extent crowdfunding platforms perform these functions. Crowdfunding platforms connect capital seekers and capital providers in ways that differ structurally from bank-based intermediation, prompting the question of whether they represent disintermediation, reintermediation, or a qualitatively distinct institutional form.

2.2 Alternative Finance and Fintech Ecosystems

The advent of financial technology as an analytical category has pushed academics to reconsider classical intermediation theory. Philippon (2012) found that, despite enormous developments in information and communications technology, the unit cost of financial intermediation in the United States has remained relatively consistent at around 2% over the last century. This conclusion raises the dilemma of why technology has failed to significantly lower the cost of finance, prompting questions about whether digital platforms like crowdfunding represent a genuine efficiency benefit or simply a transfer of current intermediation fees.

Arner et al. (2015) presented a fintech typology that distinguishes between incumbent-embedded financial technology, fintech startups attempting to disintermediate incumbents, and systemic fintech that changes the architecture of financial markets. Crowdfunding maintains an equivocal place within this typology: while crowdfunding platforms aim to disintermediate traditional capital gatekeepers, they also replicate many of those gatekeepers' tasks, such as vetting, marketing, and transaction processing. Gomber et al. (2017) developed a financial services value chain framework, arguing that fintech innovations tend to unbundle specific components of traditional financial services rather than replace them entirely, a viewpoint with important implications for evaluating crowdfunding's transformative claims.

The alternative finance literature contains a normative discourse about financial democratisation, which believes that technology-enabled platforms can provide access to capital to people previously excluded by established financial systems (Zhang et al., 2026; Bruton et al., 2015). This discourse builds on the larger financial inclusion agenda supported by international development agencies, which asserts a clear link between access to financial services and increases in welfare, entrepreneurship, and economic growth (Demirguc-Kunt et al., 2018). The crucial question is whether crowdfunding platforms' actual performance corresponds to the democratisation narrative, or whether structural elements of platform markets routinely maintain and, in some circumstances, amplify existing disparities.

2.3 The Finance-Growth Nexus

The theoretical link between financial development and economic growth has been the subject of extensive scholarly debate since Schumpeter (1911) identified the banking sector as a critical enabler of entrepreneurial innovation and capital accumulation (Schumpeter & Swedberg, 2021). King and Levine (1993) provided substantial cross-country empirical evidence that financial depth, defined as credit to the private sector relative to GDP, is strongly associated with subsequent economic growth. Levine (2005) synthesised a large body of evidence suggesting that financial institutions and markets promote growth by mobilising savings, allocating capital, exercising corporate governance, facilitating risk management, and simplifying exchange. The finance-growth nexus provides a critical framework for evaluating crowdfunding. If financial development promotes growth through the channels indicated by Levine (2005), crowdfunding's contribution to growth will be determined by the extent to which those channels are activated on a meaningful scale. A crowdfunding sector that encourages risk-sharing among a large number of different investors, efficiently allocates capital to high-return projects, and promotes productive entrepreneurship will, all things considered, contribute favourably to economic development. However, the size of that contribution will be heavily influenced by the aggregate volume of crowdfunded capital relative to total investment, the quality of capital allocation in comparison to other mechanisms, and the extent to which crowdfunded projects generate employment, innovation, and knowledge spillovers. These theoretical frameworks collectively establish that the assessment of crowdfunding requires engagement with foundational questions about the nature of financial intermediation, the conditions under which digital platforms are efficient capital allocators, and the causal mechanisms linking financial innovation to growth. The following sections apply this framework to a critical review of the empirical and theoretical literature.

3 Methodology

This study employs a structured narrative literature review (NLR) methodology. The narrative review method was chosen based on the nature of the research questions as well as the characteristics of the available literature. The five research questions posed in this study are fundamentally interpretive and conceptual: they address the appropriate theoretical classification of crowdfunding, the credibility of developmental claims, comparative institutional performance, and the normative framing of crowdfunding in financial systems. These are questions that necessitate theoretical synthesis, conceptual reasoning, and critical appraisal of heterogeneous data, as opposed to the quantitative aggregation of comparable empirical findings that characterises meta-analysis.

Furthermore, the crowdfunding literature is characterised by wide variation in research design, data sources, country settings, platform types, and outcome measures. The research ranges from large-scale quantitative analyses of platform data to qualitative case studies of individual campaigns; from experimental designs investigating backer psychology to econometric analyses of macroeconomic correlates; from legal analyses of regulatory frameworks to ethnographic studies of platform communities. Because of the diversity of this literature, a straight quantitative synthesis is methodologically ineffective, necessitating the type of integrative theoretical examination that narrative review allows.

The structured qualification of this narrative review demonstrates a dedication to scientific rigour that separates it from informal or impressionistic literature assessments. This study follows the framework proposed by Ferrari (2015) and elaborated by Green et al. (2006), which includes pre-specified search procedures, transparent inclusion and exclusion criteria, a systematic approach to thematic organisation, and explicit attention to contrary evidence and alternative interpretations. The goal is to produce a review that is replicable in its procedures, even where it remains interpretive in its conclusions.

4 Result

4.1 Crowdfunding as a Form of Financial Intermediation

The question of whether crowdfunding is a legitimate form of financial intermediation has far-reaching consequences for how we evaluate its performance, regulate its activities, and measure its social usefulness. At its most fundamental, financial intermediation is transitioning funds into investments via an institutional agent who handles risk, lowers information costs, and creates liquidity (Freixas and Rochet, 2013). The extent to which crowdfunding platforms accomplish these duties is a source of ongoing scholarly discussion.

Proponents of a broad definition of crowdfunding as financial intermediation point to functional parallels between crowdfunding platforms and traditional intermediaries. Debt-based crowdfunding platforms, particularly peer-to-peer lending platforms, carry out credit screening, risk pricing, loan servicing, and portfolio management operations that are fundamentally similar to those of consumer credit firms and community banks (Milne & Parboteeah, 2016). Equity crowdfunding platforms perform due diligence, disclosure management, valuation support, and investor matching, which are similar to the operations of early-stage venture capitalists and angel networks (Ahlers et al., 2015). Even reward-based and donation platforms promote capital allocation, but with reputational and social signals rather than financial ones.

However, a more critical reading of the intermediation literature reveals significant functional gaps. The classical intermediation functions of maturity transformation and liquidity creation are largely absent in crowdfunding. Unlike a bank, which can create new purchasing power through credit expansion and manage liquidity mismatches through central bank access, crowdfunding platforms merely match existing savings with investment opportunities (Claessens et al., 2018). This means that crowdfunding does not increase the overall supply of investable capital; rather, it reallocates existing resources, possibly more efficiently or inclusively, but within a fixed pool. This divergence has significant macroeconomic ramifications, which are frequently overlooked in the democratisation literature.

The monitoring function is additionally contested. According to Diamond's (1984) theory of delegated monitoring, the efficiency advantages from financial intermediation are due to the centralisation of monitoring activities in an agent who can observe borrower behaviour at a lower cost than dispersed lenders. Crowdfunding platforms that rely on crowd-sourced due diligence and reputational signals rather than expert credit analysts replicate the collective action issues that Diamond's theory was intended to explain (Ahlers et al., 2015; Cosh et al., 2009). Several empirical studies have shown that crowdfunding investors prioritise observable signals like campaign aesthetics, founder demographics, and social network size over fundamental financial quality metrics (Mollick, 2014; Vismara, 2016). This pattern suggests that crowdfunding crowds may be less effective monitors than professional intermediaries, with implications for capital allocation quality.

Chemla and Tinn (2020) provide a theoretical reconciliation, modelling crowdfunding as an information aggregation mechanism that generates value not through monitoring but through the collaborative processing of dispersed private information. In this view, crowdfunding platforms generate informational public goods by showing aggregate demand for items or projects before investment is made, a role that differs from traditional intermediation but is nonetheless economically beneficial. This viewpoint reframes crowdfunding as a complementary information mechanism that might minimise uncertainty for early-stage entrepreneurs, particularly in sectors where professional investors lack domain-specific knowledge.

The literature thus supports a nuanced conclusion: crowdfunding performs some intermediation functions, particularly screening and matching, but fails to perform others, particularly monitoring, maturity transformation, and liquidity creation. Its classification as financial intermediation is legitimate but partial, and its efficiency in performing the functions it does perform is heterogeneous and contested.

4.2 Crowdfunding and Economic Development Outcomes

The literature on crowdfunding's contribution to economic development spans three broad outcome categories: entrepreneurial finance and venture creation; financial inclusion and access to capital for marginalised communities; and innovation, employment, and growth. Each category presents a distinct pattern of evidence, and the aggregate picture is more qualified than the popular discourse suggests.

At the entrepreneurial finance level, there is relatively strong evidence that crowdfunding allows for the funding of businesses that would otherwise struggle to attract institutional capital. Mollick (2014) found that successful Kickstarter projects follow patterns consistent with positive market selection, with satisfied backers reporting high rates of product delivery and creative follow-through. Bruton et al. (2015) positioned crowdfunding within a larger entrepreneurial ecosystem paradigm, claiming that it is a viable source of seed capital in markets with structural financing deficits. Brown et al. (2018) found UK-specific evidence that equity crowdfunding is associated with subsequent venture survival and growth; however, effect sizes are small, and selection factors make causal interpretation difficult.

Notwithstanding this, the developmental relevance of this entrepreneurial finance function is limited by structural constraints. First, while crowdfunded capital is increasing, it remains limited in terms of total venture investment. The Cambridge Centre for Alternative Financing (Ziegler et al., 2021) predicted worldwide alternative financing volumes at around $113 billion in 2020, which, while significant in absolute terms, accounts for less than 1% of global bank lending. Second, successful crowdfunding campaigns are disproportionately concentrated in specific sectors, primarily consumer technology, creative industries, and social enterprises, as well as specific countries, most notably North America, the United Kingdom, and China (Zhang et al., 2016b). The economic significance of crowdfunding outside these privileged contexts is considerably more modest.

The financial inclusion aspect of crowdfunding's developmental claims warrants close study. The idea that crowdfunding democratises access to finance is based on authoritative projections from organisations such as the World Bank (2013), which projected that equity crowdfunding would be a $96 billion market by 2025, expanding investment opportunities to previously excluded communities. The empirical testing of these arguments yielded conflicting findings. Zhang et al. (2016a) discovered that peer-to-peer financing in China reached populations underserved by traditional banking, lending credibility to the inclusion narrative. Burtch et al. (2014), on the other hand, showed that physical proximity and social network effects lead to significant concentration in crowdfunding participation, undercutting promises of democratised access.

More critically, Agrawal et al. (2015) demonstrated that information asymmetries in crowdfunding markets systematically disadvantage entrepreneurs in peripheral locations, who face higher costs in conveying credibility to geographically and socially distant backers. This finding inverts the inclusion narrative: rather than reducing the penalty for spatial marginalisation that characterises traditional banking, crowdfunding may reproduce or amplify existing geographic inequalities in capital access. Zhang et al. (2016a) similarly found that in the United Kingdom, the majority of crowdfunding capital flows to businesses in London and the South East, replicating rather than correcting the regional concentration of traditional venture capital.

With respect to innovation and job effects, the evidence is suggestive but methodologically weak. Several studies have found favourable links between crowdfunding and product innovation (Mollick, 2014; Colombo et al., 2015), and several present case studies of job creation in crowdfunded ventures. However, robust causal identification of crowdfunding's impact on aggregate innovation or employment is mainly lacking in the literature. Without credible counterfactual analysis, it is impossible to assess whether crowdfunded enterprises are net contributors to economic activity or substitutes for ventures that would have been funded through other channels.

4.3 Comparison with Traditional Financial Institutions

Comparative assessment of crowdfunding against traditional financial institutions requires attention to at least three dimensions: allocative efficiency, operational scalability, and risk allocation. Across all three dimensions, the literature reveals a complex and contextually variable picture.

In terms of allocative efficiency, crowdfunding outperforms traditional intermediaries by harnessing collective intelligence and eliminating principal-agent difficulties, according to both theoretical and empirical evidence. Agrawal et al. (2014) claimed that crowd-based project appraisal can tap into dispersed information that concentrated institutional investors cannot access, particularly in fields with rapid technical change or distinctive customer preferences. This argument is based on Hayek's (2013) ideas regarding the informational efficiency of decentralised markets, which are applied to the context of project finance. Several empirical studies indicate that crowd-selected ideas outperform venture capital-selected ventures in the early stages of creative and technological development (Mollick, 2014; Colombo et al., 2015).

However, these efficiency claims must be tested against evidence of substantial allocation errors in crowdfunding markets. Vulkan et al. (2016) investigated equity crowdfunding returns and discovered significant investor losses, raising concerns about the effectiveness of crowd-based due diligence. The systematic underrepresentation of particular demographic groups among successful fundraisers and active investors suggests that crowdfunding reinforces, rather than corrects, established capital-market prejudices (Greenberg & Mollick, 2017; Gafni et al., 2021). Furthermore, the dependence of many crowdfunding platforms on platform-generated algorithms for project rating introduces new kinds of informational power concentration, which may skew allocation in ways similar to, but structurally different from, traditional gatekeeping.

On scalability, the comparison with traditional financial institutions reveals fundamental structural asymmetries. Commercial banks can scale their intermediation activities through the money creation mechanism: a new deposit enables new lending, which creates new deposits in a multiplicative process governed by reserve requirements and central bank policy. Crowdfunding platforms, as pure matching mechanisms, cannot engage in money creation; each new loan or investment must be matched by an existing savings allocation. This structural limitation means that crowdfunding cannot scale to the level of systemic significance without a parallel increase in the overall savings rate, which crowdfunding itself has no mechanism to generate (Claessens et al., 2018). Furthermore, the operational costs of crowdfunding, represented as a proportion of funds generated, frequently exceed those of traditional financial institutions of comparable size. While platforms claim lower fees than traditional lenders, the whole cost of crowdfunding, including platform fees, marketing expenses, and the opportunity costs of campaign administration time, is significant, especially for smaller projects (Milne & Parboteeah, 2016). As transaction volumes increase, traditional institutions benefit from economies of scale and scope that crowdfunding platforms, with narrow margins and high customer acquisition costs, find difficult to mimic.

In relation to risk allocation, the literature demonstrates a fundamental contradiction between the distributional democratisation of investment risk and the risks that inexperienced investors face. Equity crowdfunding, by definition, shifts investment risk to ordinary investors, who may lack the diversification, expertise, and informational access available to institutional investors. Hornuf and Schwienbacher (2017) found high failure rates among equity crowdfunded companies in Europe, with median returns significantly lower than those of comparable venture capital investments. Bradford (2012) and Schwartz (2014, 2023) expressed early concerns regarding investor protection in equity crowdfunding, arguing that legislative exemptions designed to facilitate crowdfunding may expose unsophisticated investors to levels of risk beyond their financial capabilities.

This asymmetry in risk distribution is exacerbated by the knowledge gap between campaign creators and backers. Traditional financial intermediaries control adverse selection by private information gathered, relationship lending, and contractual covenants, which are mostly unavailable to dispersed crowdfunding investors (Cosh et al., 2009). Crowdfunding platforms that rely largely on public disclosure and crowd-monitoring to address these disparities are inherently inferior to relationship-based intermediaries for transactions involving complicated, difficult-to-verify project quality.

4.4 Structural, Institutional, and Scalability Limitations

A substantial body of literature has addressed the structural constraints that limit crowdfunding's ability to scale to macroeconomic significance. These constraints operate at multiple levels: the level of individual platforms, the level of the crowdfunding industry as a whole, and the level of the macro-financial system within which crowdfunding is embedded.

The most frequently reported structural limitation at the platform level is the winner-take-all dynamics that characterise platform marketplaces (Rochet & Tirole, 2003; Parker et al., 2016). Network effects provide existing platforms a competitive edge that new entrants struggle to overcome, resulting in market concentration that undermines the competitive price discipline and diversification benefits that competitive platform marketplaces are theoretically meant to provide. In equity crowdfunding, Hornuf and Schwienbacher (2017) found high platform failure rates across Europe, with many early entrants departing the industry within five years of introduction. Platform failures expose investors and campaign creators to financial losses, incomplete transactions, and data privacy threats, emphasising the institutional fragility of crowdfunding infrastructure. The platform concentration dynamic has a spatial dimension that is theoretically relevant to development claims. Griffiths (2020) and following investigations by Ziegler et al. (2021) demonstrated that a small number of platforms, the bulk of which are domiciled in the United States, United Kingdom, or China, account for the vast majority of worldwide alternative finance volumes. This concentration means that the governance structures, fee models, and algorithmic ranking systems of a small number of private corporations have a substantial impact on who receives crowdfunded cash around the world, posing accountability and inclusion concerns that the democratisation narrative ignores.

At the industry level, the crowdfunding sector faces trust, reputation, and institutional legitimacy challenges that limit its capacity to attract mainstream finance. Failures of high-profile crowdfunding projects, such as fraud, misappropriation of funds, and persistent delays in product delivery, have eroded backer confidence and generated negative publicity that has a disproportionate impact on the broader sector due to reputational spillovers (Mollick, 2014; Cumming et al., 2019. These trust externalities, combined with low secondary market liquidity for crowdsourcing investments, provide major impediments to the participation of risk-averse and institutional investors, which are required to achieve meaningful scale.

The most fundamental structural barrier at the macro-financial system level is the lack of crowdsourcing in the institutional infrastructure of monetary and financial systems. Central bank facilities, deposit insurance schemes, payment clearing systems, and interbank lending markets all rely on institutional participants, which crowdfunding platforms, as non-bank financial intermediaries, are not supposed to be. This absence means that crowdfunding platforms are unable to benefit from the lender-of-last-resort backstop that underpins trust in banking systems, rendering them structurally vulnerable under systemic stress situations (Claessens et al., 2018). Systemically important financial intermediation necessitates institutional embedding, which crowdfunding has yet to achieve and is not on track to do so at most national levels. Carè et al. (2025) explain why crowdfunding evolves differently across national settings. Crowdfunding is often an effective supplement to official venture capital markets in nations with solid legal systems, active angel investment networks, and high-quality internet infrastructure. Crowdfunding's constraints are increased in nations with weak contract enforcement, low financial literacy, and limited digital access, limiting its developmental value. This contextual reliance is notably lacking from broad assertions about crowdfunding's revolutionary potential, which frequently extrapolate from the most favourable reported situations without taking proper account of institutional conditions.

4.5 Regulatory, Technological, and Trust-Related Constraints

The regulatory landscape governing crowdfunding has evolved significantly over the past decade, but remains highly heterogeneous across jurisdictions, creating both opportunities and barriers that shape crowdfunding's developmental trajectory. The regulatory literature on crowdfunding identifies a fundamental tension between investor protection and market access: regulatory measures designed to shield unsophisticated investors from high-risk equity investments necessarily restrict participation, while deregulatory approaches that broaden access risk exposing vulnerable investors to significant financial losses.

Cumming and Johan (2013) conducted an early analysis of regulatory barriers to crowdfunding internationalisation, demonstrating that the costs of regulatory compliance across multiple jurisdictions are a significant impediment to the cross-border scale required for crowdfunding to achieve macroeconomic significance. The European Union's Regulation on European Crowdfunding Service Providers (ECSP Regulation), which went into effect in 2021, is an attempt to harmonise the regulatory environment across member states, but early assessments indicate that compliance costs and the framework's regulatory scope continue to limit the activity of smaller platforms (European Securities and Markets Authority, 2022).

In the United States, the adoption of Title III of the JOBS Act through Regulation Crowdfunding in 2016 was expected to spur a significant increase in retail equity investment in startups. However, the aggregate capital raised under Regulation Crowdfunding has remained modest, limited by relatively low investment caps, complex disclosure requirements, and the continued dominance of more established financing channels (Bradford, 2012; Stemler, 2013). Empirical evaluations of post-JOBS Act crowdfunding activities have revealed a more modest increase than regulators and industry advocates had anticipated, highlighting the role of institutional friction and financial literacy limits in determining actual market outcomes.

In emerging countries, the regulatory environment poses particularly acute issues. Many developing economies lack the legal infrastructure required to facilitate equity crowdfunding, including dependable property rights, contract enforcement procedures, and securities regulatory frameworks. In these situations, peer-to-peer lending works in a legislative grey area, creating prospects for financial inclusion while also posing major risks of consumer harm and platform fraud (Rau, 2020). The failure of several peer-to-peer lending platforms in China between 2018 and 2020, following a period of rapid unregulated expansion, exemplifies the systemic hazards of regulatory loopholes in high-growth crowdfunding marketplaces.

Technological restrictions are a separate but related category of limitation. Crowdfunding platforms' performance is heavily influenced by digital infrastructure quality, internet penetration rates, and the development of mobile payment ecosystems. In Sub-Saharan Africa, where mobile money systems have reached remarkable penetration, mobile-enabled crowdfunding has the potential to serve communities with limited access to traditional banking (Jack & Suri, 2014). Nevertheless, applying lessons from mobile money success to equity crowdfunding or peer-to-peer lending requires caution: mobile payments involve transactional simplicity and reversibility, which are fundamentally different from investment commitments with long holding periods and uncertain returns.

The trust dimension of crowdfunding participation has received increased scholarly attention, indicating that financial transactions across anonymous digital networks necessitate institutional mechanisms for credibility signalling that differ from those available in relationship-based finance. Petitjean (2018) and Cumming et al. (2019) identified trust as the primary limiting variable in crowdfunding market development, stating that trust must be established at three levels at the same time: trust in the platform's integrity and operational resilience; trust in the accuracy of campaign disclosures; and trust in the broader legal and regulatory environment's ability to correct failures. Building these trust architectures is costly, laborious, and vulnerable to catastrophic erosion from high-profile failures, a dynamic that inherently disadvantages crowdfunding in comparison to incumbents with substantial reputational capital

5 Discussion

The thematic review presented above identifies several substantive findings that directly address the five research questions. This section integrates these findings across themes and provides a critical interpretation of their implications.

In response to the first research question, the evidence supports a limited and qualified characterisation of crowdfunding as financial intermediation. Crowdfunding platforms conduct matching and screening services that are structurally similar to intermediation, with debt-based platforms in particular resembling non-bank credit intermediaries. However, the lack of maturity transition, liquidity production, and robust monitoring distinguishes crowdfunding structurally from the traditional intermediation model. Crowdfunding is more precisely defined as a type of market-based finance that uses platform infrastructure to decrease matching costs, rather than as a replacement for depository institutions' risk-transformation and liquidity-creation activities.

The second research question, on crowdfunding's impact on economic development, receives an equivocal empirical response. There is credible evidence that crowdfunding increases capital access to ventures and projects that traditional intermediaries routinely underserve, generates informational public goods through revealed preference aggregation, and fosters entrepreneurial ecosystems in specific sectors and geographies. However, the size of these advantages is small in comparison to claims in the promotional and policy literature, and the spatial clustering of crowdfunding benefits in high-income, high-infrastructure regions fundamentally undermines the universal financial inclusion narrative. The notion that crowdfunding's developmental impact is overestimated in existing research is supported by a comprehensive examination of the evidence, particularly in terms of developing country contexts and macroeconomic impact forecasts.

The third research question, which addresses comparative performance relative to traditional financial institutions, gives a contextually diverse result. Crowdfunding outperforms traditional intermediaries in specific, narrow domains, such as funding early-stage creative and technological projects with strong community engagement, providing social finance for community-oriented ventures, and extending microfinance to populations excluded from formal banking. Traditional intermediaries, on the other hand, continue to have significant benefits in terms of scalability, risk management, regulatory legitimacy, liquidity provision, and capital-intensive productive investment finance. The idea that crowdfunding is a transformative alternative to traditional banking is unsupported by comparative performance evidence; a more plausible assertion is that it acts as a helpful supplement in market sectors that traditional banks refuse to serve.

The fourth research question, regarding structural constraints on macroeconomic impact, identifies four systemic barriers: volume limitations caused by a lack of money creation capacity; allocative concentration in privileged geographies and sectors; institutional fragility caused by platform market dynamics and regulatory exclusion; and trust architecture vulnerabilities that limit scaling. These limits are not incidental elements of crowdfunding's current growth stage, but rather structural features of the crowdfunding model itself, implying that they will not be remedied just through platform maturation or gradual legislative reform.

The cumulative weight of evidence from the preceding four addresses the fifth research question. The findings support the idea of crowdfunding as a complementary financial instrument rather than a transformative economic force. This result does not diminish crowdfunding's contributions, which remain substantive, beneficial to the populations and projects it serves, and deserving of legislative support. Rather, it places these contributions inside a realistic framework of scale, scope, and institutional embedding, which the promotional rhetoric has continuously failed to deliver.

A recurring theme in the research is the disparity between micro-level evidence of crowdfunding's utility and macro-level evidence of its overall influence. Studies at the campaign level consistently show positive results for successful crowdfunded initiatives; however, studies at the ecosystem level show concentration, exclusion, and a limited aggregate scale. This contradiction can be resolved by recognising that crowdsourcing is more effective as a targeted complement than a broad-based substitute for institutional finance. Its greatest value is found in specific market segments and institutional environments where its distinguishing characteristics, notably the aggregation of dispersed preferences, the formation of pre-purchase communities, and the reduction of entrance barriers for small capital raises, are most relevant.

6 Conclusions

This article presents a structured narrative literature review examining crowdfunding's status as a form of financial intermediation, its contribution to economic development, and its performance relative to traditional financial institutions. The core premise of this review is that crowdfunding is best understood as a complementary financial mechanism within pluralist financial ecosystems, rather than as a transformative institutional alternative to existing financial intermediaries. This argument is based on a thorough review of the theoretical claims supporting the transformative framing, the empirical evidence of crowdfunding's developmental contributions and limitations, and the structural constraints that prevent crowdfunding from scaling to macroeconomic significance in its current institutional form.

Crowdfunding's genuine contributions are significant in the specific situations in which they occur. It provides capital to ventures that traditional intermediaries routinely underserve, aggregates distributed preferences and knowledge in ways that reduce uncertainty for early-stage entrepreneurs, mobilises social capital to support community-oriented projects, and contributes to the dynamism and diversity of financial ecosystems. These contributions are valuable and deserve policy support calibrated to their genuine rather than projected scale.

However, the promotional and policy literature has continually exaggerated crowdfunding's macro-financial significance, relying on theoretical projections and best-case empirical observations to create a narrative of disruption that the aggregate evidence does not support. Crowdfunding volumes remain small in comparison to total capital formation; successful crowdfunding activity is geographically and sectorally concentrated; structural features of platform markets create institutional fragility; and the lack of maturity, transformation and liquidity creation functions means that crowdfunding cannot serve the macro-stabilisation roles that depository institutions do.

The contribution of this review lies in providing a theoretically grounded, empirically informed, and critically balanced assessment that navigates between promotional enthusiasm and dismissive scepticism. By situating crowdfunding within established frameworks of financial intermediation theory, the finance-growth nexus, and institutional complementarity, this review provides a platform for more rigorous scholarly and policy engagement with the genuine questions of how digital financial innovation can most effectively contribute to economic development and financial inclusion. Future research should prioritise causal identification of macroeconomic effects, longitudinal analysis of venture performance, cross-national comparative assessment, and systematic study of distributional consequences. Progress on these research frontiers will enable the field to move beyond the rhetorical contest between promotional and sceptical narratives toward the nuanced institutional understanding that effective policy and practice require.

Recommendations

Policymakers should adopt a complementarity-oriented regulatory approach that integrates crowdfunding within broader financial systems rather than positioning it as a substitute for traditional intermediaries. Regulatory frameworks should prioritise investor protection, platform transparency, and risk disclosure, while enabling innovation through proportional oversight. Financial institutions should explore hybrid models, such as partnerships with crowdfunding platforms, to leverage distributed information and expand financing to underserved segments. Development agencies should support targeted crowdfunding initiatives in sectors with high social returns, particularly where conventional financing gaps persist.

Practical and Social Implications

Practically, this study highlights crowdfunding's role in improving access to finance for early-stage ventures and underserved populations, particularly in contexts where traditional credit markets are restrictive. It also underscores the importance of platform governance and trust mechanisms in sustaining participation. Socially, crowdfunding contributes to community engagement, financial inclusion, and the democratisation of investment opportunities, although these benefits remain unevenly distributed across regions and sectors. The findings caution against over-reliance on crowdfunding for large-scale economic transformation, advocating instead for its strategic use in niche and community-driven contexts.

Study Limitations

This study is limited by its reliance on a narrative literature review methodology, which may be subject to selection bias and lacks the statistical rigour of meta-analytic approaches. The analysis is also constrained by the availability and heterogeneity of existing empirical studies, particularly regarding cross-country comparability and long-term performance data. Additionally, the rapidly evolving nature of crowdfunding platforms and regulatory environments means that some findings may not fully capture recent developments in the field.

Suggestions for Future Research

Future research should focus on causal empirical analyses of crowdfunding's macroeconomic impact using robust econometric techniques. There is a need for longitudinal studies examining the survival and growth trajectories of crowdfunded ventures relative to traditionally financed firms. Comparative research across institutional contexts would enhance understanding of regulatory and cultural influences on crowdfunding effectiveness. Additionally, more work is required on the distributional and welfare effects of crowdfunding, particularly in relation to inequality, investor protection, and financial inclusion outcomes.

Declaration of Use of Generative AI

The author declares that generative AI tools were used only for language editing, clarity, and structural refinement. They were not used otherwise. The authors take full responsibility for the accuracy, originality, and integrity of the manuscript.

Conflict of Interest

The authors declare no conflicts of interest that could have influenced this work.

Funding

This research received no funding

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